Market update

How the outcome of the U.S. election will affect your investments

Investors and stock market pundits spend countless hours during a Presidential election year discussing how to position an investment portfolio to benefit from a perceived election outcome. In 2016, any advance positioning almost certainly didn't work as the outcome came as a surprise to many people—including the market. The S&P 500 Index jumped 1% the day after the election and rose nearly 5% between election day and the end of 2016. A few months earlier, European investors experienced a similar surprise with Brexit. Election outcomes are notoriously hard to predict, even if we believe pollsters and statisticians can reliably model data largely based on human behavior.

Current election landscape

While the Presidential election dominates the headlines, so-called "down ballot" elections are also very important to determine which party will have control of various branches of government. This year, voters can fortify the Democratic majority in the House of Representatives (all 435 House seats are up for re-election this year) and potentially flip control of the Senate from Republican to Democratic control (35 of 100 seats are up for re-election).

During the 2018 election, voters flipped control of the House of Representative from Republican to Democratic control. While Democrats gained ground in the Senate, the Republicans maintained a stronghold there.

White House control and historical stock market performance

The effect that party control of the White House has on the stock market is minimal. The table on the next page, compiled by Forbes, shows the return of the S&P 500 Index during various Presidential tenures. Data for Donald J. Trump is through June 30, 2020.

"While the election may have an effect one way or another on the stock market for a short period of time, investing for retirement is a very long-term time horizon—perhaps as long as forty years."

While investors tend to attribute gains and losses to a specific President or policy, the market's returns have more to do with the business cycle and other external forces. For example, in 2020, the market has maintained its historically high valuation largely due to low interest rates and other policy stances taken by a very dovish Fed, rather than political policy.

Where the market stands today

By the end of the third quarter, the stock market had given up some of the gains from the post-COVID bounce. The S&P 500 Index gained a whopping 21% during the second quarter and continued to gain ground until September. For the month, stock market returns were negative across the board bringing year to date returns lower. The table below show returns for major stock and bond market indexes through September 30, 2020.

It's anyone's guess why exactly the stock market turned in September, though improvements in economic data started to wane. Unemployment claims held steady for most of the month after four months of significant gains. The unemployment rate hovered around 8% for most of September. Adding fuel to the slowing recovery story, Congress failed to pass another large-scale stimulus and seems to have given up on the effort. Finally, the Federal Reserve modified its mandate to include a greater focusing on combatting unemployment over keeping inflation at or below 2%. This will affect real returns for bonds and stocks going forward if inflation spikes and the Federal Reserve is slow to respond.

President	Political Party	Years In Office	S&P Return (%)
William J. Clinton	D	1993-2001	210
Barack H. Obama	D	2009-2017	182
Dwight D. Eisenhower	R	1953-1961	129
Ronald W. Reagan	R	1981-1989	117
Harry S. Truman	D	1945-1953	87
George H. W. Bush	R	1989-1993	51
Lyndon B. Johnson	D	1963-1969	46
Donald J. Trump	R	2017-	43
Jimmy E. Carter	D	1977-1981	28
Gerald R. Ford	R	1974-1977	26
John F. Kennedy	D	1961-1963	16
Richard M. Nixon	R	1969-1974	-20
George W. Bush	R	2001-2009	-40

Source: Forbes. Past performance is not indicative of future results. Confidential: Please note that this presentation contains information that is restricted for use only with the intended recipient. It is not for use with the general public and cannot be redistributed. Please see the last page for important additional information.

	Total Return (%)						
Name	Sept 2020	Q3 2020	YTD	1 Yr	3 Yr	5 Yr	10 Yr
S&P 500	(3.80)	8.93	5.57	15.15	12.28	14.15	13.74
MSCI ACWI ex USA	(2.46)	6.25	(5.44)	3.00	1.16	6.23	4.00
MSCI Emerging Markets	(1.60)	9.56	(1.16)	10.54	2.42	8.97	2.50
BBgBarc Agg Bond	(0.05)	0.62	6.79	6.98	5.24	4.18	3.64

Source: Morningstar. Past performance is not indicative of future results. Confidential: Please note that this presentation contains information that is restricted for use only with the intended recipient. It is not for use with the general public and cannot be redistributed. Please see the last page for important additional information.

What does this mean for your investments?

So, how will the outcome of the U.S. election affect your investments? The answer is a resounding shoulder shrug. This is why investors need to focus on long-term goals. While the election may have an effect one way or another on the stock market for a short period of time, investing for retirement is a very long-term time horizon—perhaps as long as forty years. For investors nearing or in retirement, the advice is the same. Making short term tweaks or bets to your portfolio will likely lead to a lower return than staying the course. Increasing or decreasing equity exposure in your portfolio because you believe the stock market will react one way or another is folly. If you are wrong, you will lose—either because you have too much or too little risk in your portfolio.

It's also easy to let our own political views cloud our judgement. We may think if our preferred candidate wins, the market will do better, but the stock market is not controlled by the President. It is increasingly important for investors to block out noise during times such as these.

About Mesirow

Mesirow is an independent, employee-owned financial services firm founded in 1937. Headquartered in Chicago, with locations around the world, we serve clients through a personal, custom approach to reaching financial goals and acting as a force for social good. With capabilities spanning Global Investment Management, Capital Markets & Investment Banking, and Advisory Services, we invest in what matters: our clients, our communities and our culture. To learn more, visit mesirow.com and follow us on LinkedIn.

The Standard & Poor's 500 Index, often abbreviated as S&P 500, is an American stock exchange market index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ. The S&P 500 index components and their weightings are determined by S&P Dow Jones Indices.

The MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. and Canada.

The MSCI Emerging Markets Index is an index designed to measure equity market performance in global emerging markets.

The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market.

The indices are unmanaged and do not incur management fees, transaction costs or other expenses associated with investable products. It is not possible to directly invest in an index.