CHARTWELL REVIEW

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Changing of the Guard

Changing of the guard means different things to different markets and investors. During a Presidential election year, the first thing that investors consider is what changes might take place politically. There are a number of investment trends that have been in place for up to a decade, and with the global macro shocks that have defined 2020 – the COVID-19 pandemic, lockdown-induced recession, high unemployment, social unrest – a changing of the guard in some of the following investment trends might be in order:

- ***Domestic versus International*** – Since the Global Financial Crisis, the US equity market has outpaced international equities. The MSCI USA index is up 13%, per annum for the trailing 10-years. In contrast, the MSCI All-Country World ex-US index has risen only 6%, p.a. Although the US has been the top performing equity market this decade, it was one of the weakest performers in the previous decade.

- ***Growth versus Value*** – We are in the midst of the largest growth cycle in history. For the trailing 10-years, the Russell 1000 Growth index has outpaced the R1000 Value index by 7.3%, p.a. The growth over value gap widens in the most recent years – the trailing 1-year differential is 42.6%, the trailing 3-year differential is 19%. In the decade following the tech bubble's burst (2000-2002), large value stocks dominated large growth.

- ***Large Cap versus Small Cap*** – The past decade has also heavily favored large cap stocks over small caps. The 10-year differential between large cap core and small cap core is 3.8%. As with style, the large cap over small cap gap widens in the most recent years – the trailing 1-year differential is 14.7% and trailing 3-year is 10.5%.

What might be the catalyst(s) for a changing of the guard? US earnings advantage has disappeared, fundamentals no longer support valuations and the price paid matters for returns. Possibly the largest risk is more regulation of the "too big to fail" tech giants due to their anticompetitive behavior.

Figure 1: Index Benchmarks

Market Index	Trailing Returns *				
	3Q 20	**1 Yr**	**3 Yr**	**5 Yr**	**10 Yr**
S&P 500	8.9	15.2	12.3	14.2	13.7
U.S. Top-cap Stocks	10.2	20.4	14.3	15.6	14.5
U.S. Mid-cap Stocks	7.5	4.6	7.1	10.1	11.8
U.S. Small-cap Stocks	4.9	0.4	1.8	8.0	9.9
Non-US Stocks (**EAFE**)	4.8	0.5	0.6	5.3	4.6
Non-US Stocks (**Emerg**)	14.2	27.8	2.4	9.0	2.5
3 mo. T-Bills	0.0	1.0	1.7	1.2	0.6
U.S. Aggregate Bonds	0.6	7.0	5.2	4.2	3.6
High Yield Bonds	4.7	2.3	3.8	6.6	6.3
Global Bonds ($Hdgd)	0.7	4.1	5.1	4.3	3.9
Consumer Prices, p.a.	*1.0*	*1.4*	*1.8*	*1.8*	*1.8*
Blmbrg Commodities	9.1	(8.2)	(4.2)	(3.1)	(6.0)
MSCI World REIT's	2.2	(11.7)	3.1	5.2	7.2
Chartwell 65/35 Global	4.8	2.7	5.4	8.2	7.4

Figure 2: Average Mutual Fund Returns

Fund Category	Trailing Returns *				
	3Q 20	**1 Yr**	**3 Yr**	**5 Yr**	**10 Yr**
U.S. Large-cap	8.6	15.0	11.2	12.8	12.6
U.S. Mid-cap	8.0	9.9	8.2	10.5	11.4
U.S. Small-cap	4.2	(5.7)	(1.1)	5.9	8.6
International Lg. Cap	6.6	5.8	2.0	6.2	5.2
International Sm. Cap	12.1	18.9	5.0	9.4	9.3
Emerg. Mkt. Equity	9.4	10.6	2.4	8.6	2.8
Balanced/Hybrid	5.0	7.6	6.1	7.5	7.4
General Bond	1.7	8.3	6.8	6.4	6.0
High Yield Bond	4.4	1.9	3.3	5.4	5.5
Hedge Funds, Equity	5.8	8.0	3.7	5.6	4.5

*Annualized trailing returns for periods ending 9/30/20

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Economies, Economics, Prices, and Policy

	9.30.20	9.30.19
CPI - headline, y-o-y	1.4%	1.7%
CPI - core, y-o-y	1.7%	2.4%
Unemployment Rate	7.9%	3.5%
Labor Force (millions)	160.1	164.1
Employed (millions)	147.5	158.3
Employment/Population	56.6%	61.0%
Growth in Real GDP, (y-o-y)	(9.0)%	2.3%

At 1.7%, current *core* inflation (ex-food & energy) has dropped from 2.4% on a year-over-year basis. Sharply falling food and energy prices have pushed year-over-year *headline* inflation down to only 1.4%.

The unemployment rate declined to 7.9% at the end of September, down from 11% at the end of June. Gains were driven by leisure and hospitality, retail, education and health care (well over half the job gains). Nonfarm payrolls increased by 661,000 in September, and government jobs declined by 216,000. The economy has now regained 52% of the 22 million jobs lost between February and April.

The Employment/Population ratio rose from 54.6% at the end of June, to 56.6% at the end of September. The labor force rose by a modest 211,000 persons in the quarter, but unemployment fell by a robust 5.2 million. Many returned to work with the summer "reopening" of the economy. Unfortunately, the sharp resurgence in COVID-19 cases (and deaths) and increased pauses in re-openings are expected to slow the pace of recovery in the 4th quarter.

Figure 3: Breaking Down 2nd Quarter* Real GDP

% Change from Preceding Period *(seasonally adjusted at annualized rates)*

Factor	2Q '20	1Q '20	4Q '19	3Q '19
Real GDP Growth	(31.4)%	(5.0)%	2.1%	2.1%
Nominal GDP Growth	(32.8)	(3.4)	3.5	3.8
Real Final Sales	(33.1)	(4.6)	2.7	4.0
Personal Spending	(33.2)	(6.9)	1.6	2.7
Private Investment	(46.6)	(9.0)	(3.7)	1.8
- Fixed, Businesses	(27.2)	(6.7)	(0.3)	1.9
- Fixed, Residential	(35.6)	19.0	5.8	4.6
*- Chg. In Inventories **($bn)***	*($298)*	*($52)*	*$3*	*$41*
Export growth	(64.4)	(9.5)	3.4	0.8
Import growth	(54.1)	(15.0)	(7.5)	0.5
Government Spending	2.5	13	2.4	2.1

** BEA final estimate on Sept. 30, 2020*

Second quarter GDP fell 31% on a qtr/qtr basis, marking the continuation of a sharp, but short-lived, recession. Data continues to rebound off April and May's historic lows, with the Institute of Supply Management's services index for September registering a favorable 57.8. Growth has been indicated for the 126 of the last 128 months.

-The U.S budget deficit reached an estimated $3.1 trillion in the fiscal year ended September 2020. As a share of GDP, the 12-month deficit came to 15.2% as of last month. That was the largest annual deficit since 1945 and the fifth consecutive year in which the deficit increased.

Revenue collections and outlays in fiscal year 2020 can be divided into 2 periods: before and after the start of the economic disruption caused by the novel coronavirus pandemic. For the first six months, the 2020 fiscal deficit was about 8% larger than the 2019 shortfall. But for the final six months, from April through September, the deficit in 2020 was eight times the deficit in the same period the previous year.

April through September: the 7% decrease in receipts reflected the combined effects of declines in wages and in other economic activity as well as legislation enacted in response to the pandemic (notably, the CARES Act).

- Individual Income and Payroll (social insurance) taxes together decreased by $123Bn, as amounts withheld from worker's paychecks decreased by $97Bn as a result of legislative actions and a decline in wages.
- Corporate income taxes fell by $34Bn largely because of the economic disruption caused by the pandemic;
- The CARES Act included provisions to reduce corporate income tax payments this year, the most significant of which was a provision that temporarily allows expanded use of net operating losses to offset tangible income and generate refunds.

Fiscal spending was up by 70% in September: The CBO estimates that Federal total spending in September 2020 was $496Bn, or $205Bn more than in fiscal 2019.

Expectations as we headed into Q3 was that a "CARES Act 2.0" of $1-2 Tn would be legislated and implemented before the first one expired on July 31st. This has not happened, and it appears as if it was not needed.

The Atlanta Fed's GDP model estimate for real GDP growth (seasonally adjusted annual rate) in the 3rd quarter is **+35%.** Blue-chip estimates range from 23-35%.

The Q3 figure, and certainly fourth quarter growth, has been put into question as the rate of infections and deaths has once again rebounded rather sharply in various southern and western "hot spot" states.

The FED was unusually quiet during Q3. It maintained its federal funds target rate at a range of 0.0-0.25%. The committee will also maintain its current pace of asset purchases of $80BNn per month. It also further clarified conditions for adjusting policy rates in the future – inflation will need to run moderately above 2% for some period of time to compensate for periods of low inflation, and 2) longer term inflation expectations would need to remain anchored at 2%. This means allowing inflation to run above 2%. Thus, it expects to leave rates close to zero for even longer than expected.

Bonds – Spreads Narrow Further

Risk appetites among fixed income investors continued to intensify over the most recent quarter amid sustained support from central banks, positive economic developments, and optimism surrounding a potential coronavirus vaccine.

Investment grade credit spreads further tightened from 140bps to 128bps, outperforming like-duration Treasuries by 1.4%. Support for the sector came from continued central bank purchasing of corporates, though volatility arose late in the quarter as the likelihood of further fiscal stimulus weighed on sentiment ahead of the US presidential election.

Although the rate of compression in credit spreads was slower than the prior quarter, this represents a return to pre-pandemic levels of risk premia.

Central banks remained accommodative via near-zero policy rates. There was little interest rate volatility. The US 10-year Treasury yield remained largely unchanged, with the 10-year ending the quarter at 0.68% and the 30-year at 1.45% - up 3 and 4bps, respectively.

Per Figures 5 and 6, developed market yield moves were broadly mixed over the quarter, but remained anchored at lower levels amid ongoing support from central banks. The US Treasury curve steepened by 6bps in the quarter, as the 30-year yield rose 4bps and the 2-year yield fell 2bps. At 0.68%, the US 10-year is 1.00% lower than it was year ago. The Fed's accommodative posture has taken the 3-month to 2-year rates down even further, by 1.5-1.75%.

Rates in Japan remain at zero, while the yields on German and Swiss 10-years fell 11/12bps further into negative territory, though they remain less negative year-over-year.

TIPS exhibited a positive return for the quarter, rising 2.51% as the August core PCE print came out 1.4% higher year-over-year. Though still short of the Fed's historical average 2% target, the monthly data points provided some momentum to the market. The 10-year breakeven inflation rate rose from 1.34% to 1.63% over the quarter.

US agency mortgage-backed securities (MBS) returned 0.11%, narrowly underperforming like-duration Treasuries. The sector continued to recover as volatility subsided and steady Fed purchases supported the market. Non-Agency MBS spreads tightened further and commercial MBS returned 1.90%

High Yield credit spreads continued to tighten meaningfully during the quarter (down 103 bps) to end the quarter at 535 bps. The unprecedented support from policymakers was the primary reason for the continued recovery, though strong inflows to the sector were also encouraged by the continued supply of new fallen angels (formerly investment grade bonds that were recently downgraded). Within high yield, lower-rated CCC bonds outperformed their higher-rated B and BB counterparts.

Figure 4: Primary Bond Sector Returns (%)

Index	3Q '20	1 Yr	3 Yrs	5 Yrs
US Aggregate Bond index	0.6	7.0	5.2	4.2
US Gov't/Credit: (1-3yrs)	0.2	3.7	2.8	2.1
US Treasury: Long	0.1	16.3	11.9	8.2
US TIPS (1-10yrs)	2.5	7.8	4.6	3.7
Mortgage-Backed (MBS)	0.1	4.4	3.7	3.0
Commercial MBS	1.9	6.0	5.3	4.2
Asset-Backed (ABS)	0.8	4.6	3.5	2.7
Inv. Grade US Credit	1.5	7.5	6.2	5.8
Leveraged Loans	3.4	(3.2)	2.0	3.1
US High Yield Credit	4.7	2.3	3.8	6.6
Municipal Bonds, broad	1.2	4.1	4.3	3.8
Global Agg., ($ hdgd)	0.7	4.1	5.1	4.3
Global Credit, ($ hdgd)	2.0	5.3	5.4	5.7
Emerg. Mkts Bonds (US$)	2.3	1.3	3.5	6.2

Figure 5: Fixed Income Yields –3rd Quarter 2020

(YTM, % p.a.)	Sep-20	Jun-20	Mar-20	Sep-19	*1-Year Change*
US Treasuries					
3-month	0.10	0.14	0.08	1.83	***(1.73)***
2-year	0.13	0.15	0.23	1.62	***(1.49)***
5-year	0.27	0.29	0.38	1.55	***(1.28)***
10-year	0.68	0.65	0.70	1.67	***(0.99)***
30-year	1.45	1.41	1.35	2.12	***(0.67)***
BarCap Aggregate	1.19	1.27	1.59	2.27	***(1.08)***
BBB Credit	2.47	2.59	4.32	3.31	***(0.84)***
AA Credit	1.44	1.52	2.12	2.33	***(0.89)***
Agency MBS	1.29	1.36	2.18	2.45	***(1.16)***
Emerging Mkts ($)	5.14	5.51	7.00	5.15	***(0.01)***
US High Yield	5.77	6.85	9.44	5.87	***(0.10)***
UST 10yr - 3Mo	0.58	0.51	0.62	(0.16)	***0.63***

Figure 6: Sovereign Bond Yields, selected countries

10-year yields (%)	Sep-20	Jun-20	Mar-20	Sep-19	*1-Year Change*
Germany	(0.52)	(0.40)	(0.47)	(0.59)	***0.07***
Switzerland	(0.50)	(0.39)	(0.32)	(0.80)	***0.30***
Japan	0.00	0.00	0.00	(0.23)	***0.23***
Britain	0.28	0.22	0.42	0.61	***(0.33)***
Spain	0.28	0.48	0.50	0.12	***0.16***
United States	0.67	0.65	0.70	1.67	***(1.00)***
Italy	0.85	1.40	1.62	0.87	***(0.02)***
Australia	0.90	0.88	0.73	0.91	***(0.01)***
Greece (new bonds)	1.08	1.25	1.80	1.35	***(0.27)***
Poland	1.35	1.42	1.69	2.02	***(0.67)***
Brazil	2.60	2.06	3.42	4.92	***(2.32)***
China (5 year)	2.95	2.61	2.31	2.95	***0.00***
India	6.00	5.85	6.12	6.69	***(0.69)***
Russia	6.45	5.90	6.81	7.15	***(0.70)***

US Stocks – Weak Month, Great Quarter

US equity markets experienced their first monthly decline since March, as COVID infections, declining expectations of further fiscal stimulus and election uncertainties weighed on markets. This tempered, but did not halt, equities from posting a strong quarterly return. Fueled by gradual re-openings and optimism about the path of the economic recovery, the S&P500 advanced 8.9%, mid caps gained 7.5% and small caps rose 4.9%.

Large cap stocks took back a leadership role in Q3, followed closely by mid caps. The differential between large cap growth and large value continues to increase. Year to date, the gap is 47.5% (37.5% vs. -5%). The same trend holds true for small cap growth (15.7%) versus small cap value (-14.9%) year to date.

For *growth* stocks, we observe that large-caps have outperformed small-caps over trailing 1-, 3-, 5-, and 10-year periods at a differential we have not seen in the 25 years we have been writing this review.

Figure 7: U.S. Equity Market - Size/Style Returns

		Trailing			
	3Q '20	**1-year**	**3-yrs**	**5-yrs**	**10-yrs**
Growth					
Large Cap	13.2	37.5	21.7	20.1	17.3
Mid Cap	9.4	23.2	16.2	15.5	14.6
Small Cap	7.2	15.7	8.2	11.4	12.3
Value					
Large Cap	5.6	(5.0)	2.6	7.7	10.0
Mid Cap	6.4	(7.3)	0.8	6.4	9.7
Small Cap	2.6	(14.9)	(5.1)	4.1	7.1

Q3 served up more of same for the S&P 500 factors. Momentum and growth continued to outperform. There is a 42.1% gap between the year-to-date performance of the Growth and Value factors. That is the widest spread in their performance over any three quarters since the creation of the two S&P style-based indices in the early 1980's.

There were a few notable changes that came into play during the last month of Q3:

- "Big tech" wobbled at the beginning of September, which helped make it the first month in 2020 during which Value outperformed;
- Dividend-paying stocks started to show better performance (they still lagged, but by less).

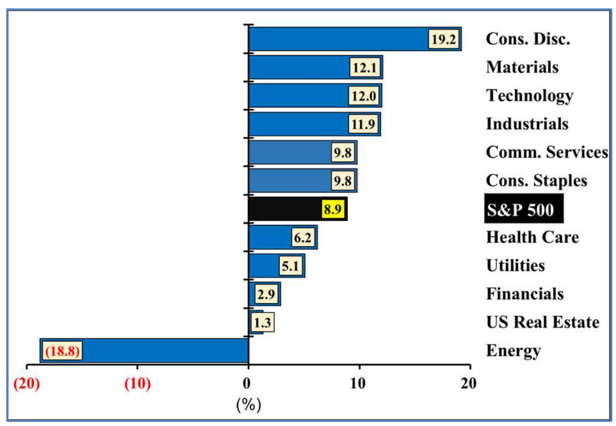
Overall, from a factor standpoint, the momentum factor was the stand-out factor in Q3, beating all other factors by 5% or more.

Ten of eleven sectors of the S&P 500 posted positive returns in Q3, with six outpacing the broad index return:

- **Consumer discretionary** – was the best performing sector for the second quarter in a row. Led by e-commerce giant Amazon (14.1%). Retailers which were allowed to re-open (Starbucks, TJX Companies) rebounded in Q3 on optimism for a recovery;
- **Energy –** dropped from being the second best sector in Q2, to last in Q3 and was the only sector to post a negative return. Global shutdown of economies reduced the demand for oil and abundant supply keeps prices low;
- **Technology –** sector rally pushed some broad-based indexes to new all-time highs, underscored by Apple's rise to a $2 trillion valuation;
- **Industrials –** climbed 12.5%, as a surge in online shopping boosted earnings of delivery services companies. Shares of FedEx and UPS rallied 80% and 51%, respectively. On a weak note, shares of Boeing fell 10% as demand for air travel remained soft.

Lagging sectors in Q3 were the more traditionally defensive - real estate, financials, health care and utilities.

Figure 8: US Sector Returns –3rd Quarter 2020



In this challenging economic environment, companies have fallen into two groups: businesses with net revenues that are less impacted by the pandemic (COVID defensive) and those that have been hit hard by the global shutdown of economies (COVID cyclical). Approximately 70% of the S&P 500 is represented by COVID defensive businesses, which are dominated by big box retailers, work-from-home solutions, food takeout and anything virtual or streaming. The COVID cyclical sectors are 30% of the index and include travel and leisure businesses, airlines and hotels, banks, much of the service economy and most of Main Street America. These two divisions have driven the market's bifurcated performance. The S&P 500's rise during the past two quarters has been almost entirely attributable to COVID defensive stocks.

International Markets Recovering

Global stocks posted negative results in September, as fears of additional COVID-19 outbreaks sent markets lower. For the quarter, global stocks finished solidly in positive territory. Developed and emerging markets rose, supported by massive government stimulus measures and investor optimism for a global economic recovery. Despite the -3.2% drop for the month, the all-inclusive MSCI All Country World index rose 8.1% for the quarter. For the month and Q3, the value style continued to lag growth across all capitalization ranges. In currency markets, the US$ weakened versus most developed and emerging markets. Concerns about rising US fiscal deficits, a prolonged period of ultra-low interest rates and a perceived overvaluation of the US$ in recent years all contributed to US$ weakness.

Developed markets (MSCI EAFE; +4.8%) rose in Q3. Within developed markets, Europe (4.5%) rose modestly, lifted by signs of improving economic activity. Worries of a potential second wave of COVID-19 infections sent stocks lower in September, tempering gains for the full quarter. German stocks (8.3%) led markets higher as manufacturing activity increased amid rising demand from export markets. Shares of Daimler, SAP and Siemens all posted double-digit gains. Consumer discretionary stocks rose 13%, led by Adidas and luxury goods company Kering. European energy and financial stocks suffered most, with oil giants BP, Total, and Royal Dutch Shell among the largest decliners. Financial giants HSBC and Banco Santander also lagged.

The ECB left interest rates and stimulus measures unchanged, citing a "significant recovery" in domestic demand. The euro rose 4% versus the US dollar.

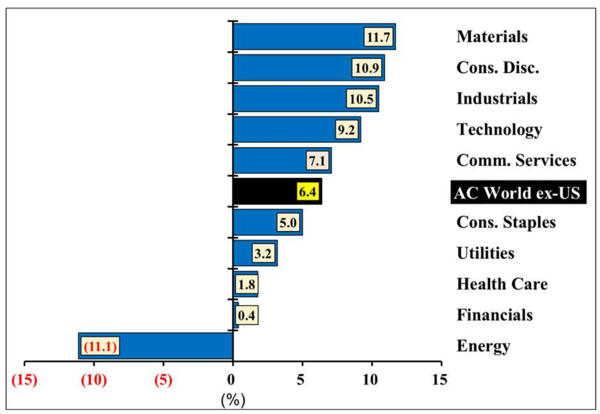
Figure 9: International Equity Markets – Returns

	U.S. Dollar Returns (%)		Local Currency Returns (%)	
thru 9/30/20	**3Q '20**	**1-Yr**	**3Q '20**	**1-Yr**
World ex-USA	**4.9**	**0.2**	**1.5**	**(4.5)**
- MSCI Growth	*8.5*	*13.6*	*5.0*	*8.3*
- MSCI Value	*1.4*	*(12.7)*	*(2.1)*	*(16.7)*
- Europe	4.5	(0.8)	0.3	(7.3)
- Pacific, ex-Japan	2.0	(6.1)	(0.7)	(9.9)
- Japan	6.9	6.9	4.6	4.4
- United Kingdom	(0.2)	(15.8)	(4.6)	(19.8)
Int'l Small Caps	**10.1**	**6.9**	**6.6**	**2.3**
Emerging Mkts	**9.6**	**10.5**	**8.7**	**12.5**
- EM Asia	*11.9*	*21.5*	*10.6*	*19.7*
- EM Europe	*(5.2)*	*(19.2)*	*(0.1)*	*(8.7)*
- EM Lat Amer	*(1.3)*	*(29.4)*	*(0.9)*	*(11.6)*
- EM BRIC	*10.4*	*15.5*	*10.3*	*19.8*

The Pacific region rose 5.4% during the quarter. Japan (6.9%) rose despite continued economic weakness and the resignation of Prime Minister Shinzo Abe (due to ill health). New Prime Minister Yoshihide Suga promises policy continuity, along with reforms in regional banks, telecommunications and digital policy. Japan's GDP declined in Q2, extending the contraction that began with an increase in the consumption tax last fall. Retail sales, household spending, industrial production and exports all weakened. Sectors which rose most were communications, materials and industrials. Two sectors posted negative returns, utilities and energy. The Japanese yen rose 2% versus the US dollar.

Hong Kong (2%) continues to struggle amid escalating geopolitical tensions. GDP declined 9% in Q2, extending Hong Kong's recession to a full year. Australia (3%) entered its first recession in nearly 30 years. GDP fell 7% in Q2, the largest decline on record. New Zealand and Singapore each fell -1% in Q3.

Figure 10: Ex-USA Sector Returns – 3rd Quarter 2020



Emerging Markets, up 9.6% in US$ terms, took top honors in Q3, outpacing broad US and non-US developed markets. China's economic rebound, stronger commodity prices, a weaker US$ and unprecedented stimulus measures in developing countries contributed in Q3. Asia was the top performing region, jumping 11.9%. Three of the largest constituents posted solid double-digit advances; India (15%), Korea (12.8% and China (12.5%). Indian equities surged despite a challenging economic picture, led by technology stocks. Chinese stocks posted another quarter of strong gains on positive economic data. Internet and semiconductor giants - Alibaba, JD.com, Taiwan Semiconductor, drove results. Emerging Europe (-5.2%) was the weakest EM region. Russian (-4.7%) stocks were hurt by a sharp decline in global oil demand. In Latin America (-1.3%) results were mixed; Brazil (-3.3%) and Chile's (-4.2%) drops were not fully offset by Mexico's (+4.6%), Peru's (+3.5%) and Argentina's (+6.7%) gains.

The Back Page – Election Year Market Impact

Does a Presidential election have an impact on the stock market and investment returns? As we approach November 3rd, investors begin focusing on how either the status quo or a new administration may impact markets and volatility. 2020 can already claim a number of volatility milestones: a global pandemic, a shutdown-induced recession, record unemployment, social injustice/racial equality movement, the hunt for a COVID-19 vaccine, etc. Many management and research firms are generating whitepapers on the election impact topic. Below we share research from Capital Group (home of the American Funds) and their analysis of 85 years of data on ways that elections have influenced markets and investor behavior.

S&P 500 Average Returns During Election Years (1936 – 2016)

**Source: Strategas, Returns are indexed to 100 on January 1 of each election year. Returns are in USD. The shaded section approximately shows the three-month period prior to Election Day.*

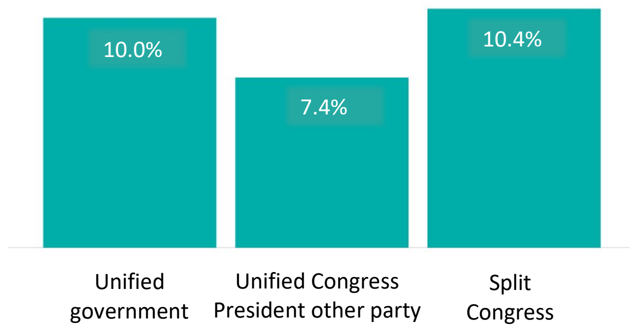
As shown above, if the S&P 500 Index is up in the three months prior to Election Day, the incumbent party usually wins. If markets are down during that period, the opposing party typically claims victory. This simple stock market metric has correctly predicted the winner of 20 of the last 23 presidential elections since 1936.

Why? Stock markets are forward- looking and equities tend to "price in" uncertainty. When *the stock market and the economy are strong*, there is usually less motivation for a change in leadership. In those years, stocks may not need to discount uncertainty, which often allows stocks to continue rising. When the *political and economic climate are more challenging*, there is a greater chance that the opposing party will win. The added uncertainty of the election outcome and what policy changes may occur can lead to higher volatility.

What might the impact be for 2020? As of September 15th, the S&P 500 was up 3% since August 3rd (three months prior to Election Day) and 5% YTD. In more normal times that would favor the incumbent, but this year's tenuous economy offers a different perspective – since 1912, only once has a president been re-elected if there was a recession within two years of the election. Historically, whether the incumbent wins or loses, volatility caused by the election has usually been short-lived and quickly gave way to upward moving markets.

S&P 500 Index Average Annual Returns (1933-2019)

The possibility of a "blue wave" outcome where the Democrats sweep the White House and Congress is a large unknown for markets and investors. The concern regarding a reversal of policies like deregulation, or the Tax Cuts and Jobs Act of 2017, and/or a new policy agenda could result in lower stock prices.



**Sources: Capital Group, Strategas. As of 12/31/19. Unified government indicates White House, House and Senate are controlled by the same political party. Unified Congress indicates House and Senate are controlled by the same party, but the White House is controlled by a different party. Split Congress indicates House and Senate are controlled by different parties, regardless of the White House control.*

What might the impact be for 2020? History shows that stocks have done well regardless of the composition of Washington. Since 1933, there have been 42 years where one party has controlled the White House and both chambers of Congress. During such periods, stocks have averaged double-digit returns (10%). This is nearly identical to the average gains in years when Congress was split between the two parties (10.4%). Historically the "least good" outcome has been when Congress has been controlled by the opposite party of president. Even this scenario shows a solid 7.4% average return.

This year's election will likely end in one of two ways – a unified government under a "blue wave" or a split congress, which could happen with either a Trump or Biden victory. Voters may have a strong preference, but investors demonstrate that both scenarios have historically produced strong equity returns. In short, markets are not partisan; they are politically agnostic!

Stay Safe and Vote! See you next quarter!

Natalka Bukalo
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