LEGACY WEALTH
INVESTMENT COUNSEL

The Election and Your Money

What a (Belated?) Shift in Monetary Policy and an Unprecedented Election Mean for the Markets and the Economy

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What We Will Be Covering

- The Fed cuts rates … too late or right on time?
- What might the election mean for the markets and the economy?
- Putting the election and market volatility in perspective
- Closing thoughts

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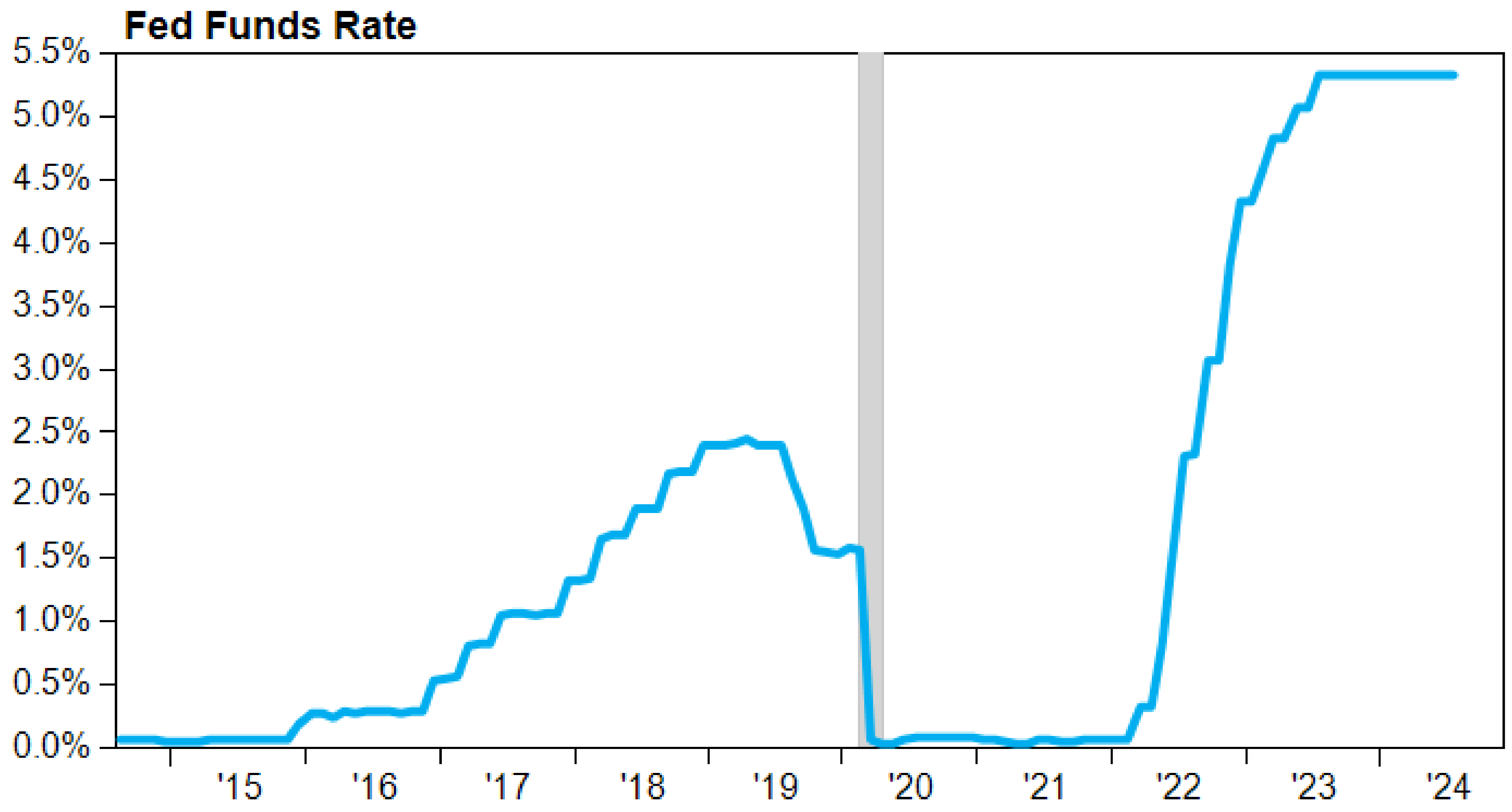
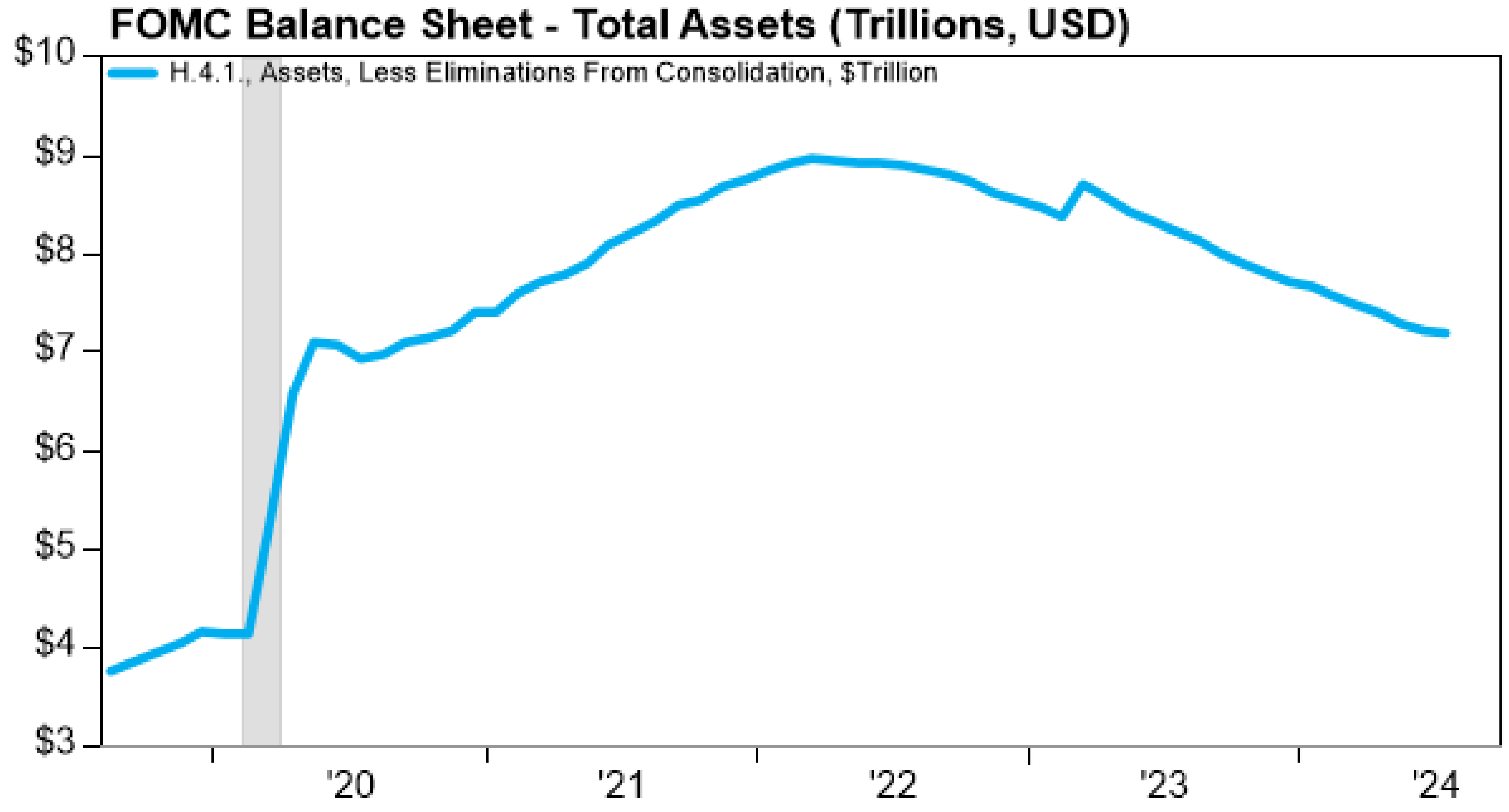
Source: FactSet
2526-TSC-10/1/2024

The Fed cuts … too late or right on time?

The Fed Embarked on Historic Rate Hiking and QT Campaigns to Break the Back of Inflation





Recessionary Period

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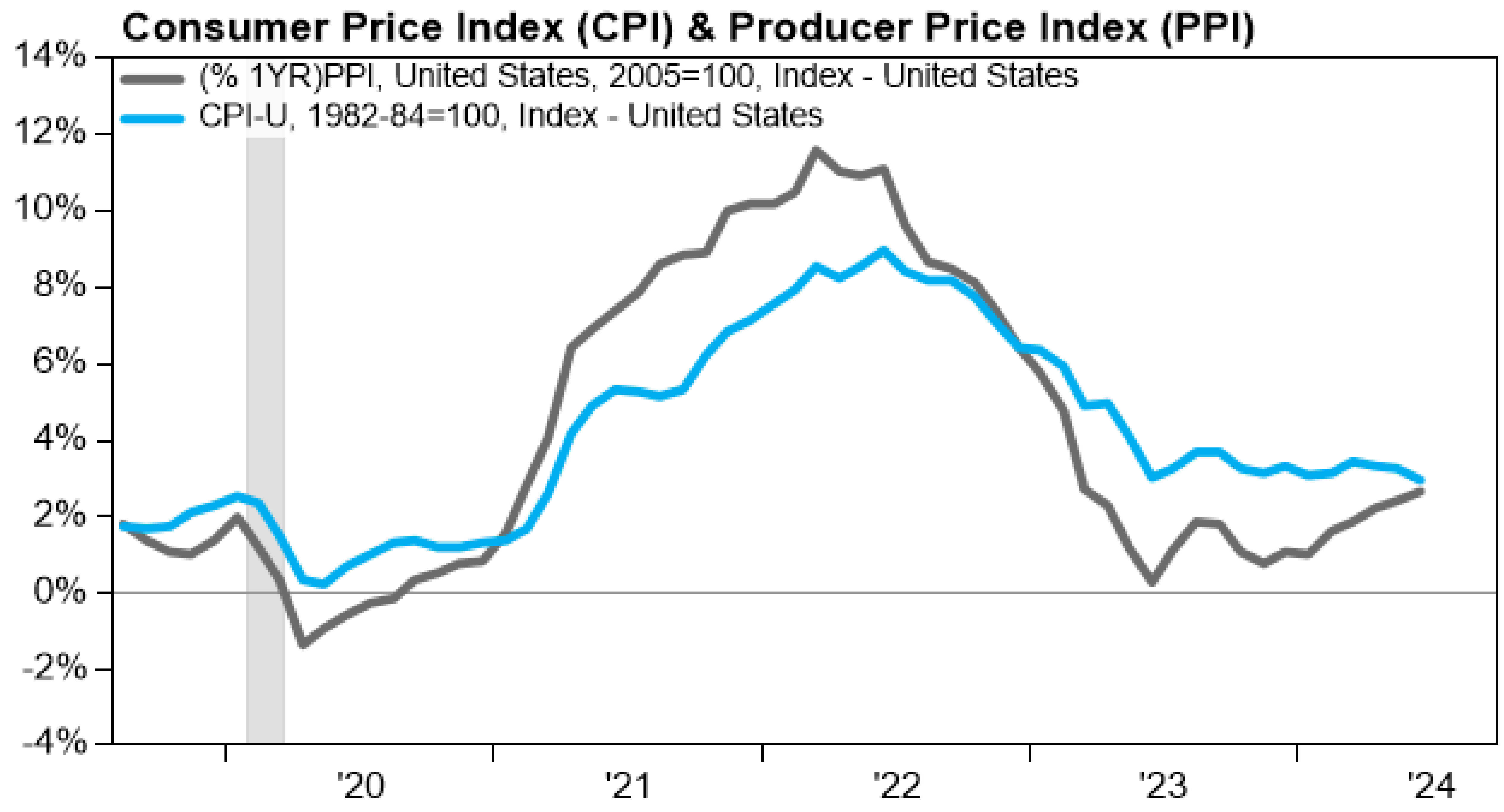
Source: FactSet
2526-TSC-10/1/2024

Despite Great Gains on the Inflation Fighting Front, the Fed Kept its Focus on Price Stability



Recessionary Period

CNBC

FEDERAL RESERVE

Powell reinforces position that the Fed is not ready to start cutting interest rates

Bloomberg

Powell Not Prepared Yet to Say He’s Confident About Inflation

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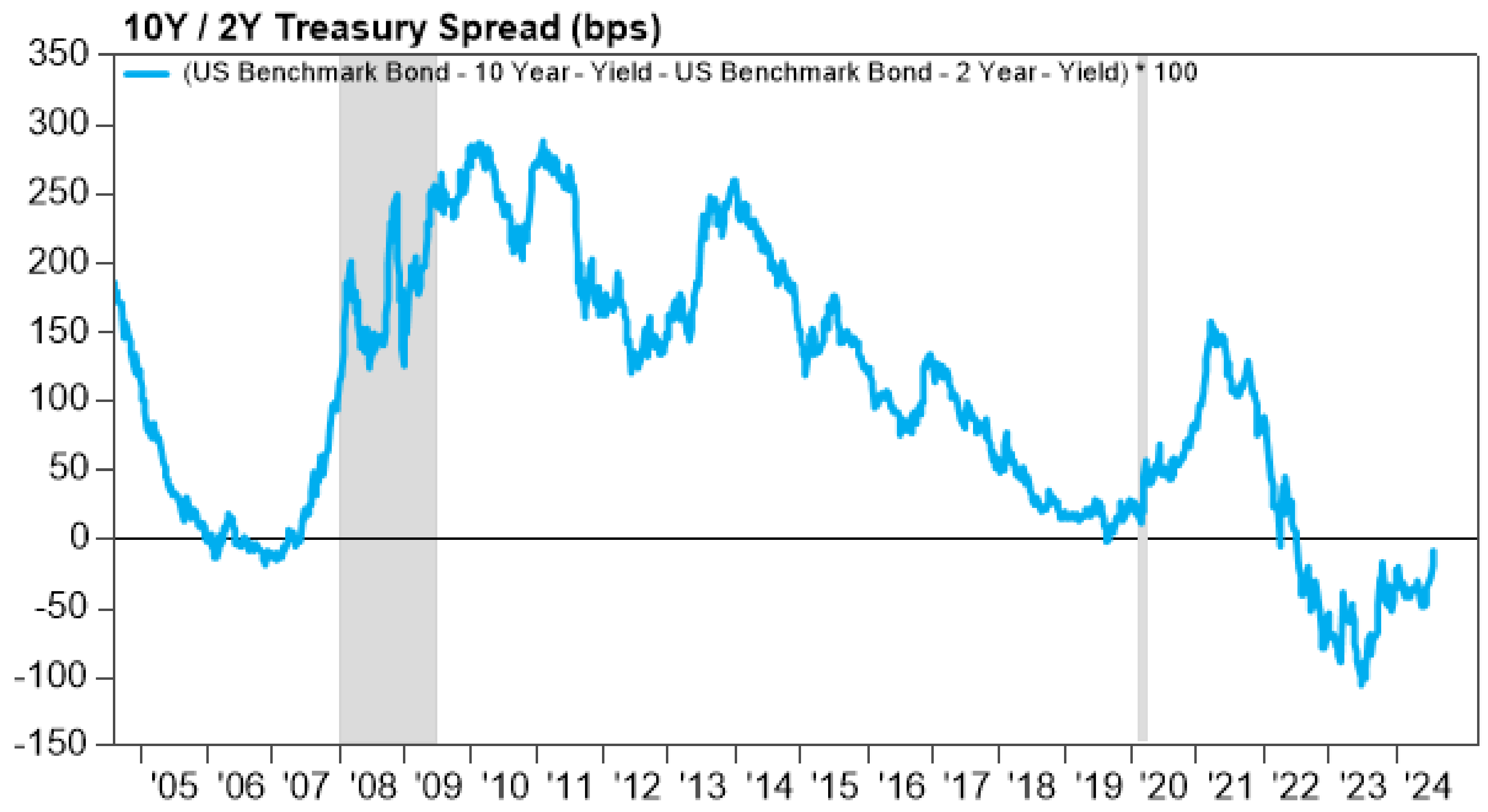
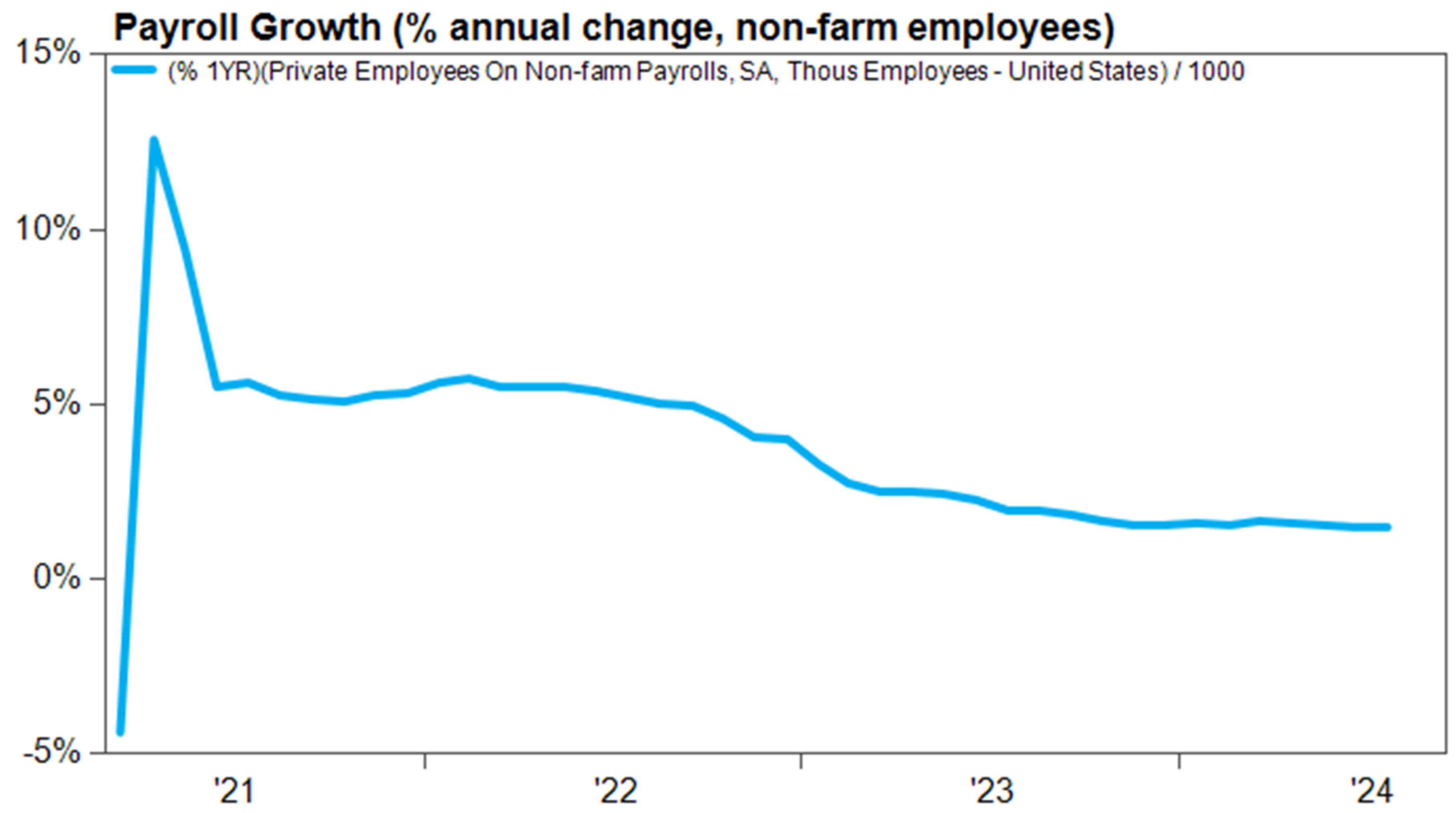
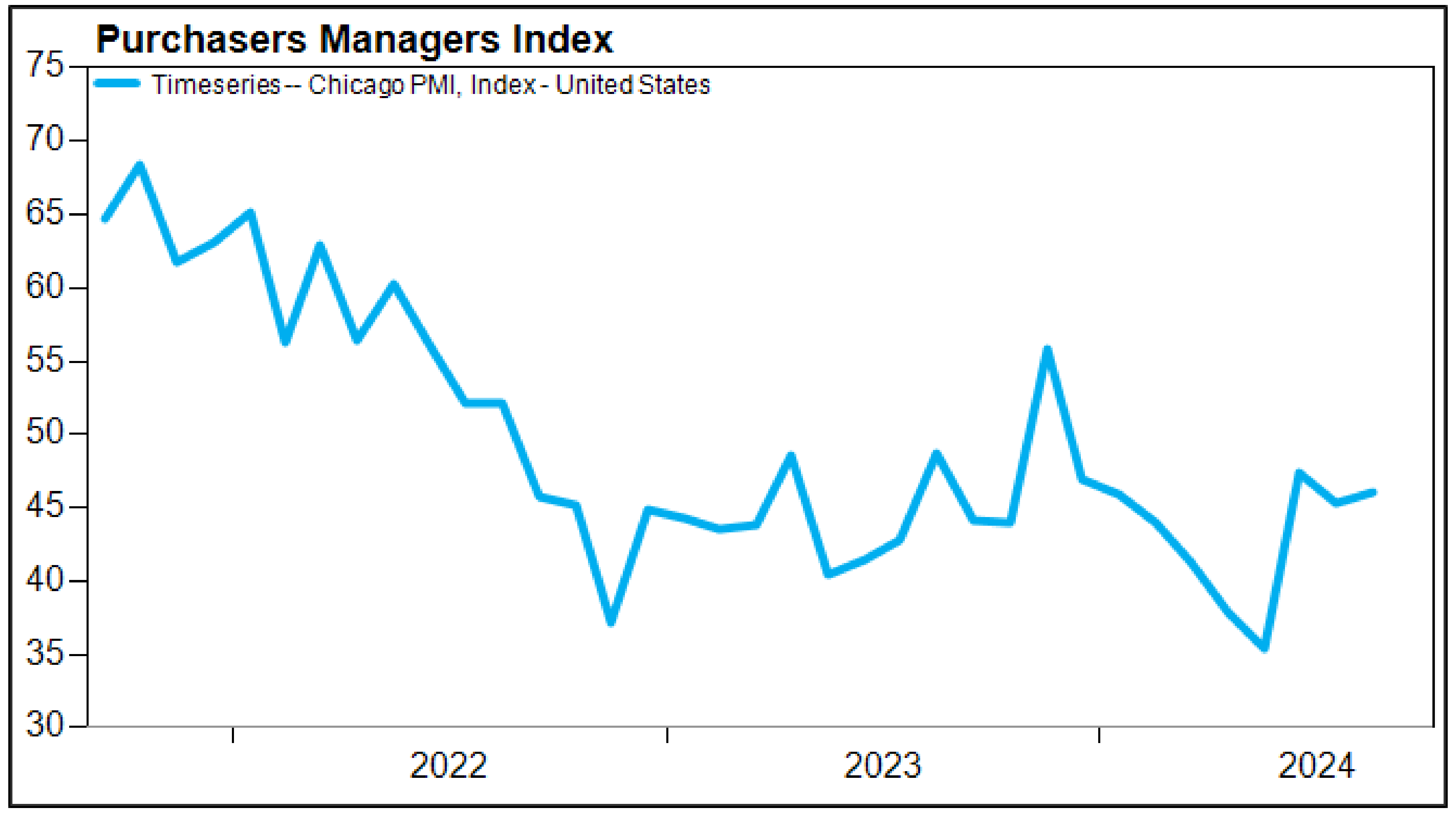
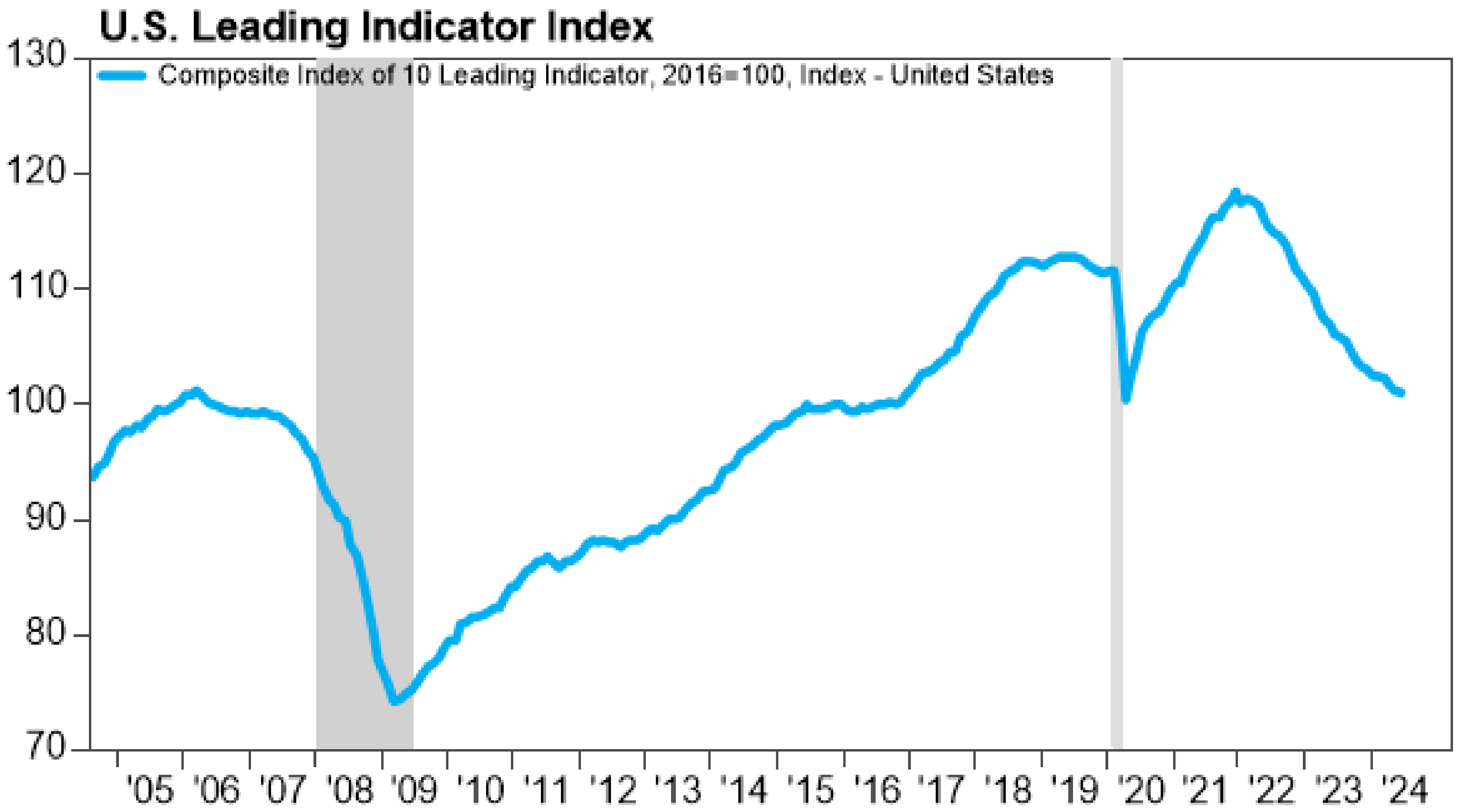
Source: FactSet
2526-TSC-10/1/2024

Even Though Recession Signals Were Flashing Red …









Recessionary Period

Source: FactSet
2526-TSC-10/1/2024

And Then We Got the Big Pivot

AXIOS

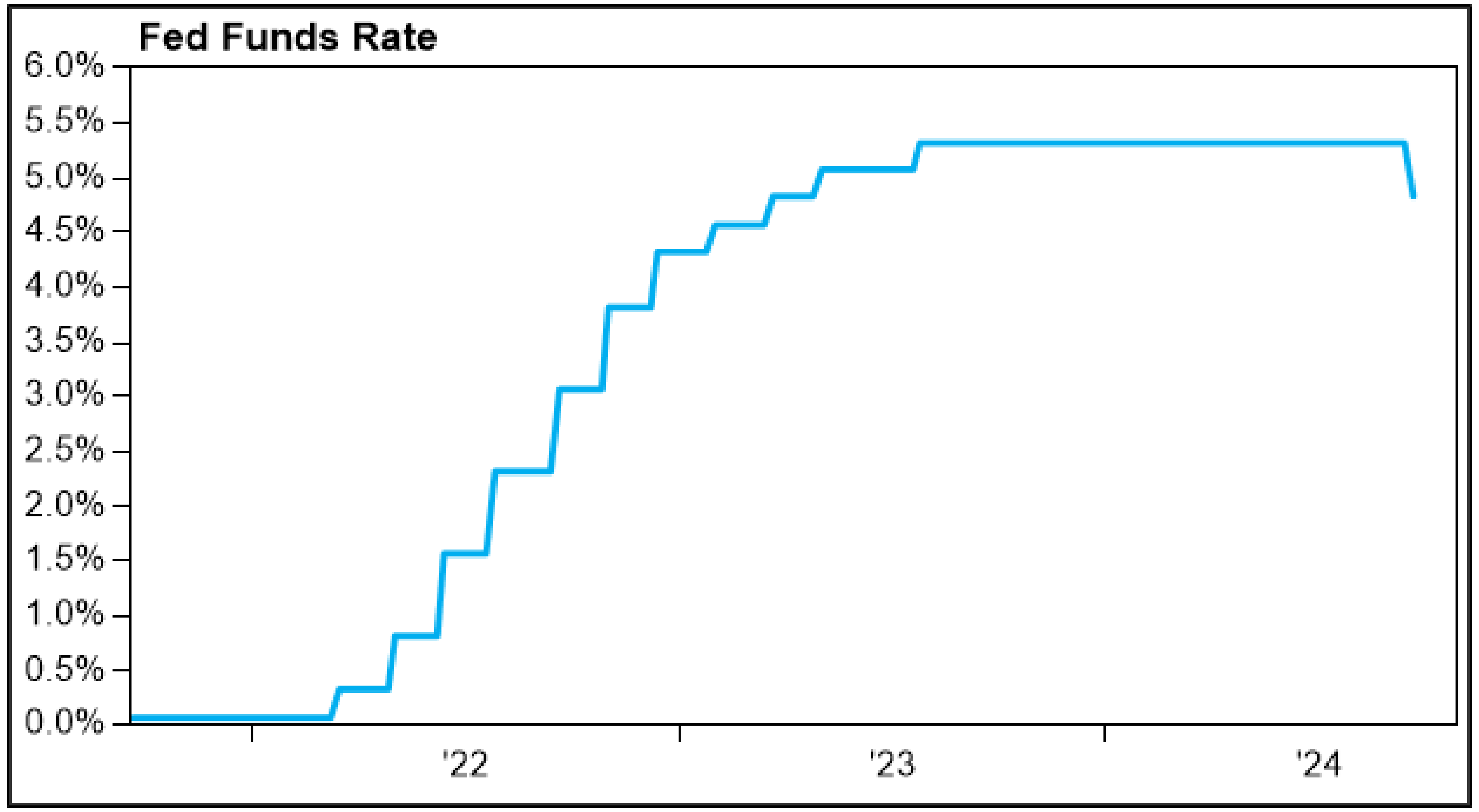
Fed's Powell at Jackson Hole: "The time has come" for rate cuts

CNBC

FEDERAL RESERVE

Fed slashes interest rates by a half point, an aggressive start to its first easing campaign in four years

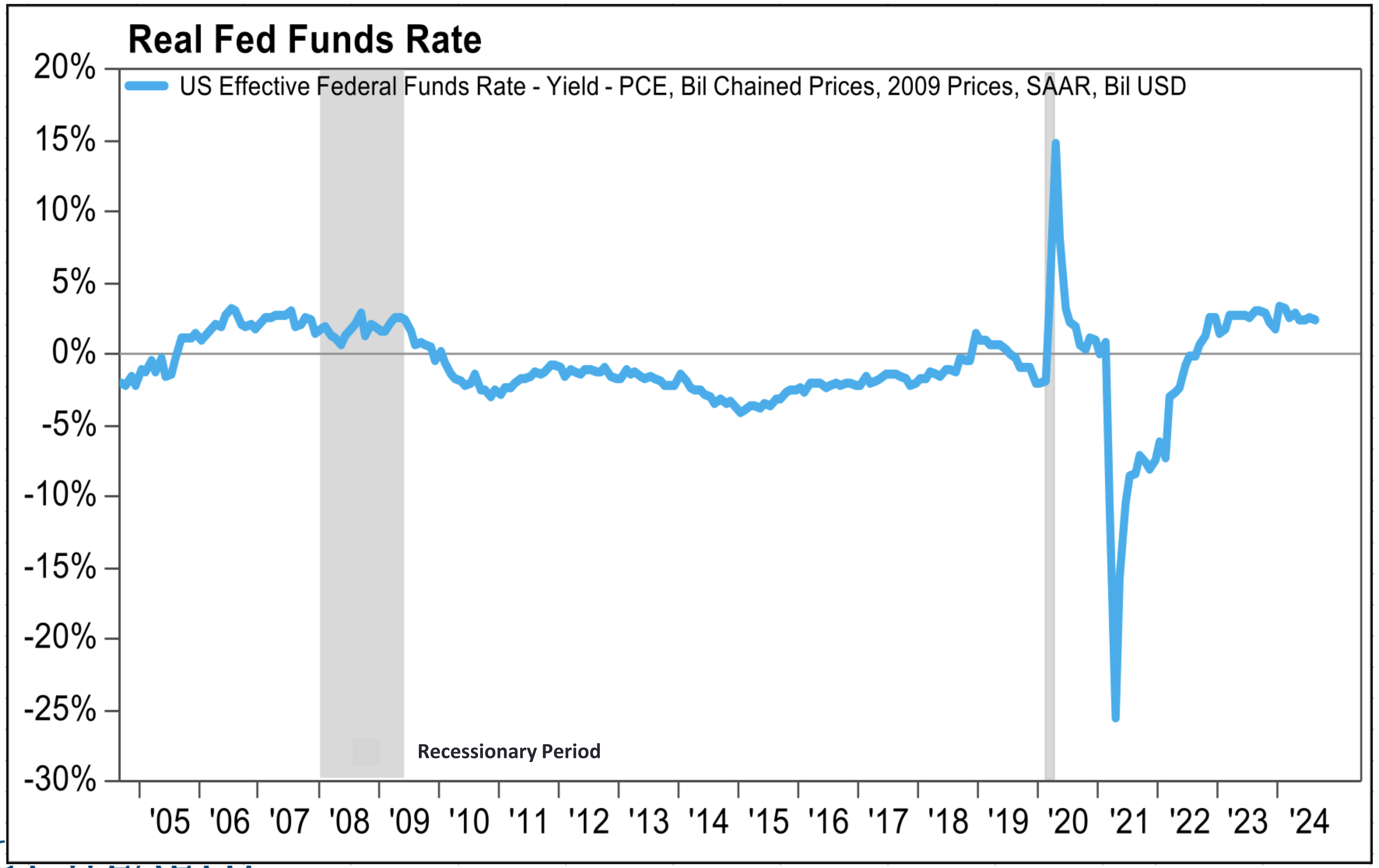
PUBLISHED WED, SEP 18 2024•2:00 PM EDT | UPDATED WED, SEP 18 2024•7:59 PM EDT



Source: FactSet, Axios, CNBC
2526-TSC-10/1/2024

"Re-Calibrating"

- 2022–2024: Inflation high, full employment, restrictive monetary policy
- The Real Fed Funds Rate spiked
- Post Cut: Inflation moderated, labor market softened, less restrictive monetary policy



*"We know that it is time to **re-calibrate** our policy to something that is more appropriate given the progress on inflation and on employment, moving to a more sustainable level."*

- Jerome Powell, September 18, 2024

Source: FactSet, CBS

2526-TSC-10/1/2024

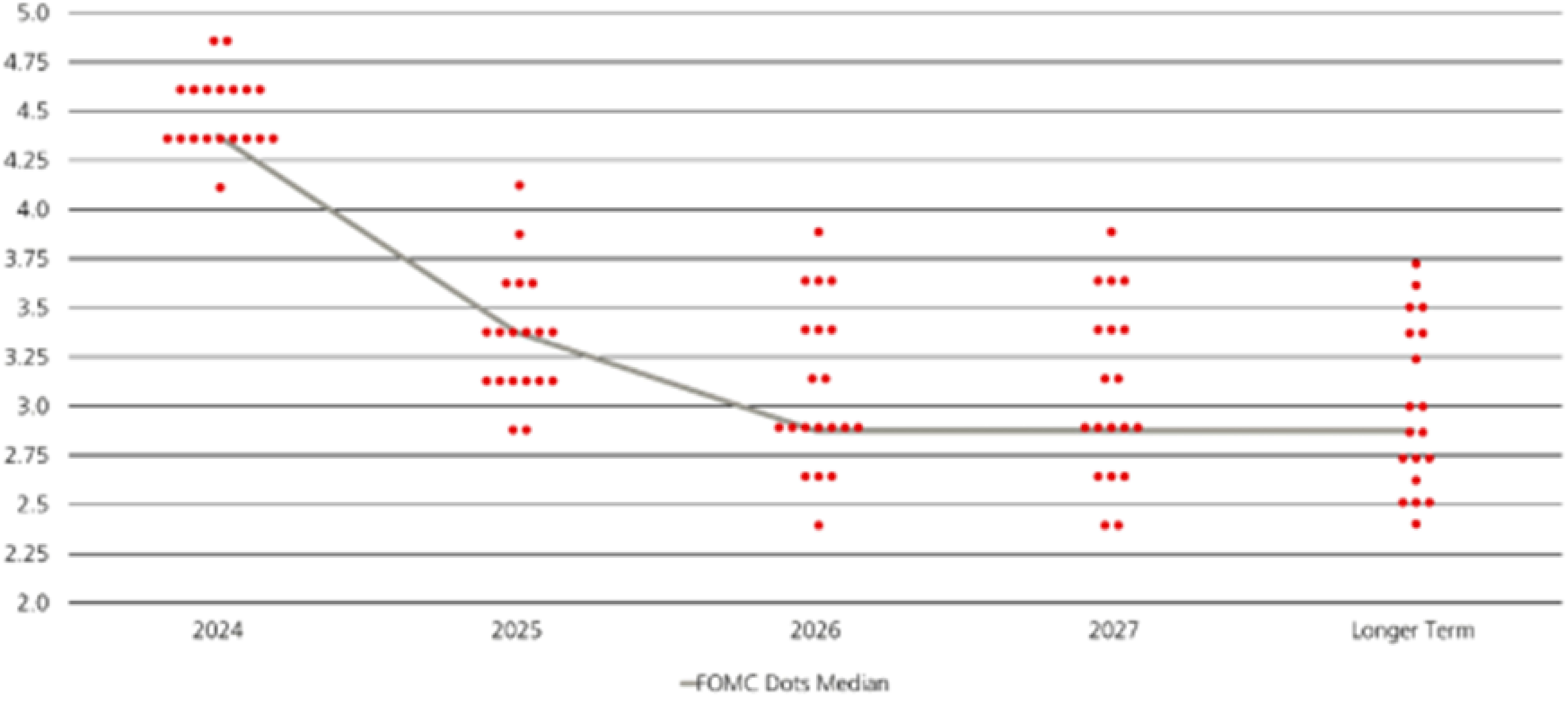
The Fed Is Just Getting Started

Fed Funds Rate Forecast *(FOMC Consensus as of 9/18)*

2024: 4.4%

2025: 3.4%

2026: 2.9%



Source: Federal Reserve
2526-TSC-10/1/2024

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What's Next for Stocks?

Equity Market Returns 12 Months After the First Rate Cut

Initial Cut Date	Cycle Peak - Fed Funds Rate	Amount (bps)	Economic Response	Fed Chair	S&P 500
April 18, 1980	20.00%	100	Stagflation & Oil Crisis	Volcker	34.0%
January 2, 1981	20.00%	100	Early 1980s Recession	Volcker	-10.1%
September 15, 1981	20.00%	50	Early 1980s Recession	Volcker	2.8%
February 23, 1982	13.00%	50	Early 1980s Recession	Volcker	30.5%
September 27, 1984	11.25%	50	Avoiding Recession	Volcker	43.6%
October 22, 1987	7.25%	50	Stock Market Crash	Greenspan	31.0%
June 5, 1989	9.75%	25	Avoiding Recession	Greenspan	-14.0%
July 6, 1995	6.50%	25	Avoiding Recession	Greenspan	18.6%
January 3, 2001	6.50%	50	Dot-com Bubble	Greenspan	-14.3%
September 18, 2007	5.25%	50	Global Financial Crisis	Bernanke	-23.8%
July 31, 2019	2.25%	25	Global Growth Concerns	Powell	8.9%
March 3, 2020	1.75%	50	COVID-19	Powell	28.9%
September 18, 2024	5.50%	50	Avoiding Recession	Powell	**?**

Stocks have risen 67% of the time, 12 months after a major rate cut (since 1980). **Average Return** **11.3%**

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Source: FactSet
2526-TSC-10/1/2024

What's Next for Bonds?

Bond Market Returns 12-Months After the First Rate Cut

Initial Cut Date	Cycle Peak - Fed Funds Rate	Amount (bps)	Economic Response	Fed Chair	BBAgg
April 18, 1980	20.00%	100	Stagflation & Oil Crisis	Volcker	8.3%
January 2, 1981	20.00%	100	Early 1980s Recession	Volcker	6.4%
September 15, 1981	20.00%	50	Early 1980s Recession	Volcker	32.0%
February 23, 1982	13.00%	50	Early 1980s Recession	Volcker	32.6%
September 27, 1984	11.25%	50	Avoiding Recession	Volcker	22.8%
October 22, 1987	7.25%	50	Stock Market Crash	Greenspan	14.2%
June 5, 1989	9.75%	25	Avoiding Recession	Greenspan	10.2%
July 6, 1995	6.50%	25	Avoiding Recession	Greenspan	4.9%
January 3, 2001	6.50%	50	Dot-com Bubble	Greenspan	8.6%
September 18, 2007	5.25%	50	Global Financial Crisis	Bernanke	5.8%
July 31, 2019	2.25%	25	Global Growth Concerns	Powell	10.0%
March 3, 2020	1.75%	50	COVID-19	Powell	0.9%
September 18, 2024	5.50%	50	Avoiding Recession	Powell	?

Bonds have risen 100% of the time, 12 months after a major rate cut (since 1980).

Average Return **13.1%**

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Source: FactSet
2526-TSC-10/1/2024

What's Next for the Economy?

Recession History 12-Months After the First Rate Cut

Initial Cut Date	Cycle Peak - Fed Funds Rate	Amount (bps)	Economic Response	Fed Chair	Recession 12M Later?
April 18, 1980	20.00%	100	Stagflation & Oil Crisis	Volcker	Yes
January 2, 1981	20.00%	100	Early 1980s Recession	Volcker	Yes
September 15, 1981	20.00%	50	Early 1980s Recession	Volcker	Yes
February 23, 1982	13.00%	50	Early 1980s Recession	Volcker	No
September 27, 1984	11.25%	50	Avoiding Recession	Volcker	No
October 22, 1987	7.25%	50	Stock Market Crash	Greenspan	No
June 5, 1989	9.75%	25	Avoiding Recession	Greenspan	Yes
July 6, 1995	6.00%	25	Early 1990s Recession	Greenspan	No
January 3, 2001	6.50%	50	Dot-com Bubble & 9/11	Greenspan	Yes
September 18, 2007	5.25%	50	Global Financial Crisis	Bernanke	Yes
July 31, 2019	2.25%	25	Global Growth Concerns	Powell	Yes
March 3, 2020	1.75%	50	COVID-19	Powell	No
September 18, 2024	5.50%	50	Avoiding Recession	Powell	**?**

The U.S. economy entered recession 58% of the time, within 12 months of a major rate cut (since 1980).

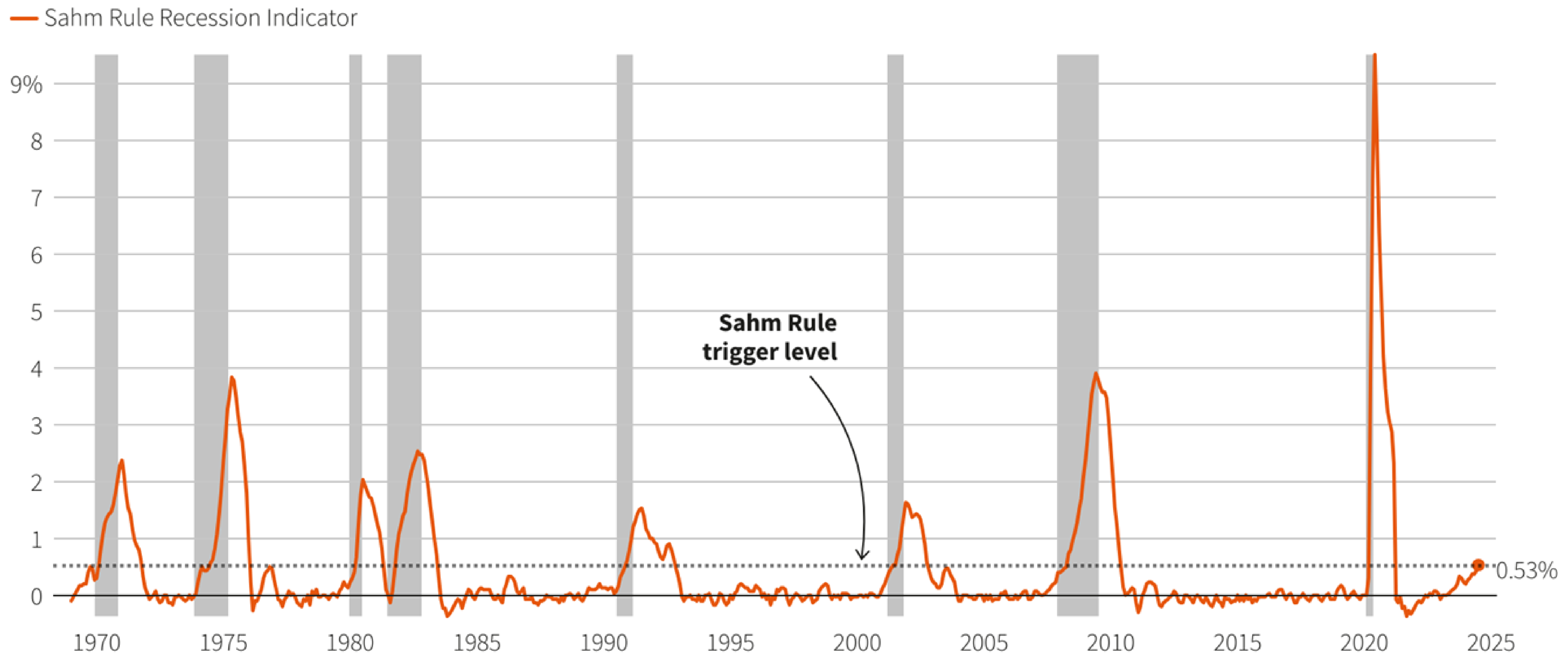
Source: FactSet

2526-TSC-10/1/2024

Was the Fed too Late?

Sahm Rule gets triggered

Developed by former Federal Reserve economist Claudia Sahm, the Sahm Rule in the past has shown a recession is already underway when the three-month moving average of the national unemployment rate rises 0.50 percentage point above its low from the previous 12 months. That level was breached when July's unemployment rate rose to 4.3%, though Sahm herself has questioned whether the rule should apply in the current circumstances because of labor market distortions caused by the COVID-19 pandemic and recovery.



Note: Gray bands are recessions.
Source: Claudia Sahm; St. Louis Fed's FRED database

Recessionary Period

AXIOS

U.S. economy adds 114,000 jobs in July, unemployment rate spikes

The New York Times

U.S. Added 818,000 Fewer Jobs Than Reported Earlier

The Labor Department issued revised figures for the 12 months through March that point to greater economic fragility.

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Source: Federal Reserve, Axios, FactSet
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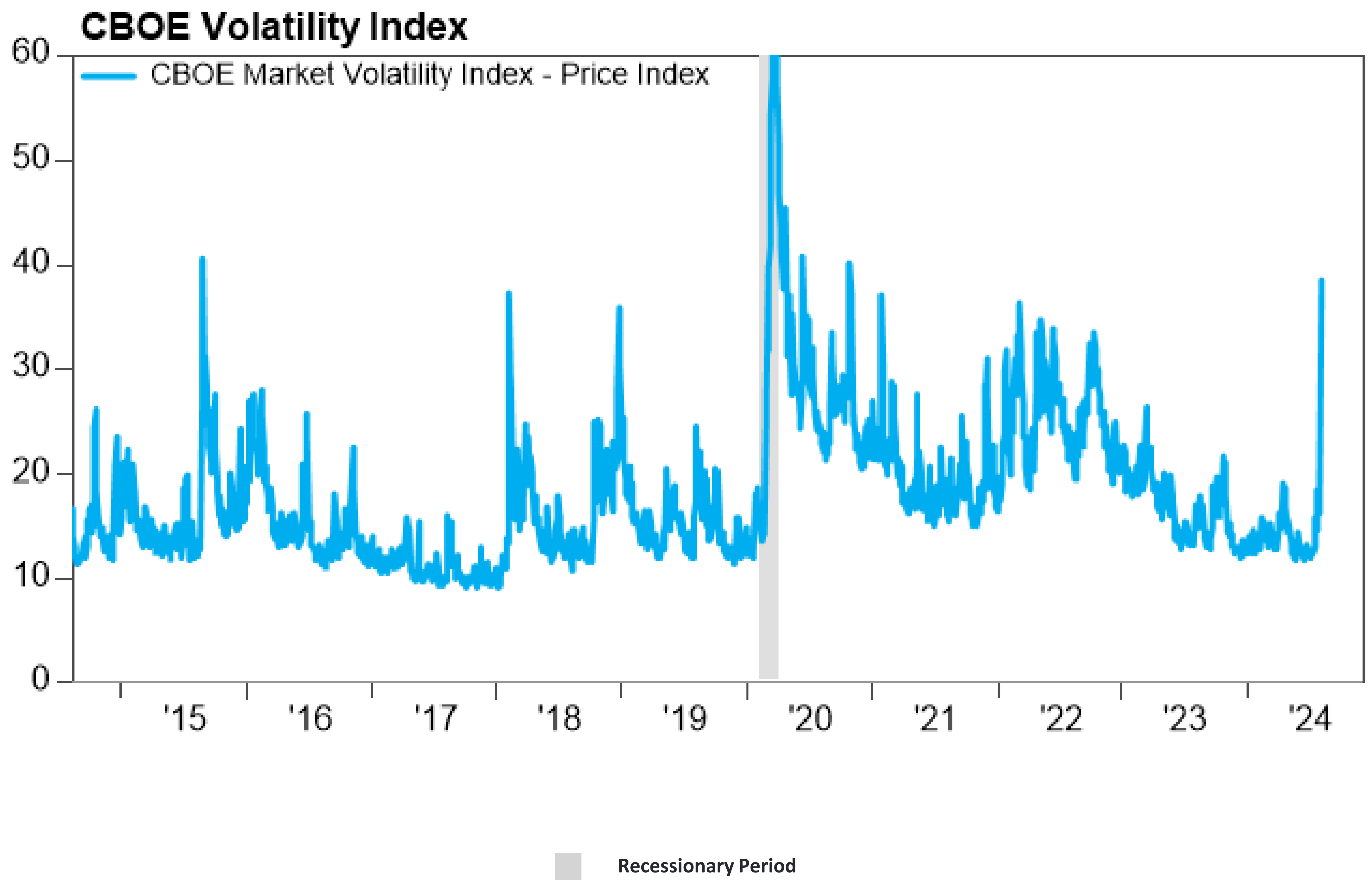
Was the Fed too Late?



The New York Times

Hard Landing Concerns Jolt Global Markets

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Source: FactSet
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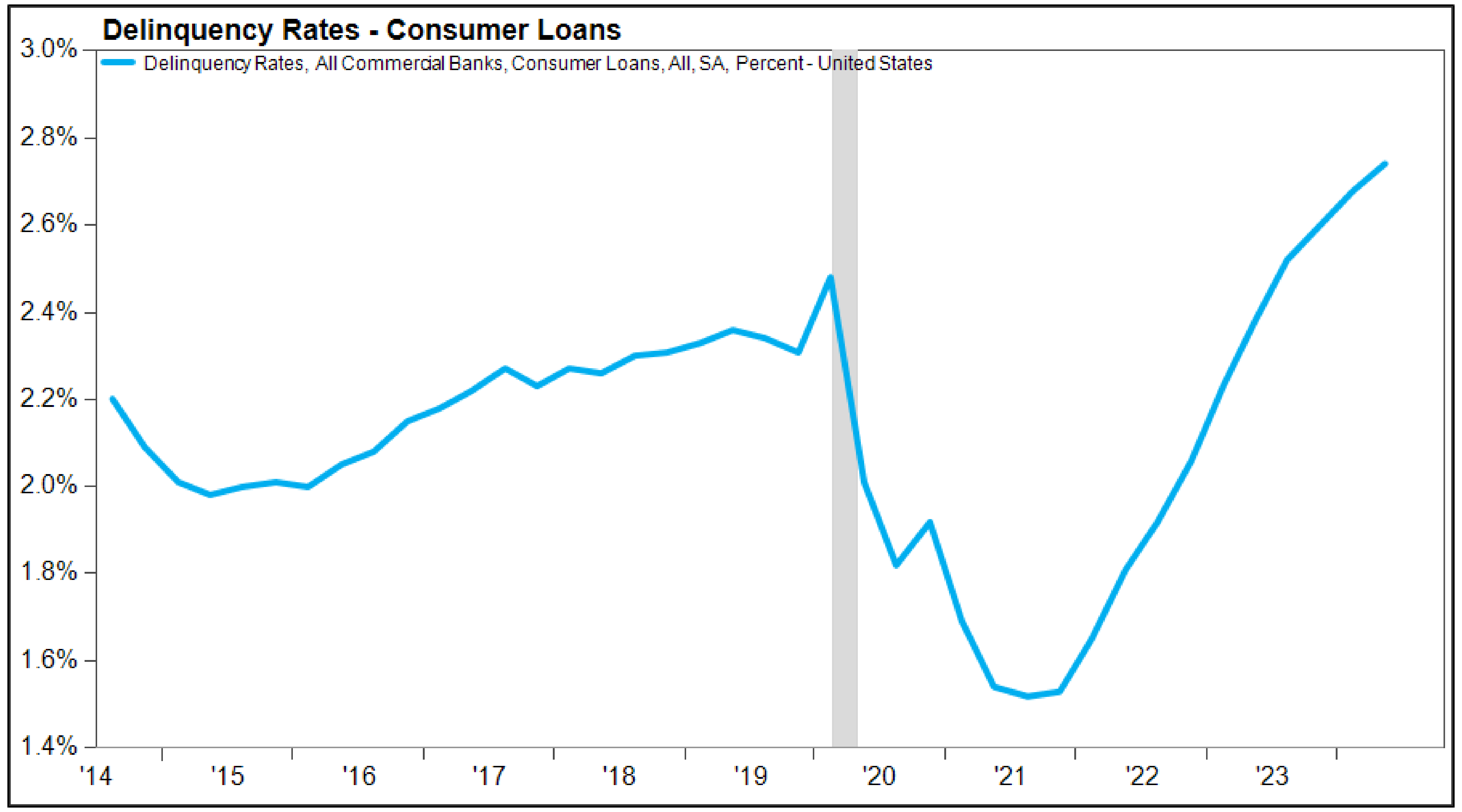
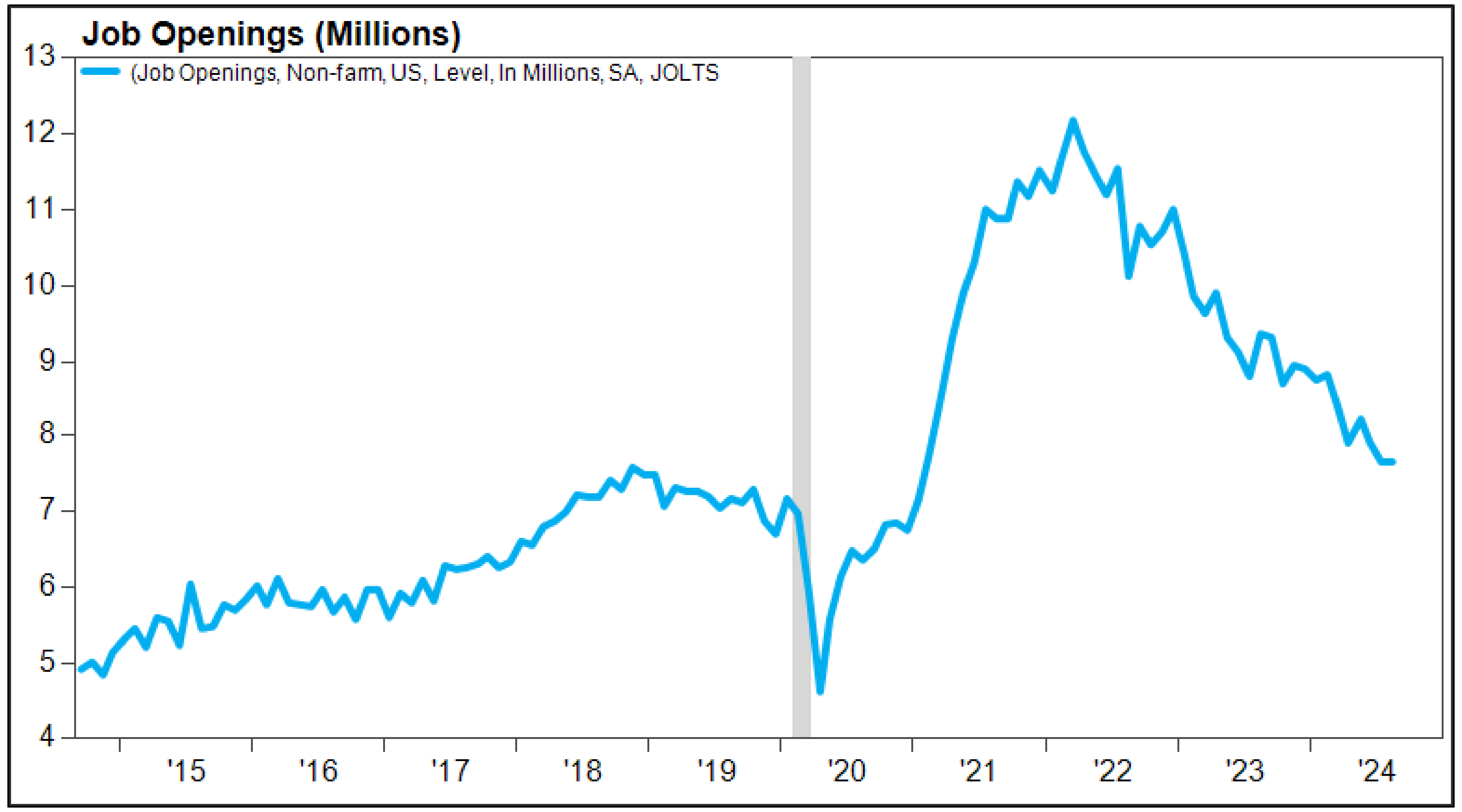
Was the Fed too Late?





Recessionary Period

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Source: FactSet, Bloomberg
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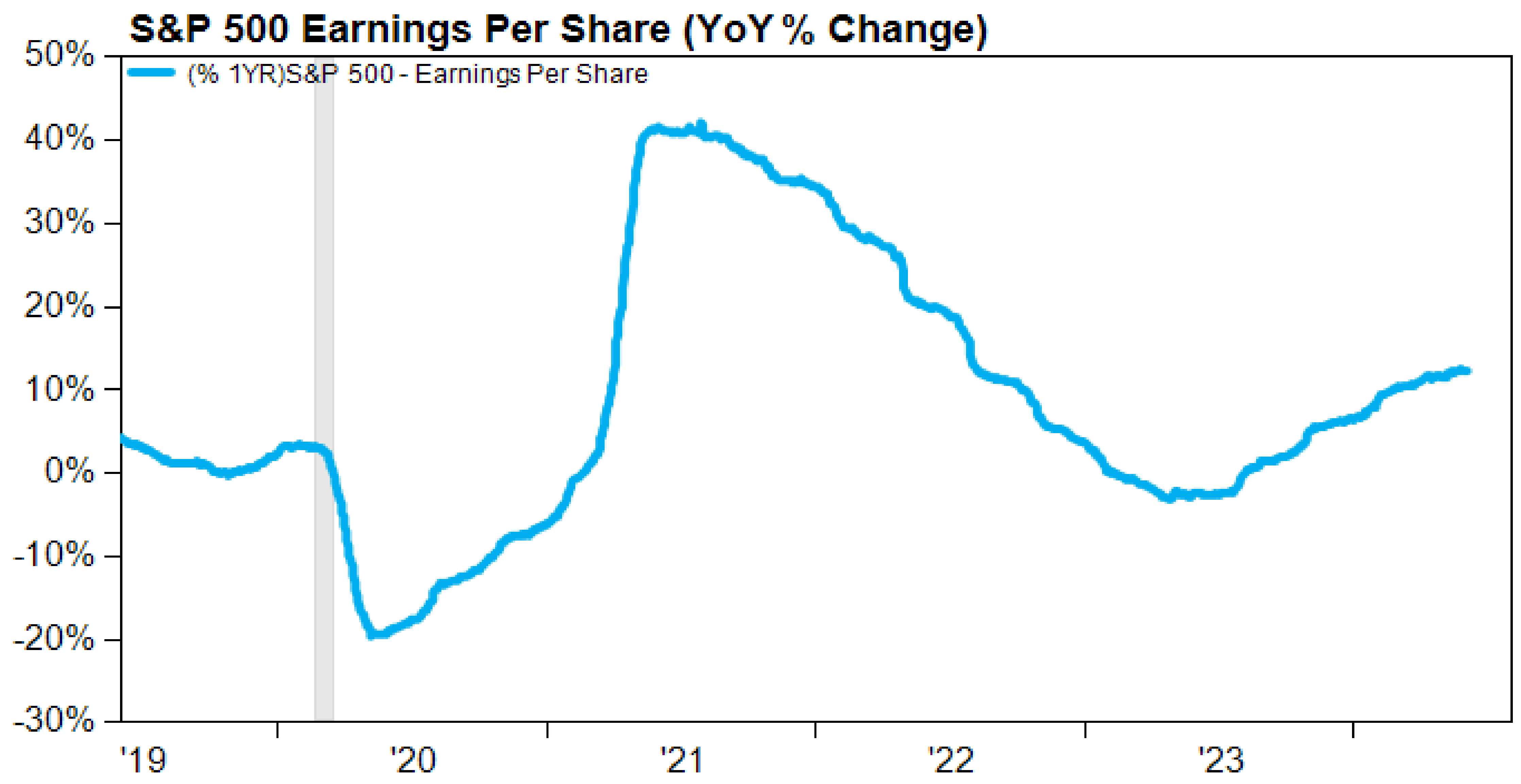
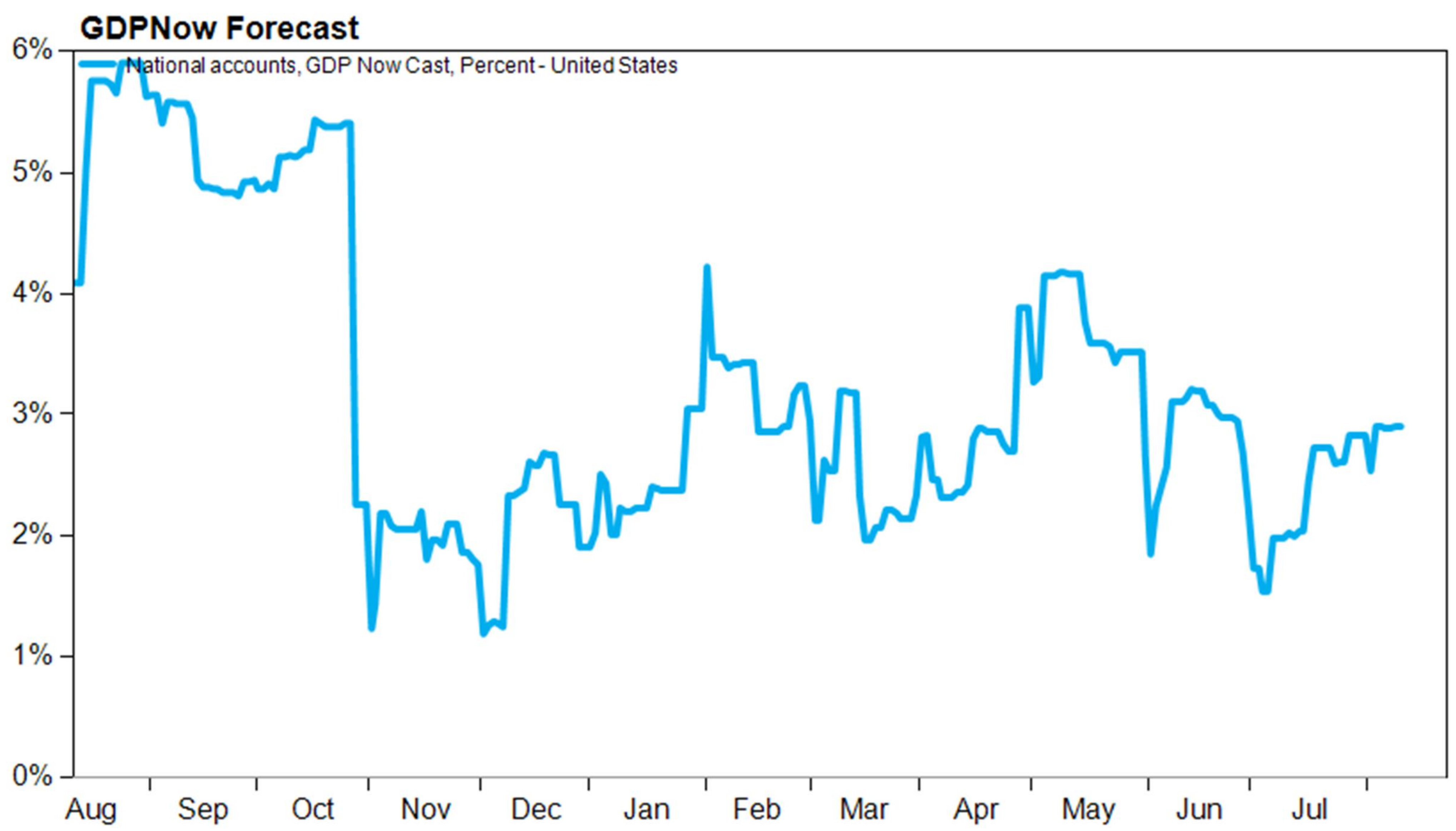
That Said, Growth Estimates Give Us Confidence





Recessionary Period

Source: FactSet
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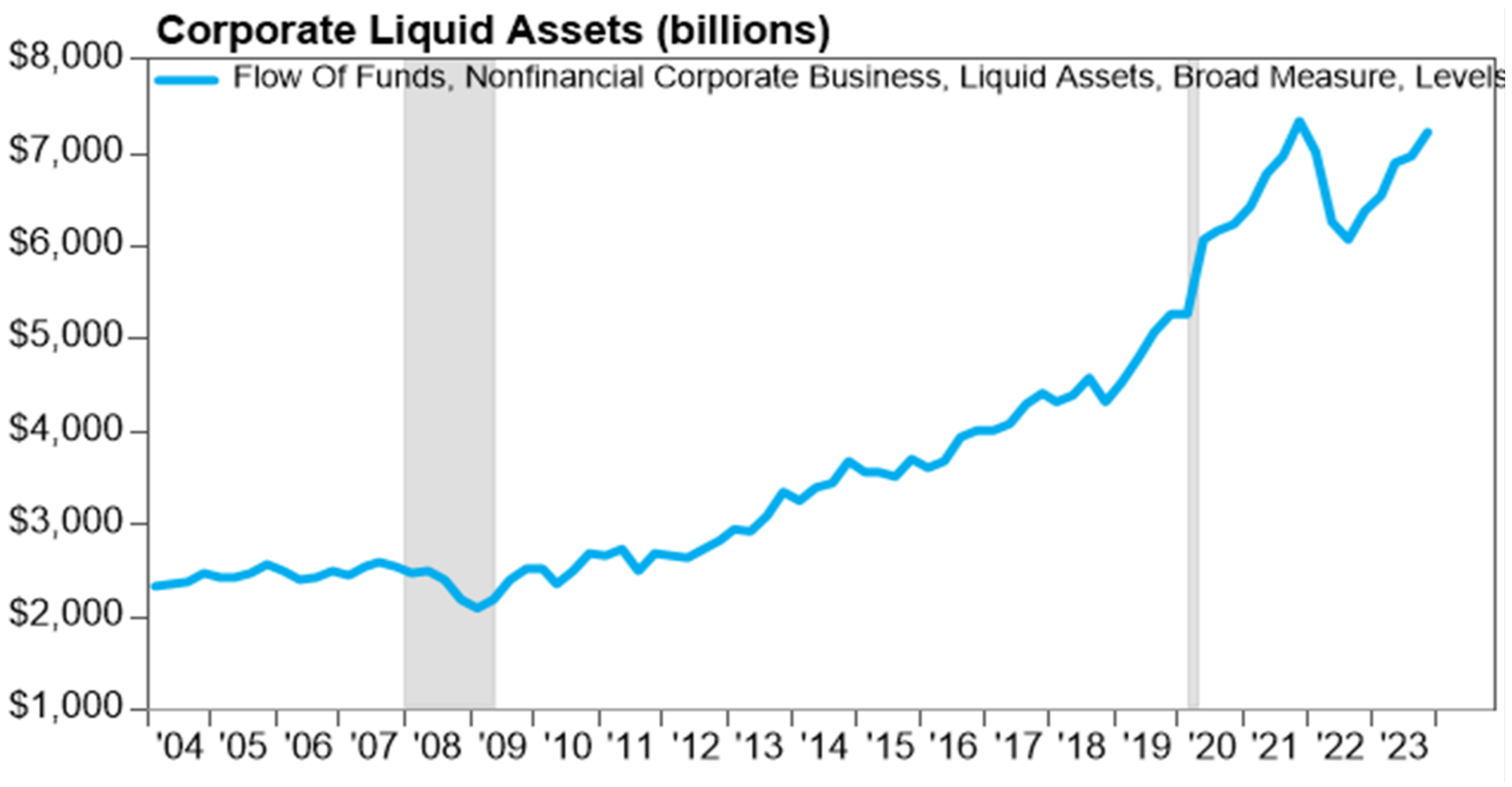
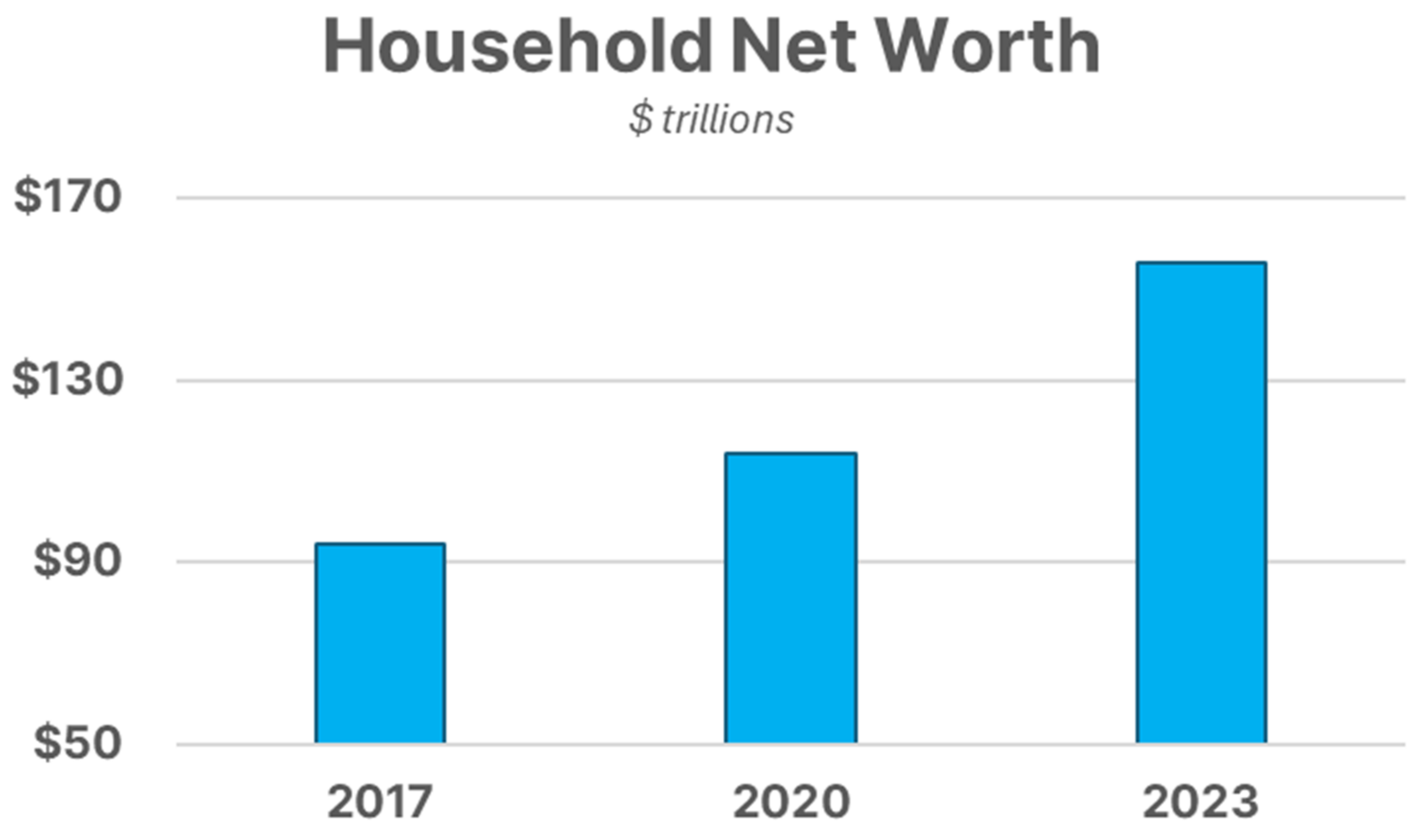
Healthy Balance Sheets Give Us Confidence





Recessionary Period

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Source: FactSet
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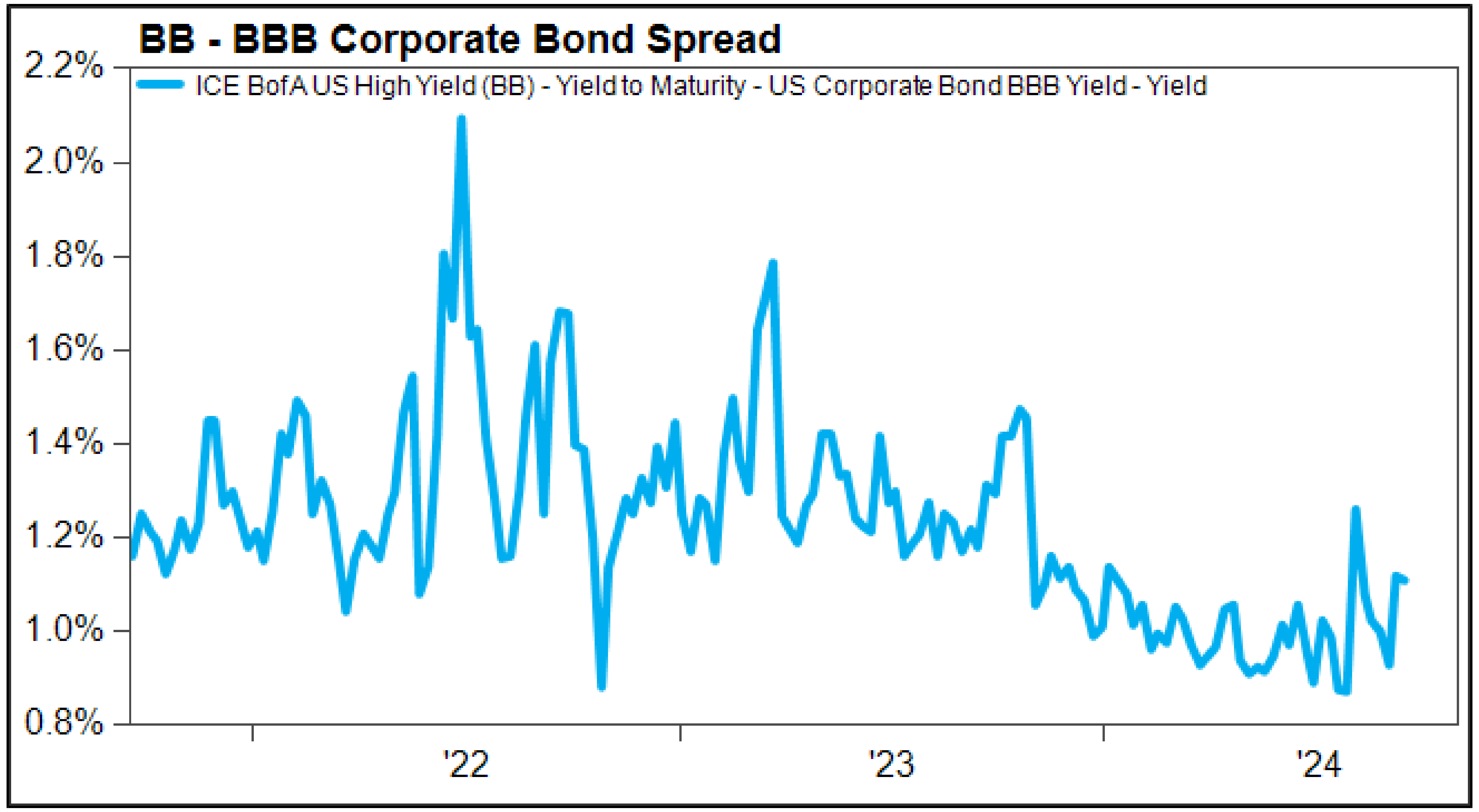
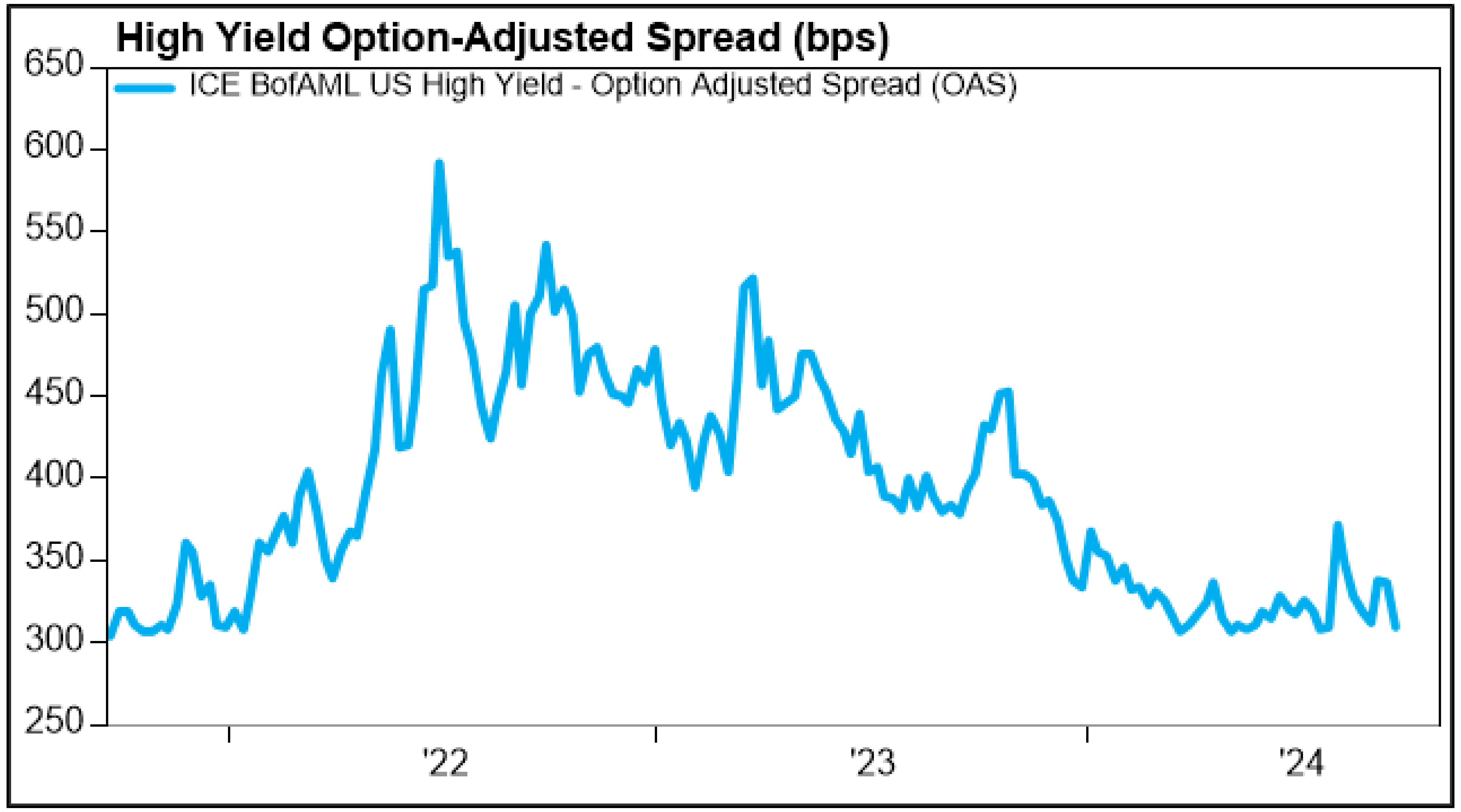
Credit Spreads Give Us Confidence





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Source: FactSet
2526-TSC-10/1/2024

Low Structural Risk and Low Valuations Give Us Confidence

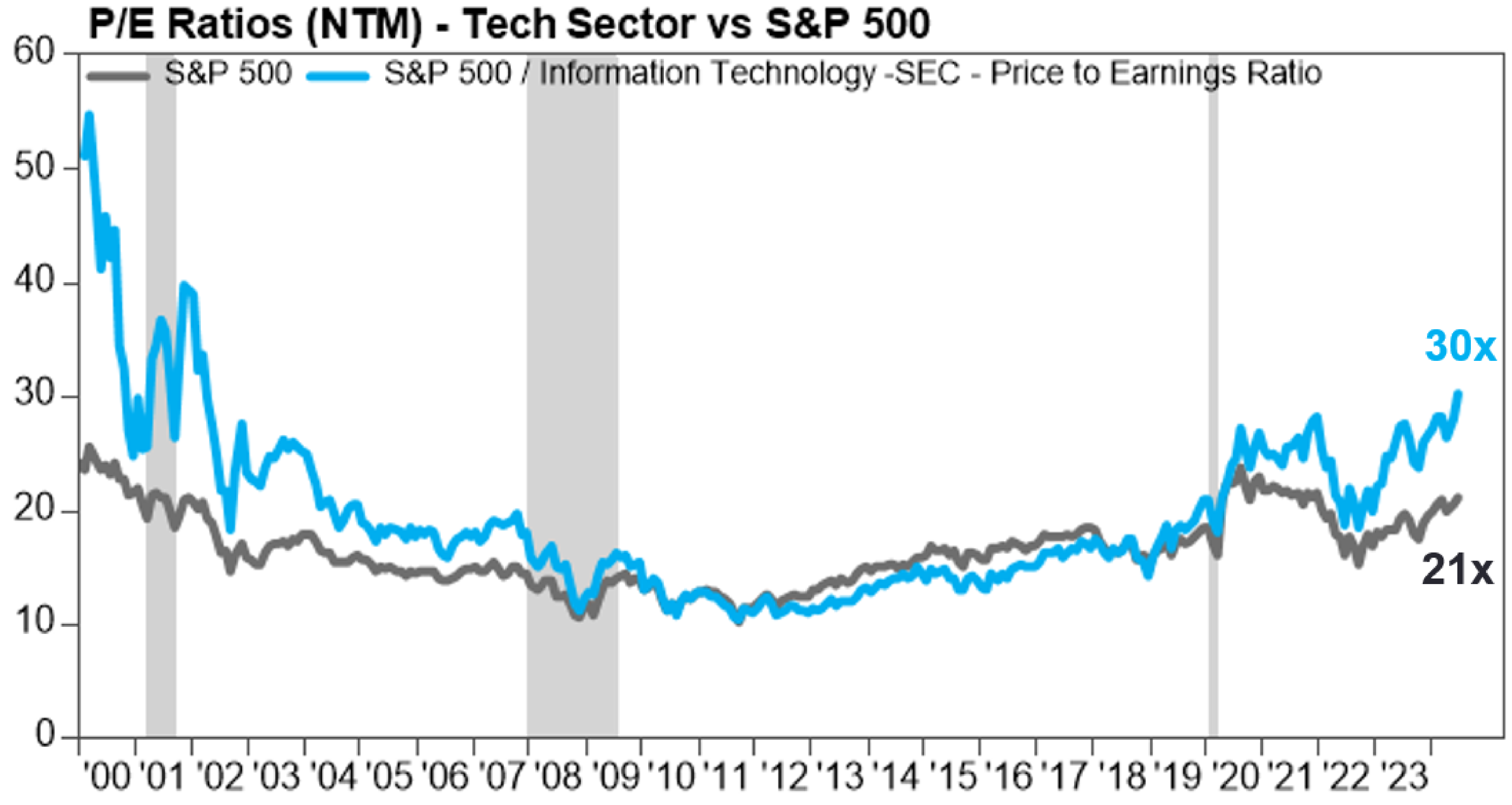
CNBC

Federal Reserve says all 31 banks in annual stress test withstood a severe hypothetical downturn

InvestmentNews

REIT deals getting creative amid weary commercial real estate ...

WEB Jun 14, 2024 · **REIT deals getting creative amid** weary commercial real estate market. Details behind Blackstone deal with KKR hints at rising pressure from mounting ...



Recessionary Period

Source: FactSet
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What might the election mean for the markets and the economy?

An Unprecedented Election

How many ex-presidents have returned to the White House?

So far, just one.

NBC NEWS

Kamala Harris' historic presidential bid cements rapid ascent in Democratic politics

The 59-year-old vice president's rise from California prosecutor to Democratic presidential front-runner was swift but not without setbacks.

AP

Joe Biden is out and Kamala Harris is in. Disenchanted voters are taking a new look at their choices

PBS NEWS

The Biden-Trump sequel isn't the first U.S. presidential rematch

CBS NEWS

Biden drops out of 2024 race against Trump. Here's what we know about what happens now.

TIME Made by History

The Biden-Trump Rematch May Mark the End of an Era

abc NEWS

Trump shot at rally in assassination attempt; spectator killed and shooter dead

NBC NEWS

Race unsettled as Trump and Biden split swing states, vote counting continues

Source: AP, ABC, NBC, CBS, PBS, Time

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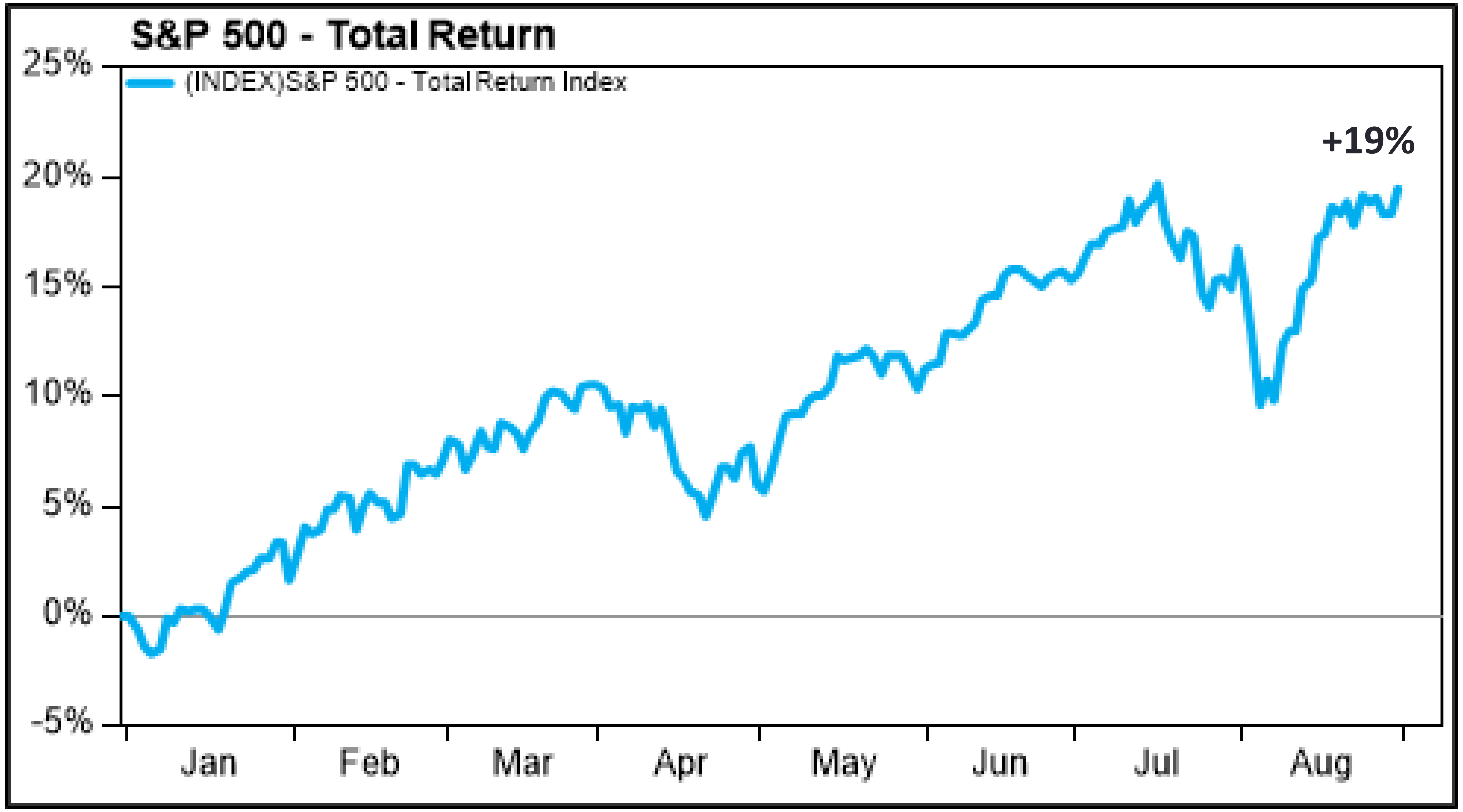
Markets Are Meaningfully Higher Ahead of the Election



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Source: FactSet
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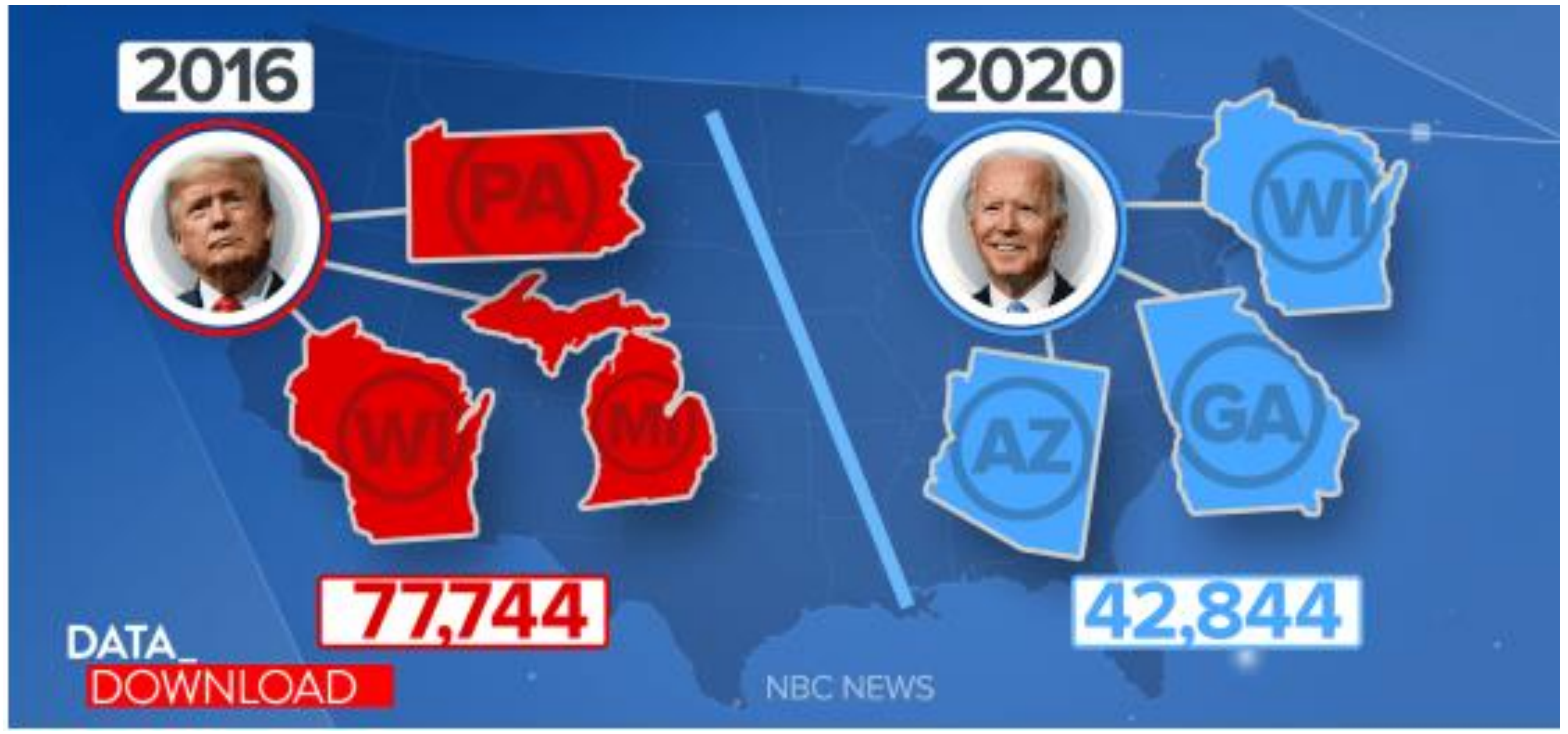
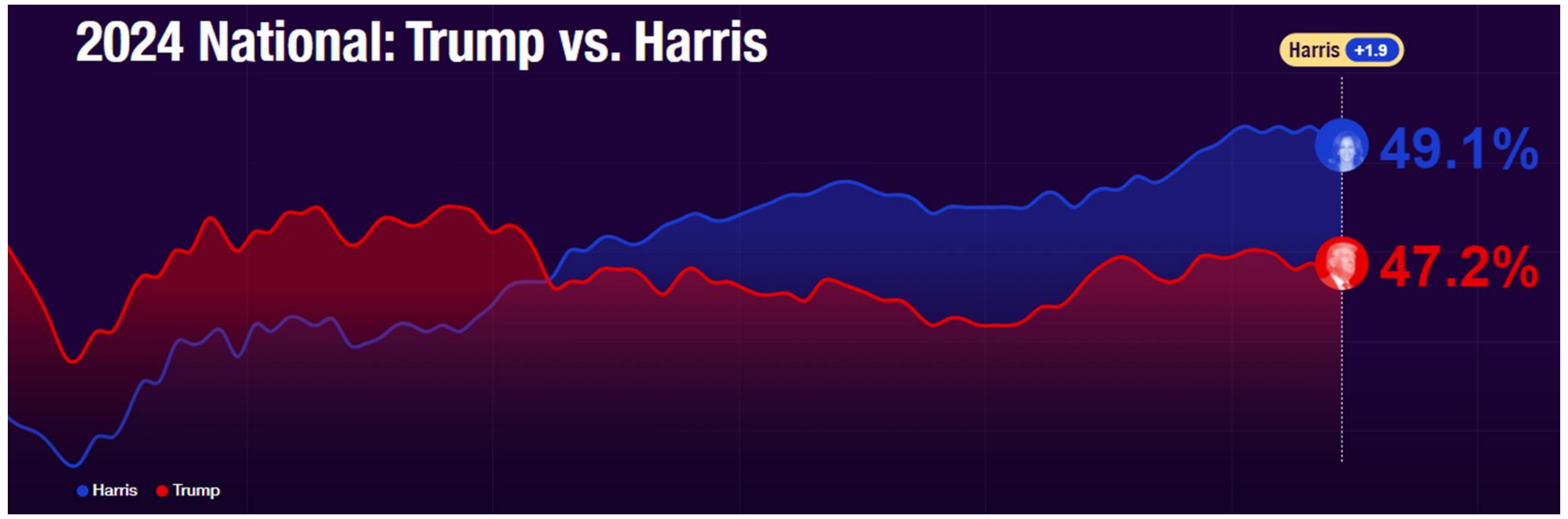
Most Folks Are Expecting Another Nailbiter





Washington Examiner

The Election Came Down to 77,744 Votes in Pennsylvania, Wisconsin, and Michigan

By John McCormack

November 10, 2016 8:13 pm

The New York Times

State of the Race: A Small Debate Bounce for Harris, but It's Still Deadlocked

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Source: Washington Examiner, RealClearPolitics, Scientific American, NY Times, NBC
2526-TSC-10/1/2024

National Polls Are Important, but the Swing States Matter Most

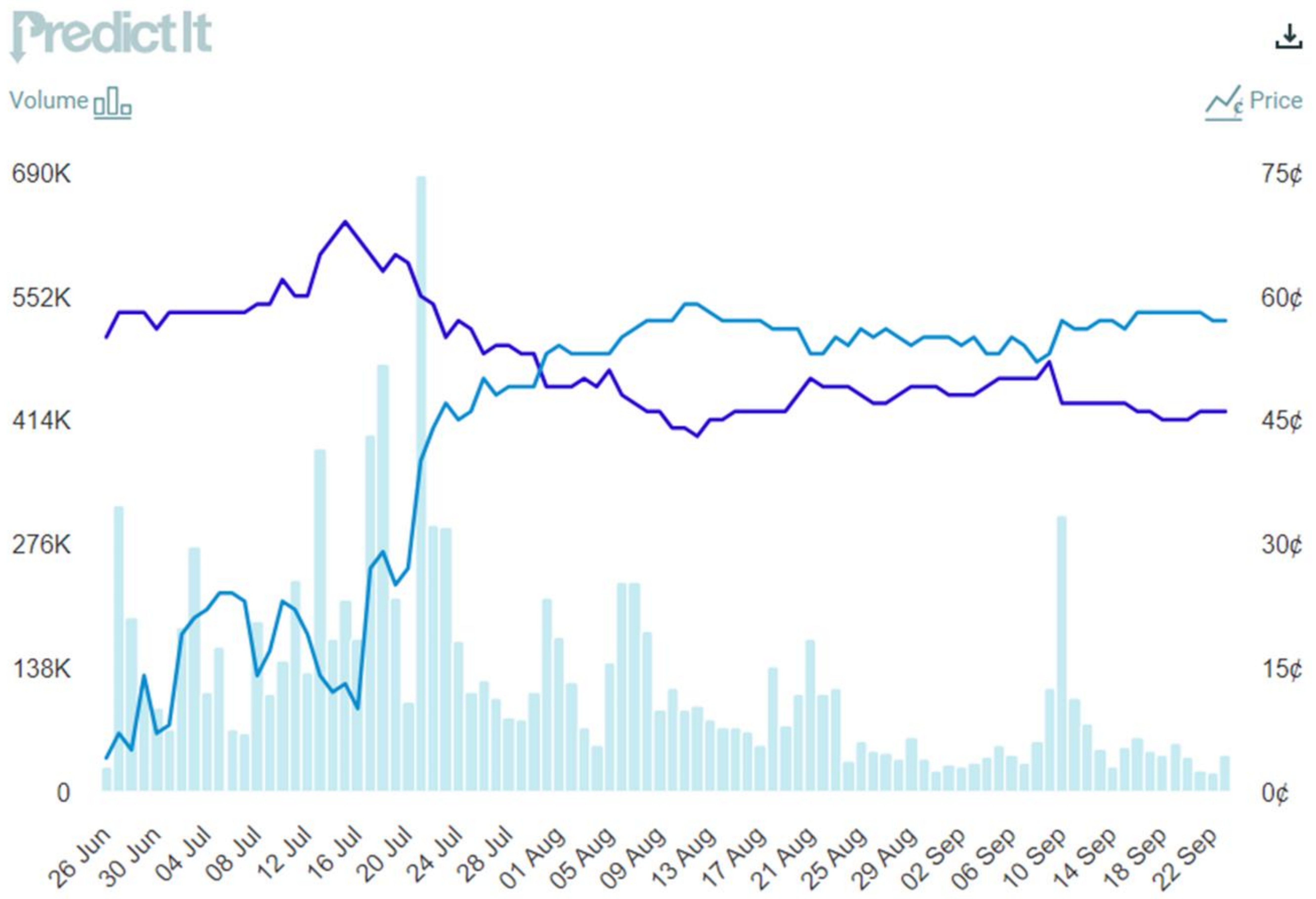
Top Battlegrounds – RCP Average

Wisconsin, Arizona, Georgia, Michigan, Pennsylvania, North Carolina, Nevada

RCP AVERAGE	DATE	TRUMP (R)	HARRIS (D)	SPREAD
Top Battlegrounds	**9/24**	**47.8**	**47.6**	**Trump +0.2**
Arizona	September 24th	48.7	46.5	Trump +2.2
Nevada	September 24th	46.8	47.2	Harris +0.4
Wisconsin	September 24th	48.0	49.0	Harris +1.0
Michigan	September 24th	47.3	49.1	Harris +1.8
Pennsylvania	September 24th	47.6	48.2	Harris +0.6
North Carolina	September 24th	47.6	47.1	Trump +0.5
Georgia	September 24th	48.4	46.3	Trump +2.1

Source: RealClearPolitics
2526-TSC-10/1/2024

How Are People Placing Their Bets?



Harris: 57 ¢

Trump: 46 ¢

Source: PredictIt

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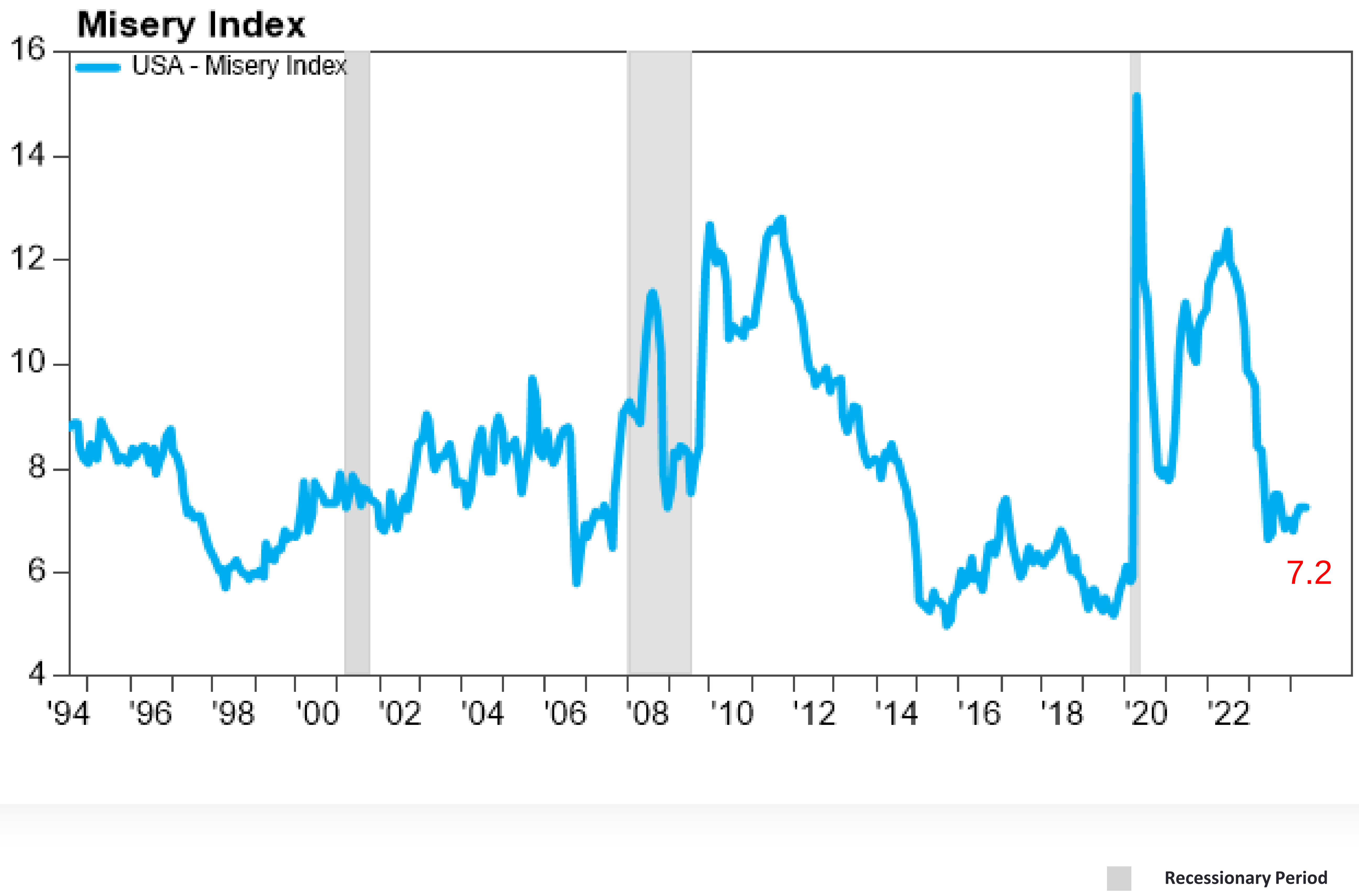
Keep an Eye on the Misery Index



- **The Misery Index has predicted 15 of the most recent 16 elections.**
- Using this history, Harris needs the 3-mo. average to be below 7.4 to win
- The Index adds the unemployment rate to the annual rate of inflation (CPI) to give us a snapshot of economic distress.
- A high value = significant economic distress, bad for incumbents.

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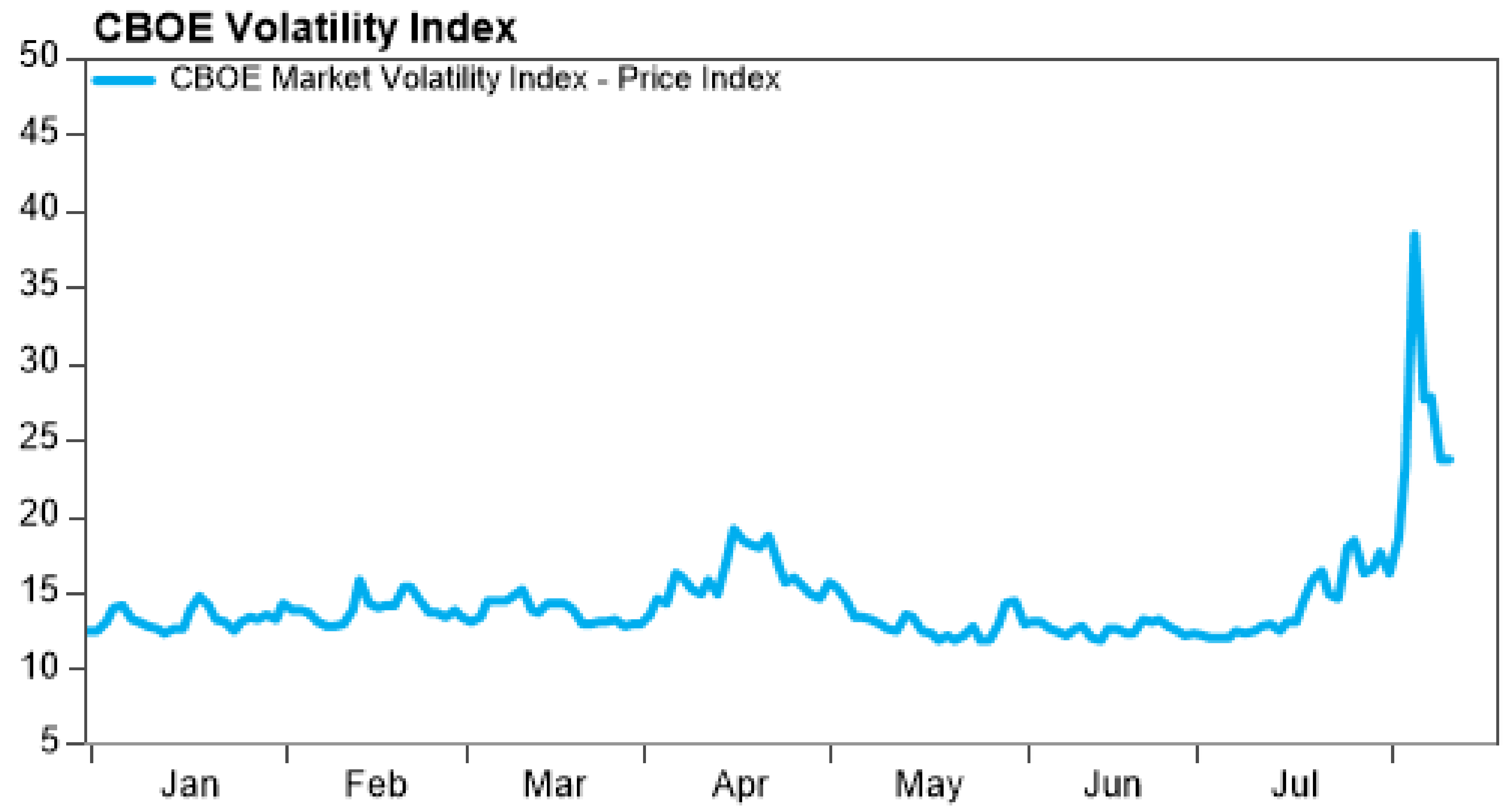
Source: FactSet
2526-TSC-10/1/2024

Keep an Eye on Wall Street's "Fear Index"

A summertime peak in the VIX bodes well for the party in power.



Peak VIX From July 1st Into Election Day

Election Date	VIX Peak	Date of Peak	Incumbent Party
11/3/1992	21.02	10/7/1992	Lost
11/5/1996	21.55	7/23/1996	Won
11/7/2000	30.51	10/12/2000	Lost
11/2/2004	19.34	8/6/2004	Won
11/4/2008	80.06	10/27/2008	Lost
11/6/2012	20.47	7/24/2012	Won
11/8/2016	22.51	11/4/2016	Lost
11/3/2020	40.28	10/28/2020	Lost

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Source: FactSet
2526-TSC-10/1/2024

And the Stock Market, Too

- Positive returns for stocks 90 days out signals good odds for the incumbent party.
- Negative returns for stocks 90 days out signals bad odds for the incumbent party.
- This trading record has predicted 83% of elections dating back to 1928.

Year	S&P 500 Price Return	Incumbent Party	
'28	14.91%	Won	√
'32	-2.56%	Lost	√
'36	7.92%	Won	√
'40	8.56%	Won	√
'44	2.29%	Won	√
'48	5.36%	Won	√
'52	-3.26%	Lost	√
'56	-2.58%	Won	X
'60	-0.74%	Lost	√
'64	2.63%	Won	√
'68	6.45%	Lost	X
'72	6.91%	Won	√

Year	S&P 500 Price Return	Incumbent Party	
'76	-0.09%	Lost	√
'80	6.73%	Lost	X
'84	4.80%	Won	√
'88	1.91%	Won	√
'92	-1.22%	Lost	√
'96	8.17%	Won	√
'00	-3.21%	Lost	√
'04	2.16%	Won	√
'08	-19.48%	Lost	√
'12	2.45%	Won	√
'16	-1.90%	Lost	√
'20	2.26%	Lost	X

Performance shown is the S&P 500 Price Index, 3 months prior to each Presidential election.

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Source: Strategas
2526-TSC-10/1/2024

Winners and Losers From a Market and Sector Perspective

If Trump Wins…

- 5G Infrastructure
- Defense
- Energy and oil & gas
- Managed care
- Pharmaceuticals
- U.S. banks
- U.S. technology stocks

If Harris Wins…

- Chinese tech stocks
- Consumer discretionary and staples
- Green energy
- Healthcare facility owners
- Sustainable infrastructure
- Medical equipment manufacturers
- Utilities

- A Trump win could be favorable to more domestic-facing, smaller companies, while extending the Trump Tax Cuts and across-the-board tariffs could prove inflationary.

- A Harris win could be favorable for large, U.S. multi-national concerns and ex-U.S. companies; that said, incremental spending on domestic programs could prove inflationary.

Winners and Losers From a Tax Policy Perspective

If Trump Wins …

- Corporate tax rate of 15%
- Expand broad import tariffs
- Institute a 60% tariff on China
- **Extend 2017 tax cuts (TCJA)**
- Eliminate taxes on Social Security benefits
- Eliminate taxes on tips
- Eliminate select subsidies, including renewable energy initiatives
- Overtime income not taxed at all

If Harris Wins …

- Corporate tax rate of 28%
- Capital gains tax rate at 28% for high incomes
- Small business tax break up to $50,000
- $25,000 tax credit for first-time homebuyers
- Extend Covid-era relief, including the child tax credit
- Eliminate certain taxes on tips
- No tax hikes on individuals making less than $400,000

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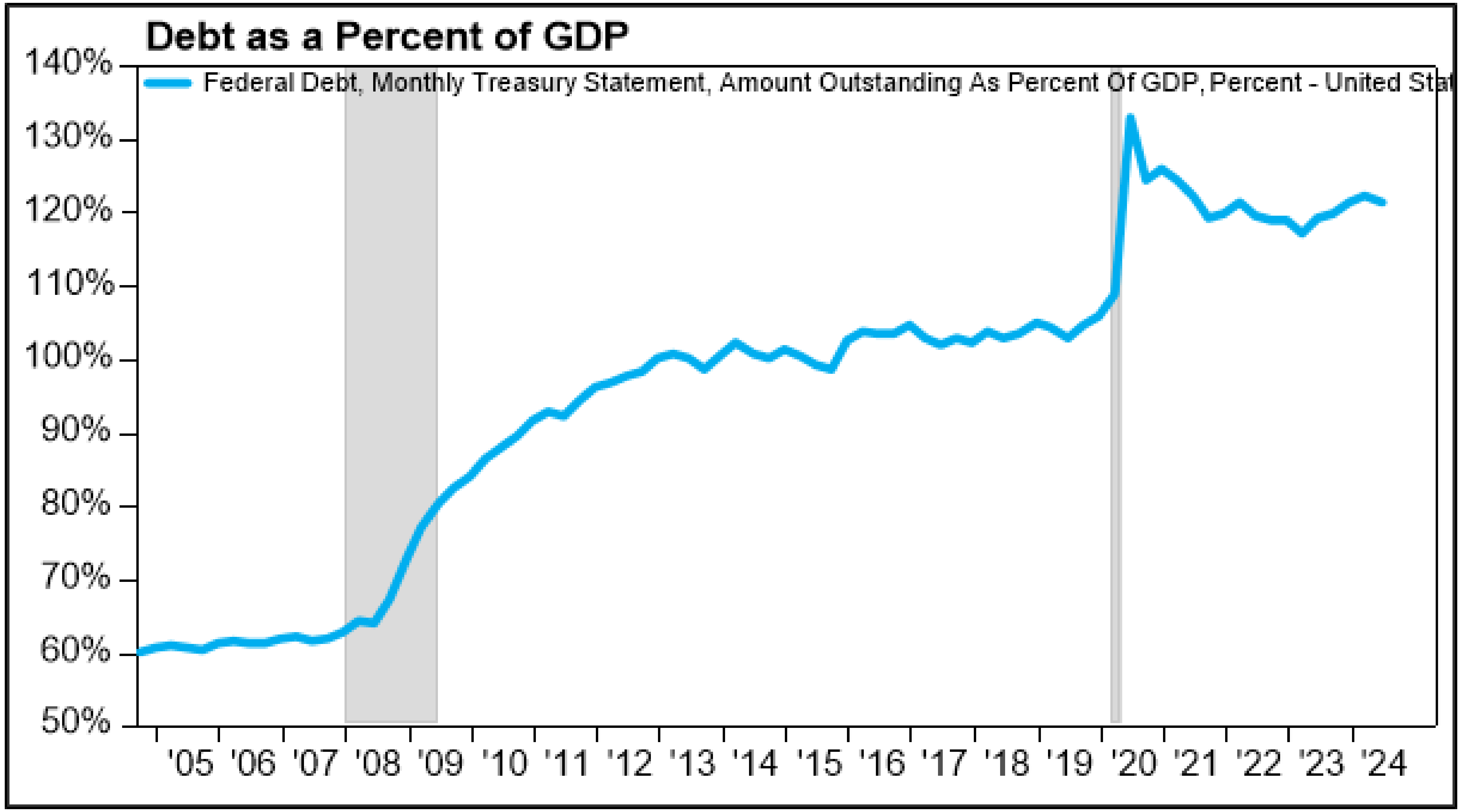
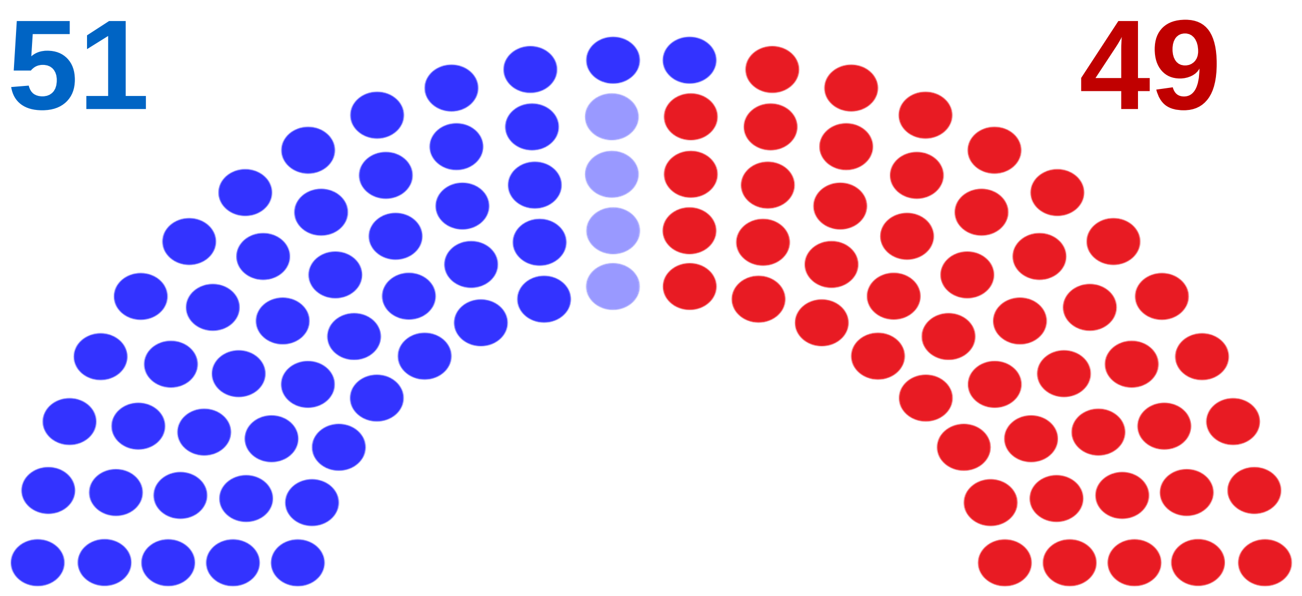
One Thing No One Is Talking About



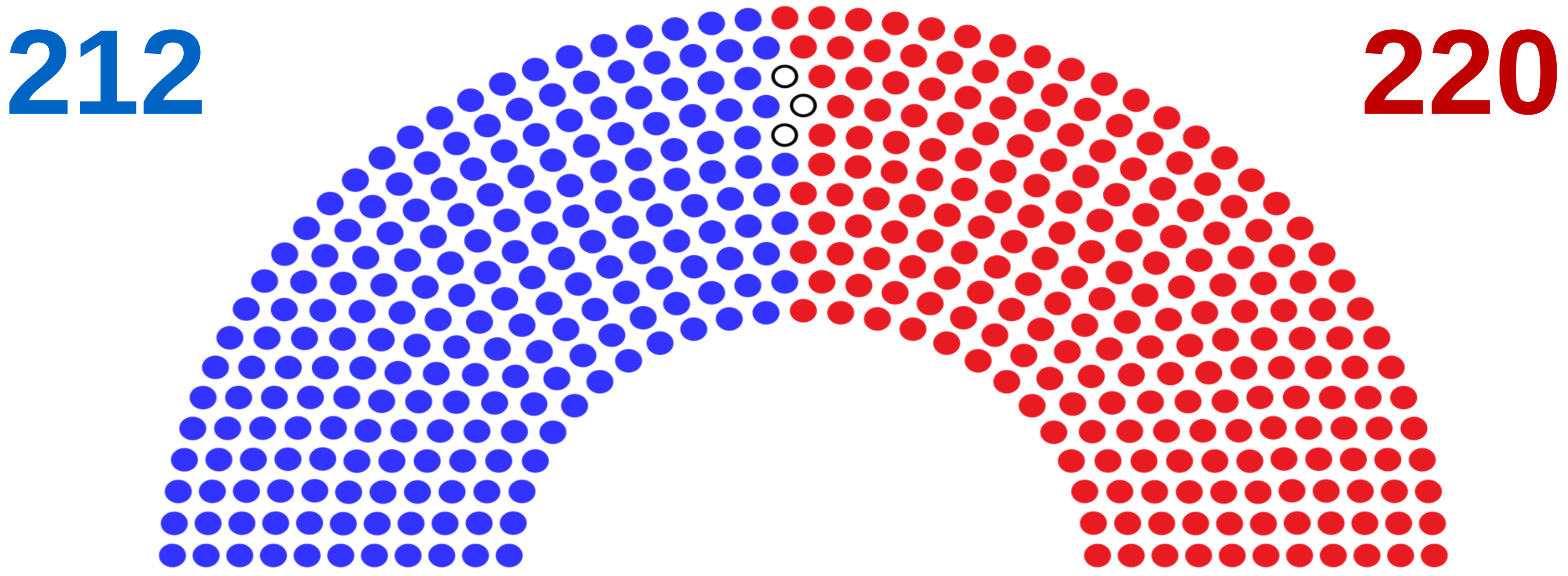
Recessionary Period

Source: FactSet
2526-TSC-10/1/2024

Getting Big Things Done Requires Congress



Balance of power in the senate represents independents and neutrals who caucus with the Democrats



Includes 3 vacant seats

WSJ OPINION

The Montana Senate Race May Decide the Majority

Ex-Navy SEAL Tim Sheehy is trying to defeat Democratic incumbent Jon Tester—and Chuck Schumer's money.

AP

Tight race for control of Congress could be decided by just a handful of campaigns

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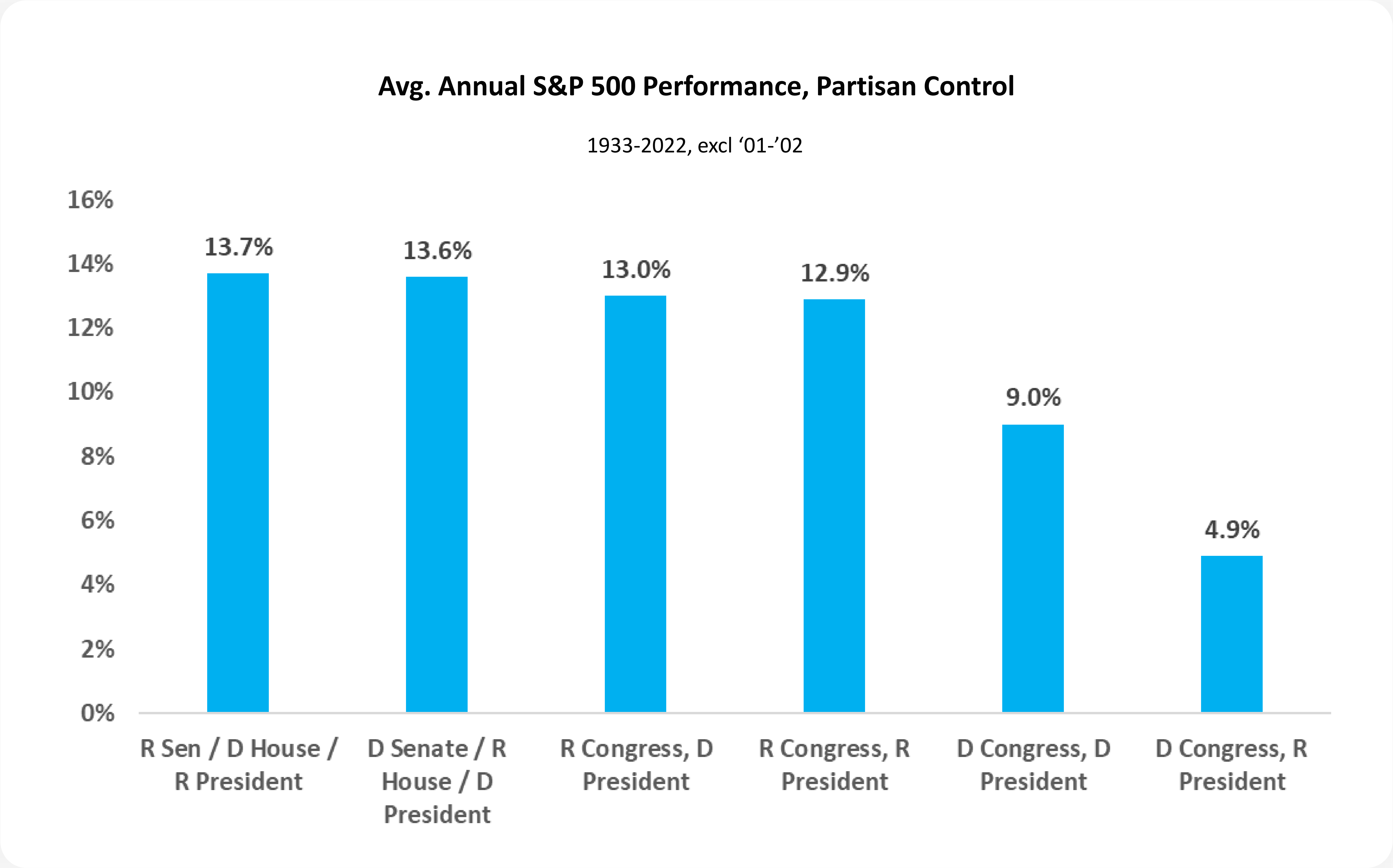
Source: WSJ Opinion, AP
2526-TSC-10/1/2024

But Wall Street Is Probably Rooting for Gridlock



Data excludes 2001 – 2002 due to Sen Jeffords changing party mid-'01

Source: FactSet, Strategas
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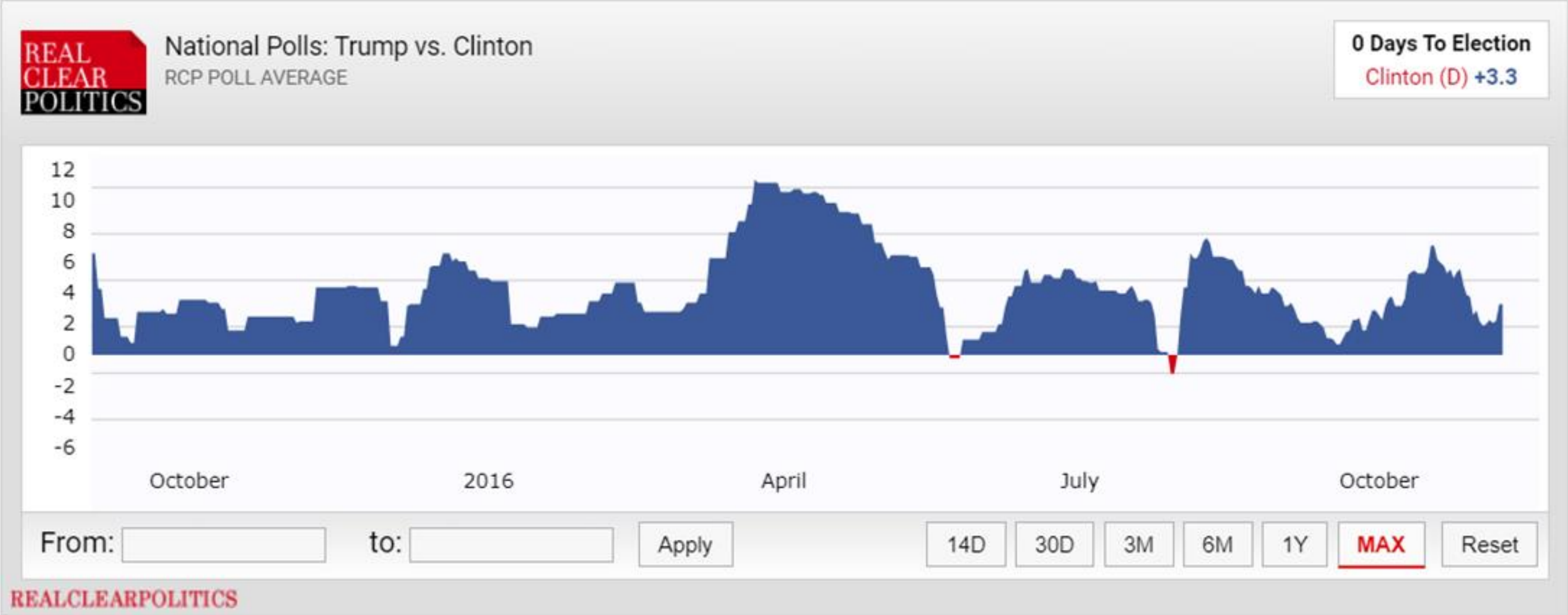
A Few Other Things We Are Thinking About

- Winning debates doesn't always mean winning elections (see M. Romney, 2012)
- Does RFK's Trump endorsement move the needle?
- Don't forget about 3rd party candidates
- What if the polls were wrong? (see 2016 & 2020)?



2020 General Election: Trump vs Biden (4-Way)

Top Battlegrounds: Trump vs. Biden

RCP Electoral Map | No Toss Up Map | RCP Senate Map | Senate NTU Map | RCP House Map | Latest Polls

POLLSTER	DATE	SAMPLE	MOE	BIDEN (D)	TRUMP (R)	SPREAD
Final Results	—	—	—	51.4	46.9	Biden +4.5
RCP Average	10/25 - 11/2	—	—	51.2	44.0	Biden +7.2

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Source: FactSet
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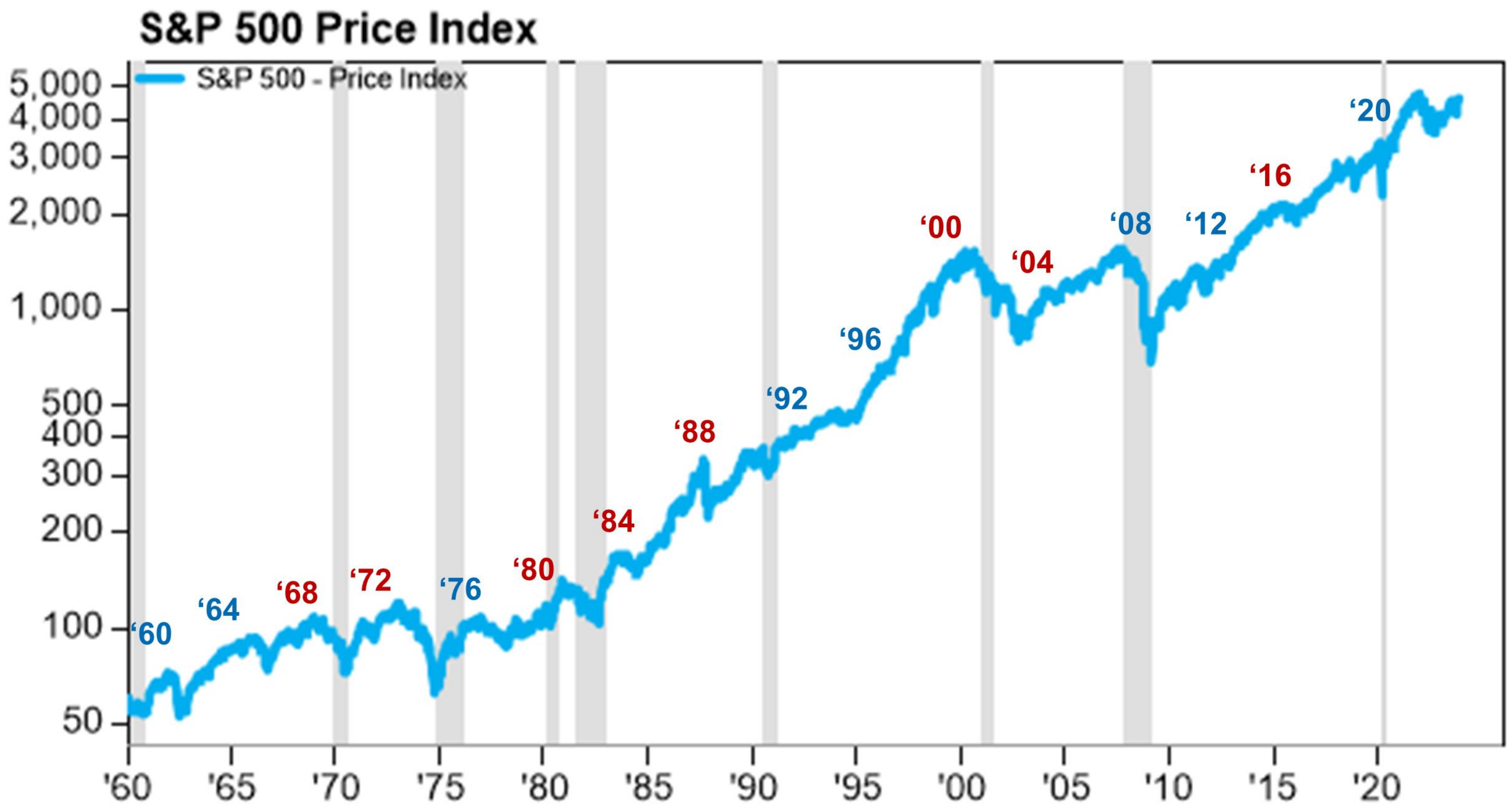
Stating the Obvious

Markets go up over time regardless of what party controls the White House



Recessionary Period

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Source: FactSet
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Putting the election and market volatility in perspective

Keep Your Political Biases in Mind, and in Check

The Influence of Political Affiliation

“Studies have shown that people’s economic outlook is often more positive when their preferred party is in power. This bias can lead to an overestimation of favorable economic outcomes and an underestimation of risks. It can create an environment where emotions, rather than rational analysis, drive financial decisions.”

Daniel Crosby, PH.D

Chief Behavioral Officer, Orion

Vote in the Ballot Box, not With Your Portfolio

A study of 60,000 retail investors found that:

- They tended to have a 9% larger stake in foreign stocks when their non-preferred party was in power.
- Portfolio beta was higher when their preferred party was in power.
- 2.7% annualized outperformance when preferred vs. non-preferred party was in the White House due to higher U.S. equity allocation, greater comfort with risk, and less overtrading.
- Vote in the ballot box, not with your portfolio.

Daniel Crosby, PH.D

Chief Behavioral Officer, Orion

Source: Political climate, optimism, and investment decisions. Bonaparte, Y., Kumar. A., and Page., J.K. 2012.

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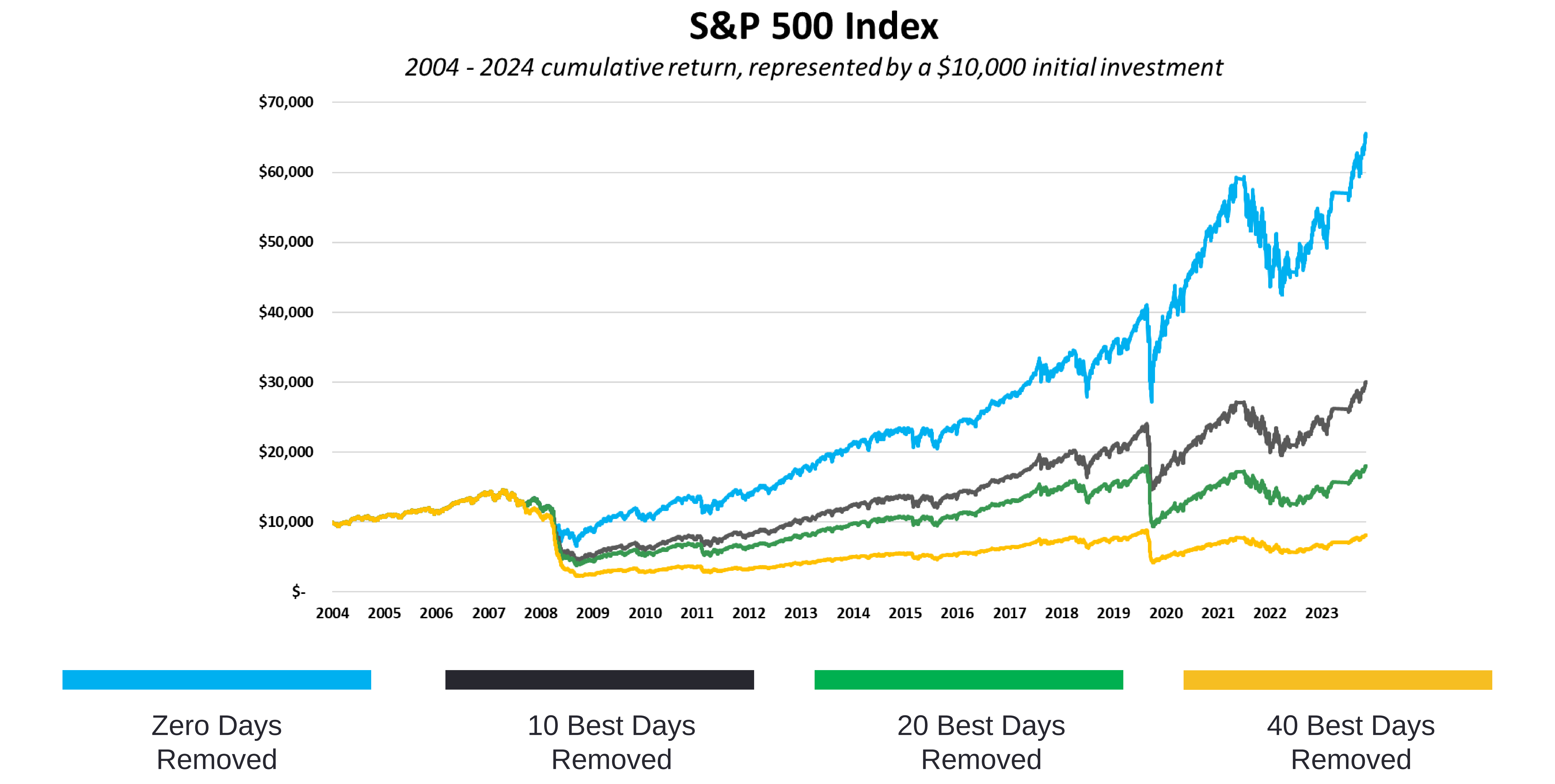
The Risk of Being Shook Out of the Market



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For Illustrative Purposes Only. Source: FactSet
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Closing thoughts

Closing Thoughts

- We think the market has room to run; bull markets tend to run 3–5 years.
- Corrections are commonplace in bull markets.
- Cash coming off the sidelines, reasonable valuations, falling rates, AI adoption, and positive earnings forecasts are likely catalysts to maintain momentum for risk assets.
- Market breadth should expand as monetary policy becomes supportive and investor sentiment improves.
- Bonds should continue to catch a bid as inflation continues to dissipate.
- A soft landing is still the most likely outcome. That said, any unsettling economic data could spike market volatility. Risk assets should stabilize as a hard landing is avoided and lower rates kick in.
- The Presidential election and seasonality will likely add volatility, but any impact should prove transitory.

Thank You.

An index is an unmanaged group of assets considered to be representative of a select segment or segments of the market in general, as determined by the index manager for the purposes of managing a specific index. You cannot invest directly in an index.

- The S&P 500 Index is an unmanaged composite of 500-large capitalization companies. This index is widely used by professional investors as a performance benchmark for large-cap stocks
- The Bloomberg Barclays US Aggregate Bond Index measures the performance of the total United States investment-grade bond market.
- The Misery Index in an index that helps determine how the average citizen is doing economically and is calculated by adding the seasonally adjusted unemployment rate to the annual inflation rate.

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