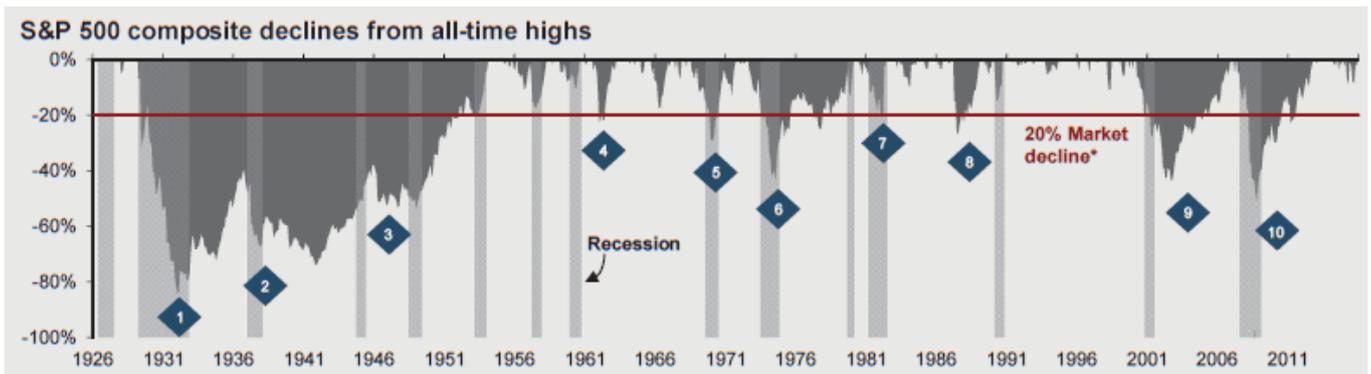


Presidents and Markets: Investing Observations Based on Who Is in Charge

Usually during election years, I hear people talk about how the markets will move one way or another when gets elected. It's a debate that tends to anchor itself in each person's own political views and biases and doesn't have any practical takeaways. I usually tell people who ask me "Will the market do better with President X or President Y in charge?" that it really doesn't matter as much as you think it does. Markets are so globally connected now, and unless there are some drastic tax law changes or market structure reforms, markets will be influenced by the numerous macro and micro variables that have affected them regardless of President (or Congress). I'd argue that our Federal Reserve has more influence on global stock markets than any elected official. For instance, let's look at the last 10 bear markets and their causes (courtesy of JP Morgan) - try to find anything strongly relating to legislative actions:



| Market Corrections | Bear markets | | | Macro environment | | | | Bull markets | | |
|--|--------------|--------------|--------------------|-------------------|-----------------|----------------|--------------------|-----------------|-------------|-------------------|
| | Market peak | Bear return* | Duration (months)* | Recession | Commodity spike | Aggressive Fed | Extreme valuations | Bull begin date | Bull return | Duration (months) |
| 1 Crash of 1929 - Excessive leverage, irrational exuberance | Sep 1929 | -86% | 33 | ◆ | | | ◆ | Jul 1926 | 152% | 38 |
| 2 1937 Fed Tightening - Premature policy tightening | Mar 1937 | -60% | 63 | ◆ | | ◆ | | Mar 1935 | 129% | 24 |
| 3 Post WWII Crash - Post-war demobilization, recession fears | May 1946 | -30% | 37 | ◆ | | | ◆ | Apr 1942 | 158% | 50 |
| 4 Flash Crash of 1962 - Flash crash, Cuban Missile Crisis | Dec 1961 | -28% | 7 | ◆ | | | ◆ | Oct 1960 | 39% | 14 |
| 5 Tech Crash of 1970 - Economic overheating, civil unrest | Nov 1968 | -36% | 18 | ◆ | ◆ | ◆ | | Oct 1962 | 103% | 74 |
| 6 Stagflation - OPEC oil embargo | Jan 1973 | -48% | 21 | ◆ | ◆ | | | May 1970 | 74% | 32 |
| 7 Volcker Tightening - Whip Inflation Now | Nov 1980 | -27% | 21 | ◆ | ◆ | ◆ | | Mar 1978 | 62% | 33 |
| 8 1987 Crash - Program trading, overheating markets | Aug 1987 | -34% | 3 | ◆ | | | ◆ | Aug 1982 | 229% | 61 |
| 9 Tech Bubble - Extreme valuations, .com boom/bust | Mar 2000 | -49% | 31 | ◆ | | | ◆ | Oct 1990 | 417% | 115 |
| 10 Global Financial Crisis - Leverage/housing, Lehman collapse | Oct 2007 | -57% | 17 | ◆ | ◆ | ◆ | | Oct 2002 | 101% | 61 |
| Current Cycle | | | | | | | | Mar 2009 | 210% | 89 |
| Averages | - | -45% | 25 | | | | | - | 152% | 54 |

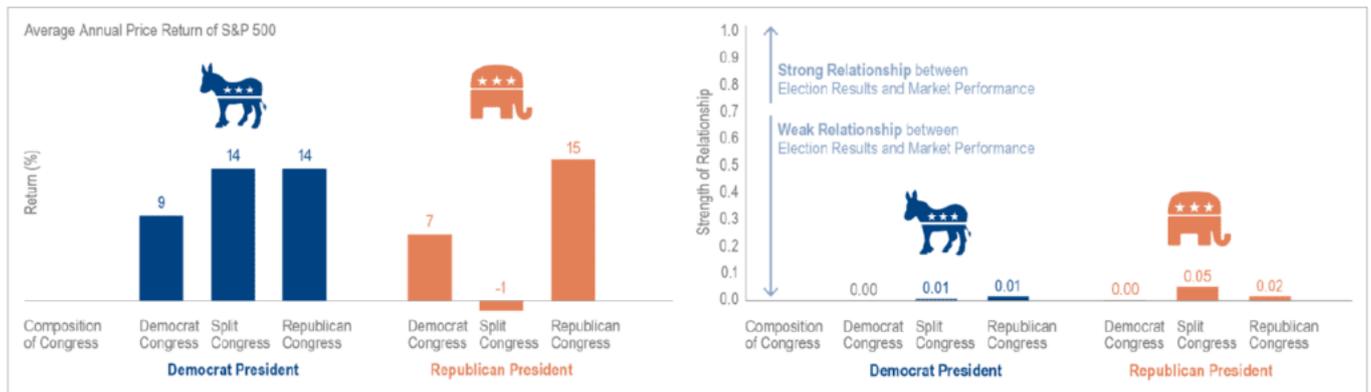
Source: FactSet, NBER, Robert Shiller, Standard & Poors, J.P. Morgan Asset Management. *A bear market is defined as a 20% or more decline from the previous market high. The bear return is the peak to trough return over the cycle. Periods of "Recession" are defined as using NBER business cycle dates. "Commodity spikes" are defined as significant rapid upward moves in oil prices. Periods of "Extreme valuations" are those where S&P 500 last 12 months' P/E levels were approximately two standard

deviations above long-run averages. "Aggressive Fed Tightening" is defined as Federal Reserve monetary tightening that was unexpected and/or significant in magnitude. Guide to the Markets - U.S. Data are as of June 30, 2016.

Disclaimer: All this will change should President Trump take office. My guess is that bear markets will be banned via executive order.

The following chart from Goldman Sachs shows returns of the S&P 500 Index by which political party is holding the Presidency and majority in Congress. The chart on the right determines the strength of relationship between election results and market performance. As you can see, the relationship is weak.

Markets and Elections: Significantly Insignificant

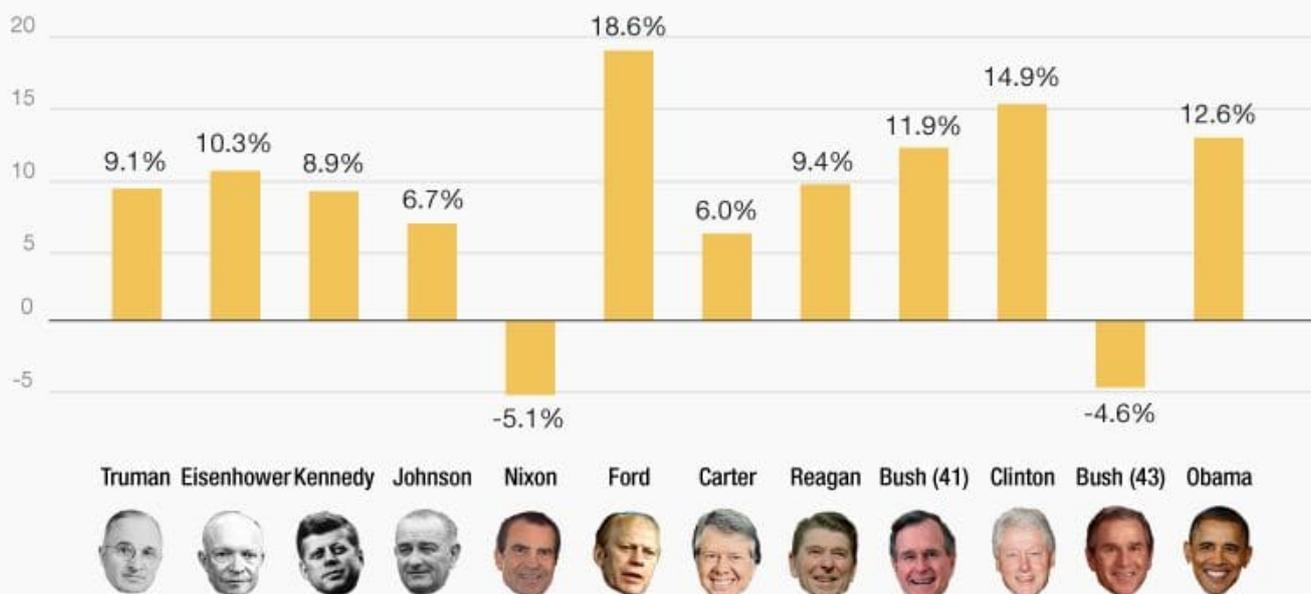


Left chart: Analysis from 12/31/1946 to 12/31/2015. The S&P 500 returns show average annual price returns for each Presidential party and corresponding Congressional party majority. Composition of Congress - Republican Congress refers to when both the House of Representatives and Senate have a Republican majority in both chambers; Democrat Congress refers to when both the House of Representatives and Senate have a Democrat majority in both chambers; Split Congress is when House of Representatives and Senate are not controlled by the same party. The S&P 500 returns show average annualized price returns for each major Presidential party and corresponding Congressional party majority. Right Chart: Analysis from 12/31/1946 to 12/31/2015. Strength of relationship is determined by R-Squared, a statistical measurement of how close a set of data fits a regression model (best-fitting line). Diversification does not protect an investor from market risk and does not ensure a profit. Past performance does not guarantee future results, which may vary.

So, what's the lesson? Invest based on your own personal and financial goals and not on who's in charge. Bonus material: The following graphic from CNN Money shows the average annual gain for the S&P 500 Index during each presidency, as calculated by S&P Capital IQ:

Stock market performance under U.S. presidents since 1945

Annual gain/loss



SOURCE: S&P CAPITAL IQ

Source: CNN Money, S&P Capital IQ



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