

ECONOMY

The economy proves to be a formidable foe

THINK STRATEGICALLY:

How Markets are Influenced After Elections

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Every four years, America's presidential elections and the Puerto Rico general election significantly impact politics, law, foreign relations and, ultimately, citizens' lives. But have you wondered what effect the electoral process has on the stock markets and how it impacts investors?

To frame this financial analysis, Birling Capital has collected stock market data since 1960, and we have identified patterns that are repeated during election cycles. These predictions are based on economic analysis and historical data. We show you how some of these patterns can impact your investment portfolio and how you should handle the results or a lack of certainty after the 2020 election.

Since 1932, no U.S. president has lost an election or re-election unless a recession has occurred during his presidential term.

Similarly, since 1930, the Dow Jones Industrial Average has gained an average of 10 percent in the first year of a president and 7.9 percent in the second, according to Birling Capital's database. The year before an election year is historically the strongest, with yields of 13.3 percent.

Wall Street and the Presidential Election is an asymmetrical mix.

An analysis of the S&P 500 Index's performance, observed since the 1952

election, reveals a clear trend during the past 68 years. Our research shows that the stock market has a slightly lower yield when it comes time for the general elections.

When evaluating the period from Aug. 1 to Oct. 31 of the election year, you will notice the S&P 500 ending with negative performance 82 percent of the time there is a presidential change. Note that, for this period, in 2016 the S&P 500's minus-2.2 percent correctly predicted that Trump would be elected president.

In 2020, when we analyzed the S&P 500, it had recorded a minus-0.6 percent, predicting, as happened, that Joe Biden would be elected president.

On the other hand, we see the following:

- In election periods, market performance often hovers at around 6 percent.
- In annual periods outside the electoral process, performance is usually an average 8.5 percent.
- In the year before the presidential election, on average, the yield is less than 6 percent.
- The bond market offers an average yield of 6.5 percent, versus 7.5 percent outside the election period.

Stock Market Performance following the Presidential Elections:

There are a few different variables that can affect stock market performance.

After an election, stock market yields tend to be slightly lower for the following year, while bonds tend to have a somewhat higher yield after the election.

We haven't seen much difference between which party assumes the presidency, but whether the White House incumbent changes does have an impact.

However, when a new party comes to power, we have observed the following:

- The stock market gains an average 5 percent.
- Yields have been slightly higher, or 6.5 percent.

When a president is re-elected or if the same party retains control of the White House:

- Yields have been slightly higher, or 6.5 percent.
- The elected person is only one of the factors to consider; another is who gains control of the Senate, which is the key to achieving all kinds of public policy changes from taxes and spending, to confirmation of critical positions and nominees to the Supreme Court.

Let's evaluate the last two presidents using the three major indices and the last two governors of Puerto Rico using the Birling Capital Puerto Rico Stock Index:

- President Obama evaluation period 1/20/2009 to 1/19/2017:
 - The Dow Jones Industrial Average saw a 148.2 percent return
 - S&P 500 Index: a 181.1 percent return
 - Nasdaq Composite: a 284.5 percent return
 - President Trump evaluation period 1/20/2017 to 11/06/2020:
 - Dow Jones: a 42.85 percent return
 - S&P 500: a 54.51 percent return
 - Nasdaq: a 114.1 percent return
 - Gov. Alejandro García-Padilla evaluation period 1/02/2013 to 1/01/2017:
 - Birling Capital Puerto Rico Stock Index saw a 22.73 percent return
 - Govs. Ricardo Rosselló and Wanda Vázquez Evaluation period 1/02/2017 to 11/06/2020:
 - Birling Capital Puerto Rico Stock Index saw a 45.88 percent return
- The foundation of a well-executed investment plan must include all the components of a well-diversified

portfolio, which consists of the right combination of bonds, stocks and other instruments that align with a strategy designed considering risk tolerance levels, financial horizon and long-term goals, regardless of any election cycle.

Week in Markets: Biden Presidency with Divided Government Fuel Wall Street Rally

Since early April, the U.S. stock market had not recorded a more substantial weekly gain. On the one hand, investors absorb the reality of a Biden presidency. On the other hand, the probability that Biden may have a divided government, given that a critical Senate race in Georgia will be decided in a runoff election in January.

During the trading session late Friday, the market began to factor in the real possibility of a Democratic presidency and House alongside a Republican Senate. In this scenario, some of the issues at play are the possibility of preventing some parts of the Democratic agenda from materializing such as tax increases, more regulation, approval of a larger stimulus package, among other vital issues.

Meanwhile, the U.S. Department of Labor reported that the unemployment rate fell to 6.9 percent compared to 7.9 percent last month, a 12.66 percent change, with 638,000 jobs created. The U.S. economy has regained 55 percent of the jobs lost during the lockdowns, and the labor participation rate rose to 61.7 percent.

Results for the week of November 6, 2020:

The Dow Jones Industrial Average closed at 28,323.40, up 1,821.80 points, or 6.87 percent, and a year-to-date (YTD) return of minus-0.75 percent.

The Standard & Poor's 500 closed at 3,509.44, up 239.48 points, or 7.32 percent, and a YTD return of 8.63 percent.

The Nasdaq Composite Index closed at 11,895.23, up 983.64 points, or 9.01 percent, and a YTD return of 32.57 percent.

The Birling Puerto Rico Stock Index

closed at 1,773.31, up 151.95 points, or 9.37 percent, and a YTD return of minus-12.98 percent.

The U.S. Treasury 10-year note closed at 0.83 percent, a change of minus-5.68 percent, and a YTD return of minus-1.1 percent.

The U.S. Treasury 2-year note closed at 0.16 percent, a change of 14.29 percent, and a YTD return of minus-1.1 percent.

The Final Word: What to expect after the Electoral Cycle

Presidential election flurry: Finally, after the entire nation waited anxiously for the results, Biden won Pennsylvania and Nevada to reach 279 electoral votes, nine more than needed to become president. This outcome does not mean the end of market volatility, as there are significant issues at play, including the Covid-19 surge, economic recovery, and fiscal policy determinations. Investors are advised to keep an eye on their portfolios to capitalize on opportunities.

President Trump is a fighter: We continue to expect the president to present a legal challenge to see if his allegations of voter fraud can change the outcome of the elections. However, we wish he would accept the American voters' determination for the good of his legacy.

Federal Reserve Bank: Voting eclipsed the Fed's decision to maintain interest rates near zero, with a commitment to keeping rates low until the economic recovery takes hold.

What will the focus be after the elections: In our view, the market will focus on three essential factors:

- Economic recovery
- Approval of a stimulus package
- Seeking to control the pandemic and secure a workable Covid-19 vaccine.

These issues will set the pace for the fourth quarter (4Q) of 2020 and 1Q21 market behavior and performance. Investors must prepare by having a well-diversified portfolio and sticking to their financial goals.

Francisco Rodríguez-Castro is president and CEO of Birling Capital LLC. Think Strategically© is a publication by Birling Capital LLC that summarizes recent geopolitical, economic, market and other developments. This report is intended for general information purposes only and does not represent investment, legal, regulatory, or tax advice. Recipients are cautioned to seek appropriate professional counsel regarding any of the matters discussed.

Weekly Market Close Comparison	11/6/20	10/30/20	Change%	YTD
Dow Jones Industrial Average	28,323.40	26,501.60	6.87%	-0.75%
Standard & Poor's 500	3,509.44	3,269.96	7.32%	8.63%
Nasdaq	11,895.23	10,911.59	9.01%	32.57%
Birling Puerto Rico Stock Index	1,773.31	1,621.36	9.37%	-12.98%
10-year U.S. Treasury	0.83%	0.88%	-5.68%	-1.10%
2-year U.S. Treasury	0.16%	0.14%	14.29%	-1.10%