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Commerce Concepts

Market Updates, Asset Allocation, and Investment Education for Plan Participants and Individuals

Three Myths About Elections and Market Volatility

Every four years, the U.S. presidential election brings uncertainty – something that people, and markets, tend to dislike. But if you're concerned that the markets will dive or thrive based on who is in the oval office, historic trends show that anxiety is unfounded. Through the last century, the long-term performance of the markets has revealed little correlation with government policies, according to an analysis by Raymond James Equity Research.

Below, we address three myths surrounding elections and market performance.

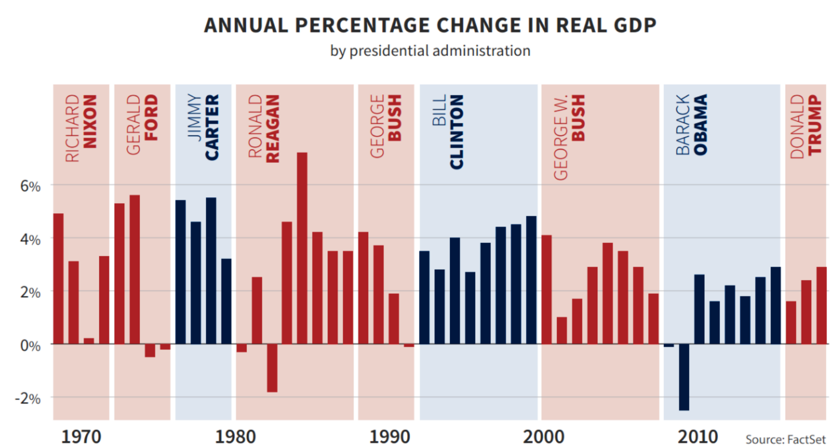
Myth #1: The markets underperform in election years

In 17 of the past 23 election years, the S&P 500 index has ended in positive territory. When it hasn't, there have usually been larger forces at play. Examples include the dot-com bust of 2000 and the 2008 financial crisis. Because of this, investors would be wise to think long term.

Myth #2: One party can claim superior economic or financial market performance

A look through the past shows that markets (as represented by the S&P 500) and gross domestic product (GDP) are apolitical and have performed well under both major parties.

The growth rate of GDP, one of the most popular indicators of overall economic health in the U.S., has averaged 3% per year from 1948 until present day, according to a Raymond James Investment Strategy analysis. Real GDP decreased 5% on an annualized basis in the first quarter of 2020, and fell a record 32.9% annualized rate in the second quarter due to the COVID-19 crisis. Putting these past two quarters aside, one of the most striking features of the U.S. economy in modern times is its sustained growth over time.



In addition to the pattern of apolitical growth, there is the fact that the U.S. president has only indirect influence over the economy. This is in part because of the separation of powers outlined in the Constitution. Though the executive branch does wield a great deal of power, the checks and balances of American government mean that the credit – or blame – cannot be neatly traced back to a single leader or party.

One must also consider the power of the U.S. Federal Reserve (the Fed), the nation's central bank. The president doesn't control monetary policy or interest rates, the Fed does. It can lower interest rates to encourage borrowing or raise rates to curtail inflation. The Fed usually is averse to changing rates in election years, but it will continue to monitor and respond to the state of the economy regardless.

While there are limits to a president's influence over the economy and the markets, historically, the equity market in the three months leading up to the election has predicted the winner. The S&P 500 trending upward correlates with the incumbent party performing well at the polls. A downward trend correlates with poor incumbent polling.

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WIN A $25 GIFT CARD

to your choice of Powell's or Amazon! (See page 2 for details)

Congratulations to our most recent winner:

Kim B. of Pan American Berry Growers, LLC

*Visit **thecommco.com/commerce-concepts** for the answer to last issue's question.*

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Indexes are unmanaged and cannot be invested in directly. Past results are not predictive of future results. Individual results will vary. The trailing returns shown include dividends. See page four for index definitions.

Source: Raymond James Financial Services

To be entered into a drawing to win a $25 Gift Card, email free@thecommco.com with the answer to this question:

True or False? Home sales are soaring during the pandemic.

Market Update

Through September 30, 2020 — Trailing Returns

		3 mos	12 mos	5 yrs	10 yrs
Blue Chip US Stocks	Dow Jones Industrial Average	8.22%	5.70%	14.02%	12.69%
Large Company US Stocks	S&P 500	8.93%	15.15%	14.15%	13.74%
Small Company US Stocks	Russell 2000	4.93%	0.39%	8.00%	9.85%
Non-US Stocks	MSCI EAFE (Gross Div)	4.88%	0.93%	5.77%	5.11%
US Bonds	Barclay's Capital US Aggregate	0.62%	6.98%	4.18%	3.64%
Cash Alternatives	ICE Bof A 3 Month US Tsy Bill	0.04%	1.10%	1.20%	0.64%

Economic Snapshot

Gross Domestic Product (GDP)

Following a sharp but partial recovery in the third quarter, GDP is expected to grow at a more moderate pace into 2021.

Employment

A little over half of the jobs lost in March and April have been recovered, and further improvement is likely as consumers and businesses get used to living in a pandemic. Expect a reallocation of labor over time.

Inflation

The pandemic put downward pressure on prices and many have rebounded. Bottleneck pressures and supply chain issues have been a minor factor. We should see little inflation pressure from the labor market.

Manufacturing

Factory output improved sharply in the summer, especially in motor vehicles. Apart from autos, production gains have been broad-based but generally slower.

Housing and Construction

Lower mortgage rates and a longer-term shift to working from home have led to a sharp pickup in demand. Supply constraints will lift home prices, reducing affordability.

Monetary Policy

Fed officials expect short-term interest rates to remain low through 2023. Asset purchases have been unlimited-- the pace may have slowed compared to March and April, but more will be done if needed.

Investment Strategy Quarterly: Published by Raymond James and Associates, October 2020 . For a complete PDF copy of the October 2020 issue of Investment Strategy Quarterly, click here or email newsletter@thecommco.com.

Traditionally Slow September Blunts S&P 500 Peak

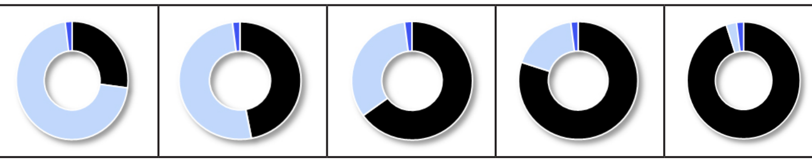
- Headwinds in September are common enough that the S&P 500's descent from its September 2 all-time peak feels familiar amid an otherwise historic year. Despite this common "September effect," many economic indicators are brightening, suggesting an economic recovery that has slowed, not turned.
- Technology, the highest-flying sector of the COVID-19 era, took one of the largest hits during September. But burdened by the resurgence of COVID-19 in Europe and the lack of another U.S. stimulus package, the downward movement spread across the market.
- Housing has been a bright spot during the pandemic. Federal Reserve leaders have indicated that near-zero interest rates may persist through 2023, and perhaps longer, boosting home sales to levels last seen around 2006. This homebuying surge may also be impacted by Americans looking to better align their home workspaces with their companies' increasingly flexible views on telecommuting.

Asset allocation models can be viewed online anytime at ***thecommco.com***

Strategic Asset Allocation Models

As of October 2020

Equities
Fixed Income
Cash Alternatives



	Conservative	Moderate	Balanced	Growth	Aggressive
Equity	**27%**	**47%**	**65%**	**80%**	**95%**
Equity allocation comprises:					
U.S. Large Cap Blend	17%	19%	25%	30%	36%
U.S. Large Cap Growth	0%	3%	5%	7%	8%
U.S. Large Cap Value	0%	5%	7%	9%	10%
U.S. Mid Cap Equity	4%	7%	9%	11%	13%
U.S. Small Cap Equity	1%	3%	5%	7%	8%
Non-U.S. Developed Market Equity	5%	10%	10%	12%	15%
Non-U.S. Emerging Market Equity	0%	0%	4%	4%	5%
Fixed Income	**71%**	**51%**	**33%**	**18%**	**3%**
Fixed income allocation comprises:					
Investment Grade Intermediate Maturity	46%	34%	22%	12%	0%
Investment Grade Short Maturity	13%	9%	5%	3%	0%
Non-Investment Grade (High Yield)	7%	6%	3%	3%	0%
Multi-Sector Bond	5%	2%	3%	0%	3%
Cash & Cash Alternatives	**2%**	**2%**	**2%**	**2%**	**2%**
Totals	**100%**	**100%**	**100%**	**100%**	**100%**

These asset allocation targets are based on our changing views of the risk and return in the various asset classes, looking out over three or more years. The models assume fully allocated portfolios and do not take into account outside assets, additional cash reserves held independent of these models, or any actual investor's unique circumstances. Investors should consult their financial advisor to decide how these models might assist in the development of their individual portfolios. Material is provided for informational purposes only and does not constitute a recommendation.

The investment profile is hypothetical, and the asset allocations are presented only as examples and are not intended as investment advice. Asset allocation and diversification do not assure a profit or protect against loss. Investing involves risk and investors may incur a profit or a loss, including the loss of all principal. International investing involves special risks, including currency fluctuations, differing financial accounting standards, and possible political and economic volatility. Investing in small- and mid-cap stocks generally involves greater risks, and therefore may not be appropriate for every investor. There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices generally rise. High-yield bonds are not suitable for all investors. When appropriate, these bonds should only comprise a modest portion of your portfolio. Commodities and currencies are generally considered speculative because of the significant potential for investment loss. They are volatile investments and should only form a small part of a diversified portfolio. Real estate investments can be subject to different and greater risks than more diversified investments. Declines in the value of real estate, economic conditions, property taxes, tax laws and interest rates all present potential risks to real estate investments.

Index definitions: The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. The Dow Jones Industrial Average (DJIA), commonly known as "The Dow" is an index representing 30 stock of companies maintained and reviewed by the editors of the Wall Street Journal. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index. The MSCI EAFE (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations. The 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 ICE BofAML 3-Month US Treasury Bill index consists of a single issue that is purchased at the beginning of the month and held for a full month. At month's end, that issue is sold and rolled into a newly selected issue, which is the outstanding Treasury Bill that matures closest to, but not beyond, three months from the rebalancing date. The selected issue must have settled on or before the month-end rebalancing date.

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Myth #3: U.S. markets are weakest the year after the election of a new president

This is the Presidential Election Cycle Theory, put forth by Stock Trader's Almanac founder Yale Hirsch. While it's more a theory than a myth, it's worth noting because it tends to be cited during an election year as a way for investors to "time the market."

According to the theory, the first two years of a presidential term tend to produce below-average returns, while the last two years are well above-average. Theorists say this is because presidents often focus on bolstering the economy late in their term to boost their chances of re-election, or in the case of a second-term president, their party's chances of maintaining control of the White House.

While the data shows a correlation between the election cycle and market performance, that doesn't mean there is causation. Many analysts argue the sample size isn't large enough to draw a definitive conclusion.

Volatility is a reality

There is often a bit of turbulence as Election Day draws nearer, and considering the twists and turns of 2020 so far, volatility may be even higher. The fallout from the COVID-19 pandemic, U.S.-China trade negotiations, U.S.-Iran geopolitical tensions, and social unrest are just a few of the events influencing the current environment.

The bottom line is that market volatility is likely to increase surrounding the election no matter which political party wins, with growth anticipated over the long term – again, no matter which political party is in power. Investors would be prudent to avoid hasty investment decisions based on an election outcome alone. Looking at historical data, staying the course has been the soundest approach.

Next steps

- If headlines have you worried about your financial plan, remain focused on the bigger picture and consider connecting with your advisor before taking action.
- If you'd like to have your account reviewed or discuss your investment allocations with your advisor, email us at advice@thecommco.com.