

## So Goes The Economy; So Goes The Election...

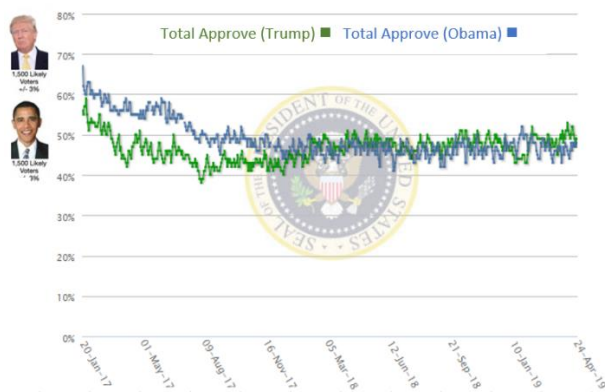
### Weekly Review

Earlier week risk-on trades settled in by Thursday, but not before the NASDAQ, S&P500 and Russell 2000 pushed higher by 1.5%, 0.7% and 0.6%, respectively. The S&P fully recovered from its Christmas Eve '18 lows and reached a new all-time high on Tuesday (2,933). **However, now trading at ~17x forward earnings, we believe the S&P 500 will have a difficult time breaking through this level, despite the upside surprise to this morning's GDP print of 3.2%.** Bonds were generally for bid, with TIPs and Munis outperforming for the week, higher by 0.5% and 0.4%, respectively, while HY and Short Duration Governments were up only 0.1%. From a Style perspective, Growth once again led, while Value continues to lag. From a Sector perspective, Healthcare was higher by 2.7% followed by Technology (+2.1%), while Industrials (-1.3%) and Materials (-2.3%) lagged. The 10yr yield tightened by 5bps for the week, and currently stands at roughly 2.53%. Both WTI and Brent were higher on the week, as the US announced it would no longer grant sanction waivers to any country importing Iranian oil, a move meant to significantly curb Iran's oil output. Gold was relatively unchanged on the week, while the US\$ continues to grind higher, up by 1.1%.

### ...But The Market Beats To Its Own Drum

On Thursday, the 2020 Democratic Presidential race got a bit more crowded (now 22) with the addition of former Vice President Joe Biden. Embarking on his third attempt for the Presidency, the former Vice President has emerged as the leading contender, running on a more centrist platform compared to some in the field. President Donald Trump is currently facing only one declared Republican candidate; William Weld, former Massachusetts Governor, and Libertarian VP nominee in 2016. Other potential Republican opponents include Governor Larry Hogan (MD), John Kasich (two-term Governor of Ohio and former Congressman), Jeff Flake (former AZ Senator) and Nikki Haley (former UN Ambassador). **We have fielded several questions regarding our opinion regarding the potential re-election of President Trump, and our current view remains intact**

Exhibit 1: Obama vs. Trump Approval Rating Comparison



Source: Rasmussen Reports/Rasmussen.com

**— that if the economy continues along a solid path, President Trump will be elected to a second term, with relatively no internal party challenge.** According to research conducted by Goldman Sachs, first-term incumbents have a built-in advantage of 5-6 percentage points in the popular vote, regardless of any negative approval rating. And despite President Trump's current 48% approval rating, it is virtually on top of President Obama's (49%) thus far into their first terms. Further, despite a modest power shift following the mid-term elections, to extrapolate these changes to the broader Presidential Election is tenuous, in our opinion. Finally, there have been sixteen U.S. presidents (~1/3) who have won two consecutive elections. And following the 22<sup>nd</sup> Amendment (limiting two terms), there have been eight Presidents that have won re-election, with the exception for Gerald Ford, Jimmy Carter and George Bush 41. All lost their re-election campaign amid a challenging US economic backdrop (oil embargo, stagflation, rising unemployment, slumping equity market). **So, if unemployment remains low, interest rates remain accommodative, the US economy avoids a recession and the equity market(s) remain supportive, we believe President Trump will be re-elected.** But to complete the circle, according to [Macrotrends.com](http://Macrotrends.com), when we look back at the stock market (S&P 500) returns afforded to modern-day Presidents, we found that through the first 27 months of office, the average S&P 500 return for a Democratic President was 24%, while the average for a Republican President was 19%. But the Democratic upside was driven mostly by President Obama, which presided over a 65% increase in the S&P through his first 27 months of office versus his predecessor GW Bush, down 33% through the first 27 months. So remember there is a lead/lag impact to markets, driven by geopolitical events and policies, and that there is limited causation between the party that occupies the Oval Office and the overall trend in equities. As for the remaining Presidents; Eisenhower (R; +44%), Ford (R; +42%), Trump (R; +29%), Reagan (R; +27%), GH Bush (R; +26%), Johnson (D; +25%), Clinton (D; +17%), Kennedy (D; +13%), Carter (D; -0.3%) and GW Bush (-33%). **We'd love to hear your thoughts**

Domestic Indices	1Week
1 NASDAQ Composite PR	1.5%
2 S&P 500 TR	0.7%
3 Russell 2000 TR	0.6%
4 BBgBarc Municipal TR USD	0.4%
5 US Inter Gov Bd TR Bond	0.2%
6 BBgBarc US Government TR	0.2%
7 BBgBarc US Agg Bond TR	0.2%
8 ICE BofAML US High Yield TR	0.1%
9 BBgBarc US MBS TR	0.1%
10 S&P MidCap 400	0.1%
11 NYSE Composite PR	-0.1%
12 DJ Industrial Average TR	-0.37%

Style Stratification	1Week
1 US Growth	2.2%
2 US Large Growth	2.1%
3 US Mid Growth	1.5%
4 US Large Cap	0.9%
5 US Market	0.7%
6 US Large Core	0.3%
7 US Mid Cap	0.3%
8 US Core	0.2%
9 US Mid Core	-0.2%
10 US Large Val	-0.4%
11 US Mid Val	-0.4%

Sector Stratification	1Week
1 US Healthcare	2.7%
2 US Technology	2.1%
3 US Dfnsvs Sup Sec	1.5%
4 US Utilities	1.3%
5 US Real Estate	0.9%
6 US Sntvse Sup Sec	0.7%
7 US Financial Services	0.6%
8 US Consumr Cyclcl	0.5%
9 US Cyclcl Sup Sec	0.4%
10 US Energy Capped	-0.2%
11 US Consumr Dfnsvs	-0.8%
12 US Commun Svc Capped	-0.9%
13 US Industrials	-1.3%
14 US Basic Materials	-2.3%

Bond Indices	1Week
1 US TIPS TR	0.5%
2 BBgBarc Municipal TR USD	0.4%
3 US Lng Gov Bd TR Bond	0.3%
4 US Lng Corp Bd TR Bond	0.3%
5 US Lng Core Bd TR Bond	0.3%
6 US Inter Corp Bd TR Bond	0.2%
7 US Inter Gov Bd TR Bond	0.2%
8 US Corp Bd TR Bond	0.2%
9 US Gov Bd TR Bond	0.2%
10 US Core Bd TR Bond	0.2%
11 US Inter Core Bd TR Bond	0.2%
12 Mortgage TR Bond	0.2%
13 ICE BofAML US High Yield TR	0.1%
14 US Shrt Gov Bd TR Bond	0.1%

International Markets	1Week
1 MSCI Pacific Ex Japan PR LCL	1.0%
2 Nikkei 225 Average PR JPY	1.0%
3 FSE DAX TR EUR	0.5%
4 MSCI Pacific PR LCL	0.5%
5 MSCI Pacific NR USD	0.3%
6 MSCI Japan PR LCL	0.2%
7 MSCI World Ex USA PR LCL	0.1%
8 MSCI EM Latin America PR USD	0.1%
9 MSCI Europe PR LCL	-0.1%
10 FTSE 100 TR GBP	-0.2%
11 Euronext Paris CAC 40 NR EUR	-0.3%
12 MSCI World ex USA NR USD	-0.5%
13 MSCI EM PR LCL	-0.7%
14 MSCI Europe NR USD	-0.9%

Source: Morningstar.com

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