"Does the market do well in the third year of a Presidential term?"

By Tommy Williams, CFP®

Investors will think of the last quarter of 2018 for years to come, but they won't remember it fondly. The Economist described it like this,

Tommy Williams

"After a rotten October and limp November, the S&P 500 tumbled in value by 15 percent between November 30th and December 24th. Despite an astonishing bounce of 5 percent the day after Christmas, the index finished the year 6 percent below where it started..."

Last quarter's volatility and the slide in share prices owed much to uncertainty about economic growth. Investors were concerned about a variety of issues, including:

• The Federal Reserve making a mistake. Many in financial markets worried the Fed would raise rates too high, too quickly and stifle economic growth. Last week, the Fed put those fears to rest when its Chair, Jerome Powell, suggested the Fed was willing to stop increasing rates during 2019 if there were signs of economic weakness. Investors rejoiced and the three major U.S. indices experienced significant gains on Friday.

• Weaker corporate profits. Companies were remarkably profitable during the first three quarters of 2018, in part because of the boost from tax reform. However, there were worries fourth quarter earnings would be weaker as the effects of the stimulus faded. Last week, John Butters of FactSet reported, after three quarters of 25 percent or higher earnings growth, the estimated earnings growth rate for fourth quarter 2018 is 11.4 percent.

• A slowdown in global economic growth. Trade wars and tariffs clouded the outlook for global growth throughout the year. The Economist reported there were signs of economic slowdown in China, and one American technology firm attributed a sharp downturn in its profitability to weaker economic growth in China. There were also signs of economic weakness in Europe.

• A slowdown in domestic economic growth. Investors have been worried that trade issues, the government shutdown, and other matters could negatively affect economic growth at home. If the government shutdown is resolved quickly, these worries may prove overblown. Last week, Taylor Telford of the Washington Post reported, *"…According to interviews with several analysts: The economy is fundamentally strong, and the stock market has overreacted to concerns about a modest slowing."*

As anxiety rose during the fourth quarter of 2018, some investors rushed to the perceived safety of bonds. High demand pushed the yield on 10-year Treasury bonds lower. It dropped from 2.99 percent to 2.69 percent during December, according to Yahoo! Finance.

While increasing bond exposure may have been a prudent portfolio adjustment for investors who were taking more risk than they could bear, those who moved out of stocks on fear missed out. The Standard & Poor's 500 Index and the Dow Jones Industrial Average posted their biggest one-day point gains on record on December 26, reported Emily McCormick for Yahoo! Finance.

And just because I know you want to know, how does it usually pan out in terms of market performance for a President in the third year of his first term? (I'm not weighing in one way or the other on the odds of a second term). So, the S & P 500 has been positive 21 of the last 23 "presidential third years" dating back to 1927. That includes a run of 19 in a row dating back to 1927. The average performance for the S & P 500 during those last 23 "third years" has been a gain of 16.1% according to BTN Research. That's a pretty compelling number.

Visit us at www.williamsfa.com
Tommy Williams is a CERTIFIED FINANCIAL PLANNER™ Professional with Williams Financial Advisors, LLC.

Suite 180, Shreveport,
LA 71105.