SYMMETRY®
Invested In Your Goals

SYMMETRY PERSPECTIVE:
ELECTION 2020 INSIGHTS

by Casey Dylan, CIMA®, Director of Investment Communications

Investors are now focused intently on the potential impact of the U.S. election in early November, particularly on where the candidates stand on a number of key policies. While this is a normal process, this election cycle has seen more polarizing rhetoric than most, and the specter of a disputed election result has exacerbated investor fears. It is helpful to take a look at the implications of this election and try and put some historical context around it.

The Presidency, the Senate & the House

The headline story this election cycle is of course the contest for the presidency, though the battle for control of the Senate may have more impact on markets.

- The last time a major poll showed President Trump ahead was mid-February. Since then, polls have shown Biden's lead ranging from as little as 1 point to as many as 14 points, with the average margin about 8 points. (*see *"A Word About Polling"* below)
- Republicans currently hold a 53-47 majority. There are 23 Republican-held seats up for election and 12 Democrat-held seats. Only 2 of the 12 Democrats up for reelection appear to be in competitive races; while Republicans look to face stiff competition for 10 of the 23 seats they seek to retain or fill. If Democrats flip 4 of those seats, they'd gain a majority in the Senate.
- All of the 435 seats in the House are up for grabs, Republicans hold 197, Democrats hold 232. Recent polling averages show just 50 seats that are either toss-ups or close matches. For the House to switch to a Republican majority, the GOP would need to flip 21 seats and win 38 of those 50 contests. Polling suggests that will be a tough feat to pull off. It's likely the House stays with the Democrats.

Potential Outcomes

As an election nears, the rhetoric and investor attention to it increase — and markets begin to discount the outcomes and implications. We are observing the market price in to varying degrees the following potential election outcomes:

- **A Biden win and Democrat majority in both houses of Congress (Blue Wave)**
  While historically there's been a significant gap between pre-election policy proposals and actual outcomes, it's reasonable to expect that Democrats would view this election outcome as a broad mandate for their agenda. A Democratic sweep raises the likelihood of large fiscal stimulus package akin to the American Recovery and Reinvestment Act passed in 2009 which aided in the recovery from the global financial crisis. Biden has also signaled he supports rolling back the Tax Cuts and Jobs Act of 2017, hiking the corporate tax rate from 21% to 28%, and increasing the ordinary income brackets for individuals earning annual incomes over $400k. This scenario could also mean rollback of the wide-ranging de-regulation efforts of the past 4 years, a potential infrastructure spending bill, higher chances for healthcare reform, greater investment in clean energy, heavier scrutiny of monopoly issues associated with big tech corporations, and resumption of trade policy more in line with the what we saw in the 20-30 years leading up to 2016.

Potential Outcomes *(continued)*

- **A Biden win with a split Congress**
  Under a Biden victory and split Congress, a fiscal stimulus package might be more moderate in size and scope, tax law changes or significant healthcare reform seem unlikely, but expectations for the Biden administration to focus on green initiatives and increased infrastructure spending would persist, as would a resumption of more normalized trade relationships.
- **A Trump victory with a split Congress**
  This would represent a continuation of the status quo. Again, it's likely that any fiscal stimulus package would be more moderate in size and scope, with a continuation of current policies and gridlock on a majority of the other issues.
- **A Contested Outcome**
  It is entirely possible that we may not have a clear election result on Nov. 4. For one, all mail-in and absentee ballots will need to be counted, and due to the pandemic, that will be a historically large number. Estimates indicate that 64% of all votes may be cast by mail this election. In addition, different states have different rules for the cutoff date for votes to be counted. So there may be an extended delay in declaring a winner. A drawn-out ballot count with the outcome hanging in the balance could intensify an already contentious election season, with one of the candidates contesting the process to arrive at a final outcome, or the outcome itself.

  While the prospect of that has made some market participants nervous, it is worth remembering that our democratic process and the electoral system was designed to "enforce" a peaceful and timely transfer of presidential power. States have until the "safe harbor" deadline of December 8 to appoint electors. If that deadline passes, it would likely move to a process that could include the Supreme Court as well as Congress — which has the final responsibility for certifying presidential election results. This would, of course extend the period of potential market dislocation, so nervous market participants are taking steps to hedge against this outcome. Due to this demand, the cost of hedging against election-related turmoil has climbed significantly, and contracts on implied-volatility indices are trading at premium.

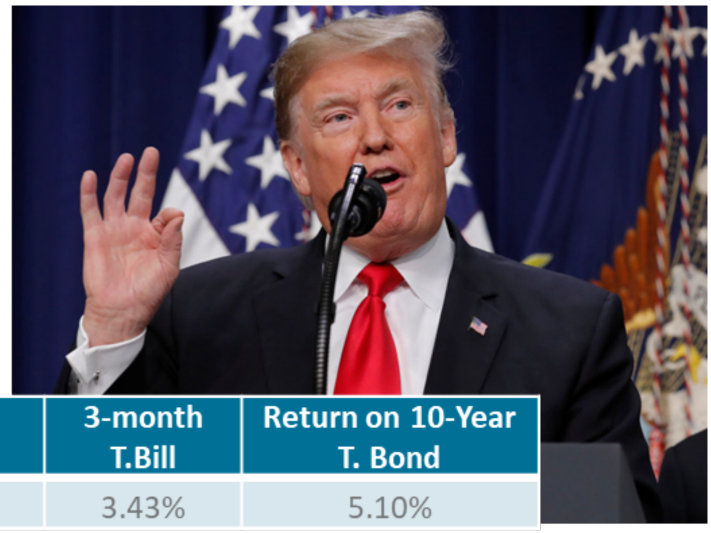
Market Volatility

So, how should investors be thinking about the range of potential outcomes? Over the short-term, they should expect volatility.

Volatility, or swings in prices, are a normal part of how markets operate. The higher the volatility, the wider the swing in prices. This can make some investors nervous, especially if they are tracking prices over short time periods. Historically, market volatility has trended higher as elections near, due to the uncertainly of the outcome. This year is likely to be more pronounced, especially if the determination of the outcome drags on, or we see a contested election. However, once the outcome is known, it is priced in, and volatility typically falls back to long-term averages. The long-term investor often does not even notice it.

Impact of Elections on Long-Term Market Returns

A review of historical market performance around elections suggests that the economic backdrop has been a far bigger driver of post-election market performance than the winner or winning party. True, there is higher volatility around elections, but looking at the average performance of both equities and fixed income one year removed from the election tells a different story. We see that on average, U.S. markets have experienced strong returns the year following an election, and that is true regardless of party, or if there is a split between the Presidency and the Congress. The further removed in time from the election, the more likely a long-term investor is to enjoy the long-term average returns of the markets.



	S&P 500 (incl. dividends)	3-month T.Bill	Return on 10-Year T. Bond
1928-2018	11.36%	3.43%	5.10%

Since 1928	S&P 500 (incl. dividends)	3-Month T. Bill	Return on 10-Year. T. Bond	# of Years
Presidential Elections (+1 yr)	9.53%	3.56%	4.10%	23
President - GOP	7.87%	4.66%	7.26%	43
President - Dem	14.48%	2.35%	3.29%	48
President & Congress - GOP	8.07%	2.45%	3.49%	13
President & Congress - Dem	13.70%	2.72%	2.17%	34
President & Congress - Mixed	10.33%	4.53%	7.71%	44

Source: http://www.stern.nyu.edu/~adamodar/New_Home_Page/data.html
Annualized returns. Past performance does not guarantee future results. All data is from sources believed to be reliable but cannot be guaranteed or warranted. The above information is supplemented by the index disclosure at the end of this article. Investors cannot invest directly in an index.

SYMMETRY PERSPECTIVE:
ELECTION 2020 INSIGHTS

SYMMETRY®
Invested In Your Goals

Summary

This election season, over the short term, investors can expect:

- Ongoing economic and market impact from COVID-19
- Further wrangling in Washington over stimulus
- Heightened volatility associated with the election

However, over the long-term, they can expect:

- An eventual end to the pandemic
- Markets to digest and price in the news when it becomes available
- Capitalism to reward investors for staying invested

"Tuning out the noise" requires concentration on tried-and-true investing principles that can help you meet your goals. Focus on what works in the long term (we recommend looking to academic research to help inform you on this), stay broadly diversified, control your costs, and keep your eyes on the long-term goals and the benchmarks you've thoughtfully established. While it may not always seem to, steadfastly adhering to this approach will serve you well over time.

A Word about Polling

After the 2016 presidential election, some folks understandably question whether polling in the United States at this point is accurate or largely useless. It's helpful to keep in mind that polling is an exercise in pulling together a statistical model, and we know all models are wrong in some way...but they can still be very useful. In the case of political polling in the U.S., different organizations conduct polls in different ways, the source of the model error can be different for each poll, and for a variety of reasons the margin of error is often much wider that what gets reported.

Usually, if you take a cross-section of the various polls, the errors for each can be smoothed out by way of poll aggregation, giving a much more accurate mean polling number — provided the errors in individual polls were all due to different causes, and were therefore independent and uncorrelated. Sometimes, however, the errors of the various models become correlated, meaning they are all caused by some common disrupting factor or factors. When that happens you can get surprises like 1948 when, despite the headlines the next day, Dewey didn't defeat Truman, or in 1980 when Ronald Reagan defied the polls that suggested a narrow margin and ended up winning by an epic landslide...or what we had in the 2016 election.

When that happens it serves as a good reminder that we should always be cognizant that a model is an approximation of the state of the world, not an exact replica, and we should be discerning consumers of the information they provide. Also, as a general reminder on probability, something that has a small likelihood of occurring can still happen. A 5% or 10% chance of winning an election, does not mean the candidate can't win. Just that it is unlikely. But unlikely is not the same as impossible.