

# Y O S E M I T E C A P I T A L M A N A G E M E N T



## GLOBAL ECOVIEW

### Does the Blue Wave Swamp the Economic Boat?

Investors are increasingly betting on a blue tsunami. As most investors on Wall Street saw it, a blue sweep at the polls for Democrats was seen as a negative for the current and future economic outlook. This thought process was driven by Democrats focus on higher taxes and social reform. Unfortunately, these platform ideas were seen as a “disruption” toward economic convalescence. Counterintuitively, in recent weeks, investors and our well-heeled Republicans on Wall Street have been reevaluating this blue wave as more of a turquoise suave for an ailing nation. For example, even the folks at Goldman Sachs have lowered their white flag and slowly raised the blue jean moniker high enough to espouse this: “All else equal, a blue wave would likely prompt us to upgrade our US economic growth forecasts.”

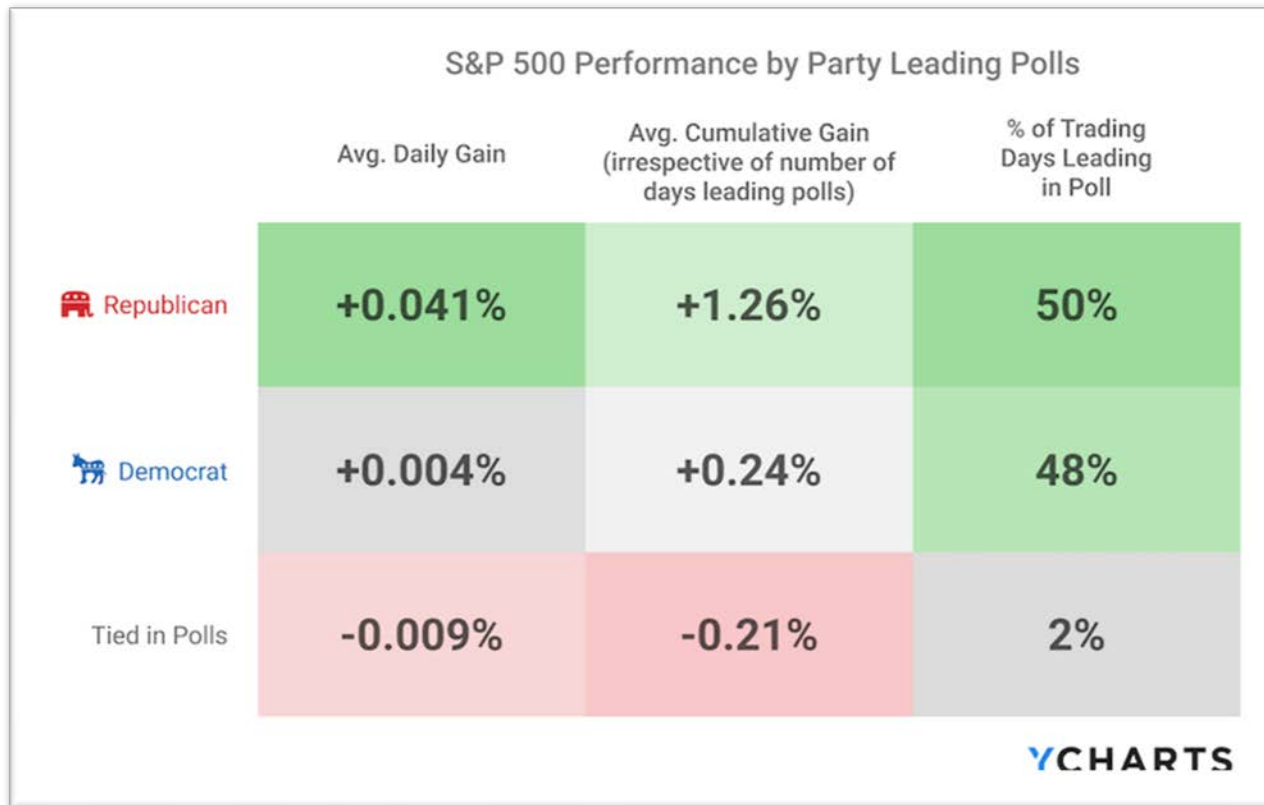
The downside to this scenario is what we see playing out as downward pressure on Treasury prices or conversely, yields bumping up! This northern bias in rates is due to the specter of an increased Government debt load, a.k.a. higher interest costs!

As this shift in perspective personifies itself in real numbers, we expect infrastructure stocks and the small cap sector to regain their economic footing!

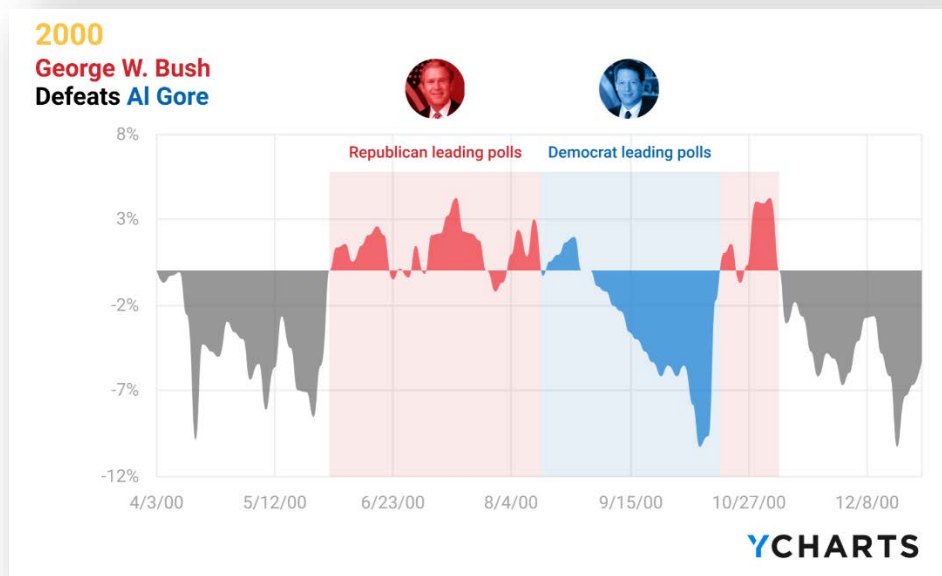
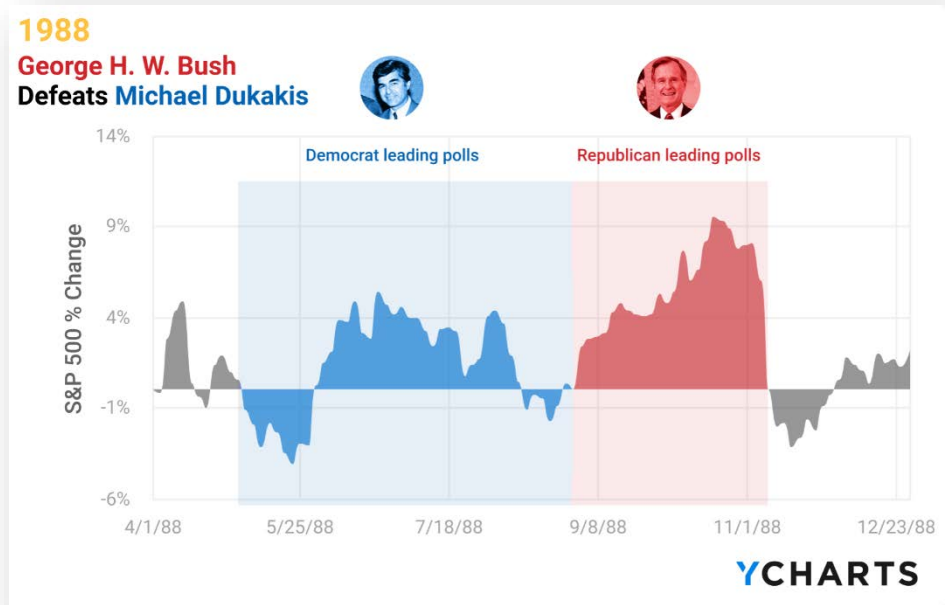
For more data on why we remain agnostic on the presidential outcome, please see the attached data points reflecting our non-partisan view.

# 1. How differently do markets perform when a Democrat or Republican candidate is leading in major polls?

More than anything, the market hates uncertainty: when candidates are tied in polling, the S&P 500's daily and cumulative returns are negative. On average, the market tends to favor a Republican candidate leading major polls.

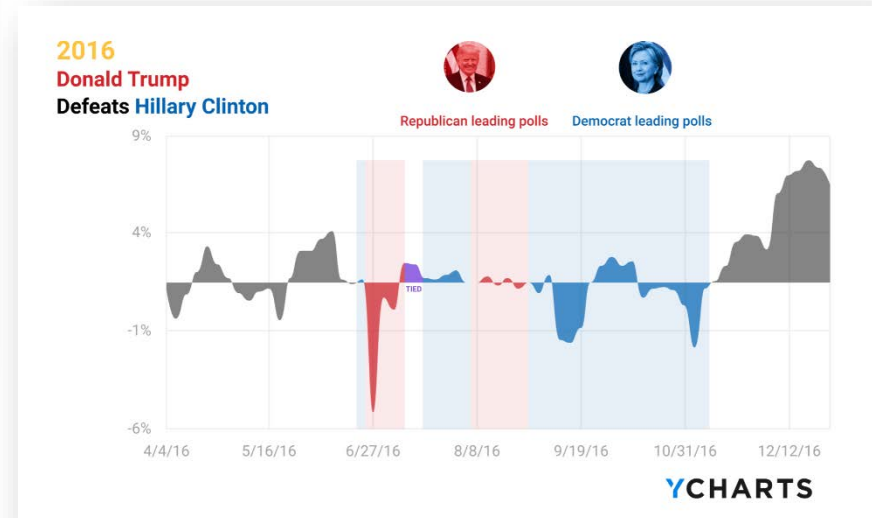
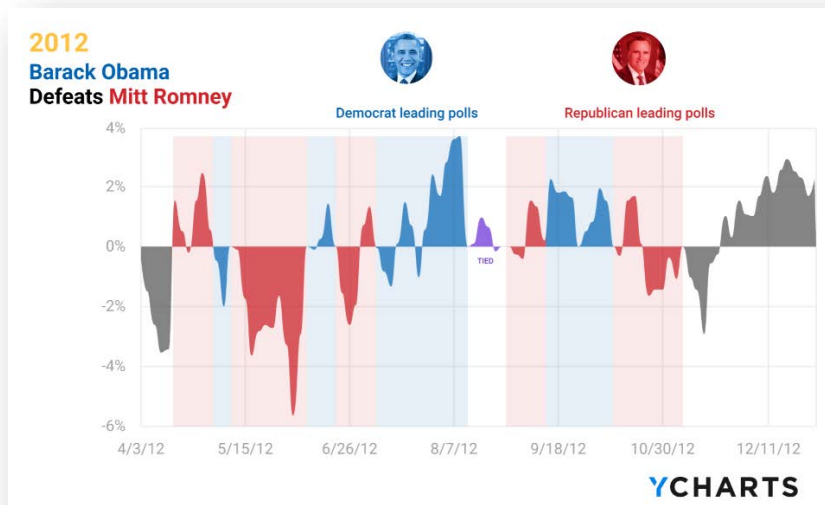
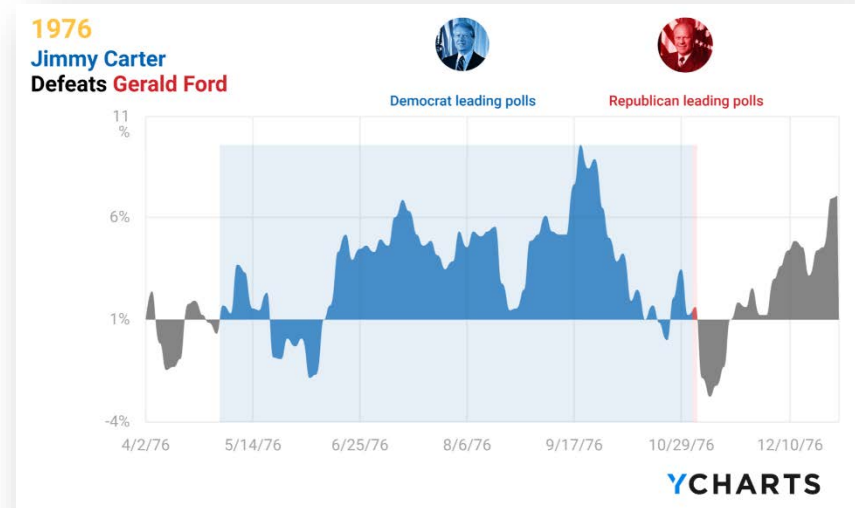


Two strong examples of this pattern: S&P 500 percent change under poll leaders in the 1988 and 2000 U.S. Presidential elections



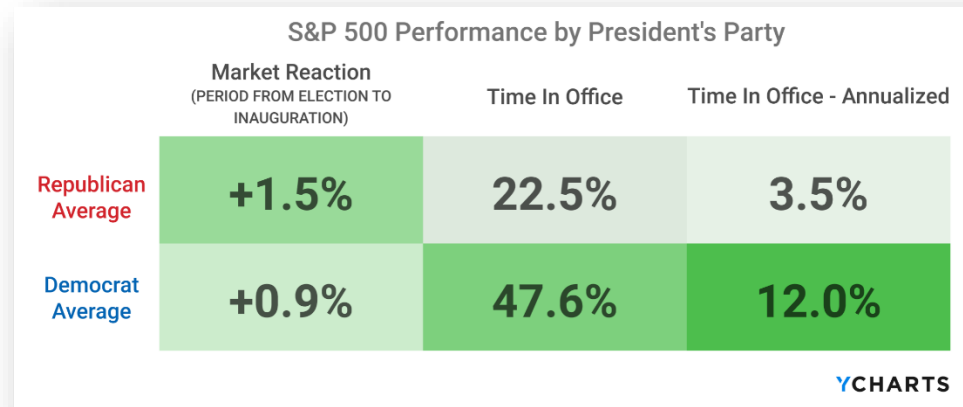
## 2. When major polls are wrong about the election outcome, how does the market react?

The latest poll before election day has incorrectly predicted the winner only three times since 1950: in 1976, 2012 and 2016. The market initially moved lower following Democrats' two surprise wins, but ended the year up 5.4% and 2.3% in 1976 and 2012, respectively. In 2016, the lone Republican comeback win, the market responded by immediately moving higher and picked up 3.5% between election day and the end of the year.



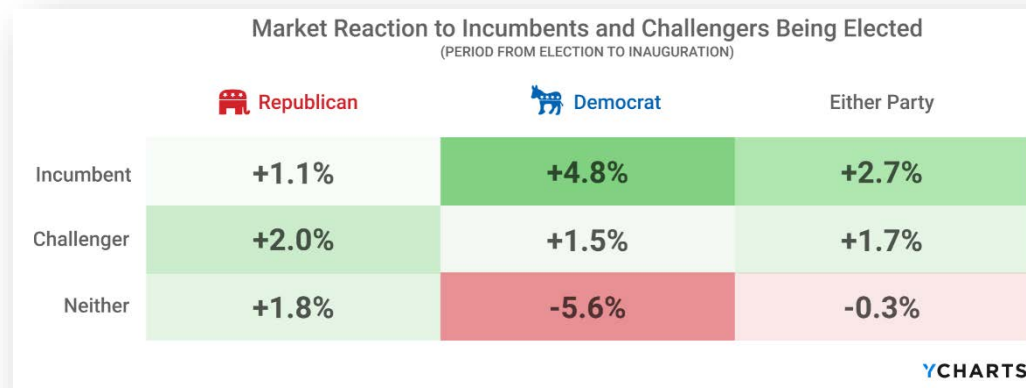
**3. Does the market react differently when a Republican or Democrat candidate is elected?**

Historically, the market reacts more positively to a Republican president-elect. That reaction is in-line with the common belief that Republican policies are more business-friendly, and therefore more stock market-friendly, than Democrats'. That said, once a president actually takes office, the market has performed better under Democrat presidents, on average.









**4. How does the market react when an incumbent president is re-elected? What about when the challenger wins?**

The market's initial reaction is more positive when the incumbent president is re-elected. When comparing political parties, the most positive reactions have come when Democrat incumbents and Republican challengers are elected. But over presidents' full terms in office, the market has outperformed under challengers who unseated a president seeking re-election, on average.



## 5. How have other major asset classes performed under recent presidents?

U.S. and Emerging Market Equities have been among the best performing major asset classes since Bill Clinton's 1993 inauguration. In the last 30 years under four different presidents, U.S. and International Equities handily outperformed under the Democrats, and Emerging Markets have slightly outperformed under the Republican presidents. (Performance through Sept. 14, 2020 for Donald Trump)

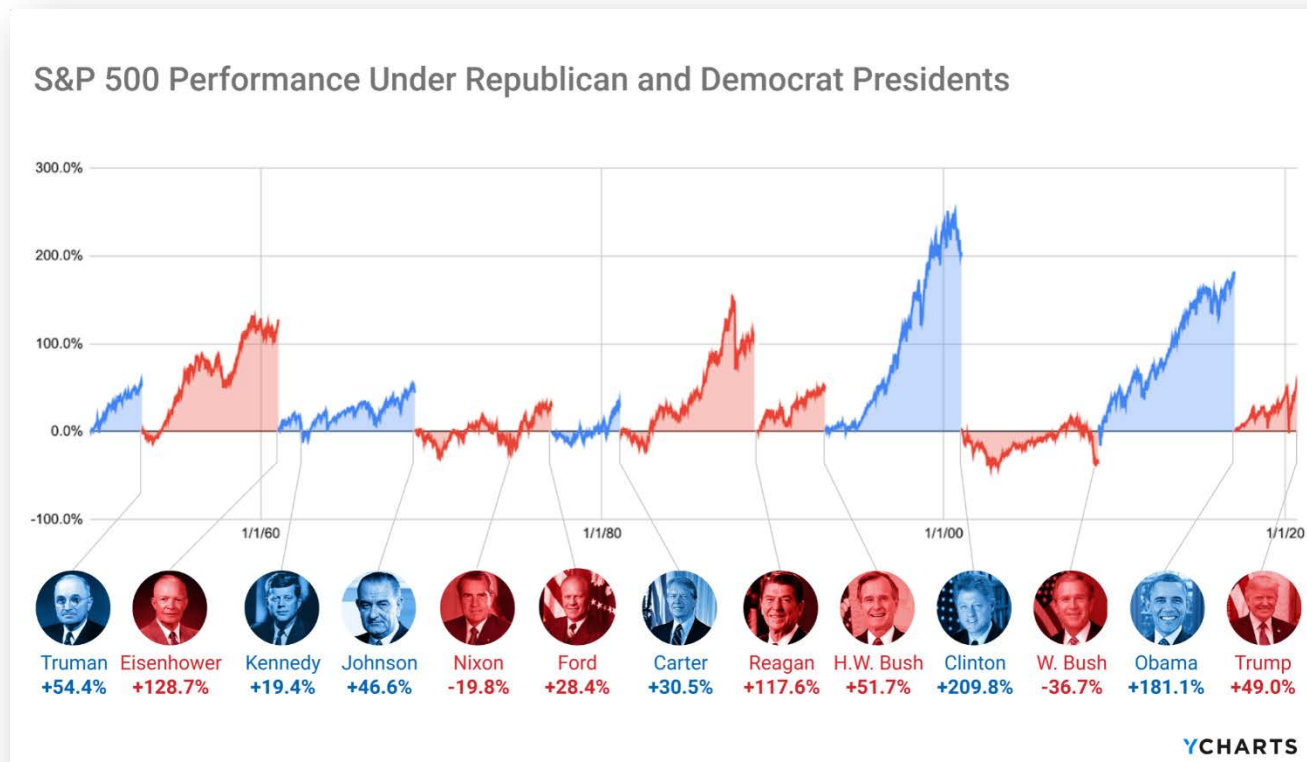
Annualized Asset Class Returns During Each President's Tenure in Office					
 <b>Bill Clinton</b>	 <b>George W. Bush</b>	 <b>Barack Obama</b>	 <b>Donald Trump</b>	 <b>Democrat Average</b>	 <b>Republican Average</b>
US Equities ^SPXTR 15.2%	Emerging Market Equities ^MSEMTR 7.5%	US Equities ^SPXTR 13.8%	US Equities ^SPXTR 11.5%	US Equities ^SPXTR 14.5%	Emerging Market Equities ^MSEMTR 8.3%
International Equities ^MSEAFETR 10.8%	US Treasuries ^BBUSTTR 6.4%	Emerging Market Equities ^MSEMTR 10.0%	Emerging Market Equities ^MSEMTR 9.0%	International Equities ^MSEAFETR 10.0%	US Equities ^SPXTR 3.0%
Emerging Market Equities ^MSEMTR 4.1%	US Invst Grade Bonds ^BBUSATR 5.7%	International Equities ^MSEAFETR 9.2%	US Corporate Bonds ^BBUSCOTR 6.9%	Emerging Market Equities ^MSEMTR 7.1%	International Equities ^MSEAFETR 2.9%
US Invst Grade Bonds ^BBUSATR n/a	US Corporate Bonds ^BBUSCOTR 4.8%	US Corporate Bonds ^BBUSCOTR 6.8%	International Equities ^MSEAFETR 6.4%		
US Corporate Bonds ^BBUSCOTR n/a	International Equities ^MSEAFETR -0.6%	US Invst Grade Bonds ^BBUSATR 3.9%	US Invst Grade Bonds ^BBUSATR 5.2%		
US Treasuries ^BBUSTTR n/a	US Equities ^SPXTR -5.5%	US Treasuries ^BBUSTTR 2.3%	US Treasuries ^BBUSTTR n/a		

YCHARTS

## The Bottom Line....

If you made major investment decisions based on the President's political party – such as by investing more or less money during Republican or Democrat presidencies – you're probably hurting your portfolio more than helping it. Shown in the chart below, the S&P 500 has consistently grown in value over the long-term, no matter who's in office.

The Party occupying the White House is just one of many variables that can impact your investments. For example, the Dot-com bubble bursting in 2001 and the 2008 Financial Crisis greatly impacted the markets beyond the control of Presidents Bush and Obama, respectively. While elections may create some short-term uncertainty in the market, long-term investing goals and risk tolerances should always be the most important factors in your investment decision making.



YCM always keeps your unique financial goals in mind in concert with your risk tolerance as we monitor and plan our investment strategy at all times, whether there is an Election on the horizon or not! Please reach out with your questions and share concerns if you have any. We are here for you!

NOW, be sure to VOTE!

*From the Desk of the YCM Investment Policy Committee.*



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