



Key points

Over the long run, markets have risen despite which party is in office.

Bouts of volatility are typical during election season.

Investors who focus on the long term are more likely to achieve their goals.

Investors have seen more than their fair share of market volatility in 2020...and it isn't over yet. Just as economies around the world are regaining momentum after the pandemic shut them down, investors are now facing the uncertainty of a U.S. presidential election in an increasingly polarized nation.

With elections approaching, many investors tend to consider which political party might be better for the market. But history tells us that over the long run, the market doesn't care who is in control of the White House. Since 1926, markets have continued to rise regardless of which party holds office.

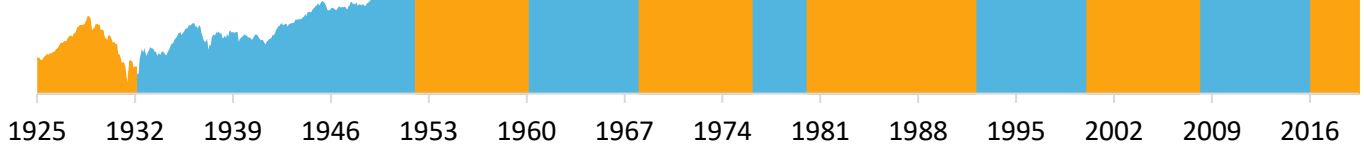
Stocks have risen through both regimes

Hypothetical investment of \$1,000 in U.S. stocks from 1926 to 2020

■ Democrats ■ Republicans

Jun 2020: \$8.96 million

Jan 1926: \$1,000



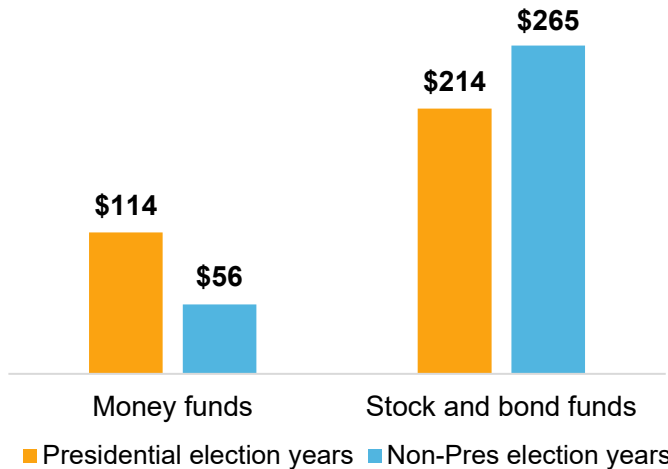
Morningstar as of Jun 30, 2020. Stock market represented by the S&P 500 Index from Jan 1, 1970 to Jun 30, 2020 and IA SBBI U.S. large cap stocks index from Jan 1, 1926 to Jan 1, 1970. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

Yet many investors still think short-term

Nevertheless, many investors still seem to be influenced by election concerns. Going back to 1993, on average, money market funds have garnered higher inflows during election years versus non-election years, while stock and bond funds have attracted more inflows during non-election years. This pattern suggests that many investors have reacted to election uncertainty by moving into cash, and the long history of market growth across regimes tells us they have missed out on significant gains by doing so. (See graphs on the next page).

Fund flows and presidential election years

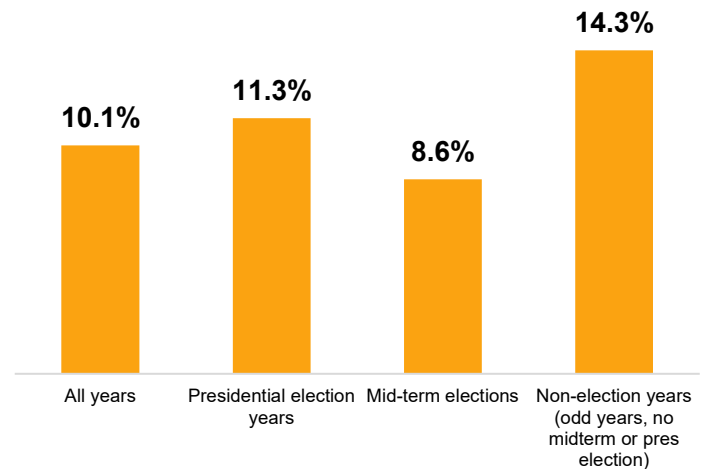
In billions USD, Feb 1, 1993 – Jun 30, 2020



U.S.-domiciled fund flows; Morningstar as of Jun 30, 2020. Money funds, stock funds, and bonds funds are represented by their respective U.S. fund categories as defined by Morningstar. Past performance does not guarantee or indicate future results.

U.S. stocks across the election cycle

Performance has historically been above average in presidential election years



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What's at stake: policy, not party

Even as history shows that markets are resilient through elections, investors may wonder which outcome is more beneficial to their portfolio. In the case of 2020, we believe that the ability for the government to enact policy is more important than the party. We anticipate three primary scenarios:

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| Scenario 1: A Democratic sweep | President: Democrat Senate: Democrat House: Democrat |
| Scenario 2: Biden elected, no change in Congress | President: Democrat Senate: Republican House: Democrat |
| Scenario 3: Trump re-elected, no change in Congress | President: Republican Senate: Republican House: Democrat |

Scenarios are only three of several possible outcomes. There is no guarantee that any of these outcomes will come to pass.

A democratic sweep (Scenario 1) could introduce higher corporate taxes which in turn could negatively impact markets. In the near-term, however, it may be difficult for policymakers to

agree on raising taxes while the pandemic continues to challenge the economy.

More importantly, we believe the ability for Congress to deliver continued fiscal relief amid the health crisis will likely be key for markets, regardless of who is in power. The sheer size of the stimulus so far and the speed with which it has been delivered is unprecedented. American history has never seen anything like it.

Because continued fiscal support is so critical, a smoother path to policy enactment (e.g. Scenarios 1 and 3) may be more impactful than which party is in power.

Bottom line

While investors are right to be cautious of volatility in the short-term, when it comes to elections, the old adage applies: it's time in the market, not timing the market. History has shown that seeing through uncertainty and taking a long-term perspective can lead to greater success.

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