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Market Musings

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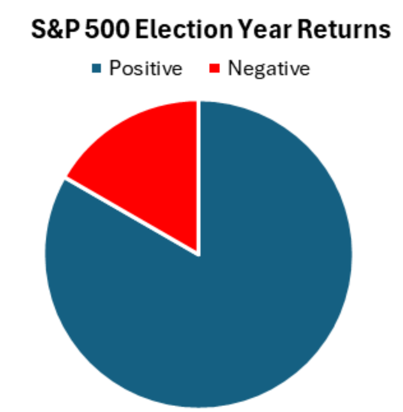
Election year returns have been positive but quite volatile, given the current political circumstances this year could be one of extreme volatility. The pie chart depicts the performance of the S&P 500 since 1928. Forecasting the outcome of market returns in an election year is treacherous but history is on the optimists' side.



The Year of the Election

We are just about nine months away from the "birth of a nation"? The stakes seem to be unusually high based on the divergent messages from the two major political parties. Also, the history of stock market returns during an election year suggests that we could have better-than-average returns by the end of December. Depending on whether the incumbent wins or loses, there is further equity market impact. We guess that investors are aware of these relationships and, as the year progresses, equities may fall prey to the changing poll results as to who the winner would be. We are a little early to go along with the current expectations of the pollsters. More likely than not there could be a collision between the legal system and the candidates that may have consequences for electing a new president.

Uncertainties as to the outcome of the election may go beyond the basic counting of ballots. The crisis over the conduct of the 2020 election could characterize this year's voting and further turmoil triggered by misleading media reports regarding the candidates could introduce trauma in financial markets to and through the final election count. In addition, both current leading candidates have some legal baggage that could affect who the actual candidates will be! Such a condition has never occurred before. A collision between the Judiciary and the Executive branches of the government could take the electoral process to an unexpected conclusion. In 2000, the "tie" between Bush and Gore triggered a major decline in stock prices. The election outcome was determined by the Supreme Court. Then, back in 1968, a commotion at the Democratic convention in Chicago probably led to the election of the Republican, Richard Nixon. This time we will have to wait for the actual conventions' outcome where delegates will be determining who the candidates will be regardless of the current leaders.

We should not overlook the likelihood of a tumultuous election process leading up to this year's national election. Be sensitive to the potential for misleading and errant media reports about the progress of the election and who is likely to win or lose. During this time, equity markets may experience above-average volatility on a day-to-day basis. Additionally, the economic programs of the new administration could have important consequences for the economy and financial markets.

"Believe nothing you hear, and only one half that you see. "

- Edgar Allen Poe

Market Commentary

Despite a sharp drop on the final trading day of the month on the back of Fed Chair Powell's comments indicating rate cuts were not looming, the S&P 500 rose 2% in January. The month was characterized by a series of record highs, driven by strength from the Magnificent 7, which propelled the mega-cap S&P 500 Top 50 up 3%. Conversely, the S&P SmallCap 600 and the S&P MidCap 400 indices underperformed due to strong fourth-quarter economic data. The S&P Europe 350 started the year well by rising 1.7% in January as most countries registered a positive return, with the Netherlands contributing the most. Asian equities continued to lag the global market with the S&P Pan Asia BMI falling 2% in January as the drawdown in Chinese / Hong Kong stocks deepened. Japan was the bright spot in the region (again) rising by a whopping 8%. Oil and the U.S. dollar reversed losses from the fourth quarter with both posting moderate gains.

According to the US Census, retail sales for December exceeded expectations for the sixth straight month, representing the longest streak of better-than-expected reports since at least 2001.