When Politics and Markets Intersect **November 2, 2020**

What an election season this has turned out to be! While the results the vote count will have considerable impact on our country, we caution long-term investors from viewing their investment portfolios through a political lens.

Market commentators and presidents for many years have tried to tie in the performance of the stock market as a sort of 'barometer' of the effectiveness of an administration's policies. Historical data does not support this link, and we do not anticipate the outcome of this election to be any different. The numbers actually show that over the past 120 years, the long-term performance of the market has shown almost no correlation with government policies.

In fact, the key drivers of stock market performance have been earnings and economic growth. Other factors – like the decisions made by the US Federal Reserve – also have a larger impact on market sentiment than soundbites (or tweets) we hear from politicians.

Even in the middle of an uncertain, tumultuous environment related to COVID-19, social unrest, and heighted political bitterness, staying the course makes the most sense for investors. We would like to take the rest of this note to share some truths – along with some illustrations – about politics, predictions, and the stock market that we hope are encouraging amidst a challenging political season.

All of us at Seamount Financial Group appreciate your continued trust, and hope that you and your loved ones remain safe and well.

Six truths no matter who wins:

1. Markets have performed well under both parties.
2. This is not the most vitriolic election.
3. We do not radically re-engineer the US economy.
4. Signature legislative accomplishments are infrequent, and the impact is not always as expected.
5. Election primary season tends to be volatile, but markets have bounced back afterward.
6. A long-term perspective can help offset election uncertainty.

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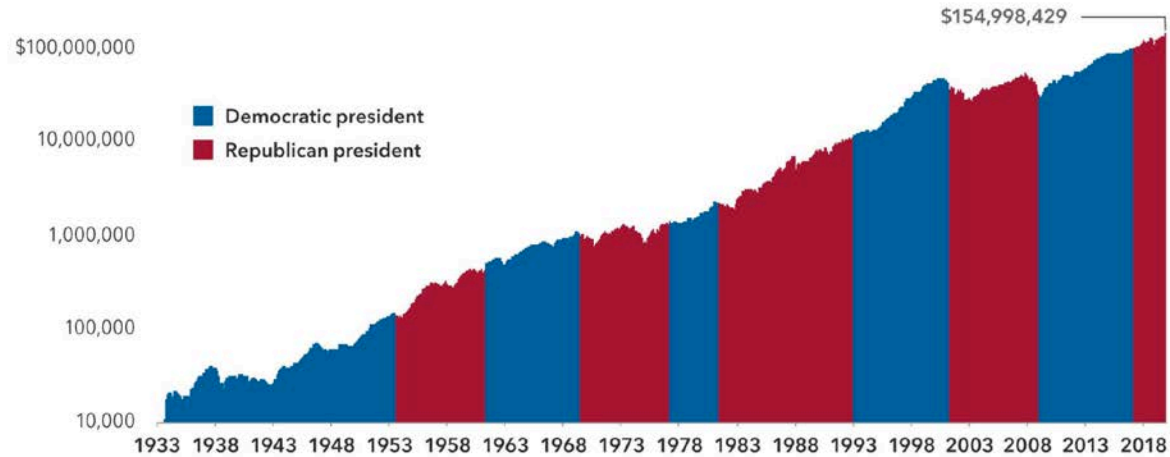
1. Markets Have Performed Well Under Both Parties

- The S&P 500 Index delivered an average annual return of approximately 11% over the past 75 years, through both Democratic and Republican administrations.
- The US economy also expanded around 3.0% per year during that period.

Growth of a hypothetical $10,000 investment in the S&P 500 Index



Sources: Morningstar, Standard & Poor's. The start date is March 4, 1933, and the end date is August 31, 2020. Dates of party control are based on inauguration dates. Values are based on total returns in USD. Shown on a logarithmic scale.

2. No, This Is Not the Most Vitriolic Election

- Bitter partisanship has always been a part of our political process. In fact, some of the worst incidences of press-facilitated slander against national heroes like Thomas Jefferson and even George Washington induced these men to be frustrated with the free press.
- One of the most infamous duels in American history was the result of political disagreements. In 1804, Alexander Hamilton, the former US Treasury Secretary, died in a duel with Aaron Burr, the sitting vice president of the United States. We hope Mike Pence does not have any such duels planned soon.

Newspaper Laments

Even though early presidents were staunch defenders of a free press, they still were upset by newspaper coverage.

George Washington

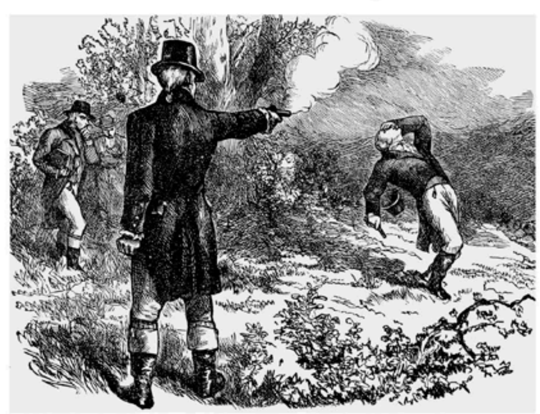
Newspapers filled "with all the invective that disappointment, ignorance of facts, and malicious falsehoods could invent to misrepresent my politics."

Thomas Jefferson

"Nothing can now be believed which is seen in a newspaper. Truth itself becomes suspicious by being put into that polluted vehicle."

A Deadly Duel

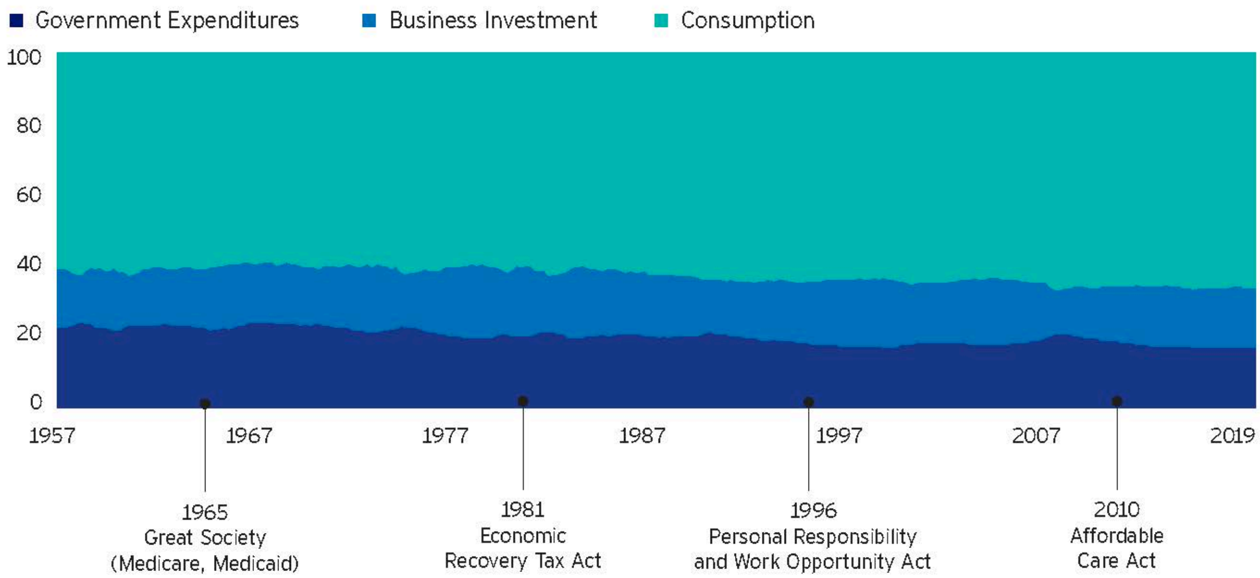
While political debates and sound bites make for contentious TV today, fortunately, nothing in recent memory compares to the personal vendetta between sitting Vice President Aaron Burr and former Treasury Secretary Alexander Hamilton that led to a duel with pistols.



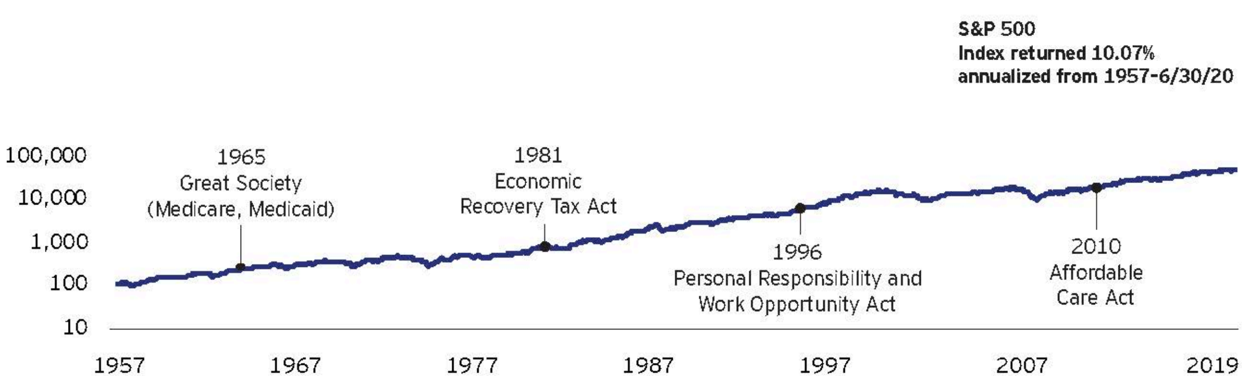
3. We Do Not Radically Re-Engineer the US Economy

- All presidents need support of Congress, and our system of checks and balances resulted in the last two presidents getting one signature achievement before losing the House.
- Despite concerns about (or support for) major government policy changes, business investment and government spending have been remarkably consistent as a percent of GDP.
- Even through the enactment of major government spending programs, the S&P 500 Index (bottom chart) has still achieved returns of approximately 10% annualized since 1957.

Breakdown of major components of GDP as a % of total spending in the United States since 1957



S&P 500 Total Return Index (Growth of $100)



Scale is logarithmic Sources: FRED, Global Financial Data, 6/30/20. **Past performance does not guarantee future results.**

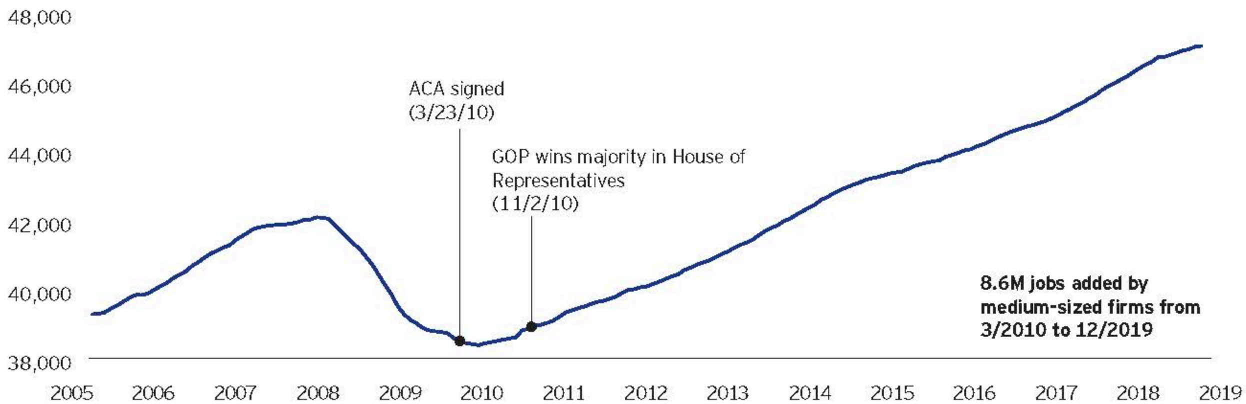
4. Signature Legislation Is Infrequent and Its Impact Often Unexpected

- Predictions and assessments about the ultimate impact of legislation are often far removed from the actual results.
- For instance, it was predicted that the Affordable Care Act would destroy small-business hiring. But since 2010, 8.6 million jobs have been added in this sector.
- Similarly, the Tax Cut and Jobs Act (TCJA) was intended to unlock capital expenditures, but it has thus far failed to bring an acceleration in business investment. The explanation may be that business confidence in 2019 was weak amid the uncertainty over trade.

Example 1: Patient Protection and Affordable Care Act

Employers with 50 or more full-time employees are considered "large business" and therefore required to offer employee health coverage or pay a penalty**.**

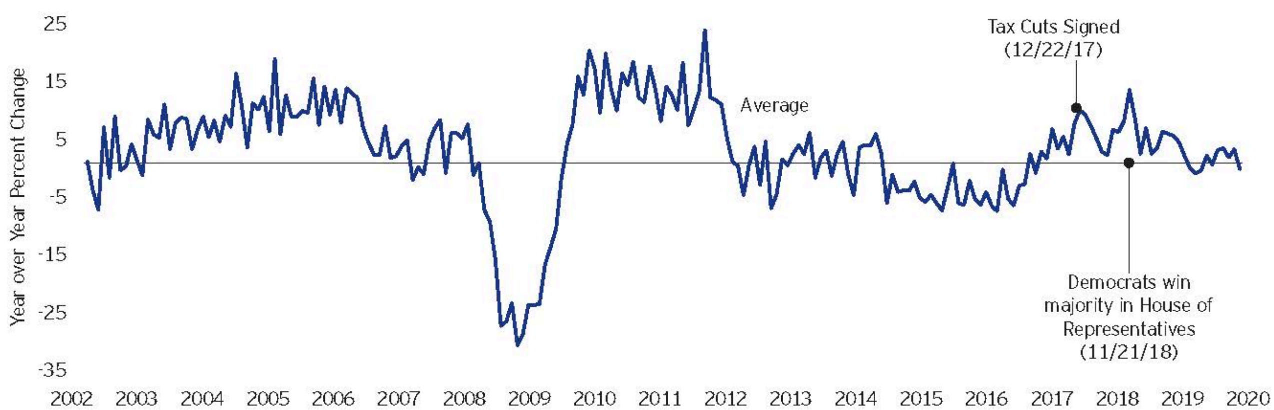
Nonfarm private medium payroll employment (50–499)



Example 2: Tax Cuts and Jobs Act of 2017

Section 179 allows taxpayers to deduct the cost of certain property (such as machinery and equipment purchased for use in trade or business) as an expense when the property is placed in service.

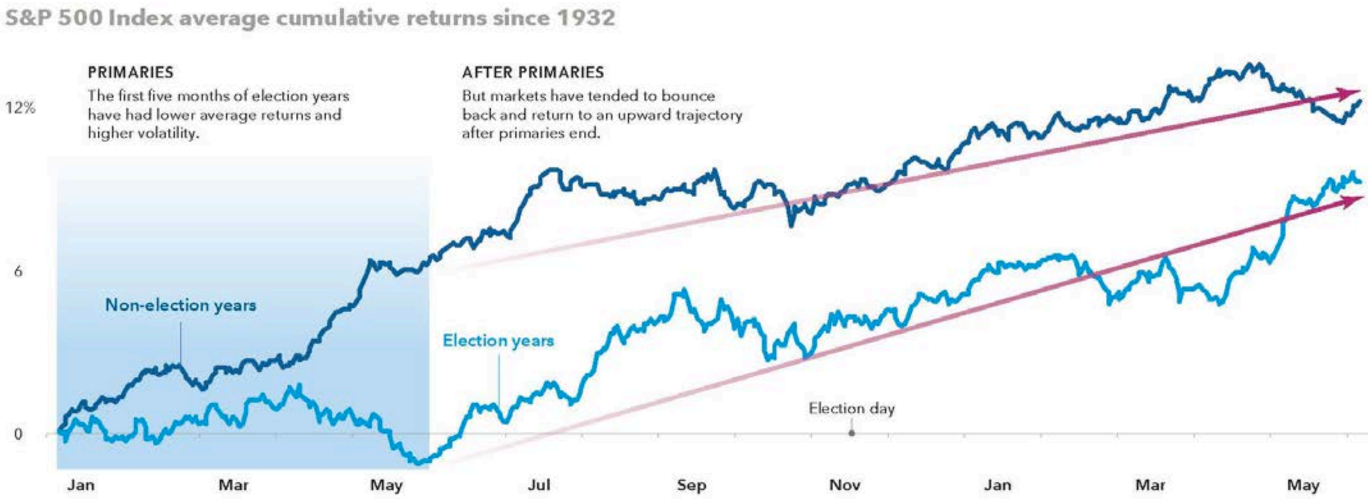
US capital goods new orders (nondefense ex-aircraft and parts)



Sources: Bloomberg, L.P., FRED, 3/31/20. Most recent data available. **Past performance does not guarantee future results.**

5. **Election Primary Season Tends to Be Volatile, But Markets Have Bounced Back Afterward**

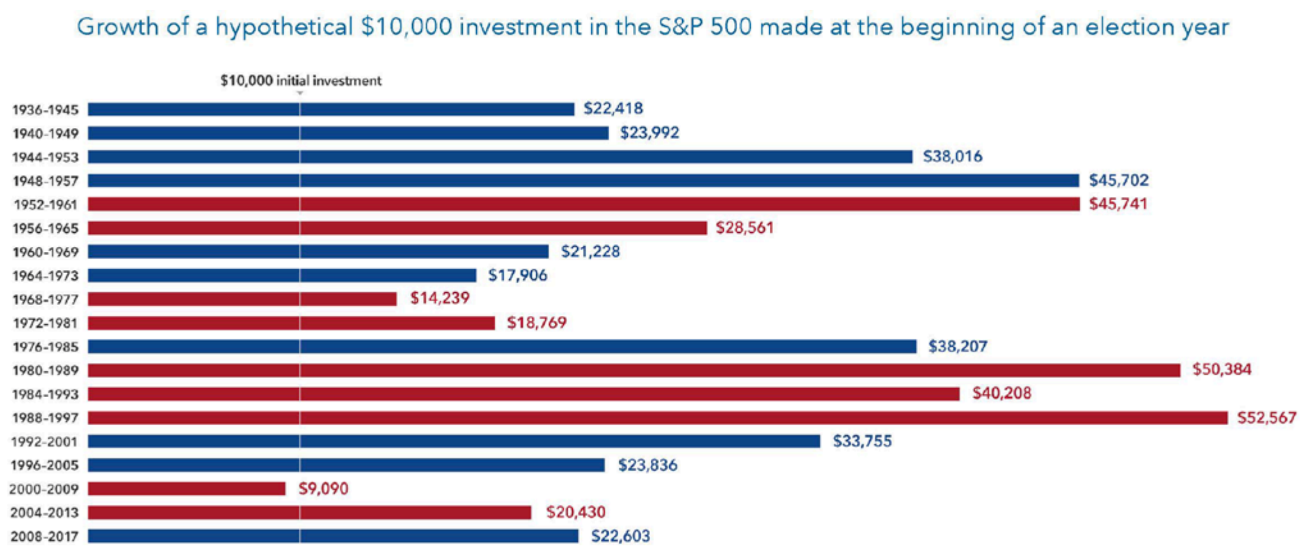
- Markets do not like the uncertainty of an election year, but the volatility is often short-lived.



SOURCES: Capital Group, RIMES, Standard & Poor's. Includes all daily price returns from 1/1/32-12/31/19. Non-election years exclude all years with either a presidential or midterm elections.

6. **A Long-Term Perspective Can Help Offset Election Uncertainty**

- When looking at stock market returns for 10 years after each presidential election year going back to 1936, you will find the S&P 500 Index was positive in 18 out of 19 (95%) of those time periods.
- In 15 out of 19 time periods (79%), the S&P 500 more than doubled.



Source: Thomson InvestmentView. Each 10-year period begins on January 1 of the first year shown and ends on December 31 of the final year shown. For example, the first period listed (1936-1945) covers January 1, 1936, through December 31, 1945.

Sources: Invesco's 2020 US Presidential Election; American Fund's Election Watch and Washington Update. This material is provided for general and educational purposes and is not intended to provide legal or tax advice. Forward-looking statements are not guarantees of future results. They involve risks, uncertainties and assumptions, there can be no assurance that actual results will not differ materially from expectations. Indexes are unmanaged and cannot be purchased directly by investors. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment. Past performance does not guarantee future results.