

# 2020 Election Playbook

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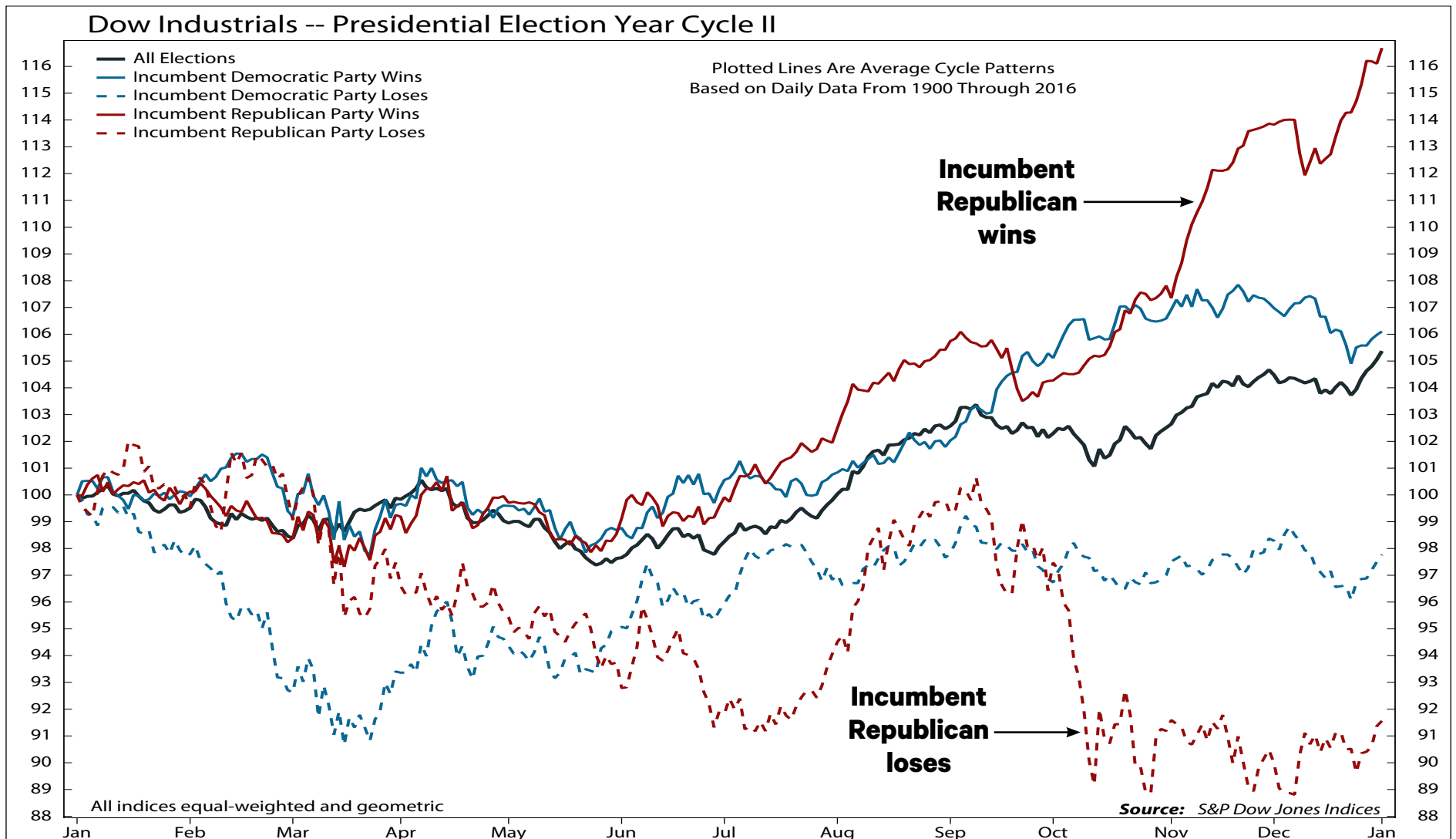
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October 2020

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# Year-end rallies **weakest** when incumbent Republican has lost.



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# Incumbents 0-6 when in recession or a 20% drop in election year.

## Market and Economic Influence on Presidential Elections

### Since 1900

#### 20% Decline or Recession

		Yes	No
Incumbent Party	Win	5	13
	Lose	9	3

### Since 1952

#### 20% Decline or Recession

		Yes	No
Incumbent Party	Win	0	8
	Lose	6	3

20% decline based on Dow Jones Industrial Average.  
 Recession dates from National Bureau of Economic Research.  
 D - Democrat. R - Republican.

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# Stimulus increases before reelections, but **2020 is a post-war record.**

NDR Real Monetary & Fiscal Policy Index by President								
President	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Johnson**	4.6	-0.6	8.5	36.9				
Nixon	-14.7	9.2	16.1	4.4	-6.4			
Ford		-5.6	25.7	0.5				
Carter	-0.3	-2.7	-10.9	2.0				
Reagan	1.5	11.7	15.2	1.0	5.8	6.7	-7.4	-2.1
Bush I	1.0	3.8	2.2	2.4				
Clinton	-9.6	-6.5	-1.9	-1.4	-3.5	3.3	-2.6	-1.9
Bush II	17.1	20.2	11.3	1.2	-4.9	-2.5	0.3	26.9
Obama	29.9	-6.6	4.0	-1.5	-13.7	1.5	3.8	7.7
Trump	4.7	6.5	6.7	66.4*	← <b>Biggest stimulus since at least 1965</b>			
<b>Median</b>	<b>1.5</b>	<b>1.6</b>	<b>7.6</b>	<b>1.2</b>	<b>-4.9</b>	<b>2.4</b>	<b>-1.2</b>	<b>2.9</b>
<b>% Positive</b>	<b>67</b>	<b>50</b>	<b>80</b>	<b>78</b>	<b>20</b>	<b>75</b>	<b>50</b>	<b>50</b>

Readings are values at end of year, except for Trump's fourth year, which is through August 31 and not included in summary statistics.

\*\*Johnson became president in Kennedy's third year, but because Johnson could have run for reelection in 1968, 1965-68 is treated as a first term.

Real Monetary & Fiscal Policy Index based on real M2 money supply year/year percent change, plus federal expenditures year/year percent change, minus federal receipts year/year percent change.

A rare indicator that predicted the **2016 election**.

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**DJIA Performance Between Second Convention and Election Day**

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	<b>All</b>	<b>Incumbent Party Wins</b>	<b>Incumbent Party Loses</b>
<b>Mean %</b>	<b>4.9</b>	<b>7.1</b>	<b>1.6</b>
<b>Median %</b>	<b>1.1</b>	<b>5.7</b>	<b>-1.4</b>

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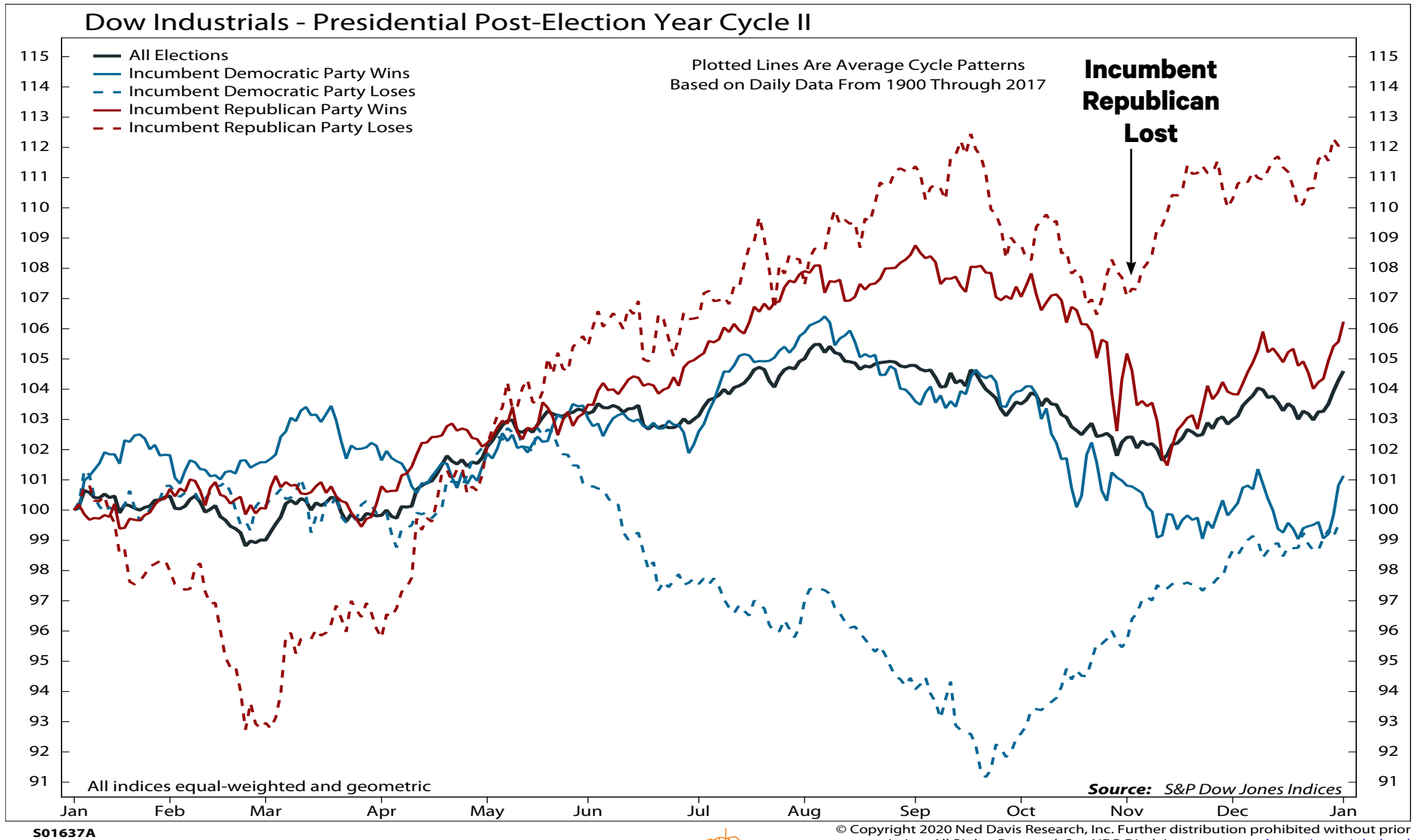
Source: S&P Dow Jones Indices.

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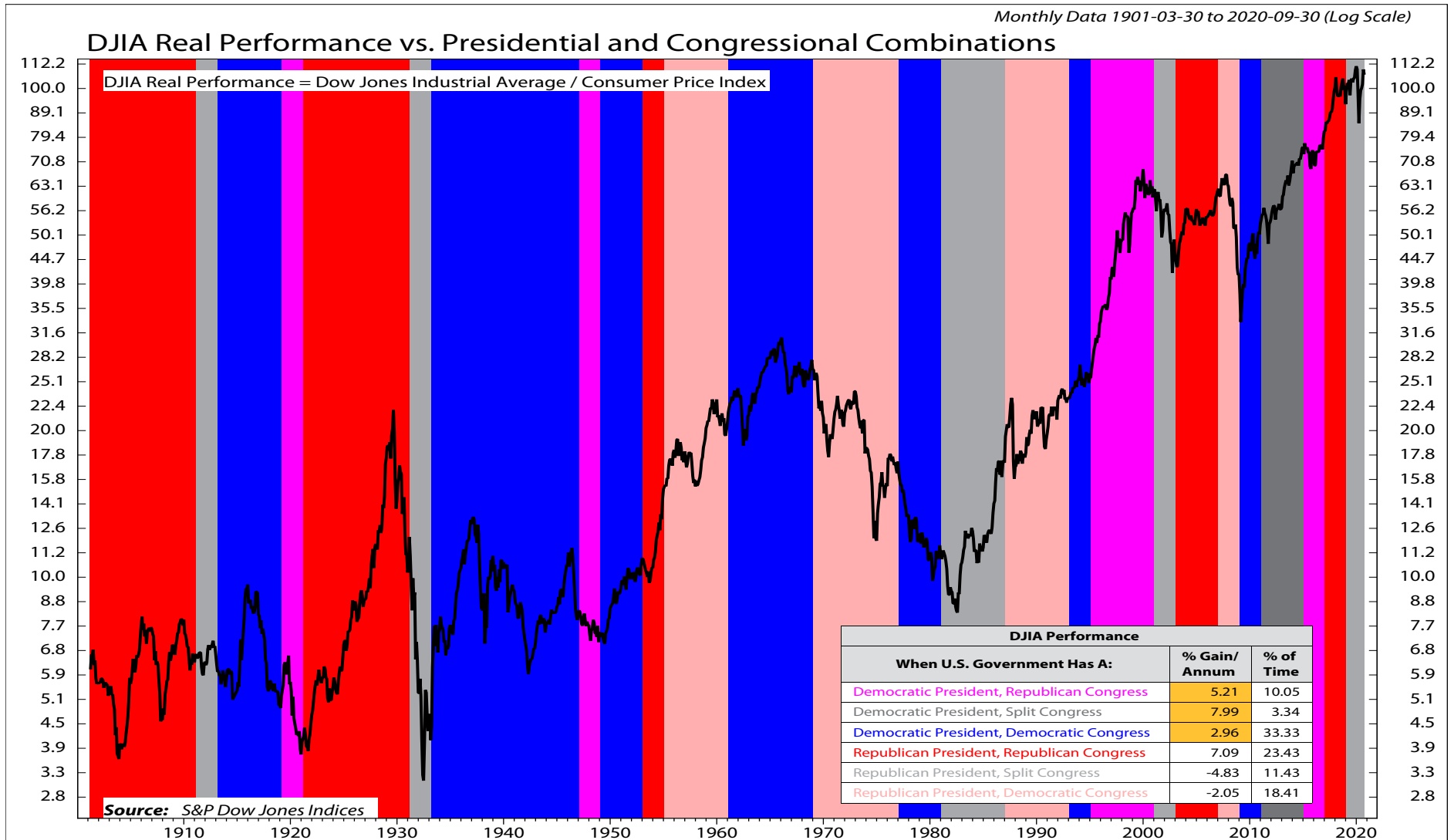
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# Weakness after Republican losses **reverses** in post-election years.



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# Stocks prefer **Congressional checks** on Democratic presidents.



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## 28% corporate tax rate could lower S&P 500 EPS by **4-13%**.

### Biden's Proposed Corporate Tax Hike Impact on S&P 500 After-tax Income

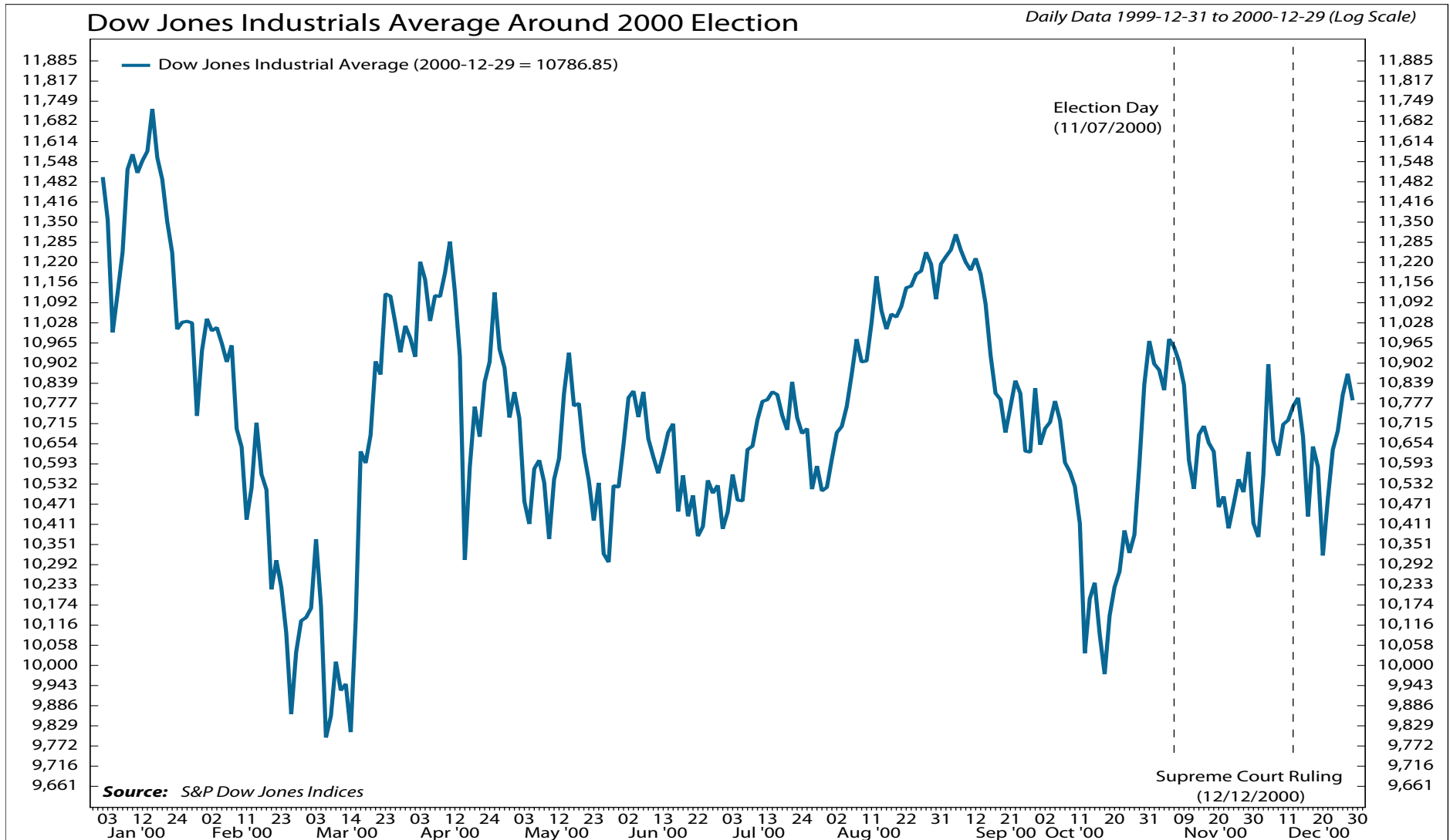
Line Item	Tax Rate		
	17.7% Effective (As of 12/31/2019)	28% Stated (Biden)	21.0% Effective (halfway of 2017 and 2019)
Pretax Income per Share (\$)	174.73	174.73	174.73
Income Taxes per Share (\$)	30.67	48.92	36.69
Effective Tax Rate (%)	17.7	28.0	21.0
Change in Taxes per Share (\$)	0.00	18.25	6.02
After-tax Income per Share (\$)	144.06	125.81	138.04
Change in After-tax Income (%)	0.0	-12.7	-4.2

Source: S&P Capital IQ Compustat.

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# Stocks fell while Gore **challenged** the 2000 election.

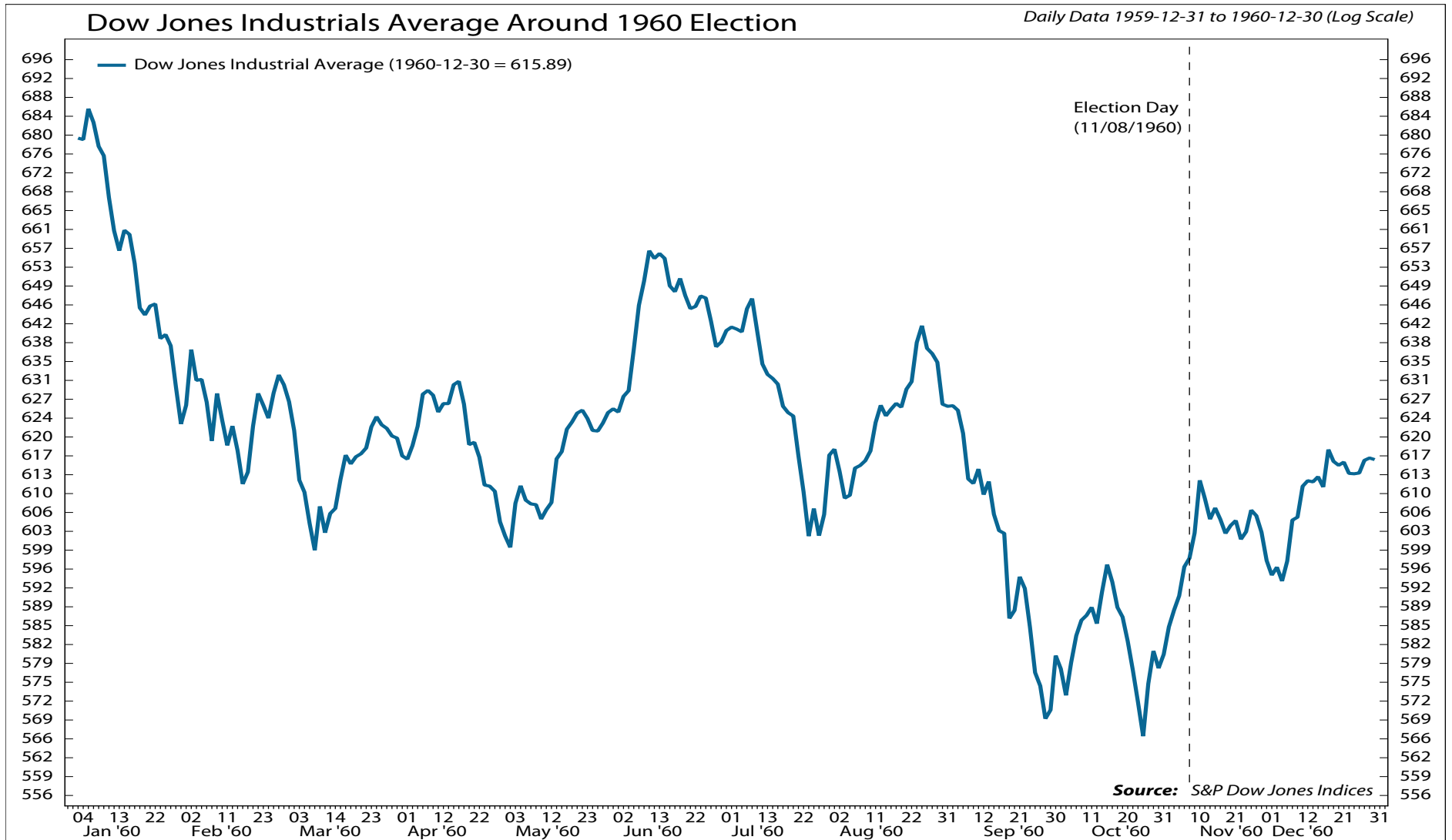


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# Stocks struggled as Kennedy, Nixon battled in 1960.

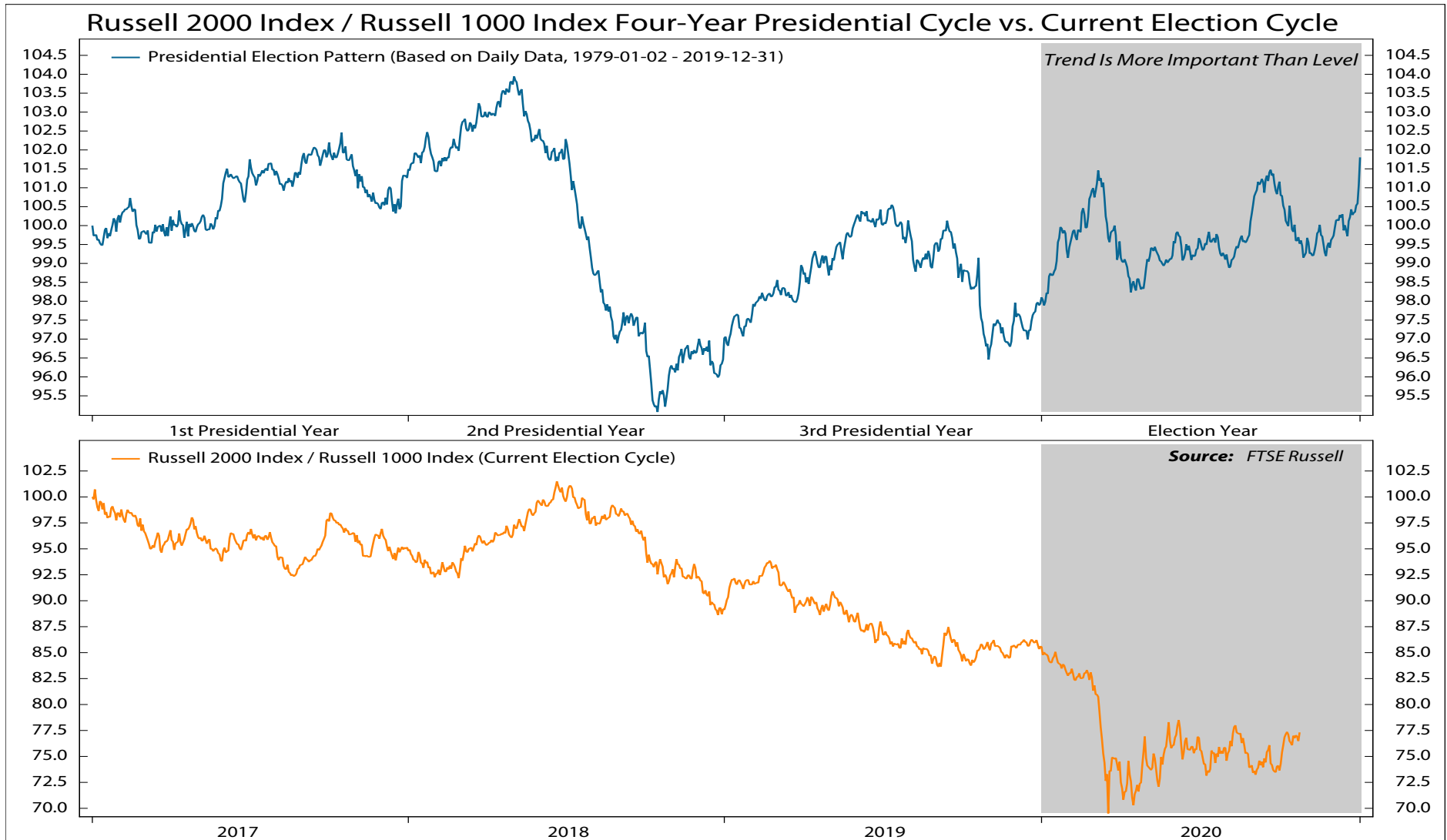


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# Are **small-caps** setting up for year-end election rally?

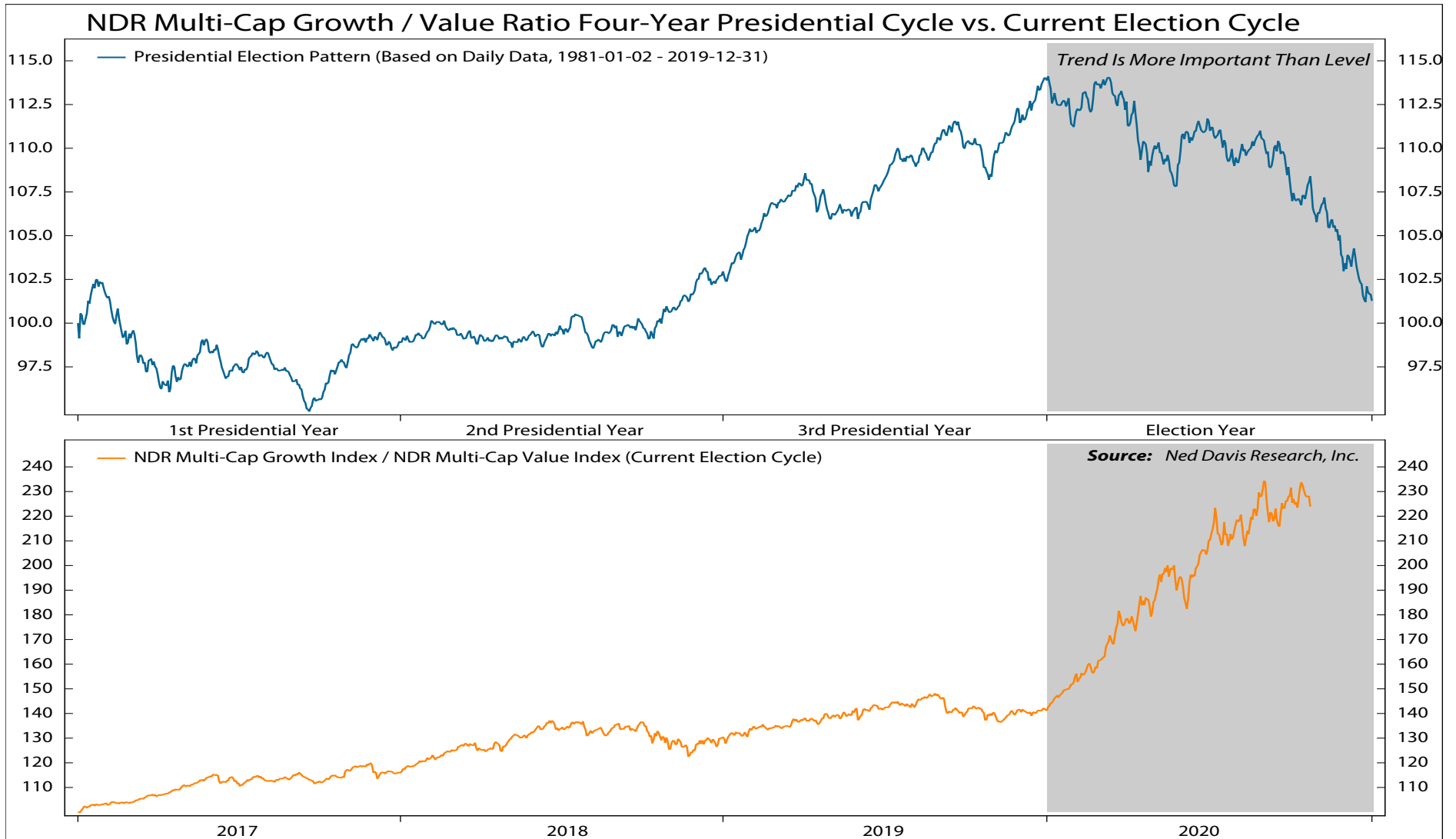


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# Value may need a stronger economy to follow its election pattern.

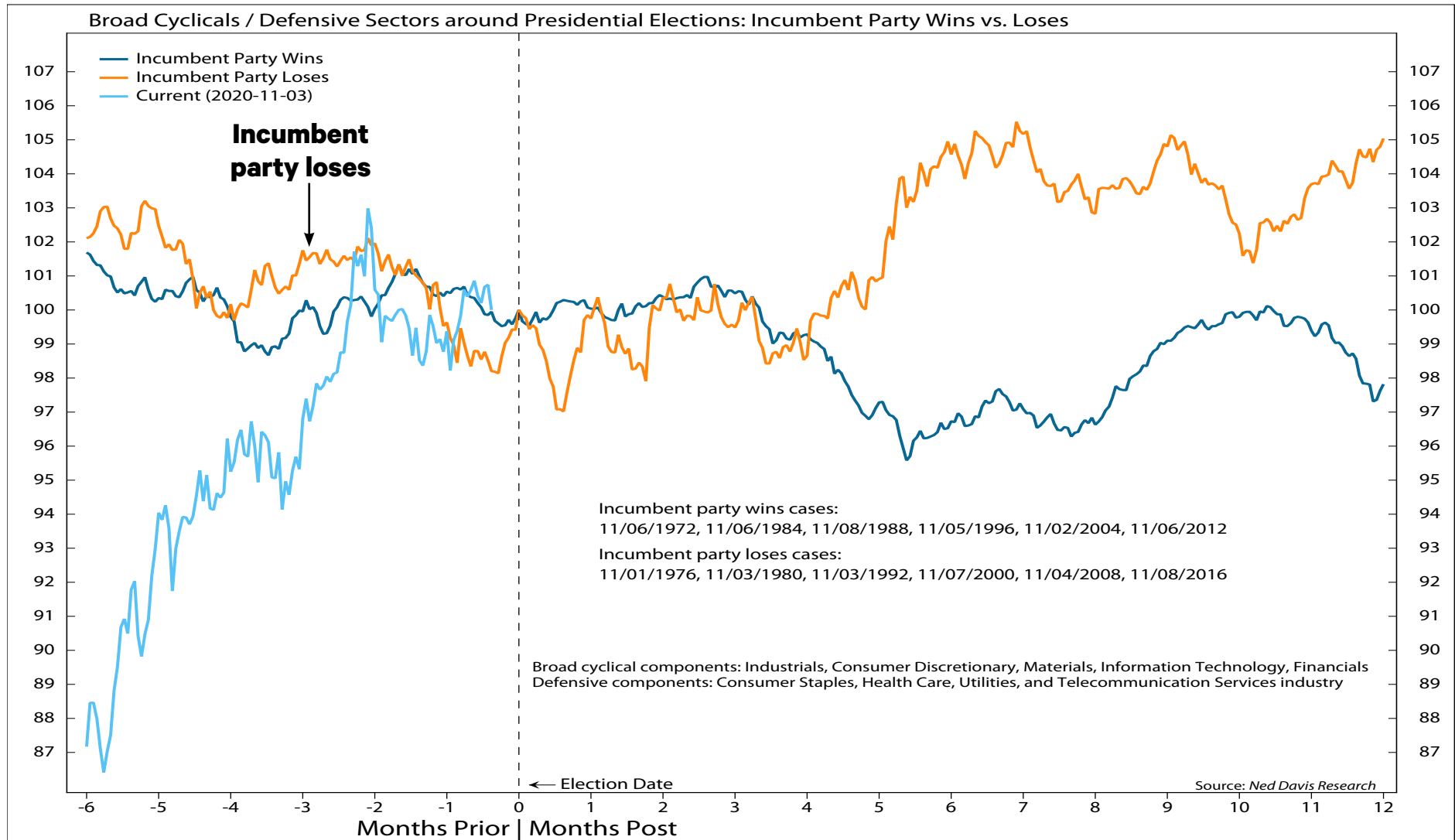


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# More defensive leadership pre-election when incumbent party loses.

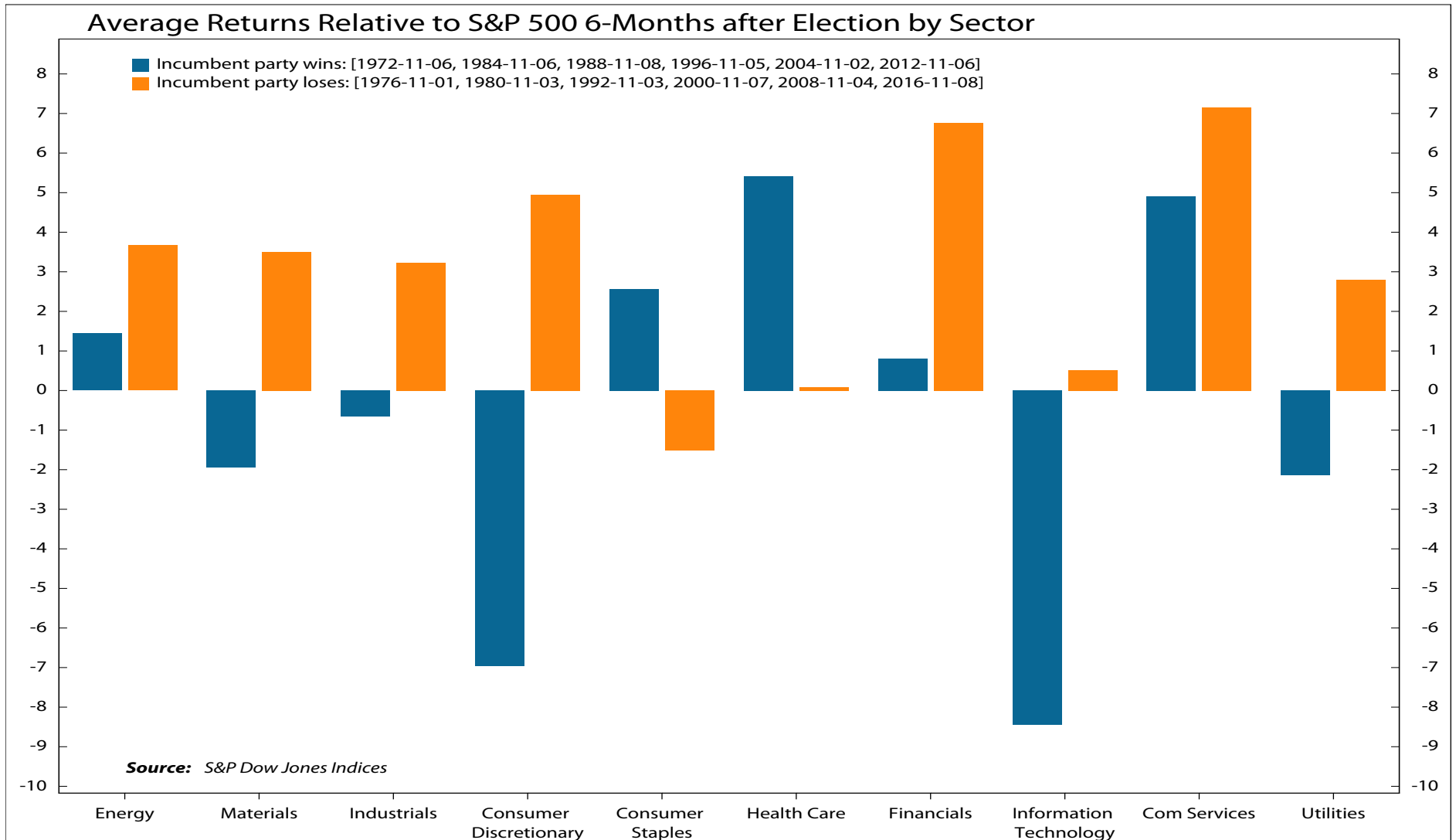


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# Cyclical sectors stronger post-election when incumbent party loses.

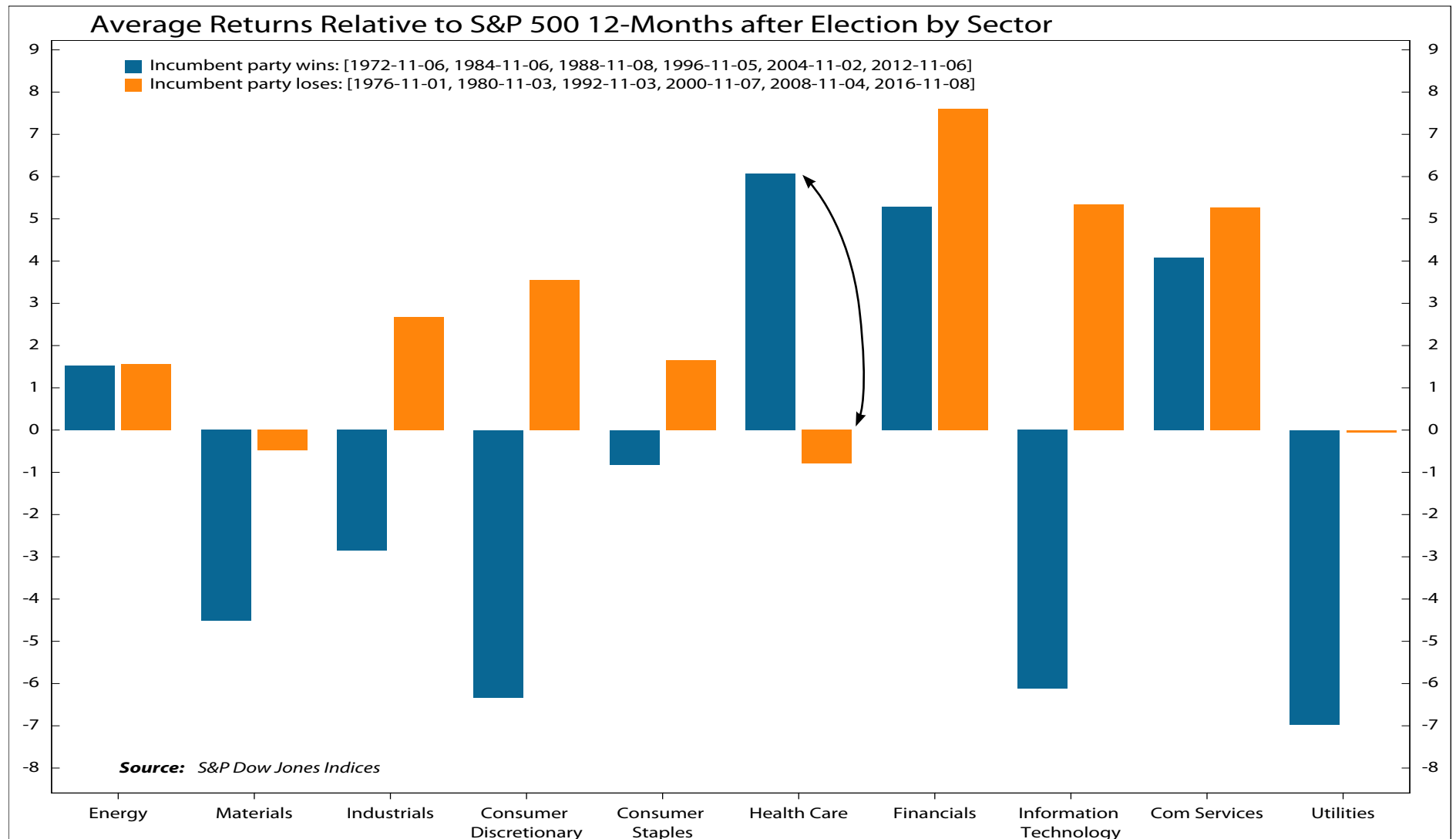


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# Health Care best when incumbent wins and worst when loses.



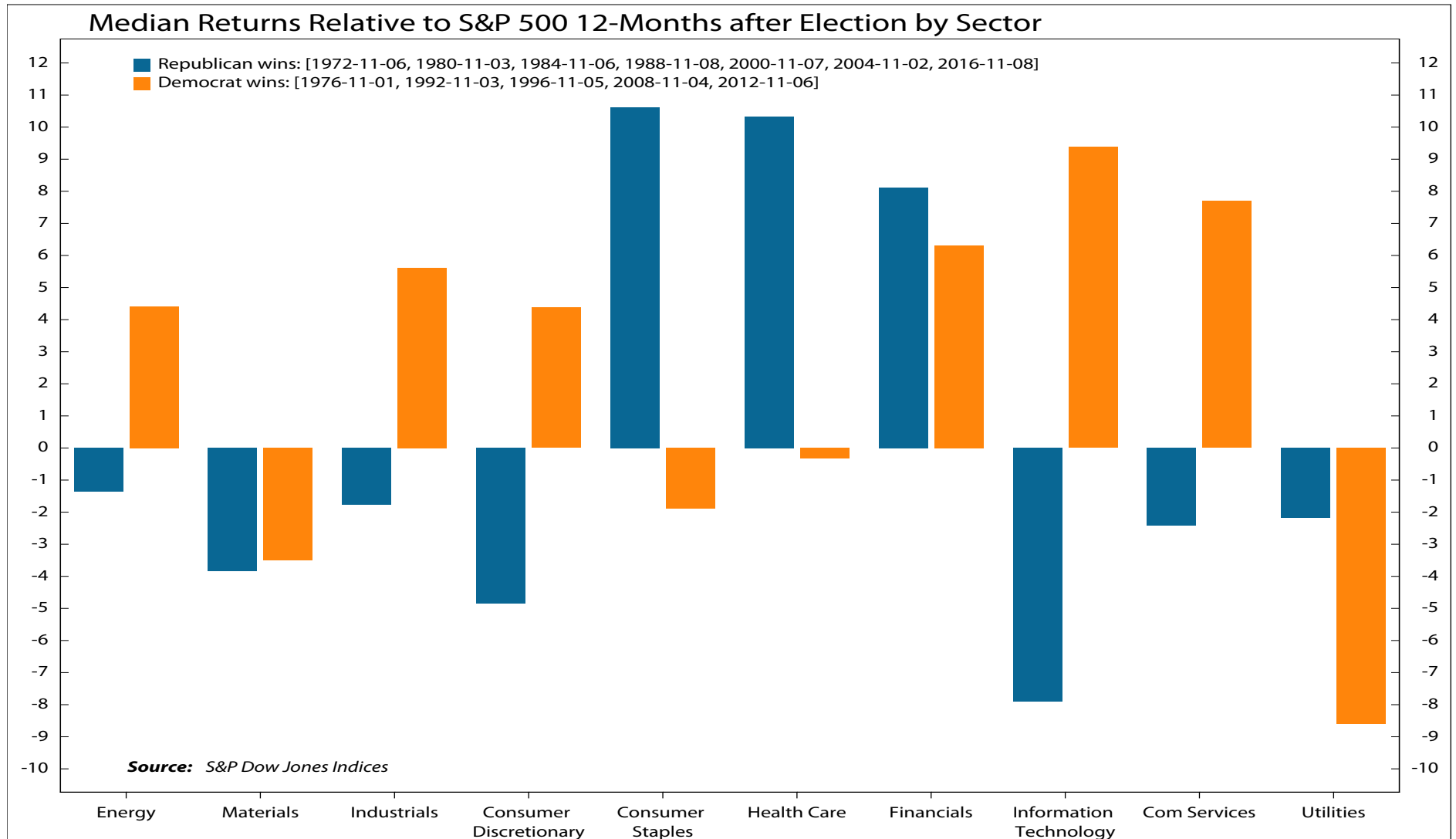
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# Defensive sectors best when GOP wins.

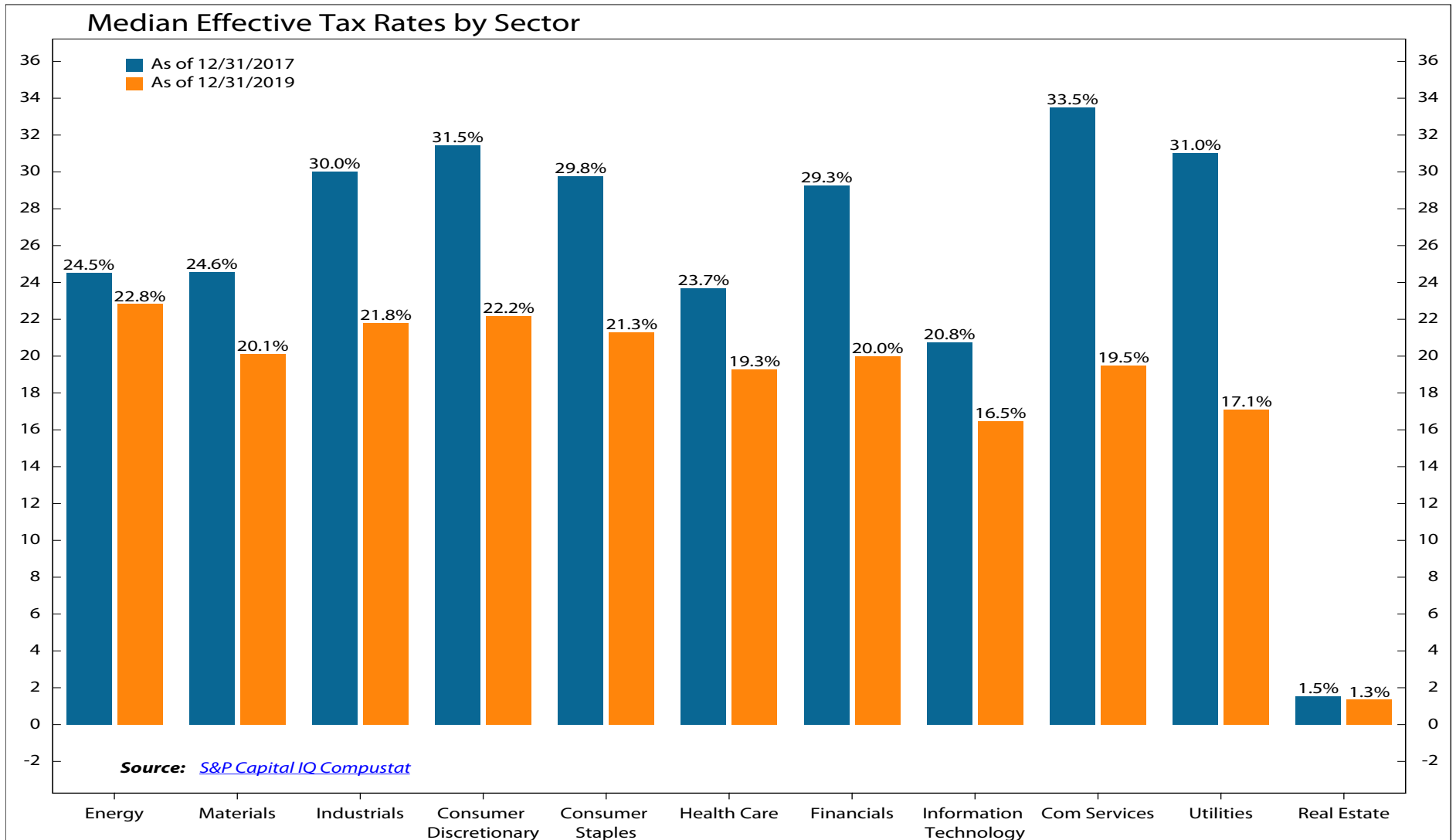


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# Tax cut winners could be most hurt from hike.

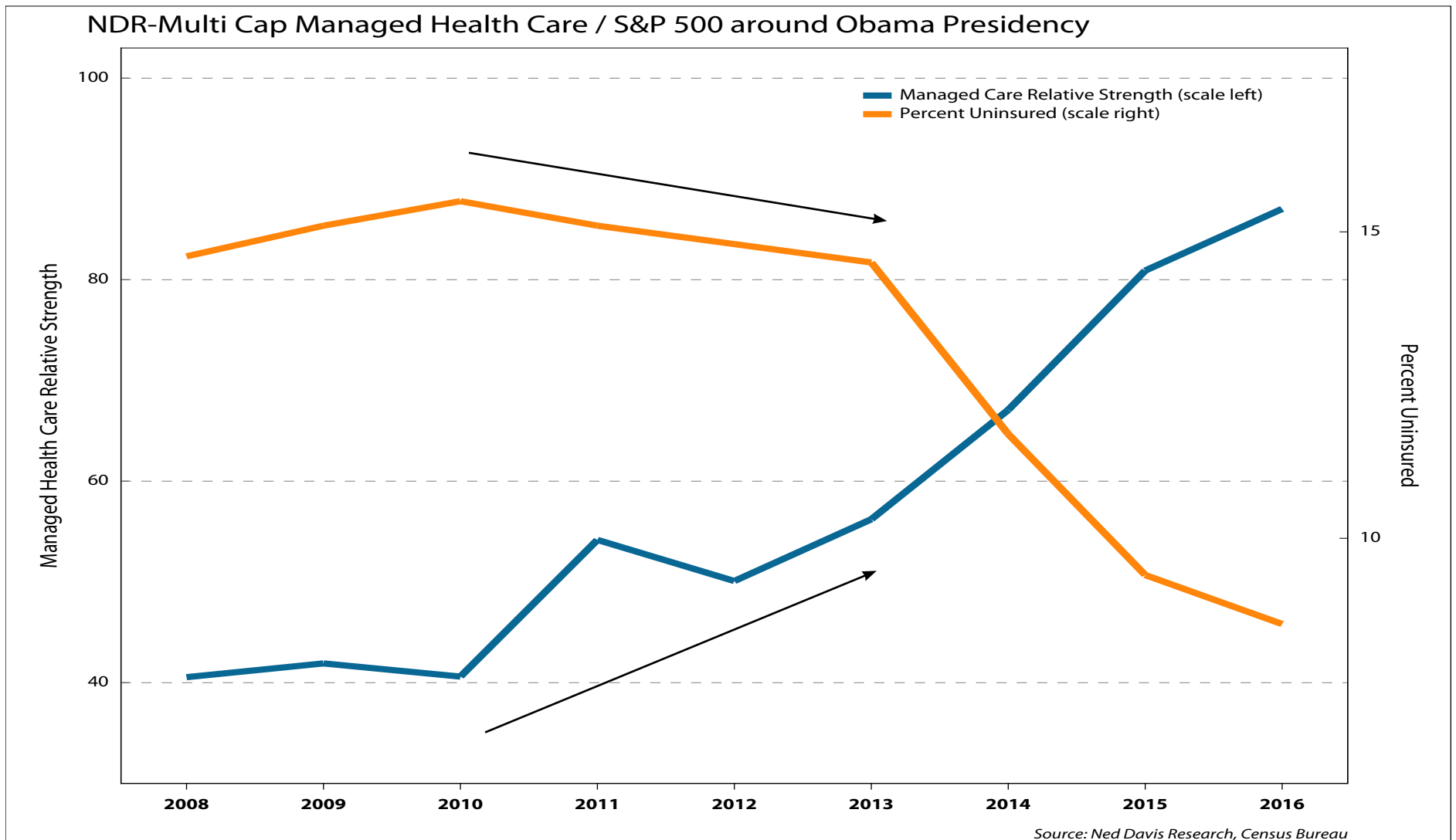


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# Lower uninsured rate is good for Managed Health Care.

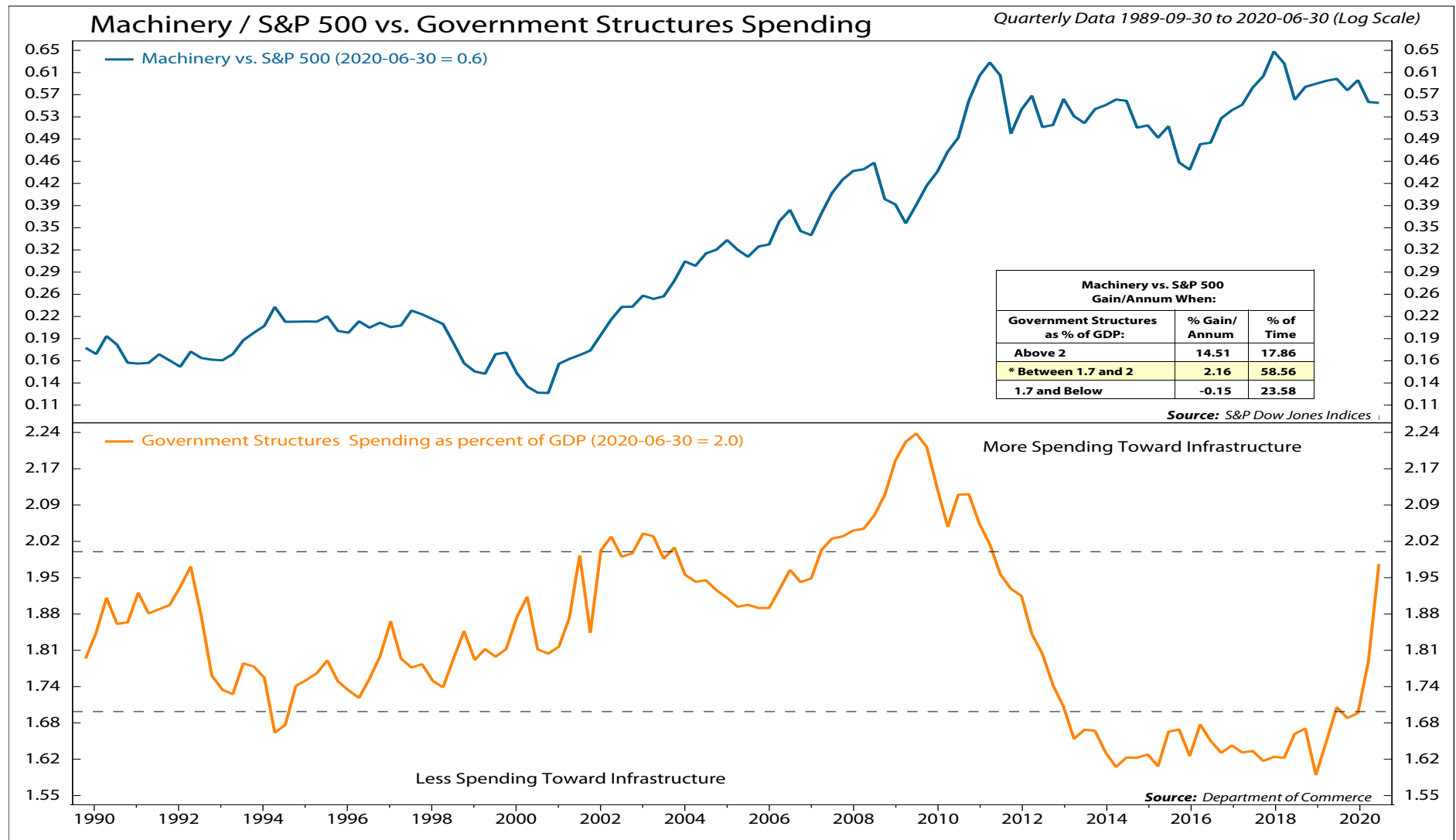


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# Industrials should benefit from more government infrastructure spending.

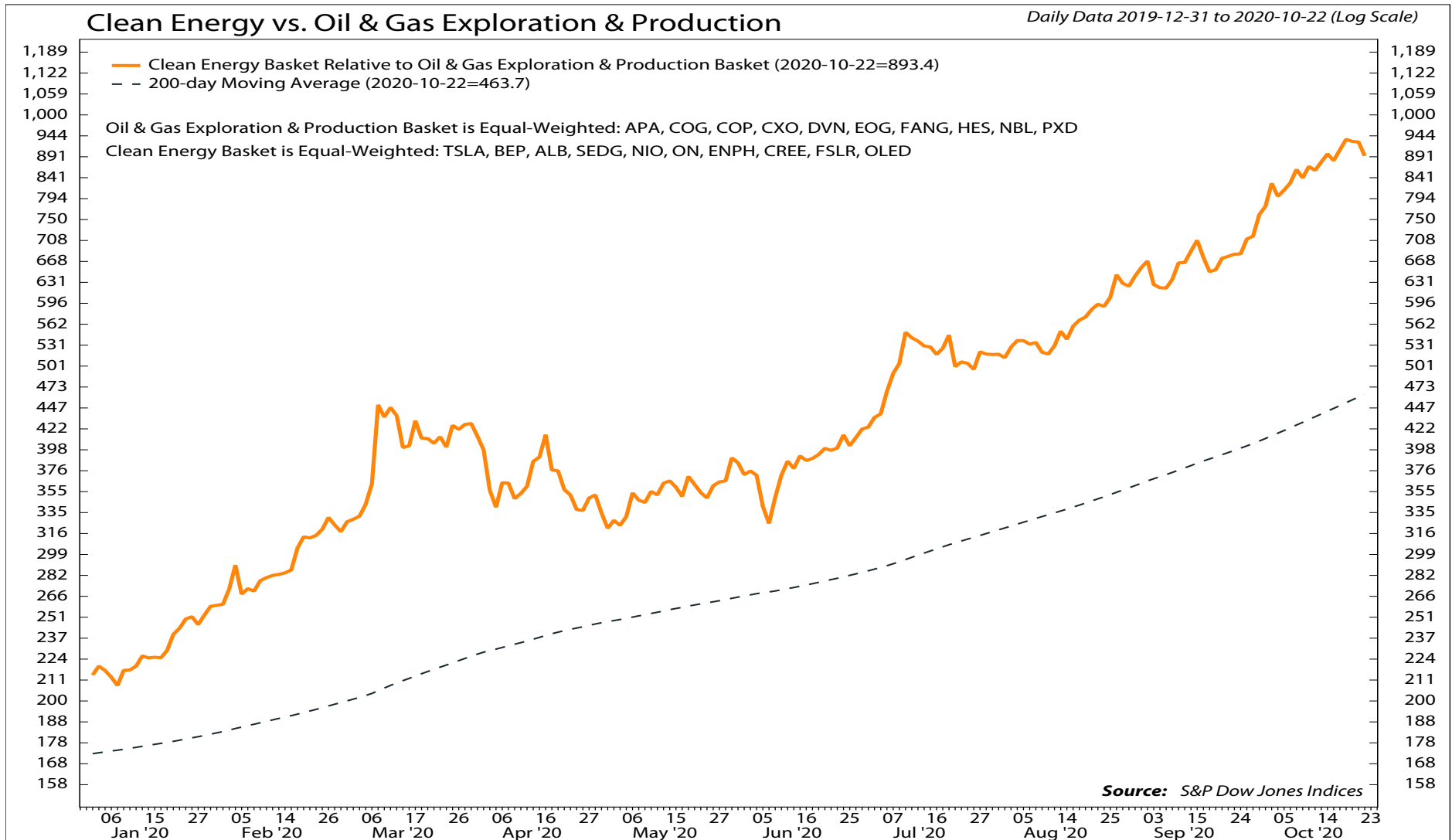


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# Clean Energy over E&P trade should continue if Biden wins.

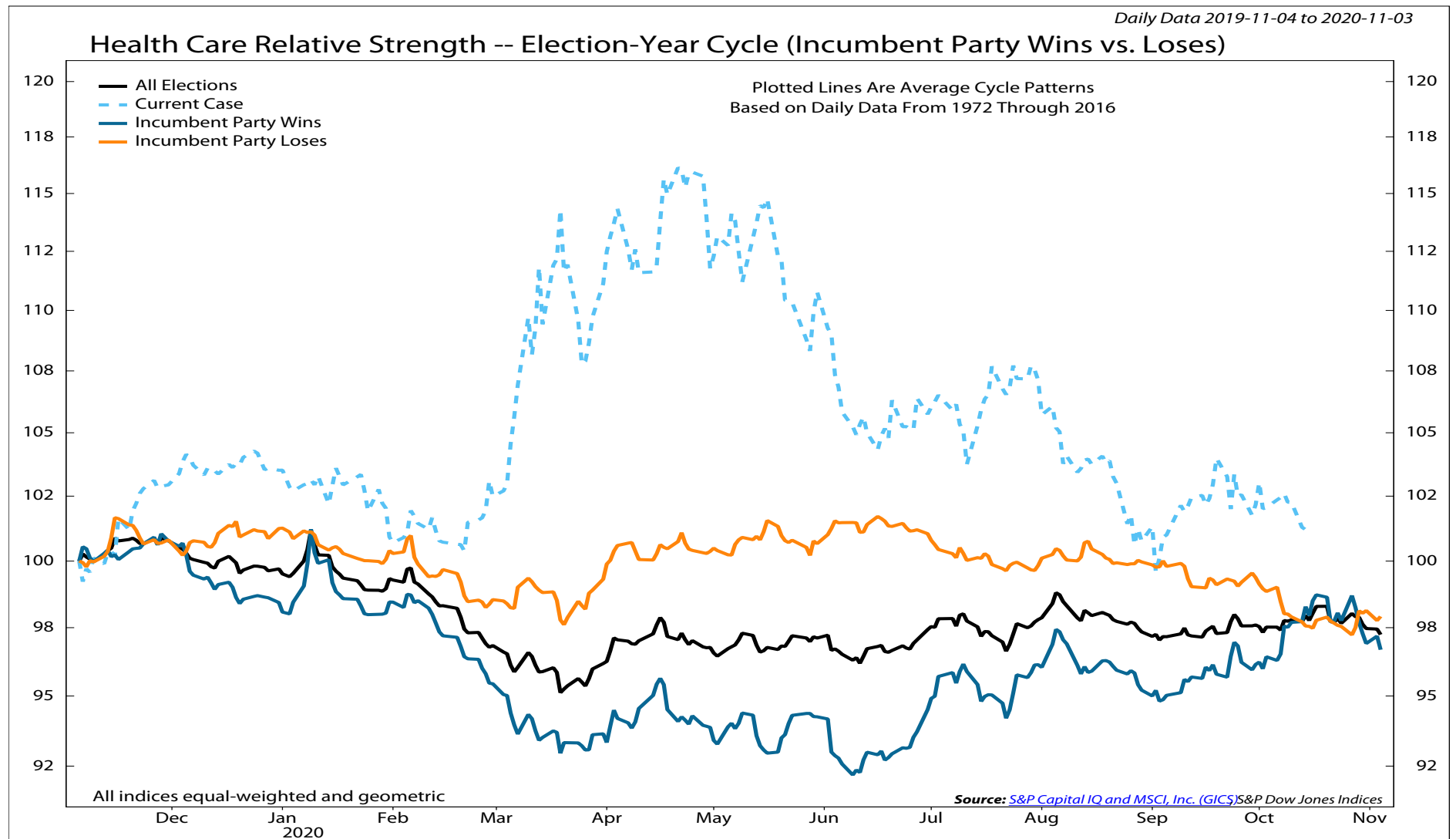


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# Health Care is weak in 2H when incumbent party loses.

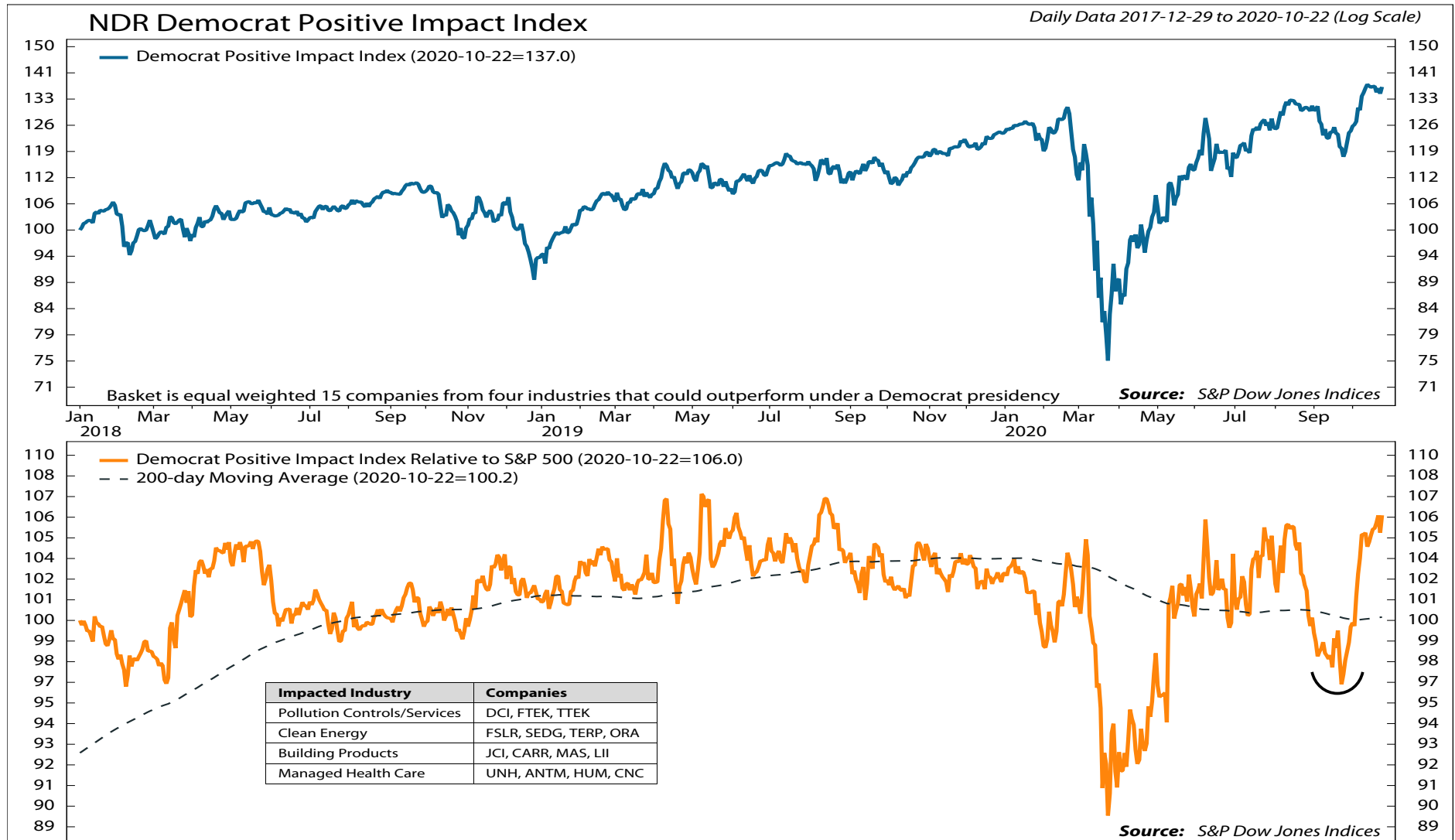


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# Democrat Impact Index should benefit from Biden Presidency.



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# Bottom Line

- Recessions and bear markets do not bode well for incumbents. Will voters blame Trump?
- Investors' biggest fear about a Biden win is a Democratic clean sweep that leads to higher taxes.
- Election uncertainty often reverses in post-election years.
- Value and small-caps may be more dependent on economy than election tendencies.
- Sector leadership has been more cyclical following incumbent party losses and under Democratic presidents.
- Managed Health Care, Capital Goods, and Clean Energy could benefit from Biden win.
- Defense and traditional Energy could benefit from a Trump reelection.



NDR recommends overweight allocation to equities. We are marketweight bonds and underweight cash. If global economic activity gains upside momentum, stock prices will be likely to trend higher with rising bond yields. We are positioned for a year-end rally, but longer-term secular outlook remains in question.

## Equity Allocation

**U.S. |** We are marketweight the U.S. relative to other regions but are bullish on an absolute basis. The rally from the March 23 low has met the NDR criteria for a cyclical bull market, and we are shifting to risk-on assets as models confirm. We favor small-caps over large-caps and are neutral on Growth versus Value.

**INTERNATIONAL |** We are overweight Emerging Markets, underweight Japan, U.K. and Pacific ex. Japan, and neutral on all other regions within our seven-way regional allocation framework.

## Macro

**ECONOMY |** The global economy fell into its deepest recession in the postwar era due to COVID-19, but as of Q2, it has begun to show signs of recovery. Even so, a V-shaped recovery is unlikely as spending behaviors will remain subdued until the virus subsides.

**FIXED INCOME |** We are neutral at 100% of benchmark duration. We are neutral on the yield curve. We are overweight IG corporates and TIPS and roughly marketweight everything else.

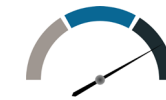
**ENERGY |** Oil has broken down out of a multi-month consolidation. Excess capacity abounds. We are bearish.

**GOLD |** Long-term uptrend intact. We are bullish.

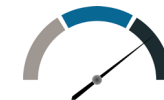
**DOLLAR |** Composite models indicate downtrend.

## Economic Summary

October 19, 2020



**Global Economy**  
Below Trend  
(-3.5% to -4.0%)



**U.S. Economy**  
Below Trend  
(-5.0% to -5.5%)



**U.S. Inflation**  
Below Trend  
(0.8% to 1.2%)

● Overweight ● Marketweight ● Underweight

### GLOBAL ASSET ALLOCATION

- Stocks (60%)
- Bonds (35%)
- Cash (5%)

Benchmark: Stocks (55%), Bonds (35%), Cash (10%)

### Equities — Regional Relative Allocation

- Emerging Markets (17%)
- U.S. (57%) | Europe ex. U.K. (15%) | Canada (3%)
- Japan (4%) | U.K. (2%) | Pacific ex. Japan (2%)

Benchmark – U.S. (57.2%), Europe ex. U.K. (13.3%), Emerging Markets (12%), Japan (7.1%), U.K. (4.2%), Pacific ex. Japan (3.3%), Canada (2.9%)

### Global Bond Allocation

- U.S. (55%)
- Europe (30%) | U.K. (5%)
- Japan (10%)

Benchmark: U.S. (50%), Europe (28%), Japan (17%), U.K. (6%)

### U.S. ALLOCATION

- Bonds (45%) | Small-Cap
- Stocks (55%) | Mid-Cap | Growth | Value
- Cash (0%) | Large-Cap

Benchmark: Stocks (55%), Bonds (35%), Cash (10%)

### Sectors

- Technology (27%) | Industrials (12%)
- Energy (2%) | Real Estate (2%) | Utilities (1%)

Benchmark: Technology (24.7%), Health Care (14.1%), Financials (11.1%), Communication Services (10.8%), Consumer Discretionary (10.8%), Consumer Staples (8.0%), Industrials (8.6%), Energy (3.3%), Utilities (3.2%), Real Estate (2.9%), Materials (2.5%)

### U.S. Bonds — 100% of Benchmark Duration



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# Ed Clissold, CFA

## Chief U.S. Strategist

**Ed Clissold, CFA**, is the Chief U.S. Strategist for Ned Davis Research Group. He and his team are responsible for the firm's U.S. equity, style, sector and equity theme analysis. They do so via a combination of a top-down analysis of the macroeconomic and fundamental environments and a bottom-up analysis of factors specific to the asset class, market cap, style, sector, or theme. He and his team also provide in-depth macro research on fundamental topics such as earnings, dividends, and cash flow.

Ed writes several U.S. Strategy publications, which provide an intermediate-term outlook on U.S. markets via a combination of top-down and bottom-up analyses. He also writes a quarterly Benchmarks report, which analyzes the attribution of returns across asset classes, sectors, market cap, and styles.

Ed's market commentary is often quoted in **The Wall Street Journal**, **Barron's**, and other financial publications.

Ed has held a number of other positions since joining the firm in 2002, including Global Equity Strategist, Senior Global Analyst in the Global Asset Allocation group, and Analyst in the Custom Research Services department. Previously, Ed worked at Strong Capital Management and as a Market Strategist at J.C. Bradford & Co.

Ed is a CFA charterholder, a **magna cum laude** graduate in Economics from Transylvania University, and has earned his Masters in Business Administration in Finance, with distinction, from Indiana University (Kelley).

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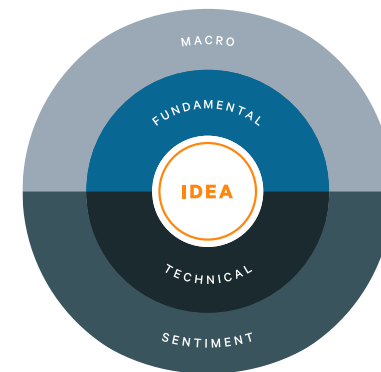
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