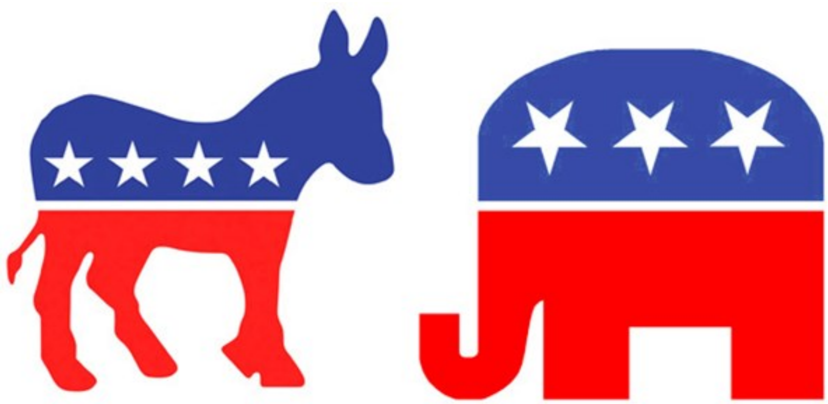
US Large Cap Commentary

September| 2024

All Eyes on The Election

Many pundits are calling next month's election one of the most consequential in history. But what impact have the presidential election and the resulting balance of power had on the stock market in the past?



The Empirical Data

U.S. Bank investment strategists reviewed market data going back to 1948. Using average 3-month returns following each election outcome—and comparing those with the average 3-month return during the full analysis history—strategists calculated the statistical significance of the relationship between political control and market performance using a calculation called a t-statistic, or t-test.

Results of the analysis contradict conventional wisdom that a Republican or Democratic "sweep" of the presidency and Congress is most likely to cause market disruption**. In fact, historically there has not been a statistically significant relationship between single-party control of both the White House and Congress and market performance.**

Rather, the data uncovered three divided-government outcomes with a statistically significant relationship to market performance. And the numbers are not particularly mind-blowing. See the table below for the study's results.

Historical election outcome scenarios and market performance

Scenario	White House control	Congress control	Outcome	Average 3-month S&P 500 return during period	Average 3-month return relative to all periods	Statistically significant (>95%)?
1			One party (D)	2.20%	+0.02%	No
2			Divided	3.85%	+1.67%	Yes
3			Divided	3.93%	+1.75%	Yes
4			Divided	1.19%	-0.99%	Yes
5			One party (R)	2.67%	+0.49%	No
6			Divided	1.62%	-0.67%	No
			All one party (D or R)	2.33%	+0.15%	No
			All divided	2.08%	-0.10%	No

Source: U.S. Bank Asset Management Group

It’s The Economy, Stupid

"The economy, stupid" is a phrase that was coined by Jim Carville in 1992. Carville was Bill Clinton’s campaign strategist and was commenting on how George Bush’s approval rating could swing from 90% approval in March 1991 (just after the ground war in Kuwait) to 64% ***disapproval*** in August 1992. While the recession of 1990-91 had technically ended by then, it was characterized by a sluggish employment recovery, commonly referred to as a “jobless recovery.” Bush went on to lose that election.

With this in mind, US Bank also studied the **effects of various economic factors on post-election returns** and found a **<u>much stronger relationship</u>**. While investors may closely monitor election results for their potential effect on stock market performance, it’s important to recognize that other factors that may have greater impact on their portfolios. The historical data suggests that economic and inflation trends, more so than election outcomes, tend to have a stronger, more consistent relationship with stock performance.

In general, rising economic growth and falling inflation have been associated with returns that are considered above long-term averages, while falling growth and rising inflation have corresponded to positive but below average market returns. For investors, staying focused on these patterns is probably more insightful than potential election outcomes when it comes to forecasting market performance.

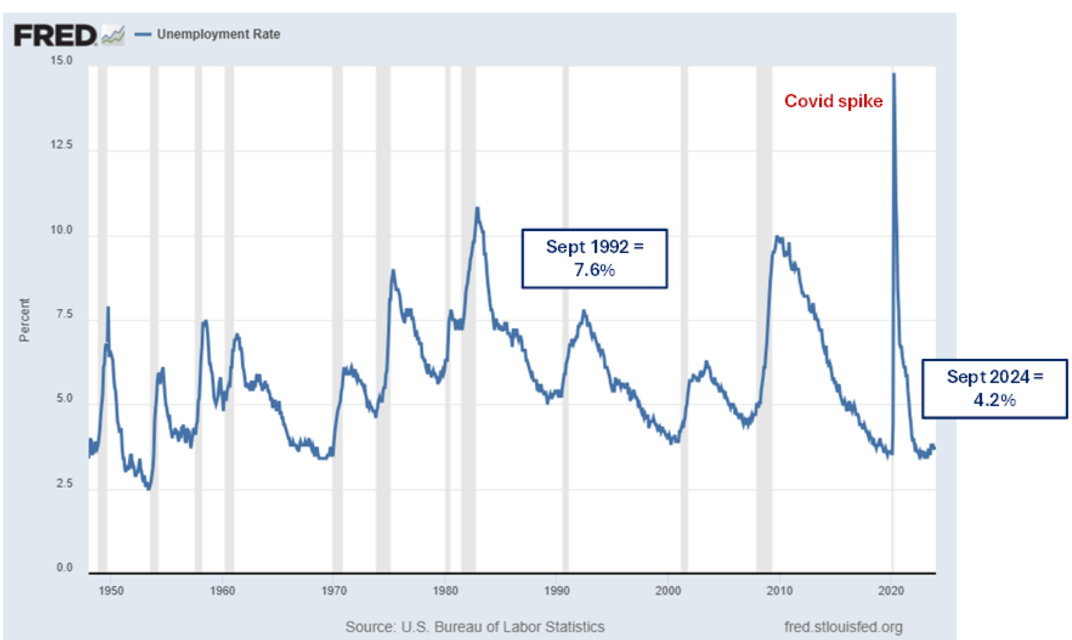
Historical economic regimes and market performance

Economic regime	Average 3-month S&P 500 return during period	Average 3-month return relative to all periods	Statistically significant (>95%)?
Rising growth	2.99%	+0.81%	Yes
Falling growth	1.54%	-0.64%	Yes
Rising inflation	1.36%	-0.82%	Yes
Falling inflation	2.70%	+0.52%	Yes
Rising growth/ falling inflation	3.52%	+1.34%	Yes
Falling growth/ rising inflation	0.49%	-1.70%	Yes

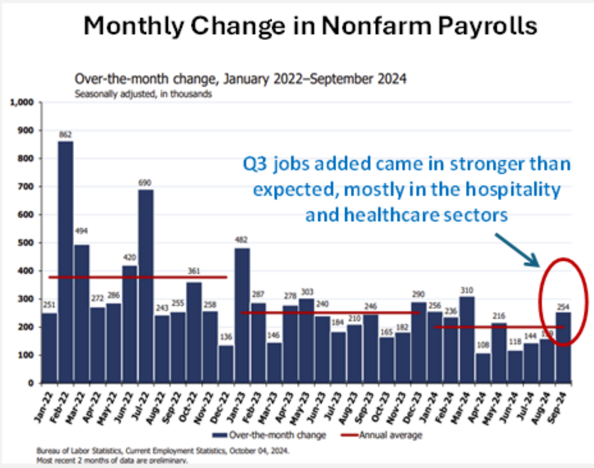
Source: U.S. Bank Asset Management Group

Today's Economic Indicators

Deficits continue to soar, which does not bode well in the long term. But economic growth remains resilient and unemployment is very low relative to historical levels. Today's unemployment rate is 4.2%, compared to 7.6% when Bush lost his reelection bid in 1992. The U-6 unemployment rate, which includes the total unemployed, plus "all persons marginally attached to the labor force, plus total employed part time for economic reasons," is 7.9% today vs roughly 12.7% in 1992.



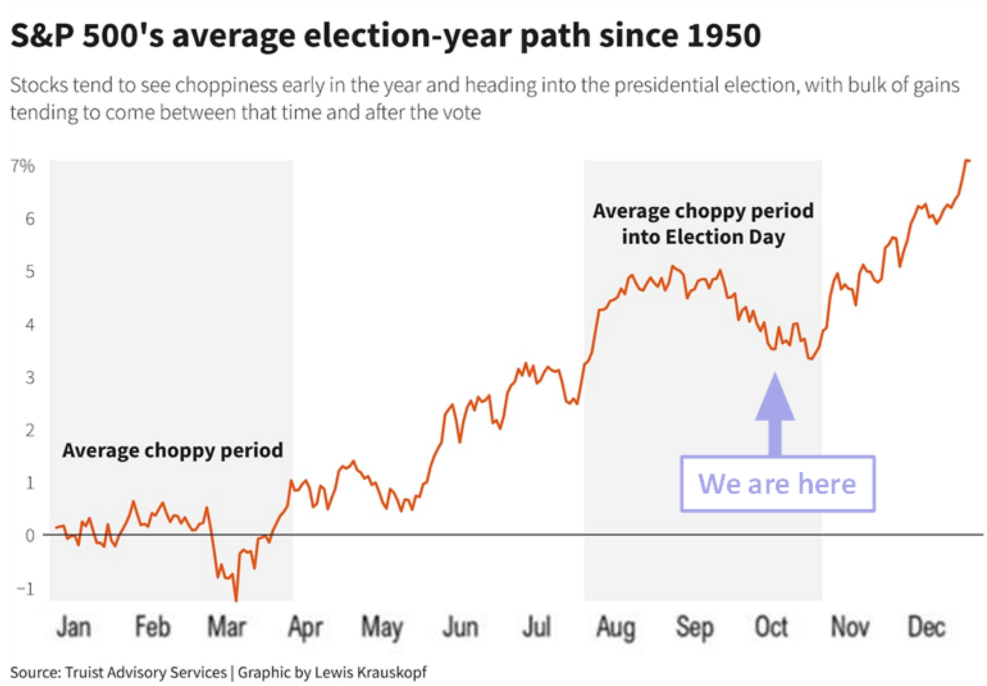
Other indicators point to a stable economy as well. Non-farm payrolls surprised to the upside in Q3, and GDP growth has remained very resilient (see charts below). JP Morgan also just lowered its high yield bond default rate projections by 75bp to just 1.25%. These readings do not typically indicate a looming recession.



Much analysis has been done on the yield curve and how an “un-inversion” typically coincides with a recession. But this theory has not been tested since we entered the era of the money printer. So much depends on the Fed’s response to any developing economic weakness.

The Election Year Cycle

2024 continues to follow the "average" election year pattern, although the returns are stronger than average and we saw an August pullback instead of the typical September sell off. Based on data from the last 75 years, we may see some further election anxiety/weakness in the month of October, but then the market typically resolves higher through the end of the year.



So…Does It Matter Who Wins?

For many people, the stakes could not be higher, and the idea of the "other party" winning represents an existential threat to our democracy. But Mr. Market has proven time and again that he is bipartisan, that it's the economy that matters, not political rhetoric. And as much criticism as the Federal Reserve has received, they have managed to bring inflation under control over the past few years and guide the economy to an apparent soft landing. Based on current levels of GDP growth and unemployment, markets appear to be on relatively solid ground.

We recommend staying the course. We target a 7-8% yield and have hefty downside protection in pace. Even if things get nasty, we are well positioned to win in the end.

Q3 Review

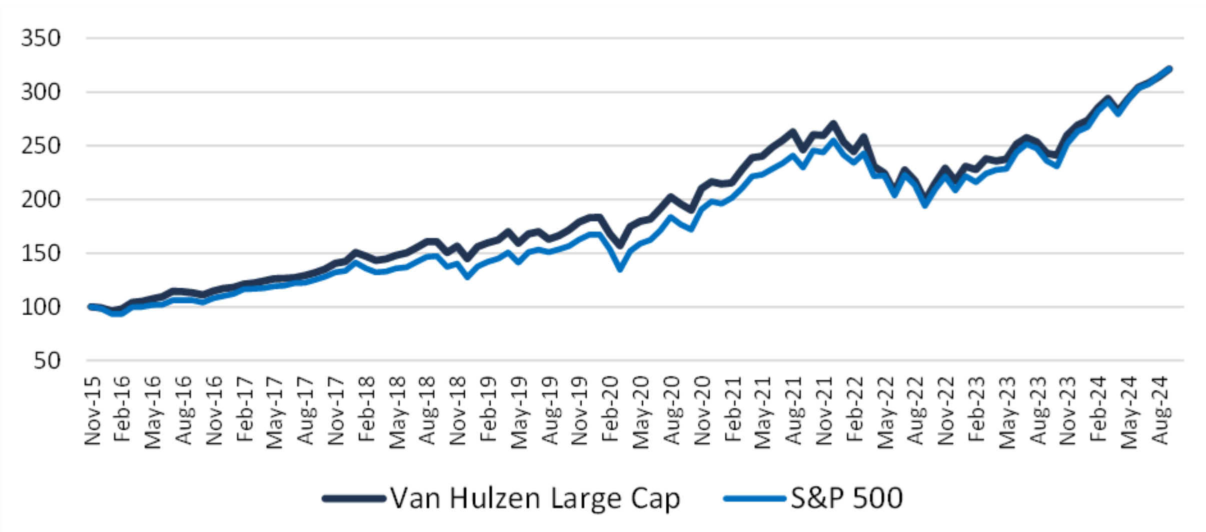
We turned in another strong quarter, delivering a 5.4% return compared to 5.9% for the S&P 500 and 2.8% for the Nasdaq. There was broad representation across the portfolio, as demonstrated below.

TOP FIVE PERFORMERS	
Stock	**Return**
IBM	28.9%
LMT	25.8%
LOW	23.5%
ORCL	21.0%
MCD	20.2%
Median	**23.5%**

BOTTOM FIVE PERFORMERS	
Stock	**Return**
MCK	-15.3%
QCOM	-14.2%
LULU	-9.2%
GOOGL	-8.8%
MRK	-7.7%
Median	**-9.2%**

Long Term Performance

Our large cap strategy has matched the performance of the S&P 500 over the long run, at slightly lower risk (standard deviation).



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