



ACM WEALTH



# POLITICS & PORTFOLIOS

STATE OF THE UNION

10 Wilsey Square, Suite 200 Ridgewood, NJ 07450 | 201.447.3400

[www.acmwealth.com](http://www.acmwealth.com) | An investment advisory firm



When I first met our senior economic advisor, Dr. Alan Greenspan, I asked the former Chairman of the Federal Reserve if a president can change the path of the economy. As we near the 2020 election, that same question has been coming up with advisors and clients. Can an election, a president, or a change in the House and Senate, help or hurt the economy and stock market?

Dr. Greenspan's answer to me, and I am paraphrasing, was, "Presidents don't change economies, they inherit economies". Looking back over the years, this seems to hold true. Administrations can certainly stimulate or stunt an economy, but Presidents usually get what was handed to them based on longer macro-economic issues. Market returns are made over a full business cycle, which is longer than a presidential term.

As we near November and the political rhetoric ratchets up, investor's ears are up. Behavioral finance teaches us to prepare for decisions based on emotions. Logical questions today such as, "What is the ACM investment committee doing to hedge my portfolio from a potential change in Washington?" will become more irrational in October.

Whatever your political affiliation, this election will be different. Because when it's over, the pandemic will be here as well. Fiscal and monetary policy will remain focused on the crisis at hand. And the current or future President's primary goal will be to restore jobs for the 10 million Americans currently out of work. When successful, the trillions of stimuli and the effects of 0% borrowing for corporations and consumers should have a lasting impact in portfolios.

Can we protect or hedge portfolios for potential changes in tax policy, industry favoritism, and broader economic changes? Certainly. We can and have reduced exposure to areas that might see a negative impact from some likely Democratic policy initiatives. We are similarly adapting to take advantage of a potentially weaker dollar. But these changes are limited in the sense that we would never skew a portfolio heavily in one direction or another based on an election or a thesis. Politicians often don't deliver on whatever they have promised.

A diversified portfolio will benefit from broad economic changes rather than a handful of sectors or particular legislation. Investors with concentrated stock positions should be more concerned, as singular issues or laws can affect them disproportionately.

Our road to economic prosperity will be gauged by how we handle this virus, as Dr. Greenspan wrote in his most recent ACM commentary. The defeat of this virus will ultimately allow our economy and stock market to enjoy the trillion-dollar winds blowing from Washington in our sails for future growth. With presidential elections, like all other newsworthy events, you need to make sure to have a diversified portfolio in place, and to stay with it. After all, a long-term strategy is designed for more than one election cycle.

**Kevin Kern**

Partner, Advisors Capital Management

# PRESIDENTIAL MARKET RETURNS POST WWII

President	Political Party	Years In Office	S&P Return (%)	Recessions
William J. Clinton	D	1993-2001	210	0
Barack H. Obama	D	2009-2017	182	0
Dwight D. Eisenhower	R	1953-1961	129	3
Ronald W. Reagan	R	1981-1989	117	1
Harry S. Truman	D	1945-1953	87	1
George H. W. Bush	R	1989-1993	51	1
Lyndon B. Johnson	D	1963-1969	46	0
Donald J. Trump	R	2017-	43	1
Jimmy E. Carter	D	1977-1981	28	1
Gerald R. Ford	R	1974-1977	26	0
John F. Kennedy	D	1961-1963	16	0
Richard M. Nixon	R	1969-1974	-20	2
George W. Bush	R	2001-2009	-40	2

**SOURCE:** NBER, Federal Reserve of St. Louis, YCharts, Forbes - <https://www.forbes.com/sites/sergeiklebnikov/2020/07/23/historical-stock-market-returns-under-every-us-president/#5b8452eefaaf>  
Performance represents price change only. Figure for Truman reflects the Dow Jones Industrial Average.

# GDP RANKED

## THE FOUR TOP PRESIDENTIAL TERMS, RANKED BY GDP GROWTH, ARE ALL DEMOCRATIC:

Truman's elected term, Kennedy-Johnson, Johnson's elected term, and Clinton's second term.



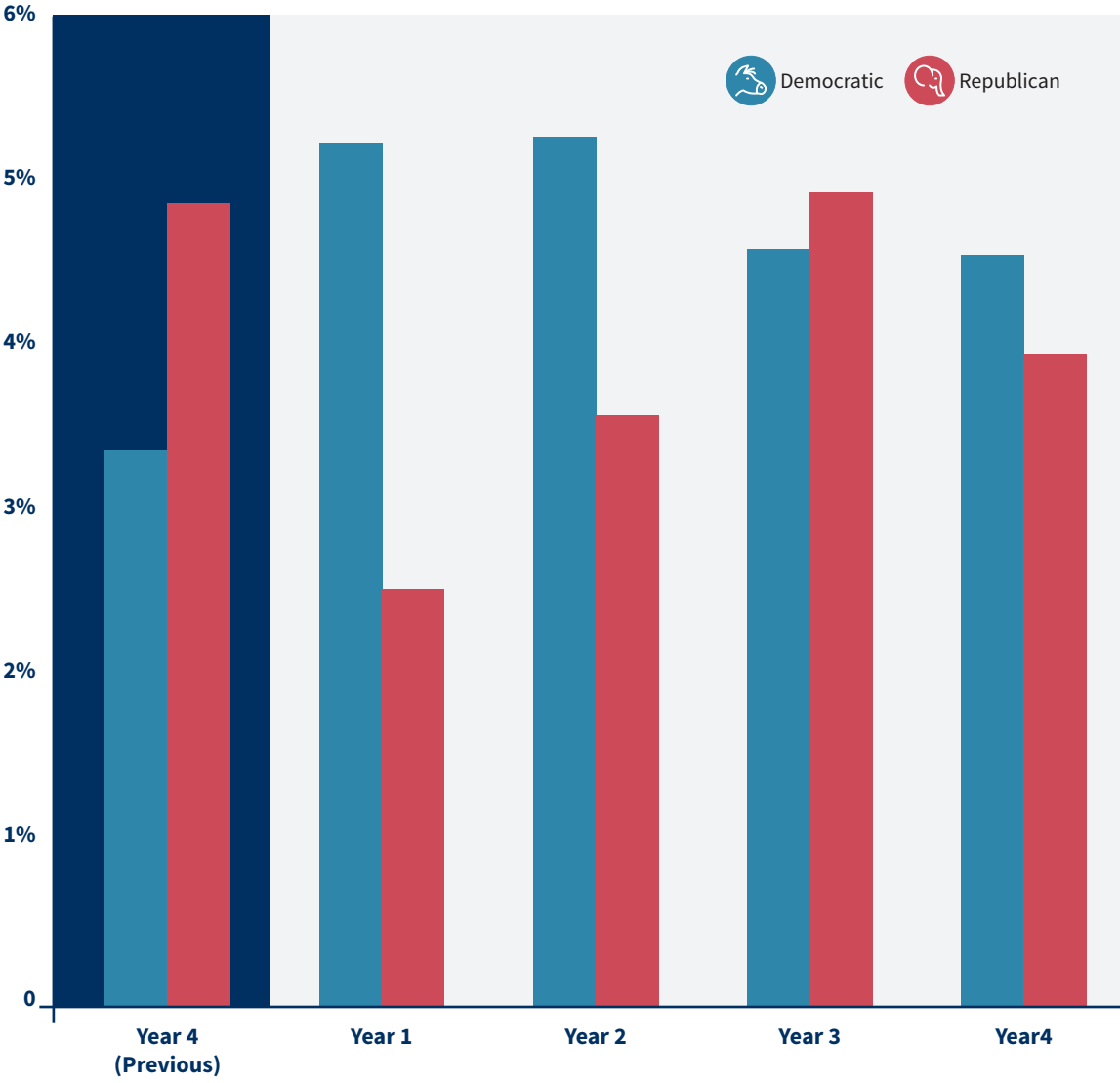
# AVERAGE GDP GROWTH/YEAR - CONGRESS

## PARTY OF PRESIDENT

Partisan Control of Congress	Democrat	Republican	All
<b>Dems control both houses</b>	4.69%	2.37%	3.47%
<b>Divided Congress</b>	2.19%	2.81%	2.68%
<b>Repubs control both houses</b>	3.86%	2.83%	3.35%
<b>All</b>	4.33%	2.54%	3.33%

SOURCE: American Economic Review 2016, 106(4): 1016-1045 <http://dx.doi.org/10.1257/atr.20140913>

# GDP GROWTH RATES BY YEAR IN PRESIDENTIAL TERMS



SOURCE: American Economic Review 2016, 106(4): 1015-1045 <http://dx.doi.org/10.1257/aer.20140913>

# WHAT PLAYS OUT



## EXPECTATIONS IN A BLUE WAVE

### Democrats sweep the Presidency, House of Representatives and Senate

- Larger Covid related spending
- Increase in corporate tax rate from 21% to 28%
- Increase in taxes on those making \$400k+
- Repeal of the SALT cap
- New regulatory scrutiny to big business, especially the tech industry
- Infrastructure spending with a “green” focus
- Change to the approach of the trade war with China



## EXPECTATIONS IN A RED WAVE

### Republicans sweep the Presidency, House of Representatives and Senate

- Additional tax cuts and the early extension of expiring tax provisions, resulting in higher deficits.
- Capital gains tax cut, perhaps indexed to inflation
- Infrastructure spending with a more traditional focus
- Emboldened approach to the trade war with China



### **ANY MAJORITY IN THE SENATE IS LIKELY TO BE SMALL, AND FAR SHORT OF THE 60 VOTES NEEDED TO AVERT A FILIBUSTER.**

So, neither party should have free reign. This should limit either party’s agenda to the most popular ideas and push the most radical legislation to the sidelines. The majority only holds for two years before we do it again.



ACM WEALTH

10 Wilsey Square, Suite 200  
Ridgewood, NJ 07450  
201.447.3400

**[www.acmwealth.com](http://www.acmwealth.com)**

An investment advisory firm

Advisors Capital Management, LLC (ACM) is a provider of privately managed portfolios for industry professionals and their clients. Although the information included in this report has been obtained from sources ACM believes to be reliable, we do not guarantee its accuracy. All opinions and estimates included in this report constitute the judgment as of the dates indicated and are subject to change without notice. This report is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security. ACM is a registered investment advisory firm.

Web Address: **[www.acmwealth.com](http://www.acmwealth.com)**