The Financial Impact of Elections

Jefferson Institute Economic Forum

Stephan Quinn Cassaday, CFP ®, CFS
President & Chief Executive Officer

Cassaday & Company, Inc.
8180 Greensboro Drive • Suite 1180 • McLean, VA 22102
Main 703.506.8200 • Fax 703.506.8208 •

Steve,

I am terrified of a President Donald Trump. I am sure he will ruin the country and destroy our economy with his crazy ideas. What are you doing to protect our portfolios?

Steve,

I have been reading about Hillary's proposed economic policies and it is really scary for us. I am convinced that she will cause a gigantic market collapse. What is Cassaday & Company doing in light of this potential outcome?

Two Recent Emails from Clients

There is a great gnashing of teeth in the investment community about the upcoming election.

Opinions vary about outcomes and their impact

There has always been a raging debate about whether Democrats or Republicans are better for the markets.

Outcomes and Impact?

Here is our take:

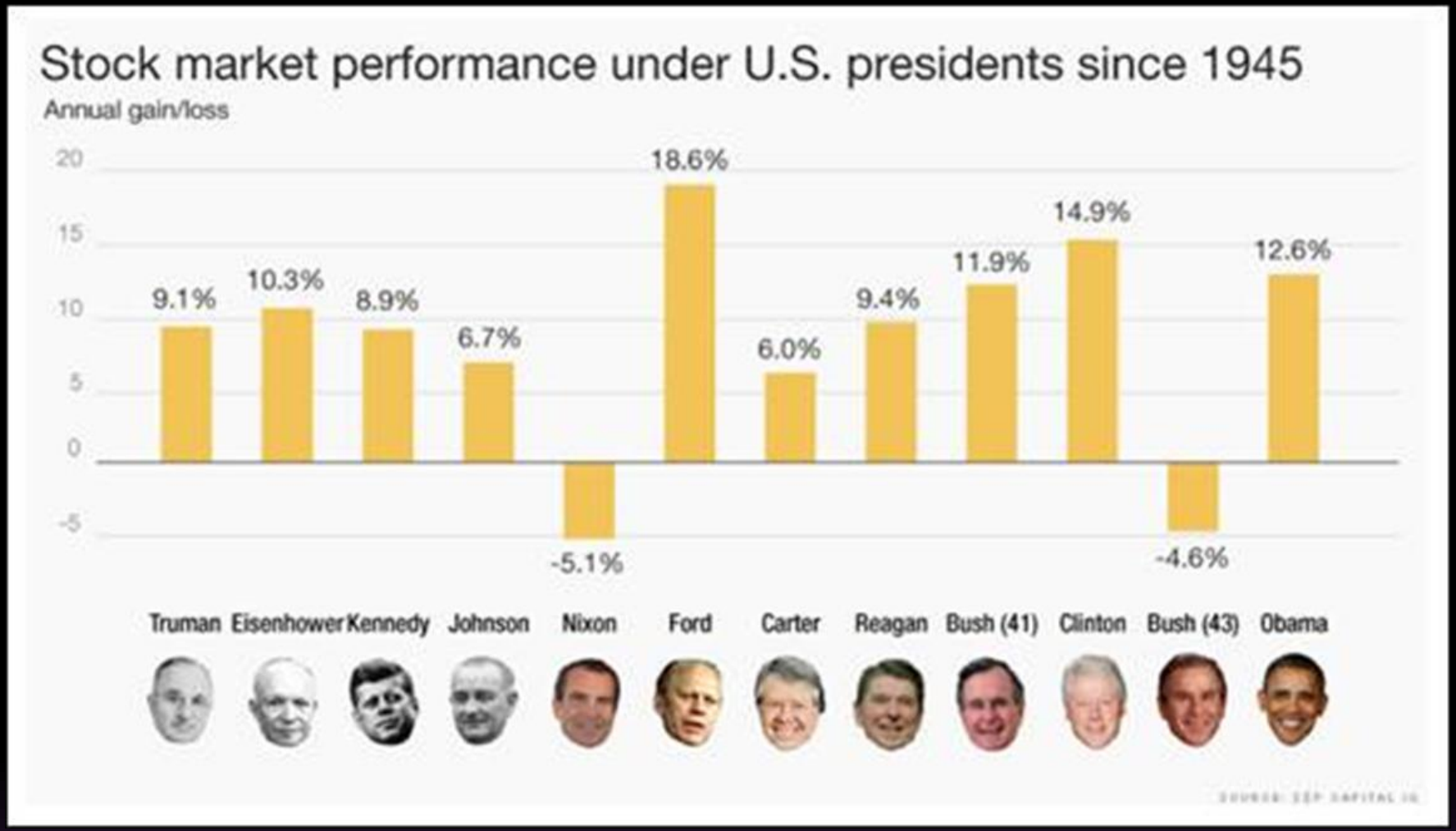
Although historical statistics can be made to show various things, they are not predictive when it comes to elections.

There is no evidence to support that either party being in control is better for stocks.

Good and bad stock markets occur mostly without regard to presidential policies

What Does History Tell Us?

Lets look at some data…



No Guidance Here

No matter who is elected President, there are so many moving parts in government that guessing policy outcomes is nearly impossible

Campaign rhetoric and actual accomplishments of elected candidates are two entirely different things.

If you get the POTUS part correct then you must also divine in advance the make up of the House and Senate and the legislative and regulatory landscape that will result.

Trying to game the outcome has been a big mistake in terms of returns.

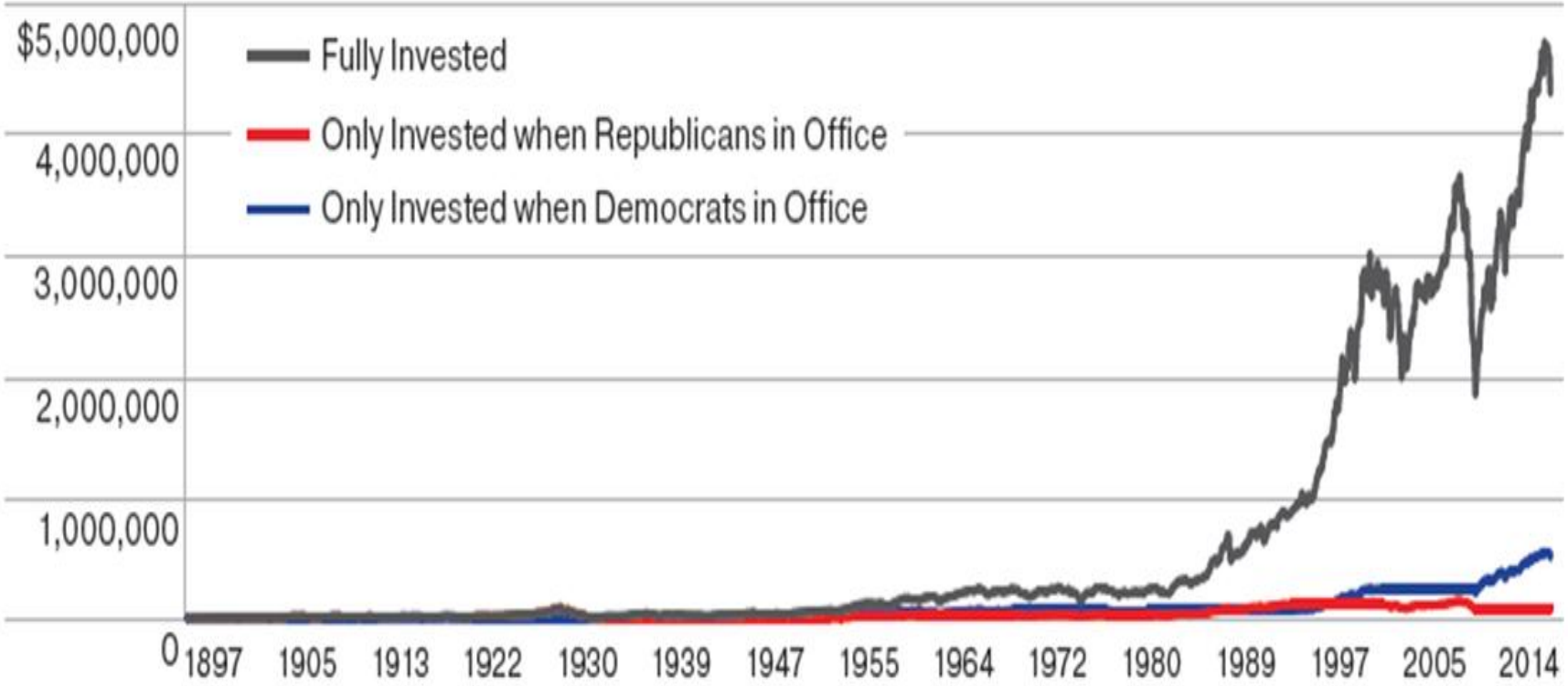
Ignoring this issue and remaining invested has been the best policy:

What are the implications?

Another Look at History…

Exhibit 2: Investors Who Ignore the President's Party Fare Best

Growth of $10,000 since 1897 in the Dow

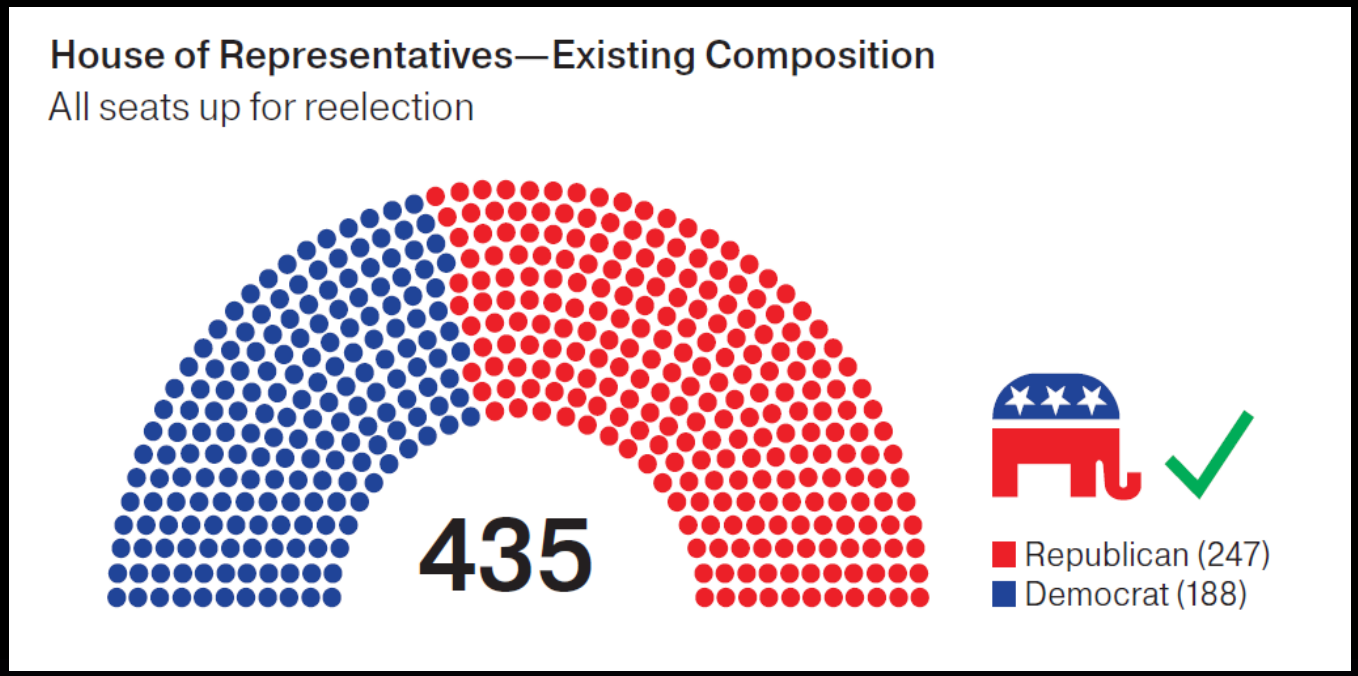


Sources: Bloomberg, OppenheimerFunds. As of 12/31/14. **Past performance does not guarantee future results.**

Despite the difficulty in predicating this, we see the likely case as.....

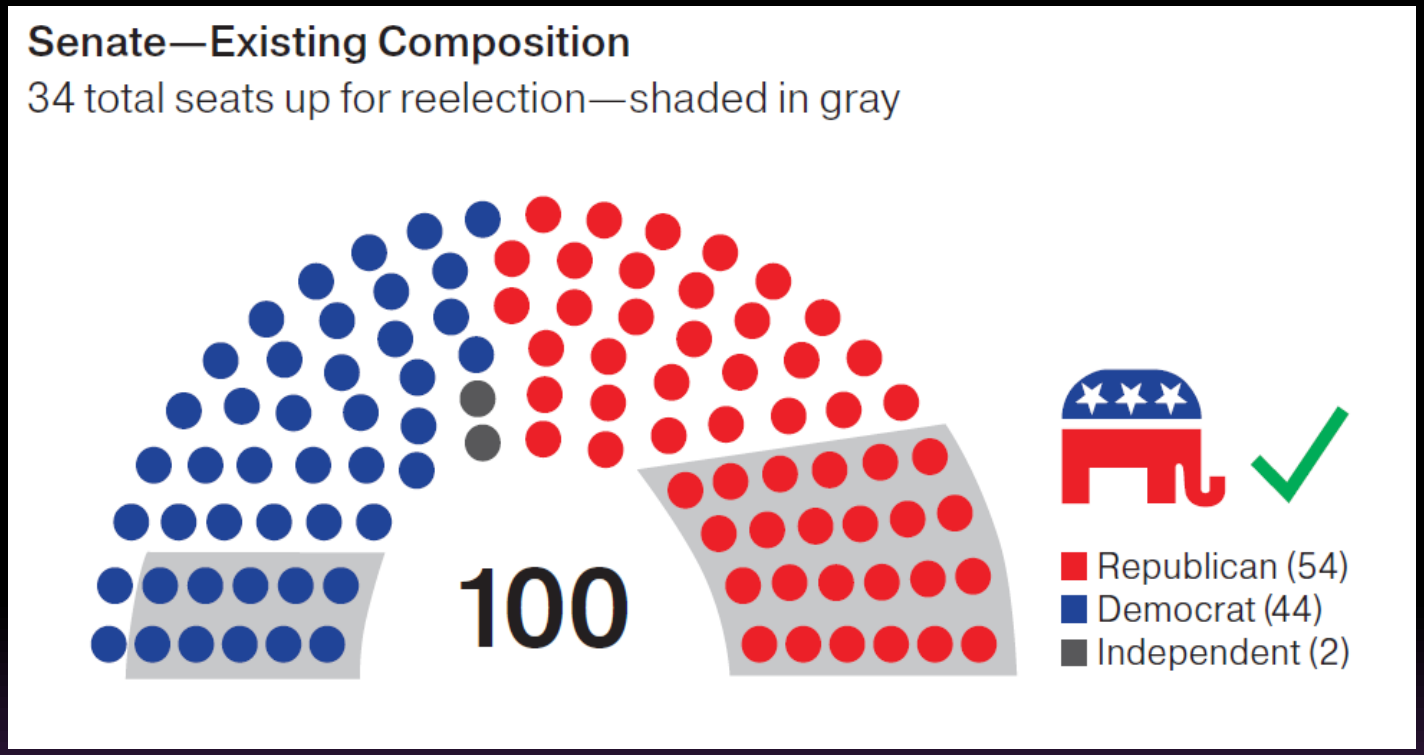
Likely Case?

Continued GOP Majority in the House.



Likelihood of Democrats winning 218 seats is small

An evenly divided Senate....



Likely continued Republican Majority but NOT filibuster proof.

The only implication of the impending political season's antics that is observable as a market mover is the uncertainty that now exists.

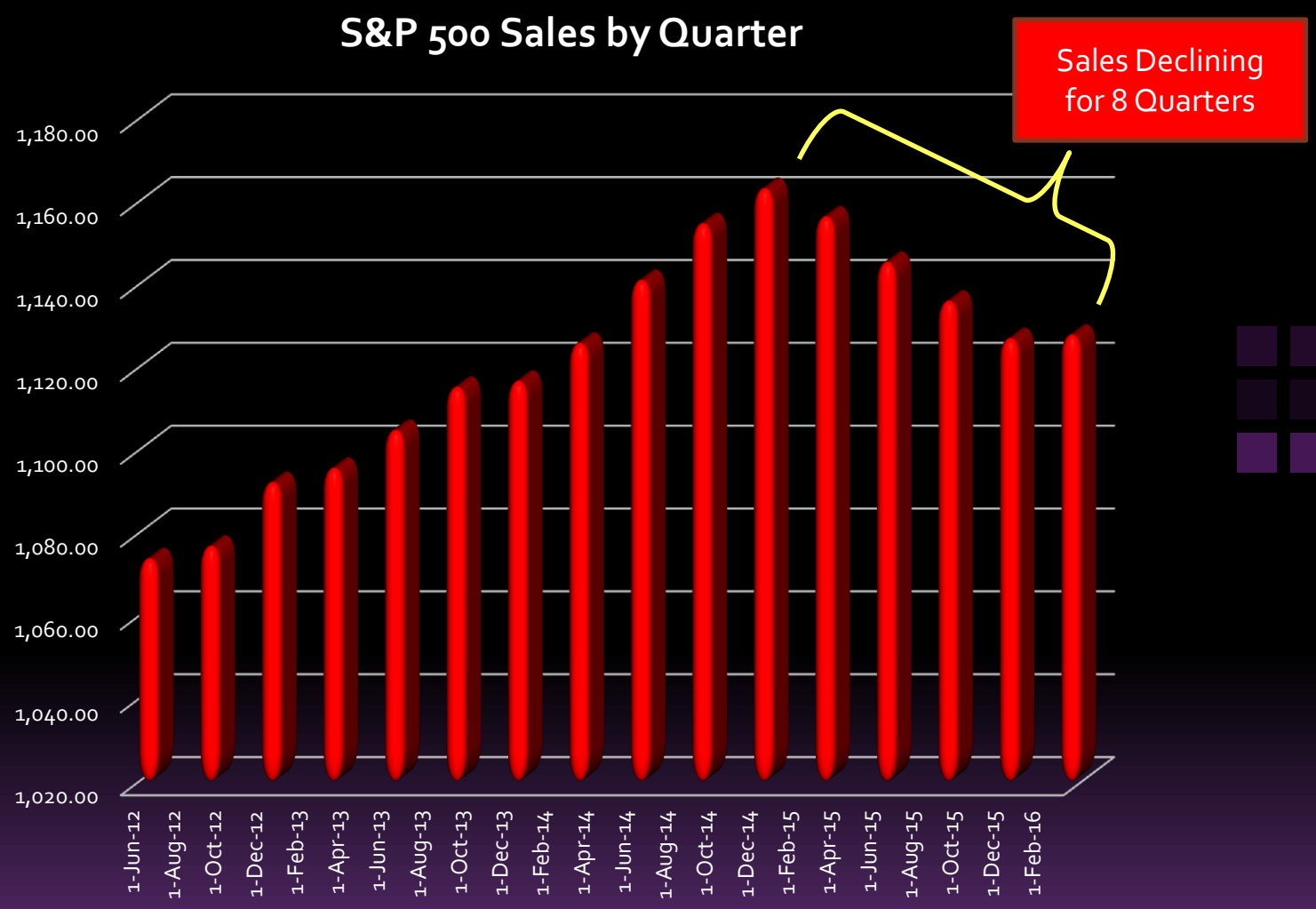
Uncertainty is a big headwind for the economy and the markets.

Corporate decision makers are reluctant to deploy resources until they know the backdrop that is likely to be in place.

This uncertainty, among other factors mentioned elsewhere, has caused the worldwide revenue recession we have seen over the last 8 quarters and the flat earnings for fourteen quarters..

What is the REAL issue?

Lets Look at Revenue for the S&P 500…


S&P 500 Sales by Quarter
Sales Declining for 8 Quarters
1,180.00
1,160.00
1,140.00
1,120.00
1,100.00
1,080.00
1,060.00
1,040.00
1,020.00
1-Jun-12
1-Aug-12
1-Oct-12
1-Dec-12
1-Feb-13
1-Apr-13
1-Jun-13
1-Aug-13
1-Oct-13
1-Dec-13
1-Feb-14
1-Apr-14
1-Jun-14
1-Aug-14
1-Oct-14
1-Dec-14
1-Feb-15
1-Apr-15
1-Jun-15
1-Aug-15
1-Oct-15
1-Dec-15
1-Feb-16

Surprisingly we believe that uncertainty, malaise and anxiety may mean opportunity.

Remember,

Most large market moves have not been predicted by the pundits.
Investors tend to extrapolate

We believe that the surprises will be positive looking forward.

Does this present an opportunity?

Our optimism stems from these 4 things:

Once the presidential and congressional election outcomes and their concomitant policy implications become clearer – *irrespective of the winners and losers* – clarity may mean that decision makers will be more likely to make commitments of capital and other resources.

Remember: There are trillions of dollars in corporate cash in the US and abroad sitting on the sidelines awaiting clarity on economic, tax and regulatory policy.

Once major uncertainties dissipate, these dollars are likely to be deployed which could lead to faster economic growth

Once there is Certainty…

The potential impact is enormous…

The non financial companies in the S&P 500 have cash and short-term investments of $1.45 trillion at the end of the first quarter (Feb-April), which represented a 5.7% increase year-over-year and a 1% jump from Q4 2015.

The balance in Q1 represented the largest cash total in at least ten years and does not include several trillion of additional cash held by financial and nonpublicly traded entities or consumers.

Fixed capital expenditures amounted to $141.3 billion in Q1, which represented a 4.9% decrease from the year-ago period.

These things are directly related to one another. A reversal of the trend, i.e. more CapEx and less cash hording, would have an impact of GDP, corporate earnings and stock prices.

Markets look at year over year (YOY) corporate earnings comparisons

Starting in the third and fourth quarter of 2016 these should be favorable since 2015 was very weak.

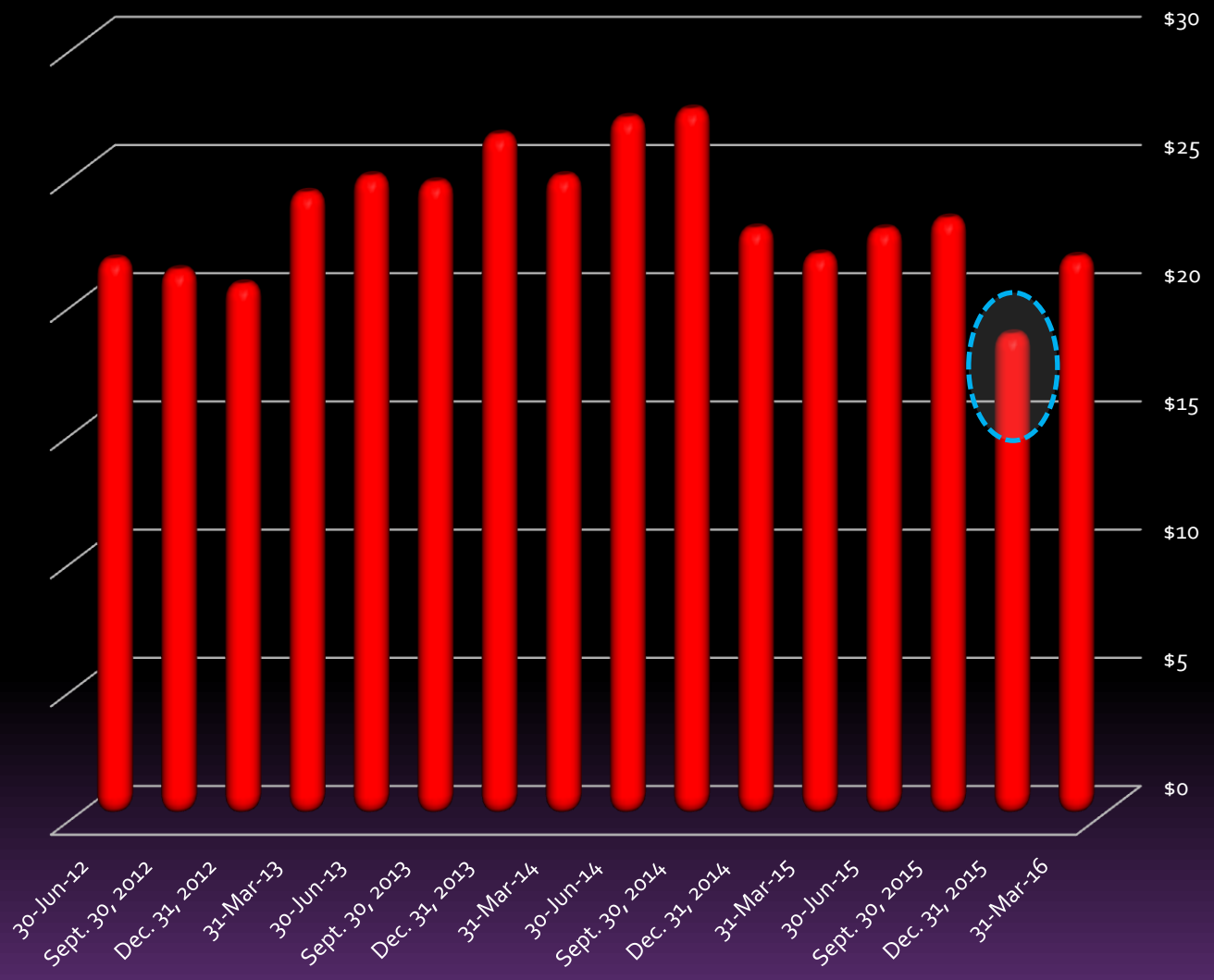
The first and second quarters of 2017 should also look better on a YOY basis.

When headlines say "XYZ Company reported a gain in earnings vs. the same quarter in 2016", stocks are likely to be positively impacted.

Favorable YOY Earnings Comparisons

Lets look at S&P 500 Earnings

S&P 500 EPS by Quarter



Very Strong Dollar

Results from a flight to safety (China, Oil, Political Headlines)

Two other drags on Markets and the Economy

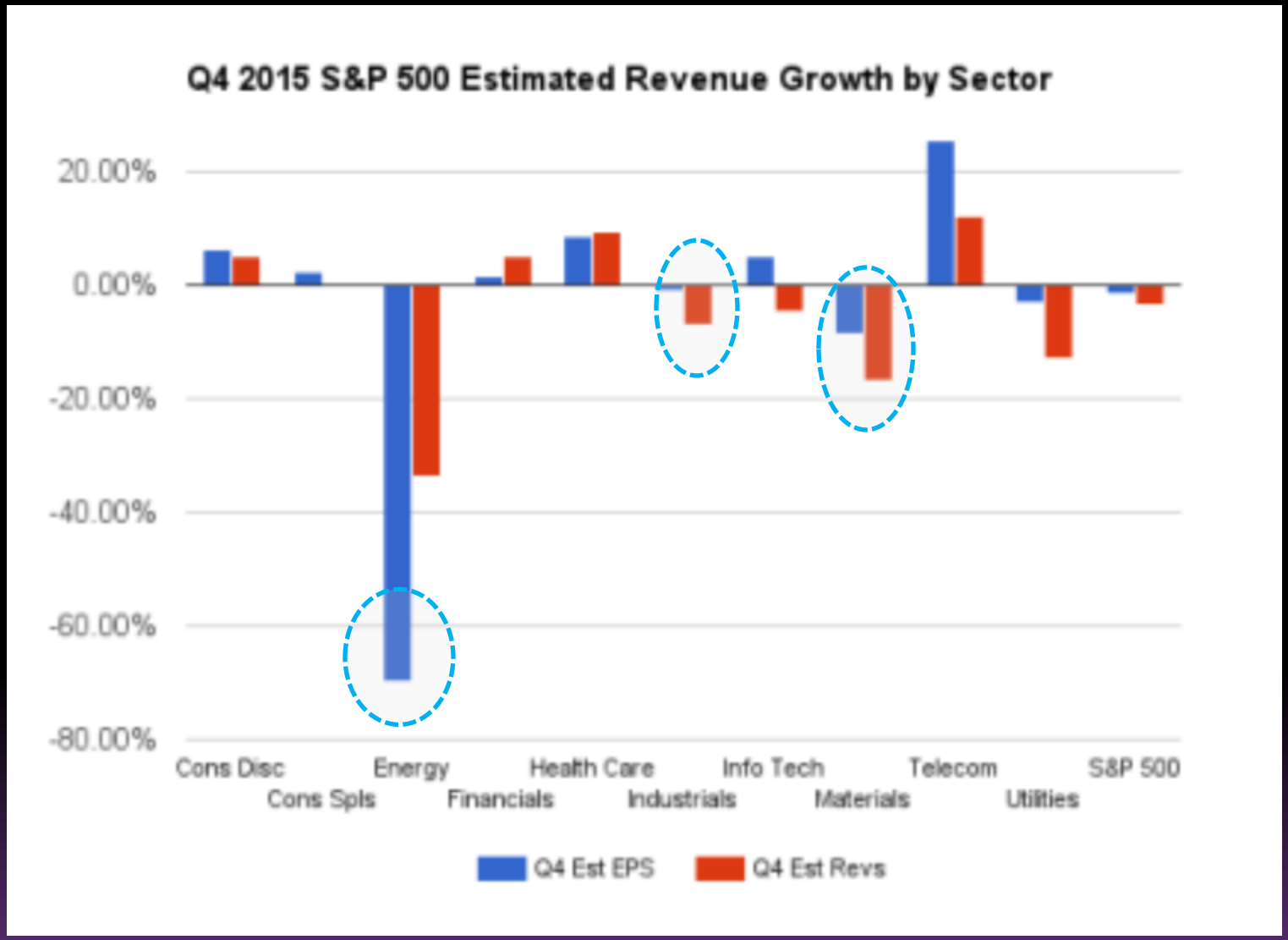
Lets look at the dollar compared to currencies of our trading partners…


DXY Daily
8/30/2016
US Dollar vs, Trading Partners
5 years ending August 30, 2016
102
100
98
96
94
92
90
88
86
84
82
80
78
76
74
72
12
13
14
15
16

Lower oil and commodity prices have crushed Oil, metals, mining and manufacturing sectors.

Two other drags on Markets and the Economy

Lets look ar Reveue and Earnings for S&P Sectors…


Q4 2015 S&P 500 Estimated Revenue Growth by Sector
20.00%
0.00%
-20.00%
-40.00%
-60.00%
-80.00%
Cons Disc
Cons Spls
Energy
Financials
Health Care
Industrials
Info Tech
Materials
Telecom
Utilities
S&P 500
Q4 Est EPS
Q4 Est Revs

These two factors have affected:

Corporate earnings.
GDP Figures

However, if these conditions stabilize or improve, as we believe they will, earnings could accelerate making comparison even better

Two other drags on Markets and the Economy

What else?

These factors coupled with higher GDP numbers signaling a broadening and deepening economic expansion could drive markets in a significant way.

Conclusion

Uncertainty is the big culprit right now.
Investors should not extrapolate recent trends as they are likely to reverse themselves.
Barring disaster - the odds favor surprises on the upside no matter who wins.

Bottom Line:

It is impossible to predict:

- Election results
- Policy outcomes

In Closing

The Financial Impact of Elections

Jefferson Institute Economic Forum

Stephan Quinn Cassaday, CFP ®, CFS
President & Chief Executive Officer

Cassaday & Company, Inc.
8180 Greensboro Drive • Suite 1180 • McLean, VA 22102
Main 703.506.8200 • Fax 703.506.8208 •