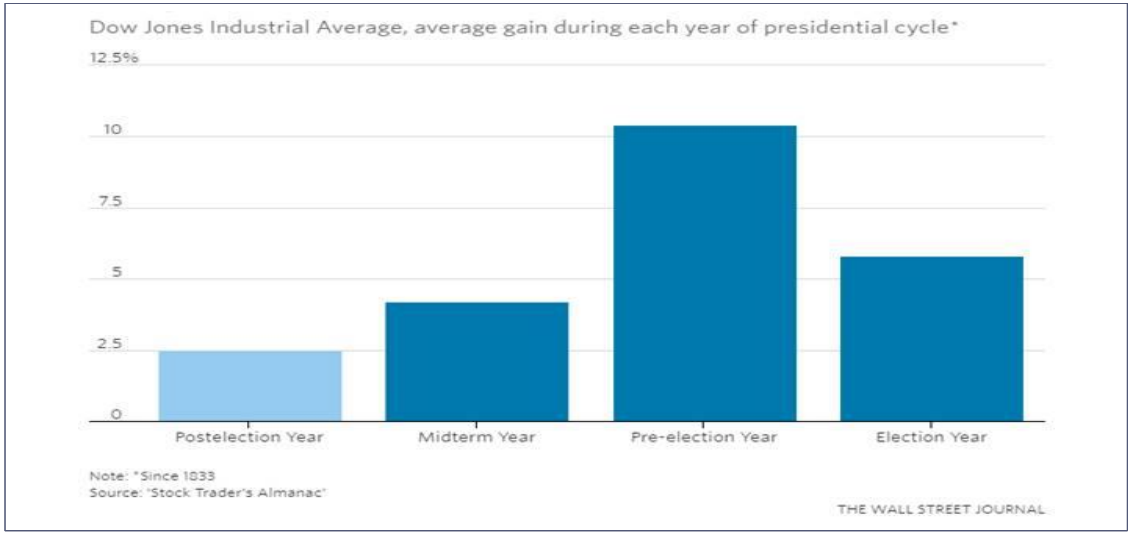
Market Recap

How Markets Perform Through An Election Cycle



Source: Wall Street Journal

Post-Election 'Reflation' Trade

Source: FactSet

Markets have moved higher following Tuesday's election, but historical data shows that we should remain wary of a rally fueled mostly by assumptions surrounding proposed policy measures. Since 1933, the first year of an election cycle has offered the lowest returns, with the Dow Jones Industrial Average growing at 2.5% on average, while the 2nd, 3rd and 4th years of the cycle return 4.2%, 10.4% and 5.8%, respectively. While presidential candidates typically make various declarations around fiscal stimulus and structural reforms, history has shown that it is often much more difficult to implement such proposed policies once in office. President-Elect Trump has advocated for decreased regulation, lower taxes, and a bump in fiscal spending on infrastructure, cybersecurity and military equipment – all policies that should jumpstart the economy if implemented. Outside of the political realm, it will be critical to keep watch on the business cycle and the health of U.S. companies as the transition of political power unfolds.

In the wake of the election, investors are pricing in an anticipated shift from monetary to fiscal stimulus and beginning to digest a worldwide movement away from free trade and globalization. This has resulted in rapidly rising interest rates (without Fed assistance, as of yet), a steepening yield curve, and rising inflation expectations. Pledges of increased government spending on infrastructure, alongside proposed tax cuts for individuals and corporations, have brightened the outlook for growth (which naturally causes an upward move in yields). However, implementation of the plan is expected to send budget deficits soaring (making it more expensive for the U.S. Government to borrow money). This outlook has been largely positive for Financials (which also benefit from a loosening regulatory environment), Energy, and Industrial names, but has not favored Technology and Consumer stocks.

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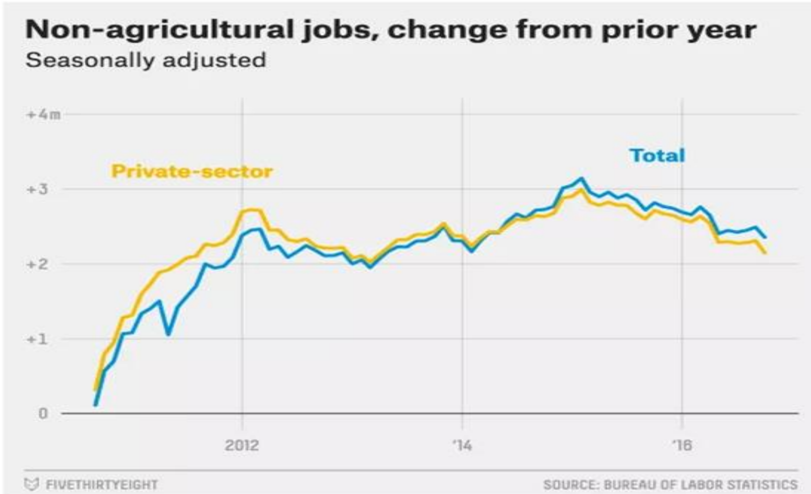
Employment Trends Remain Healthy



Source: Bureau of Labor Statistics

Trends in U.S. job growth remain solid, even though growth is at a slower pace than last year. This week's initial jobless claims figure dropped to 235,000, the lowest level since 1973. This tightening in the labor market has consequently led to pay raises for American workers, and U.S. wage growth now stands at post-recession highs of 2.5%. While accelerating wage inflation is a typical characteristic of the late stage in the business cycle, the absolute growth level is still low, leading us to believe that there is further room to run. In the meantime, the windfall this creates for consumer spending bodes well for holiday spending in the weeks ahead. This is seen as a boon to Consumer Cyclical firms specializing in Retail, Restaurants, Hotels, Luxury Goods and Household Durables. At the same time, these same firms operate predominantly labor-intensive business models, so a large pick up in wage growth could also be dilutive to margins.

Markets and The White House

		Term		Dow Jones Industrial Average Return over Term (%)	
President	Party	Start	End	Cumulative	Annualized
T. Roosevelt	Republican	9/14/1901	3/4/1909	21.6	2.7
Taft	Republican	3/4/1909	3/4/1913	-1.3	-0.3
Wilson	Democrat	3/4/1913	3/4/1921	-6.9	-0.9
Harding	Republican	3/4/1921	8/2/1923	17.4	6.9
Coolidge	Republican	8/2/1923	3/4/1929	255.9	25.5
Hoover	Republican	3/4/1929	3/4/1933	-82.8	-35.6
F.D. Roosevelt	Democrat	3/4/1933	4/12/1945	194.4	9.3
Truman	Democrat	4/12/1945	1/20/1953	81.7	8.0
Eisenhower	Republican	1/20/1953	1/20/1961	120.3	10.4
Kennedy	Democrat	1/20/1961	11/22/1963	12.2	4.1
Johnson	Democrat	11/22/1963	1/20/1969	30.9	5.3
Nixon	Republican	1/20/1969	8/9/1974	-16.5	-3.2
Ford	Republican	8/9/1974	1/20/1977	23.4	8.9
Carter	Democrat	1/20/1977	1/20/1981	-0.9	-0.2
Reagan	Republican	1/20/1981	1/20/1989	135.1	11.3
G.H.W. Bush	Republican	1/20/1989	1/20/1993	45.0	9.7
Clinton	Democrat	1/20/1993	1/20/2001	226.6	15.9
G.W. Bush	Republican	1/20/2001	1/20/2009	-24.9	-3.5
Obama	Democrat	1/20/2009	12/31/2014	124.1	14.5
Average				60.8	4.7
Average Republican				44.8	3.0
Average Democratic				82.7	7.0

Source: Bespoke Investment Group

Pundits on both sides of the party line are always eager to promote their in-house economic policies and quick to cast doubt and suspicion on the opposition – the reality is that, historically speaking, there is bipartisan evidence for solid economic growth regardless of whether there is a Republican or Democrat in the White House. One truth that is frequently lost in campaign rhetoric is that while presidential administrations have some ability to influence economic policy and prospects, the U.S. government has a strong tradition of effective checks and balances that limit the ability of any one person from moving the needle too far without much broader Congressional support. The other important consideration is that regardless of what politicians say (or hope!), the business cycle largely marches to the beat of its own tune.

Contact: If you have any questions or comments, please do not hesitate to contact us at 703.992.6164. For more information about Harbour Capital Advisors, please visit our website at www.harbourcapitaladvisors.com.

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