FROM THE DESK OF

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HOW THE U.S. GENERAL ELECTION MAY AFFECT THE STOCK MARKET

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The U.S. general election on November 3 has the potential to be one of the most complicated in U.S. history, and will shape the direction of the U.S. for years to come. Emotions are running high as the presidential race enters its final sprint. American voters are divided about which candidate is best for the country: they must choose between presidential candidates with very different views on a range of policy issues.

From the capital market's perspective, conventional wisdom might suggest that Republicans, who are perceived to be more business-friendly than the Democrats, would be more beneficial for equity markets. Another frequently cited view is that markets do better when government is divided – that is, when one party controls the White House and another party controls one or both houses of the Congress.

These generalizations may or may not do justice to a complicated reality: there are a lot of moving parts in this election. The economy has become challenging to read. A record-long expansion marked by exceptionally low unemployment and rising stock prices turned into what may very well be recorded as the most serious economic recession since the 1930s, caused by the COVID-19 pandemic. A recovery has started, but its trajectory is unknown, and it is accompanied by large amounts of government borrowing.

Joe Biden historically has been viewed as a moderate, but it does not appear that he alone would be steering the ship of state: Bernie Sanders supporters and other "Democratic Socialists" have gained substantial sway in the Democratic party and, as a major constituency, will insist that some of their demands be met. This could have substantial impacts on the Healthcare, Energy, Financial Services and Information Technology sectors.

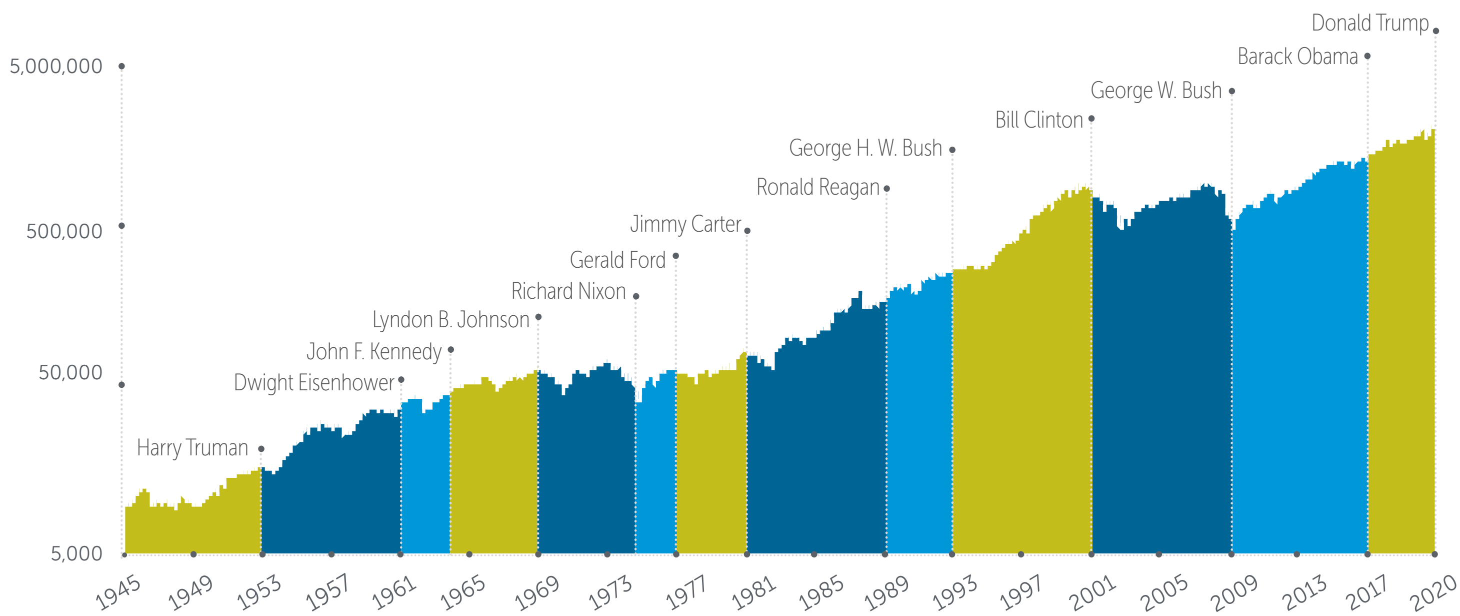
A Biden presidency would likely be positive for alternative energy and possibly industrials in general if there is a big "rebuild America" push, and, rhetorically at least, it would be more of a soothing force globally. However, the combination of a Biden presidency and a Democratic majority in both the House and the Senate could present some potential headwinds for the market, as it would likely bring higher taxes on corporations, upper-income individuals and investors, and changes to the regulation of some industries.

A win for Donald Trump would likely be more market friendly – or maybe market neutral might be a better way to think about it – but one could easily foresee a situation in which he becomes more aggressive in his posture towards China and pushes for a full economic split, which could create short-term pressures, and would itself create winners and losers. Beyond his bombast however, President Trump is one of the first presidents in some time to not initiate a new foreign military engagement.

As for the impact on Canada, Biden is certainly less energy friendly than Trump, and would be an ally for Justin Trudeau and his approach to energy policy. At the same time, anti-energy policies in the U.S., such as banning fracking on federal lands and the like, could be quite positive for oil prices, which might help Canadian energy producers.

The U.S. is experiencing the most serious wave of civil unrest in a half a century; public frustration over racial inequality and police brutality has sparked protests nationwide. The tensions that have been brewing all summer have only been exacerbated by the political fight over Supreme Court Justice Ginsburg's replacement. Meanwhile, there is a possibility that there could be no clear winner for some time after the election, or that there might be a reversal of the original election night results as mail-in ballots roll in. All this would create the kind of uncertainty and volatility that investors dislike.

In the short term, the election could have a major impact on policy, laws, regulations and foreign relations. That is why investors try to figure out what election outcomes will mean for their portfolios and to consider making portfolio changes based on who they expect will win the election. But the president is only one of many factors that influence the equity markets. Macroeconomic factors, such as interest rates, inflation, business cycle and growth in productivity and profitability are more consequential than who the president is. Stock prices are ultimately driven by companies' earnings and profitability from producing and selling goods and services. From a historical standpoint, equity markets have risen under both Republican and Democratic presidents. As the following chart shows, a hypothetical USD 10,000 investment in the S&P 500 Index in 1945 would have grown to around USD 2.4 million as at September 30, 2020.



President	Presidency	Party	S&P 500 Annualized Return (%)
Harry Truman	1945-04-12 to 1953-01-20	Democratic	**8.30**
Dwight Eisenhower	1953-01-20 to 1961-01-20	Republican	**11.00**
John F. Kennedy*	1961-01-20 to 1963-11-22	Democratic	**7.08**
Lyndon B. Johnson	1963-11-22 to 1969-01-20	Democratic	**7.02**
Richard Nixon**	1969-01-20 to 1974-08-09	Republican	**-4.10**
Gerald Ford	1974-08-09 to 1977-01-20	Republican	**9.96**
Jimmy Carter	1977-01-20 to 1981-01-20	Democratic	**6.11**
Ronald Reagan	1981-01-20 to 1989-01-20	Republican	**9.93**
George H. W. Bush	1989-01-20 to 1993-01-20	Republican	**10.85**
Bill Clinton	1993-01-20 to 2001-01-20	Democratic	**15.12**
George W. Bush	2001-01-20 to 2009-01-20	Republican	**-6.19**
Barack Obama	2009-01-20 to 2017-01-20	Democratic	**13.07**
Donald Trump***	2017-01-20 to 2020-09-30	Republican	**11.30**

* Through Death ** Through Resignation *** Through 2020 Q3

Source: Morningstar Direct as at Sep.30, 2020

As the chart shows, stocks have done well over the long term with a mix of Democratic and Republican presidents. Investors who take a long-term perspective, looking beyond the four years following elections, have been rewarded by sticking to their plan.

We thank you for your continued support.
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