ELECTIONS AND MARKETS

FEG investment advisors

ELECTIONS AMID A DIVISIVE PERIOD

For most of the 21st century, the political environment evoked one label in particular: divisive.

In fact, the political discord has only increased over the past 20 years. In most circumstances, avoiding political discussion is sage advice.

We are providing this presentation based on high demand from clients regarding elections and investing, and we intend to keep the focus in that direction. We are not advancing the campaign of any candidate nor supporting any political party or platform within this presentation.

Rather, our objective is to address questions from clients, who we understand represent questions from a diverse spectrum of political ideologies, as do our employees. We will address not only historical information, but elements of each presidential campaign's policies and proposals that could impact markets.

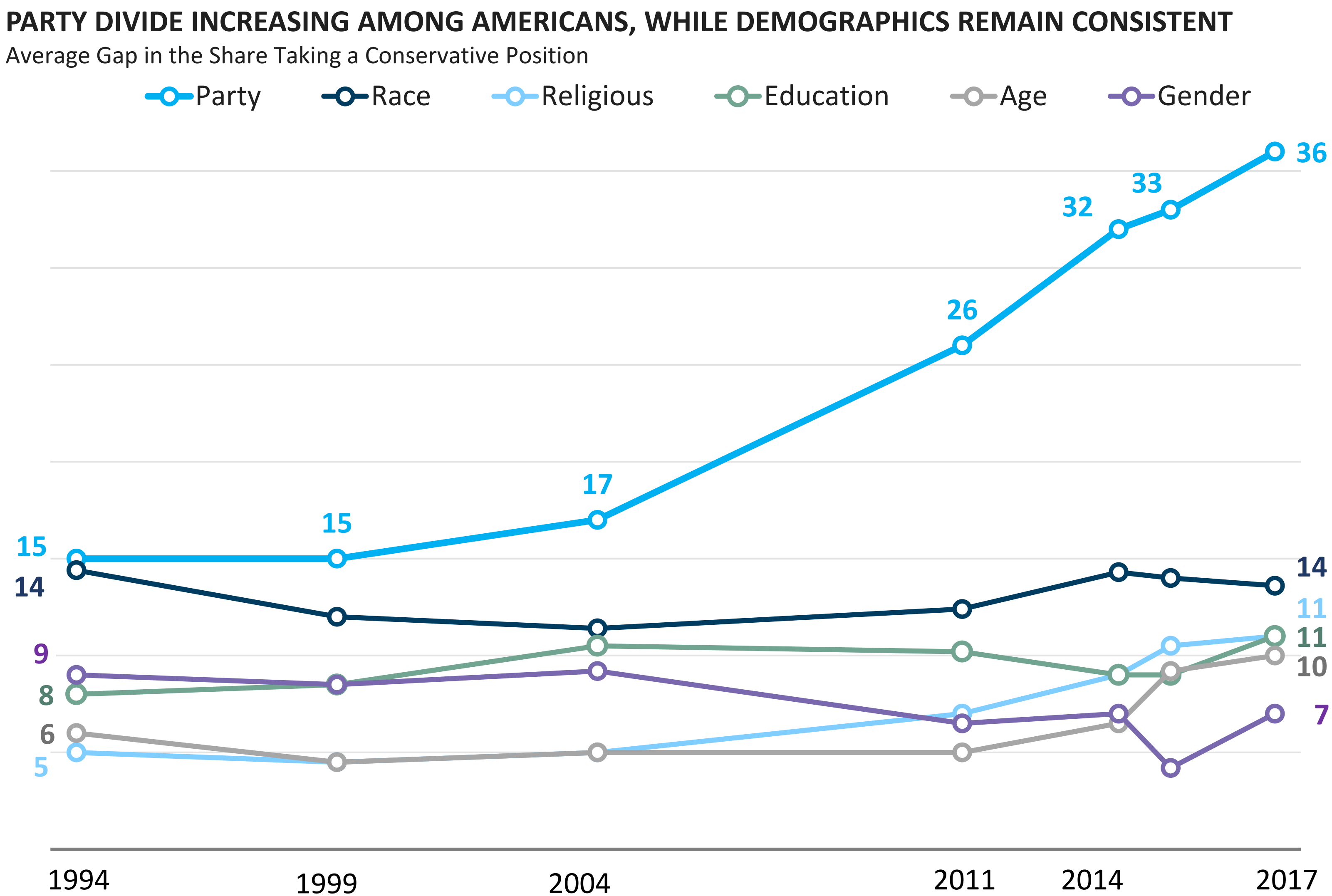
We hope that you find this information balanced and beneficial for a macro-view of elections and investments.

We fully expect that about 49% of the country will be elated with the results on election night while another 49% end up furious and distraught. The other 2% are likely so frustrated with politics that they have simply shut their eyes and ears to the noise.

It is not our intent to make any readers of this presentation furious, distraught, or frustrated. If we present information in a balanced perspective, we hope to avoid creating a feeling of elation as well. We know that these feelings are rooted in caring for the country.

Further, our three branches of the federal government provide inherent checks and balances. These aid in limiting the abrupt enactment of drastic policy changes from the far ends of the political spectrum, supporting the nation's ideal not only as a melting pot of people, but of ideas as well.

ELECTIONS AMID A DIVISIVE PERIOD



Note: Indicates average gap between the share of two groups taking the conservative position across 10 values items. Party = difference between Rep/Lean Rep and Dem/Lean Dem. Race = white non-Hispanic and black non-Hispanic. Religion = weekly religious service attenders and less often. Education = college grad and non-college grad. Age = 18-49 and 50+.

Data source: PEW Research Center, Survey of Americans conducted June/July 2017

ELECTIONS AND MARKETS

Generally, making asset allocation decisions on potential policy changes as a consequence of an election is less than prudent, and we do not advocate portfolio changes on the basis of potential election outcomes. Nevertheless, elections set the fundamental tone of policy that dictates the playing field in which commerce and investment occur, so understanding policy is important. Fortunately, American ingenuity has historically found a way of overcoming bad policies.

To aid in the understanding of the fundamental underpinnings of the implications of the election, we assembled this presentation to address:

I. Polls, Markets, and Party Control

- Why do we not advocate investing based on polls?
- How has the market generally behaved around elections and what could uncertainty around the results mean for markets?
- Lastly, what has party control generally meant for markets?

II. There is No Escape From Taxes

- The inescapable aspect of taxes is always with us, but at what level?
- How do Biden's proposals compare to previous tax increases, and what could that mean for earnings?

III. Economic Concerns and Policy Implications

- One of the primary drivers of election success has often been the state of the economy; how does the COVID-19 pandemic influence the electorate?
- What could be in store for the pace of new regulations, corporate taxes and government spending, renewable energy, technology companies, and inflation?

Most importantly, readers should understand that no political party has a monopoly on success of the United States and markets have performed well regardless of who is in charge. If any message is to be received from this presentation, this is the most important one.

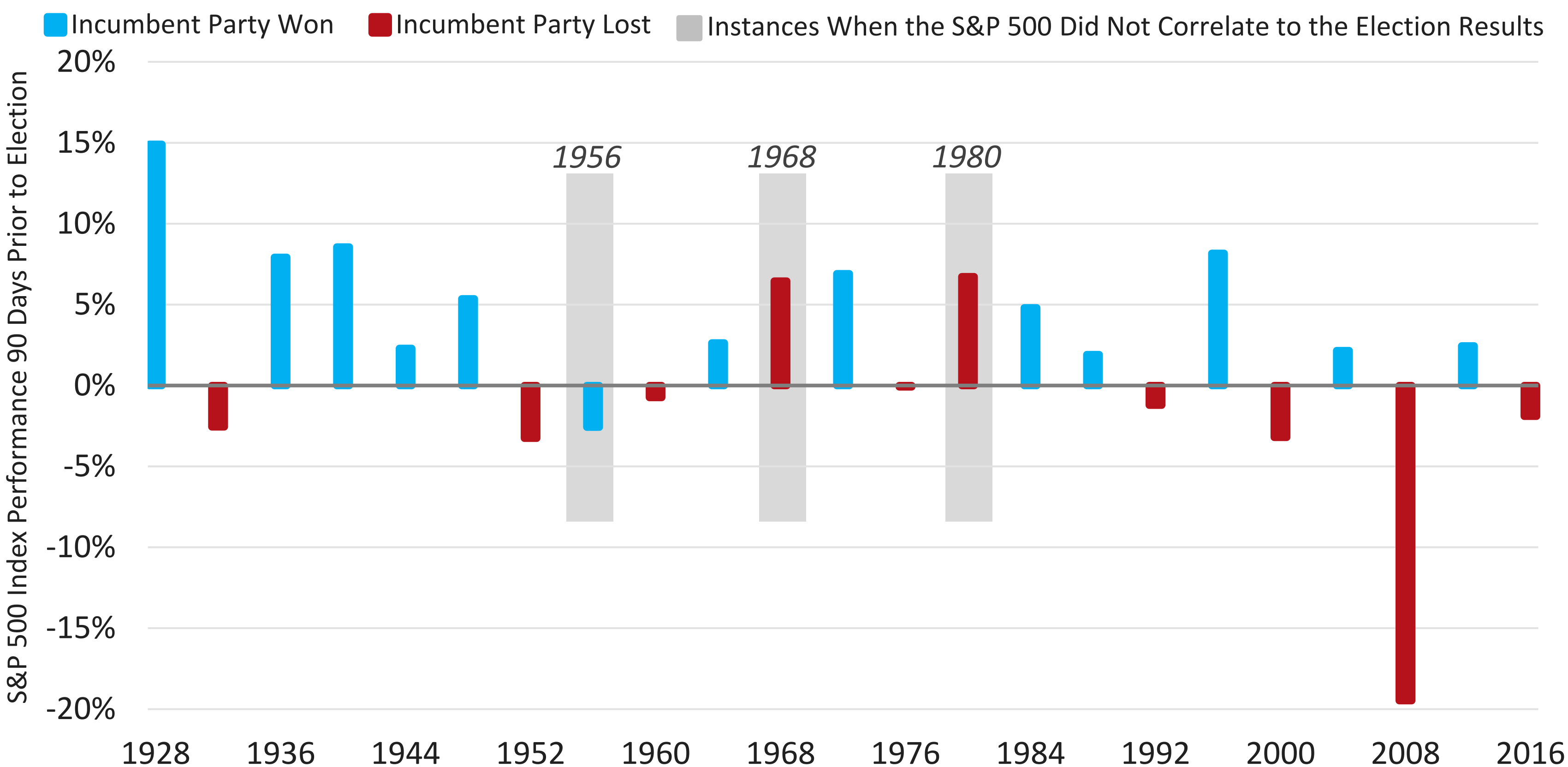
POLLS, MARKETS, AND PARTY CONTROL

THE EQUITY MARKET AS A POLITICAL PUNDIT

- The return of the S&P 500 Index has been a better predictor of presidential election results than the pundits.
- Since 1984, a positive return in the three months prior to election has preceded the incumbent party's reelection and a negative return has preceded a loss.
- The accuracy of the S&P 500's return as a predictor has been 87% when going back to 1928.

THE U.S. STOCK MARKET HAS BEEN AN EFFECTIVE ELECTION PREDICTOR

S&P 500 Index Performance 90 Days Prior to Election Day, 1928-2016



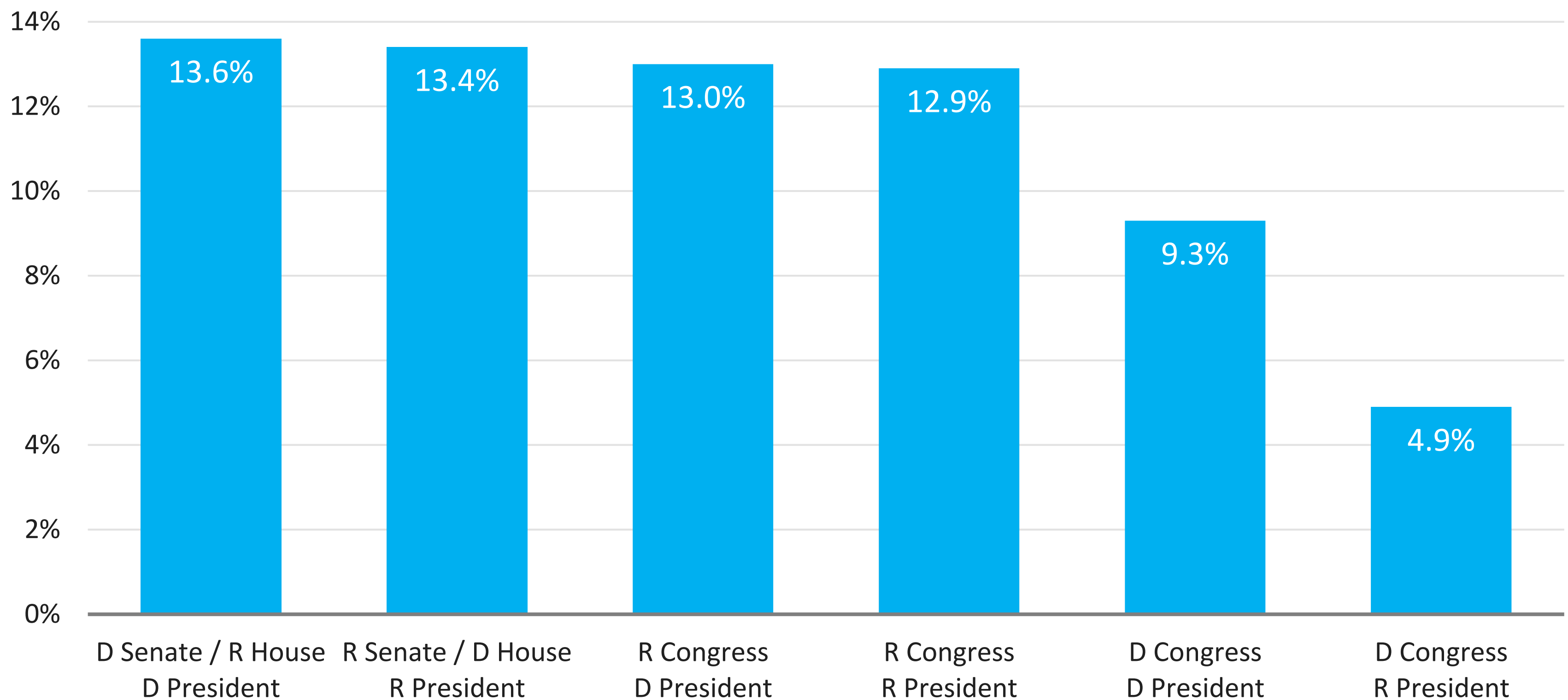
Data source: Strategas

CONTROL OF THE LEGISLATIVE AND EXECUTIVE BRANCHES

- Investors should take solace in knowing that in most cases, equity market performance has been strong regardless of who controls the White House.
- Having some level of partisan divide has historically been good in most cases, as negotiation is required to enact public policy and drastic changes are constrained.

MANY TIMES, GRIDLOCK IS GOOD

Partisan Control, Average Annual S&P 500 Index Performance, 1933-2019



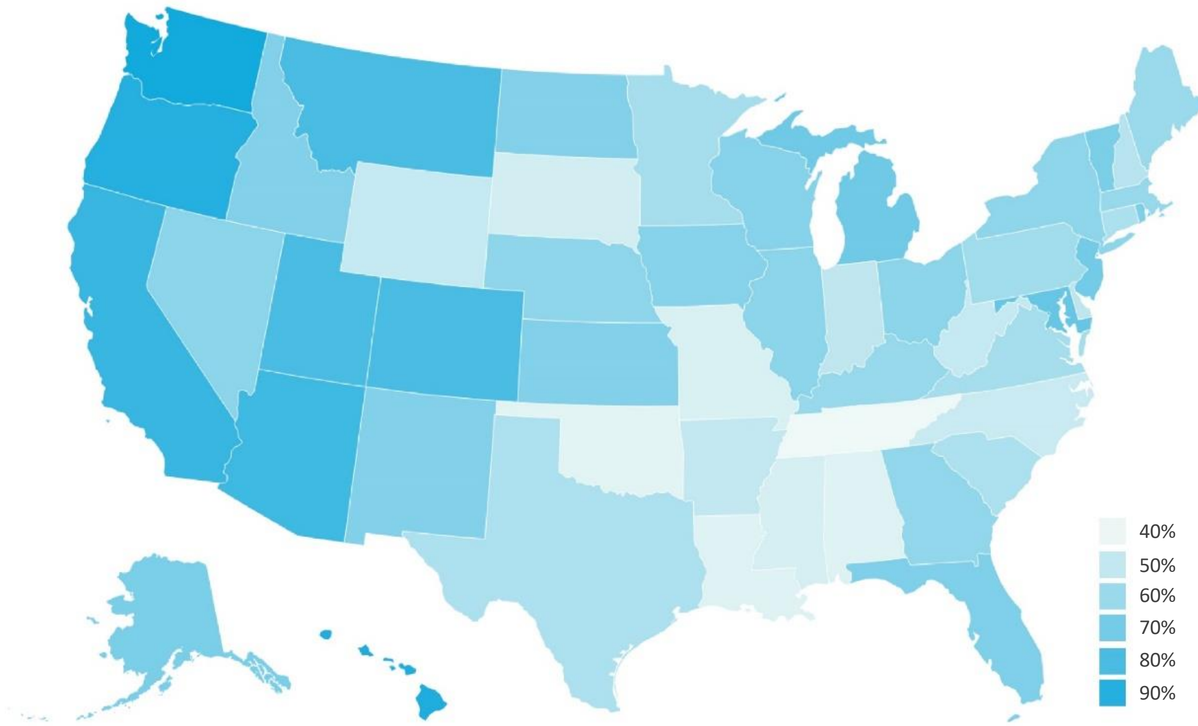
Source: Strategas. Excludes 2001-02 due to Rep. Jeffords change in party affiliation

DELAYED RESULTS? AMERICANS VOTING ABSENTEE/BY MAIL

- Due to the COVID-19 pandemic, many more voters are expected to use absentee or mail-in voting, potentially delaying clarity in the results of the election.
- The infrastructure and procedures to support absentee voting vary between the states, with some that have sound capabilities due to a long history of absentee voting, and other states with limited experience.
- In 2000, during the “hanging chad” debate, the U.S. equity market declined approximately 5% before resolution of the presidential election. This market decline was vastly overshadowed by the bursting of the technology bubble earlier in 2000 and the recession that followed in 2001.

HOW LIKELY IS IT THAT YOU WILL VOTE BY ABSENTEE OR MAIL-IN BALLOT?

Percent of respondents planning to vote who say “very likely” or “somewhat likely”



National sample, N = 19,058, Time period: 7/10/2020-7/26/2020

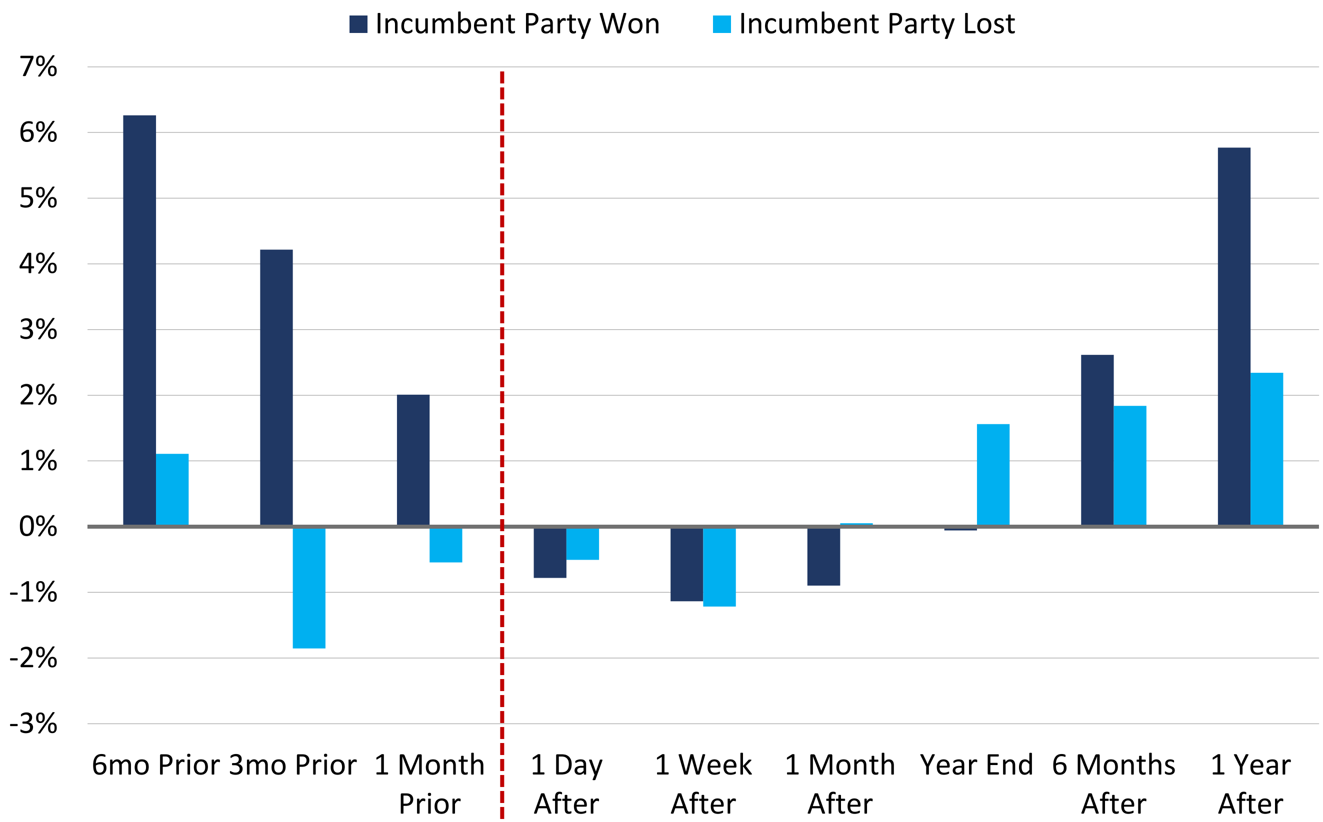
Source: The COVID-19 Consortium for Understanding the Public’s Policy Preferences Across States
(A joint project of: Northeaster University, Harvard University, Rutgers University, and Northwestern University) www.covidstates.org.

MARKETS PAUSE TO FIND FOOTING POST-ELECTION

- Market performance has tended to be weak on average surrounding an election, albeit across a wide performance range, as results and potential policy changes are considered.
- The underlying contributors to market volatility and weakness are likely not limited to the change in the occupant of the White House, but also affected by the political composition of both houses of Congress.

S&P 500 INDEX AVERAGE PRICE PERFORMANCE WEAK NEAR ELECTIONS

Presidential Elections Results, 1936-2017



Data source: Strategas

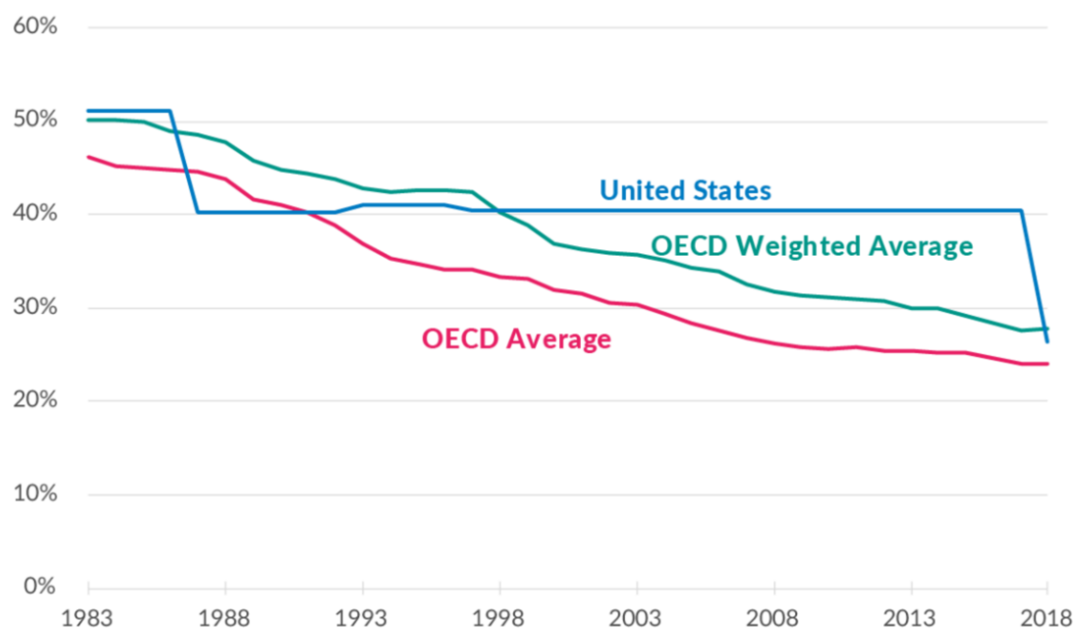
THERE IS NO ESCAPE FROM TAXES

CORPORATE TAX REDUCTION

- The 2017 tax cuts included a reduction in U.S. corporate taxes intended to make U.S. domiciled companies more globally competitive, as well as to encourage companies to repatriate foreign revenue. These cuts boosted equity earnings and were attributed to supporting the 2018 equity rally.
- The Democratic party platform and Vice President Joe Biden's campaign propose reversing a portion of the tax cuts to pay for increased spending.
- The Republican party and President Trump advocate for maintaining corporate tax cuts.

CORPORATE TAX CUTS PUT U.S. COMPANIES IN LINE WITH OECD NATIONS

Top Corporate Income Tax Rate, U.S. vs. OECD, 1983-2018



Sources: UBS, CBT Tax Database, EICD Statistics, USDA ERS International Macroeconomic Data Set

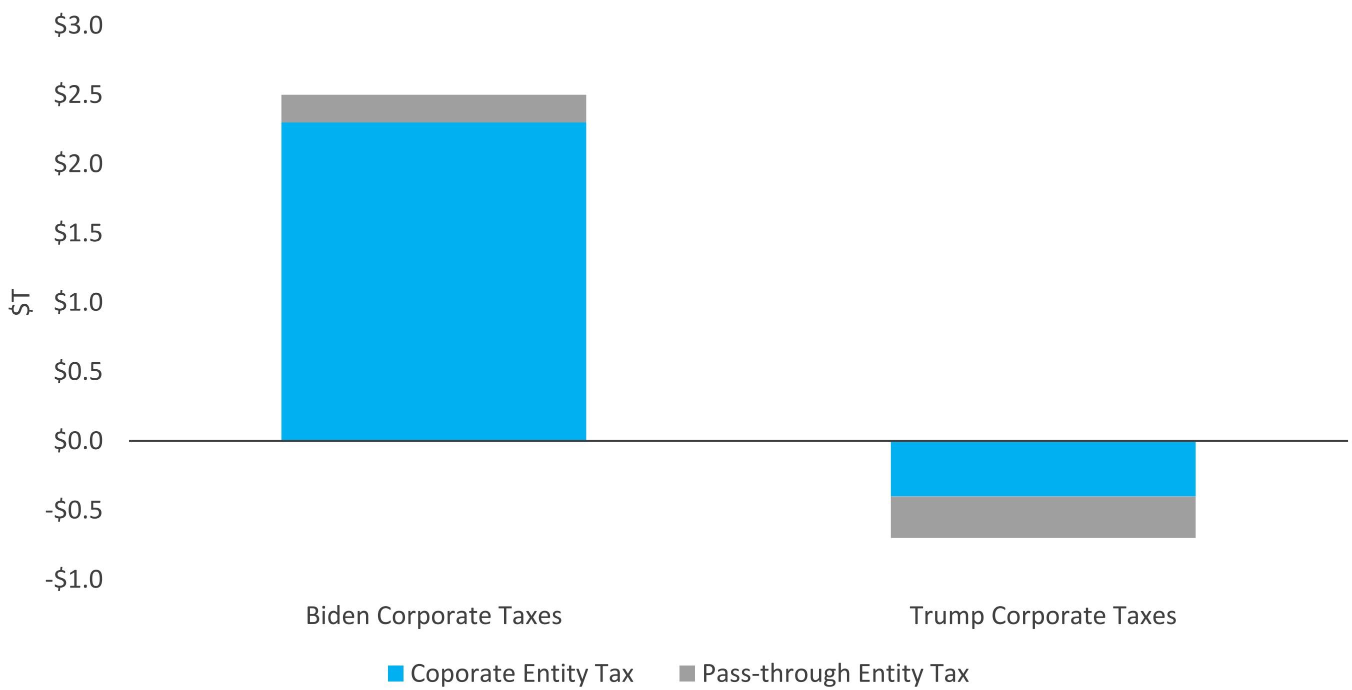
OECD = Organization for Economic Co-operation and Development

BIDEN CORPORATE TAX PROPOSAL

- Biden's proposed corporate tax increase from 21% to 28% is presented as a removal of half of the corporate tax cuts from the Tax Cuts and Jobs Act of 2017 (TCJA) that reduced the maximum corporate tax rate from 35% to 21%.
- Due to base-broadening and sector-specific tax proposals, Biden's proposal results in approximately $2.5 trillion in new taxes over 10 years, which is far greater than the TCJA tax reduction.

BIDEN PROPOSED TAX INCREASES VERSUS TRUMP TAX CUTS

$Trillions of Corporate and Pass-Through Taxes Raised/Reduced over 10 Years



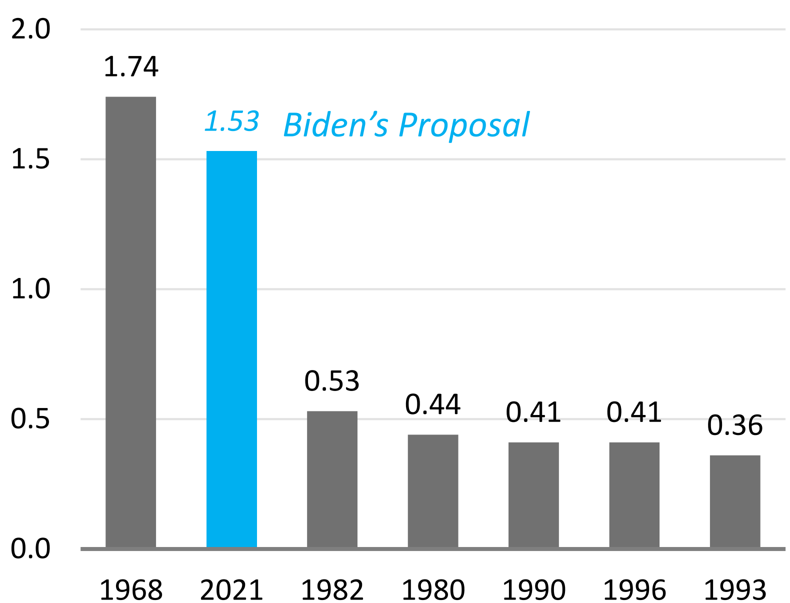
Data sources: JP Morgan Asset Management and Cornerstone Research, Joint Committee on Taxation, August 2020

BIDEN PROPOSING HIGHER TAX RATES

- Biden's proposed tax increases – 1.53% of GDP – are the largest first year tax increases as a percent of GDP since 1968 – 1.74% of GDP under President Lyndon Johnson. The next two largest tax increases as a percent of GDP measured 0.53% and 0.44% in the years 1982 and 1980, respectively.
- The 1968 tax increase coincided with a dramatic decline in both economic growth and the equity markets, as the tax surcharge was extended twice until ending in 1973.
- Biden states that the increased taxation will support government spending in infrastructure and healthcare, among other areas. More information follows in the section *Economic Concerns and Policy Implications.*

BIDEN'S TAX INCREASE IS ~3X LARGER THAN ANY SINCE 1968

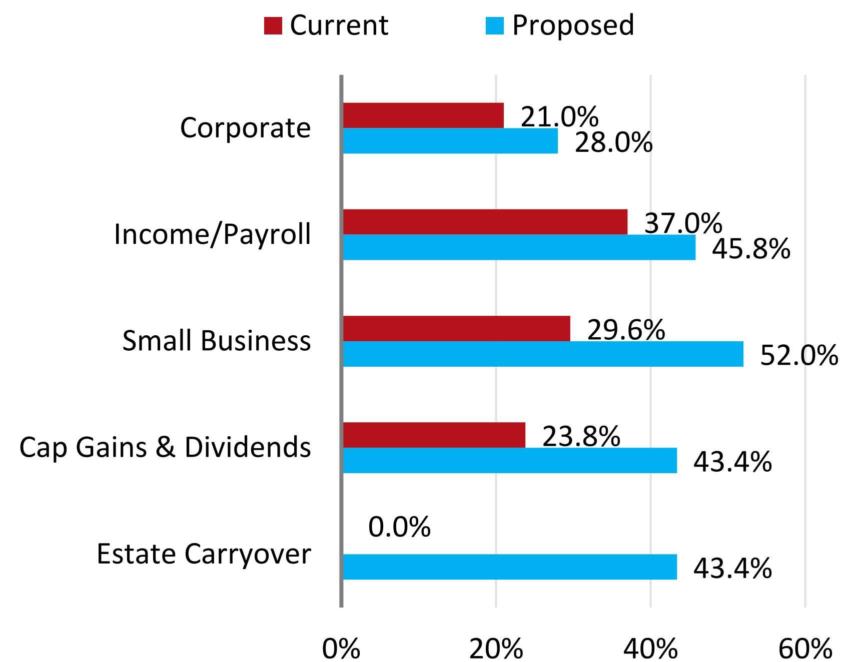
Tax Increases as a Percent of GDP, First Year



Data source: Strategas, as of September 9, 2020.

BIDEN'S TAX INCREASES FOR BUSINESS AND INDIVIDUALS

Biden Campaign Tax Rate Proposals



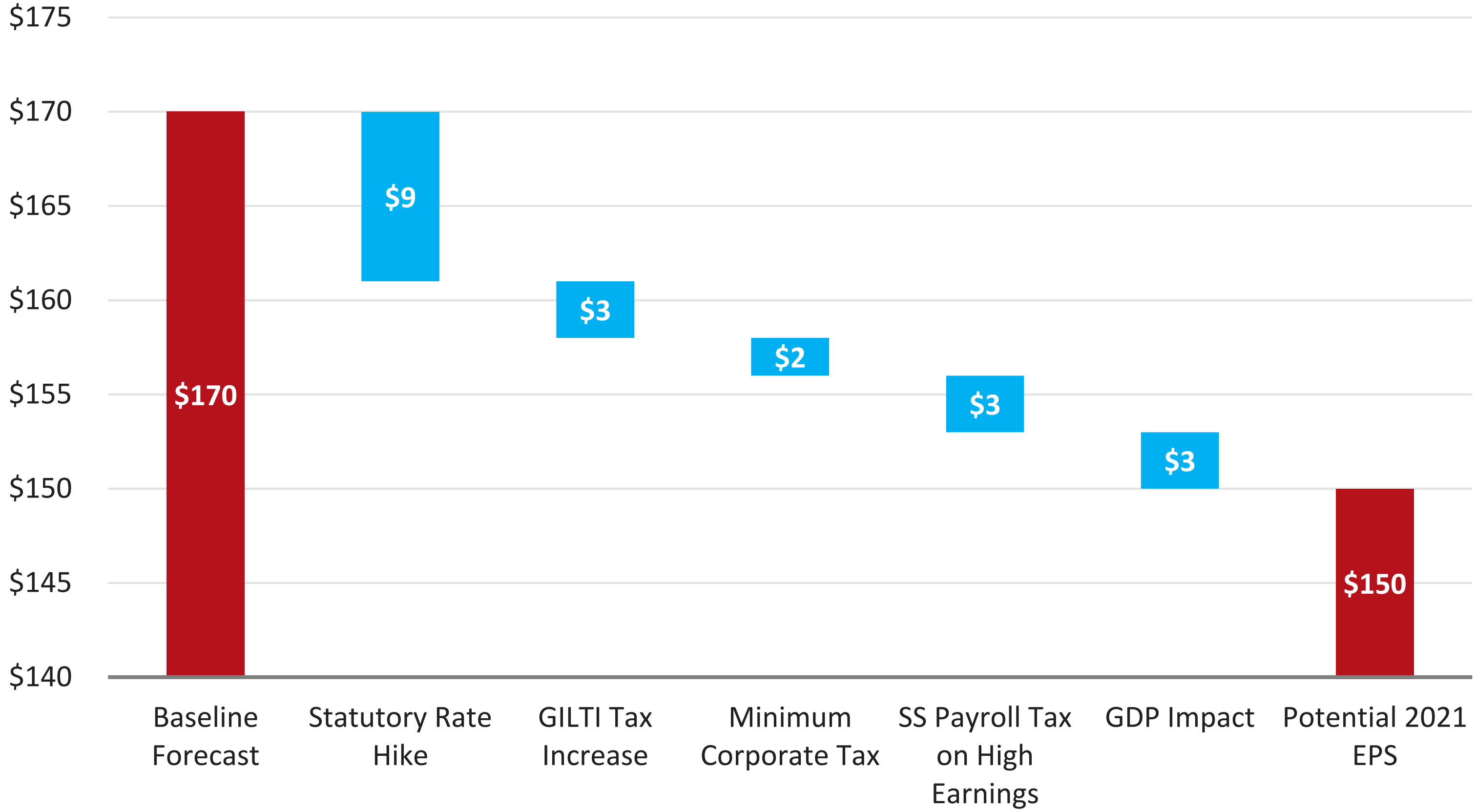
Data source: Strategas, as of September 9, 2020.

THE IMPACT OF TAXES ON U.S. EQUITY EARNINGS

- Estimates are that the impact of proposed tax increases would be a 10% to 12% decline in equity earnings for the S&P 500 Index.

TAX INCREASES COULD REDUCE S&P 500 EPS BY 12% ($20) IN 2021

Potential Impact of Tax Reform on 2021 S&P 500 EPS



Data sources: Tax Foundation, FactSet, Goldman Sachs Global Investment Research. Data as of June 4, 2020.

ECONOMIC CONCERNS AND POLICY IMPLICATIONS

IT'S THE ECONOMY, STUPID

- James Carville coined the phrase, "It's the economy, stupid" when directing Bill Clinton's campaign in the run against President George H.W. Bush, whose reelection campaign was plagued by the early-1990's recession.
- Historically, an economic recession in the final two years of a presidency has resulted in the incumbent party's defeat. Only President Coolidge broke this streak in the 1920s.
- Prior to the pandemic, the U.S. economy was strong and impressive household income growth spanned all demographics, especially among some that traditionally have heavily favored Democratic candidates.
- The pandemic triggered a massive rise in unemployment. Although household income losses were offset by the CARES Act, furloughed employees have become permanently unemployed and greater attention is now also given to other social issues.

RECESSIONS KILL U.S. PRESIDENCIES, U.S. RECESSIONS VERSUS RE-ELECTION RESULTS

No Recession Two Years Before Re-Election		
President	**Recession?**	**Re-Elected?**
Obama	No	✓
W. Bush	No	✓
Clinton	No	✓
Reagan	No	✓
Nixon	No	✓
LBJ	No	✓
Eisenhower	No	✓
Truman	No	✓
FDR	No	✓
FDR	No	✓
FDR	No	✓
Wilson	No	✓

Recession Two Years Before Re-Election		
President	**Recession?**	**Re-Elected?**
H.W. Bush	Yes	✘
Carter	Yes	✘
Ford	Yes	✘
Hoover	Yes	✘
Coolidge	Yes	✓
Taft	Yes	✘

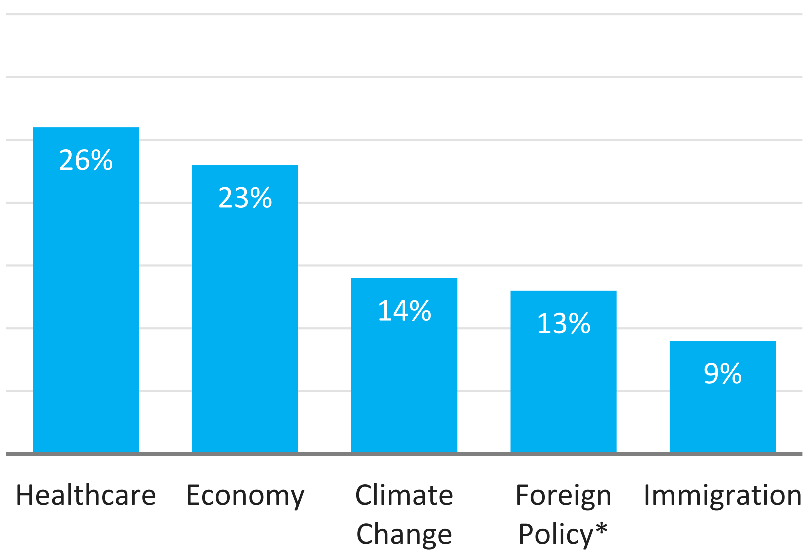
Data sources: Strategas and Bruce Mehlman

ISSUES ON VOTERS' MINDS

- Healthcare and the economy were the dominant issues occupying voters' minds prior to the pandemic.
- As the worst of the outbreak subsided and the economy started to show signs of improvement, the favorability of congressional Republicans started to improve.
- Now, issues surrounding the recent social unrest and violent protests have become increasing concerns of the important suburban women voter demographic.
- Healthcare has waned as a concern among voters, but the SCOTUS confirmation process and the looming arguments over ACA may bring healthcare issues back to the forefront.

VOTERS TOP CONCERNS HAVE CHANGED TO THE ECONOMY AND COVID-19 SINCE FEBRUARY

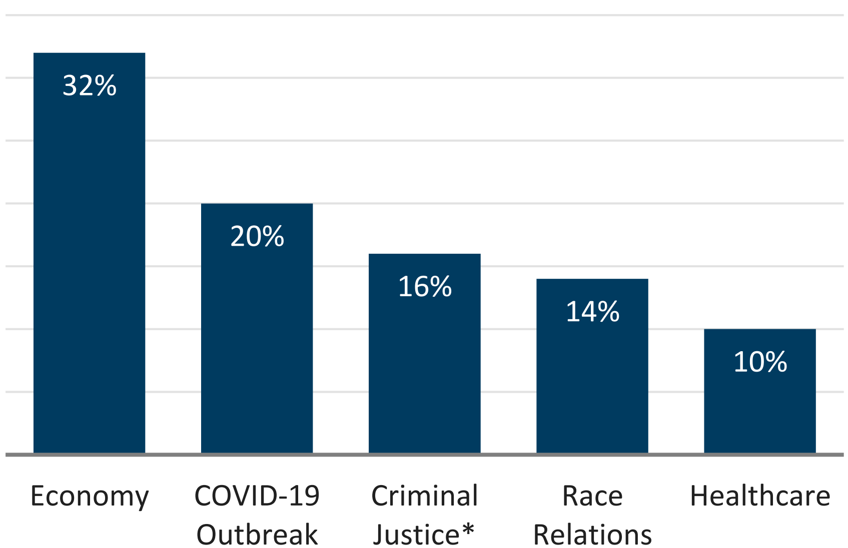
February Poll



*Foreign Policy and National Security

Data sources: Strategas and KFF Polling, as of September 21, 2020

September Poll



*Criminal Justice and Policing

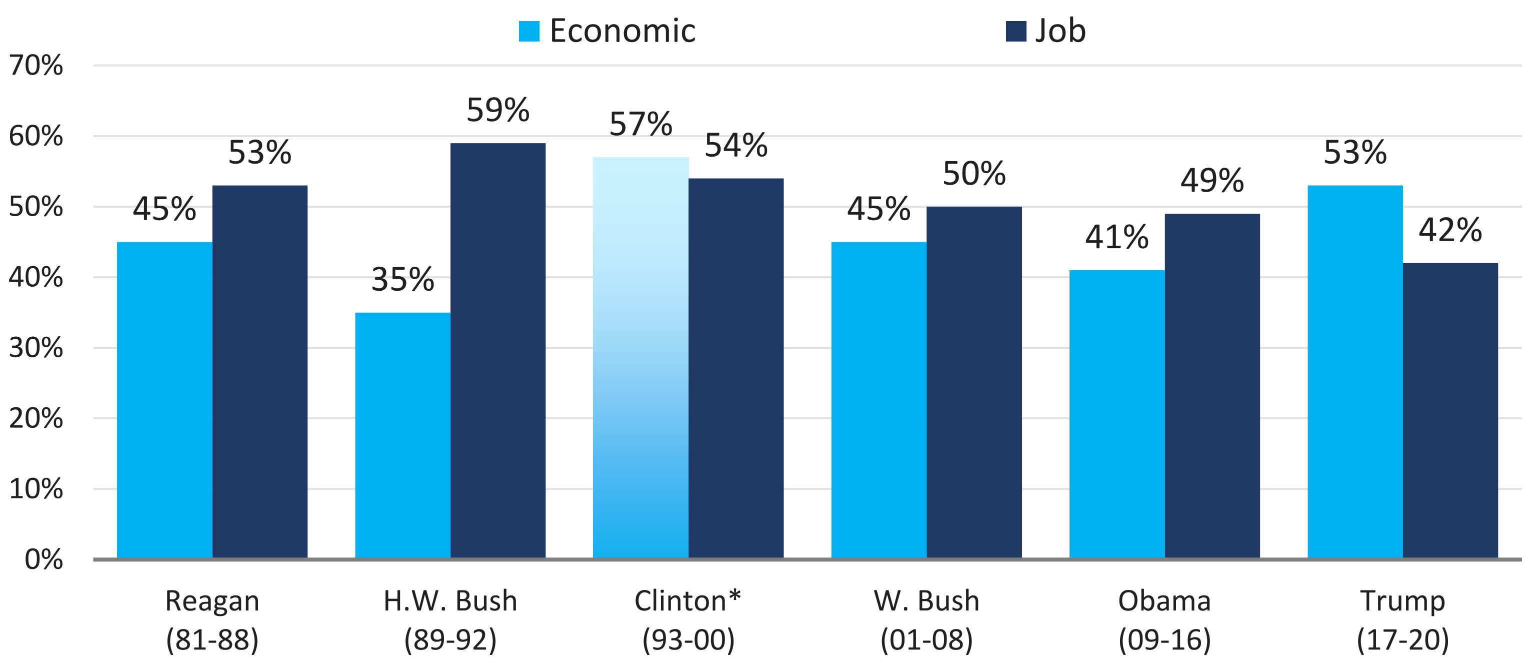
Data sources: Strategas and KFF Polling, as of September 21, 2020

ECONOMIC APPROVAL VERSUS JOB APPROVAL

- Economic approval generally falls heavily along party lines in approval of a U.S. President. President Trump has generally received a higher economic approval rating, but a lower job approval rating.
- The COVID-19 pandemic was a unique trigger for economic recession, as the economy was running well prior to the pandemic. Thus, voters may assign less blame to President Trump for the economic downturn but consider the handling of the pandemic and other social issues more heavily when voting.
- The higher unemployment rate, especially in areas that were harmed by the trade war and the pandemic's impact on manufacturing, could aid Vice President Biden.

TRUMP UNIQUE IN HAVING *CONSISTENTLY* HIGHER ECONOMIC APPROVAL THAN JOB APPROVAL

Share who Approve of President's Job Performance and Handling of the Economy



**Clinton's job approval exceeded his economic approval until 1998.*

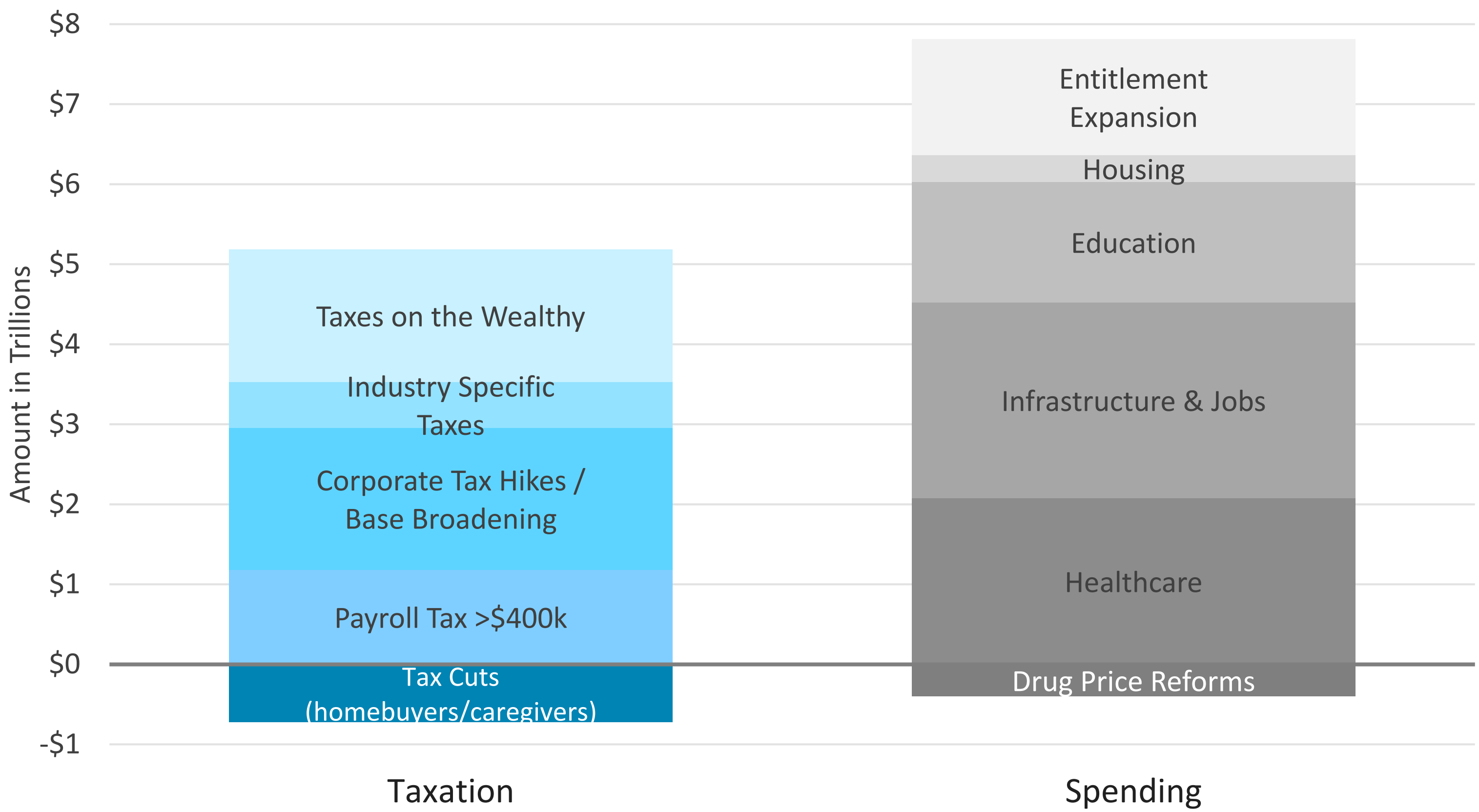
Data sources: Wall Street Journal and Gallup surveys of U.S. adults, data as of September 13, 2020. Note: Data show the full-term average.

TAXES INTENDED FOR GOVERNMENT SPENDING

- Biden's proposed taxation plan is to support the expansion of government spending of almost $8 trillion over the next ten years, although one should expect significant government spending regardless of who is in power.
- Proposed spending increases are focused on entitlements, educations, infrastructure and employment, and healthcare.

THE BIDEN TAXATION AND SPENDING AGENDA

Amount in trillions over 10 Years



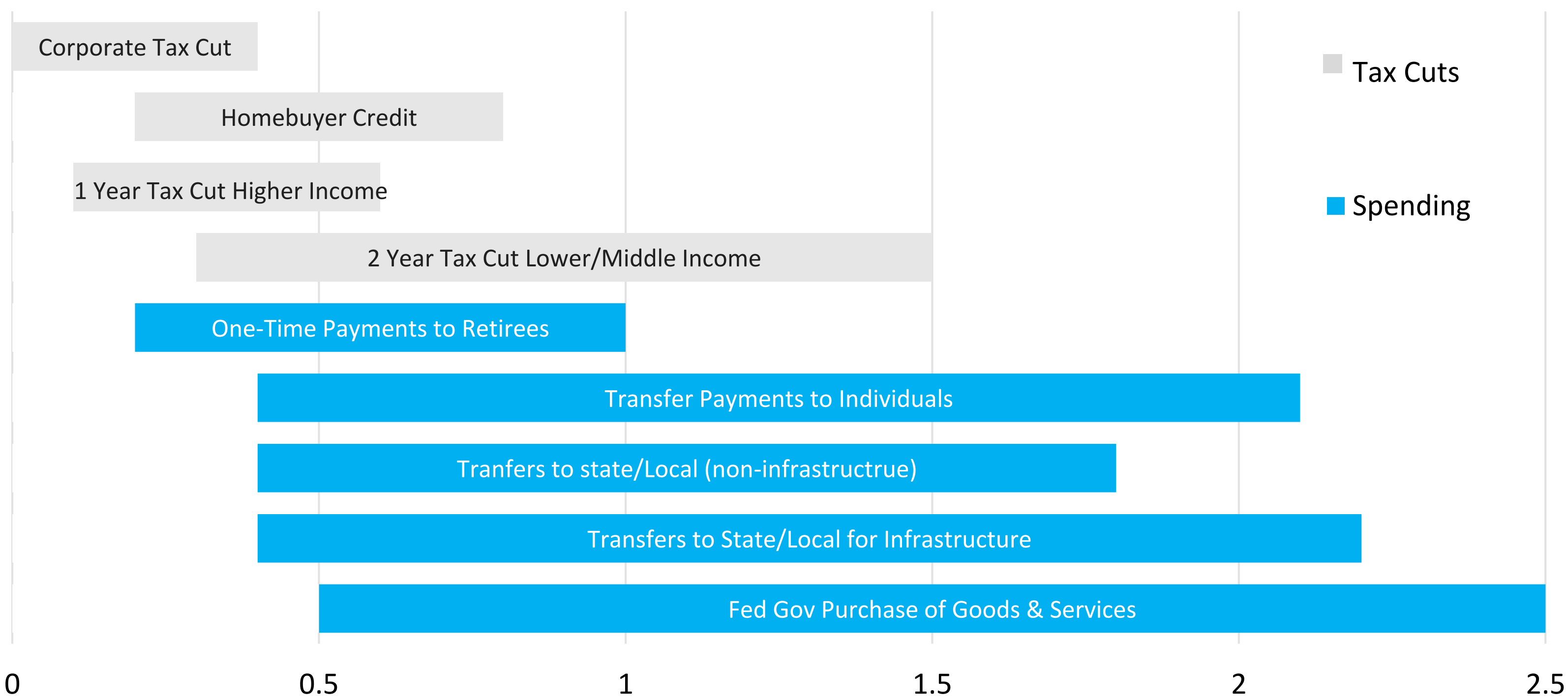
Data sources: JP Morgan Asset Management and Cornerstone Research, Joint Committee on Taxation, August 2020

ESTIMATED EFFECTIVENESS OF SPENDING FOR GROWTH

- Biden's proposed spending is focused on areas the Congressional Budget Office (CBO) estimated to have the greatest potential as growth multipliers, albeit with an extremely wide range of potential benefits.
- The CBO's estimates of the benefit of a $1 increase in aggregate demand vary depending on the degree to which the economy is running near potential and whether the Federal Reserve's (Fed) offsetting reaction to avoid inflation is limited. Multiples tend to be more effective when the economy is weak and the Fed is expected to remain accommodative to fiscal policy, as are current conditions.

CBO ESTIMATES MULTIPLIERS FROM INFRASTRUCTURE AND GOODS & SERVICES ARE STRONGEST

Estimates of Growth Multiplier by Policy



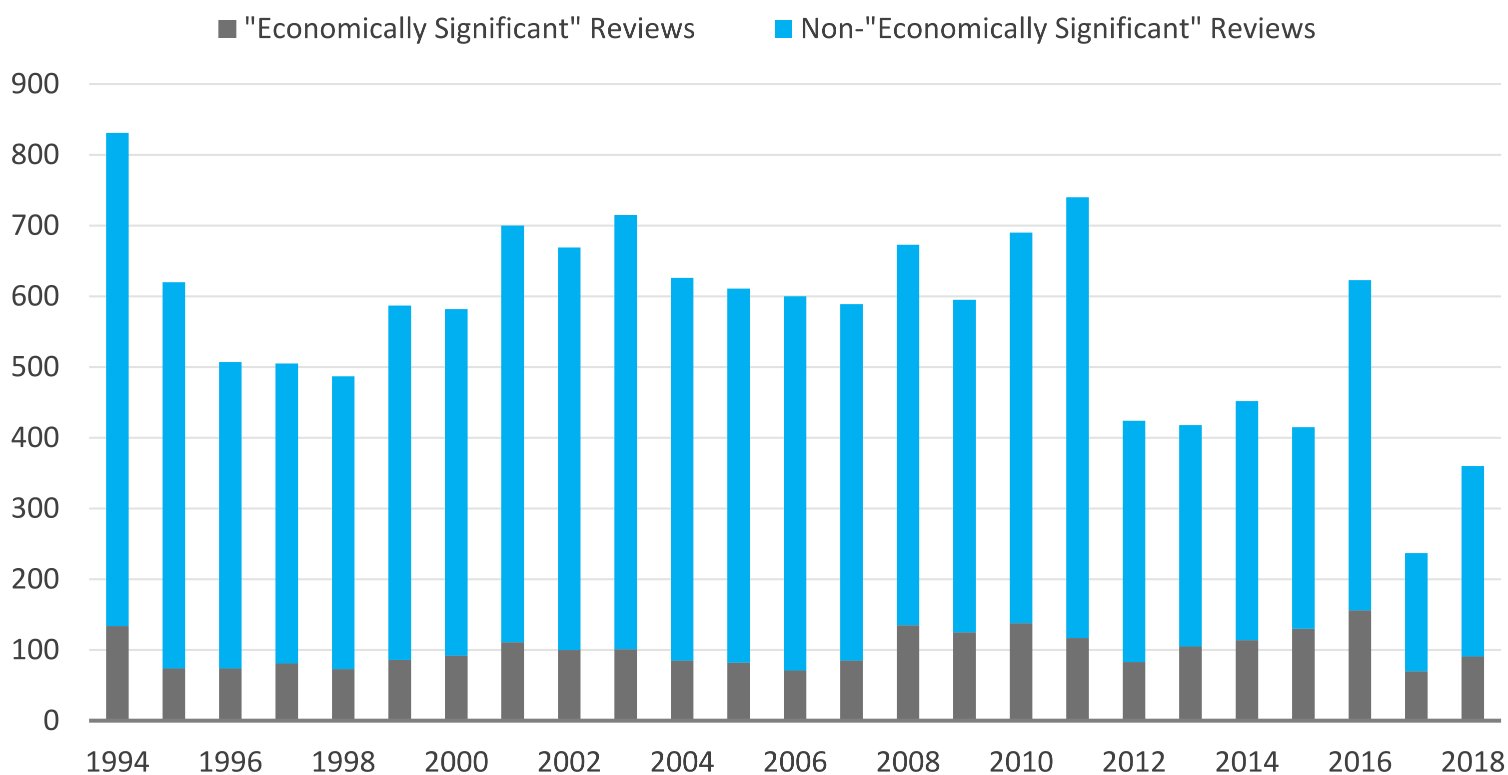
Data source: Congressional Budget Office Macroeconomic Division, February 2015.

REGULATORY ENVIRONMENT

- Early in the Trump presidency, the administration pushed for a reduction in regulatory rules with what became the “one in, two out” policy, requiring that for new “incremental costs” resulting from new regulations, equivalent costs associated with two existing regulations must be repealed.
- Under a Biden administration, expectations that a deregulatory environment would persist are unlikely.

DECLINING REGULATORY RULES UNDER THE TRUMP ADMINISTRATION

Total Number of OIRA Economically Significant and Non-Economically Significant Reviews, 1994-2018



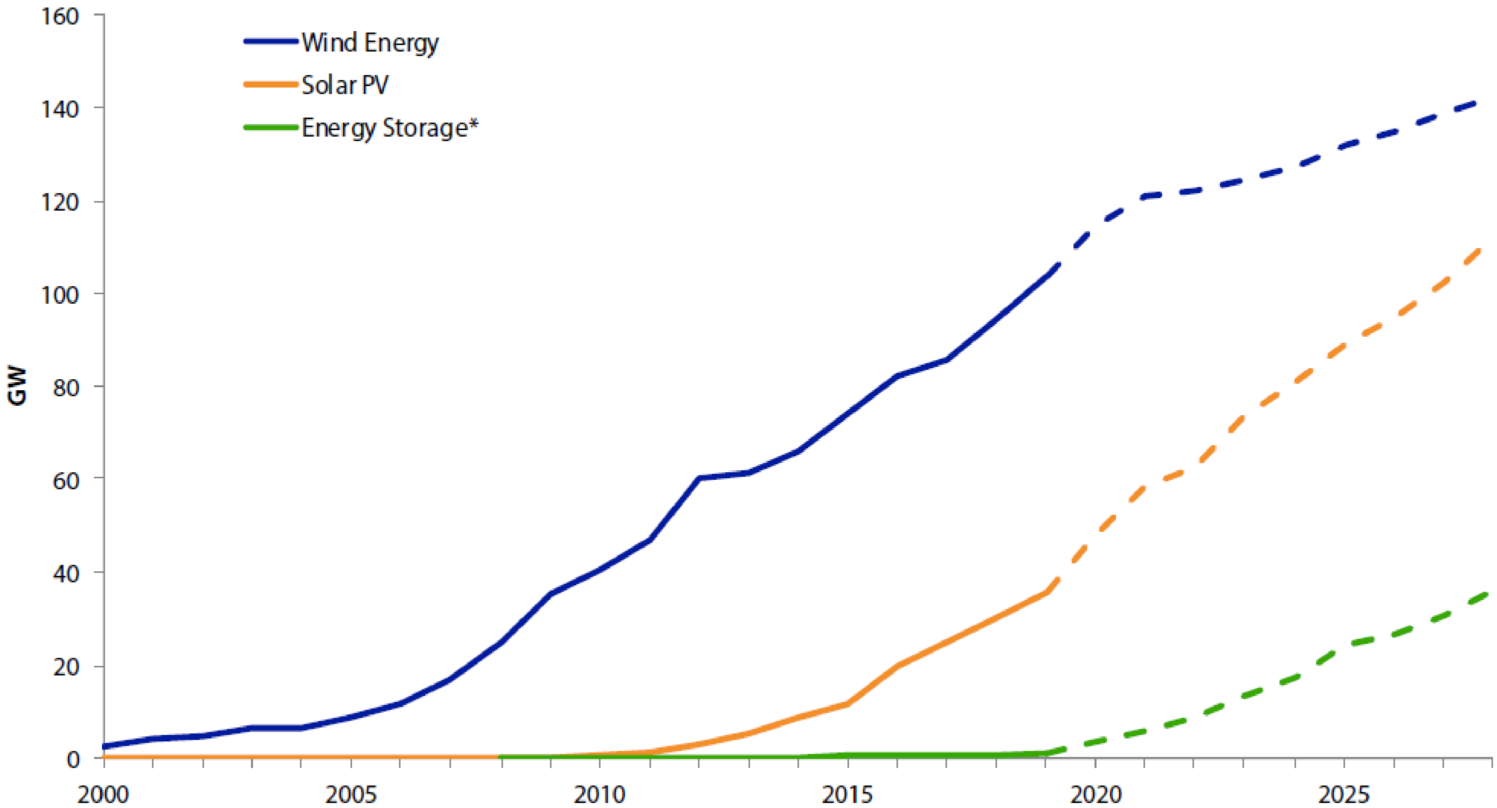
Source: Congressional Research Services and Office of Information and Regulatory Affairs, July 1, 2019

RENEWABLE ENERGY

- Renewable energy growth has accelerated over the past decade and is forecasted to continue growing.
- Under Democratic control of both the White House and Congress, renewable energy is likely to benefit from incentives and restrictions that promote green energy use and disincentivize tradition fossil-fuel use.

GREEN ENERGY USE INCREASING

Total U.S. Installed Utility-Scale Capacity



*Battery storage. Includes variety of battery chemistries. Does not reflect 23 GW of existing pumped hydro capacity.

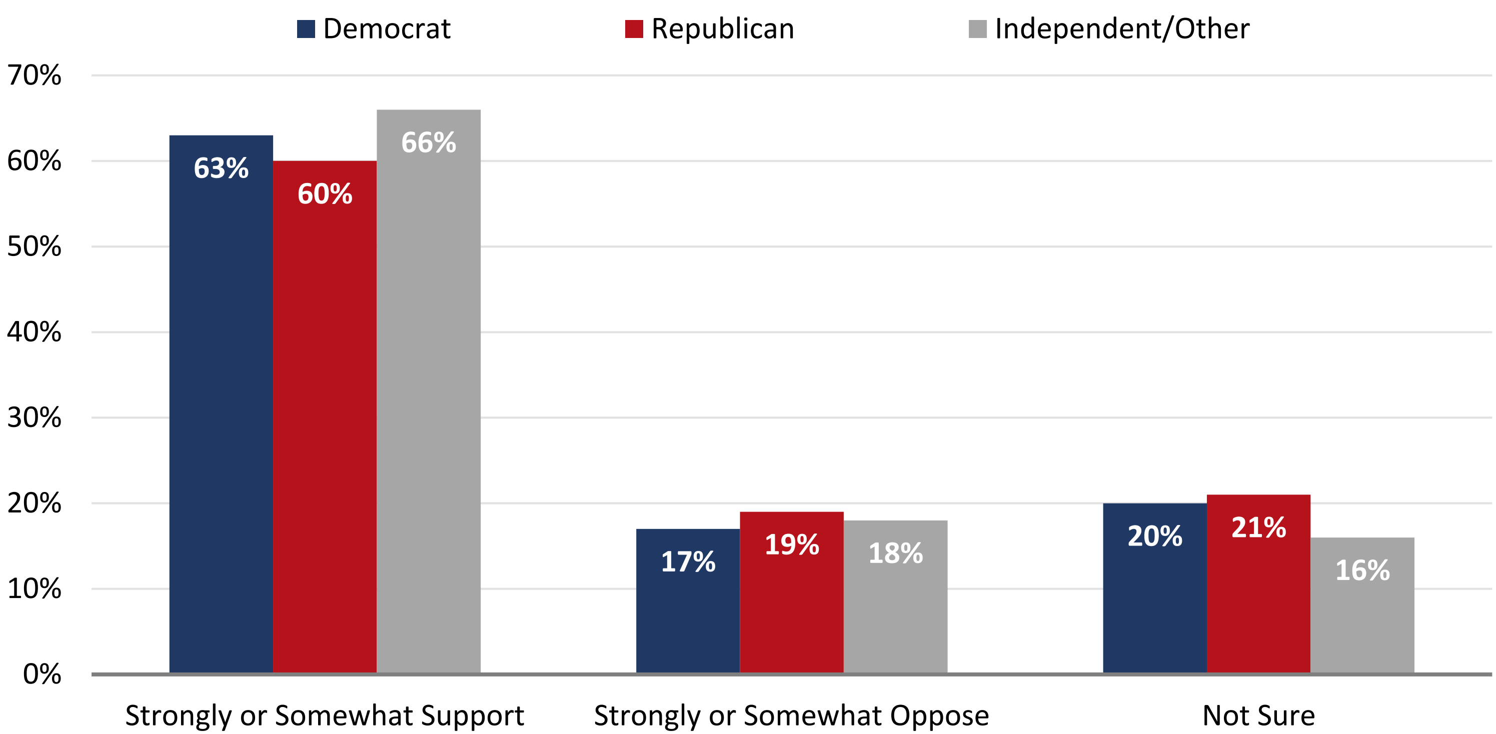
Sources: Actuals: EIA. Electric Power Monthly. February 26, 2020; wind and solar PV forecasts: BNEF. New Energy Outlook. June 18, 2019; energy storage forecasts: BNEF. 2019 Long-Term Energy Storage Outlook. July 31, 2019.

TECHNOLOGY

- One area of agreement between voters of both parties has been the concern that large technology and tech-enabled businesses are "too large."
- Expectations are that the Trump administration would push this issue harder than a Biden administration.
- Reasons for the public's concern with the dominance of large technology companies varies, and encompasses issues such as privacy, profitability, competitiveness, manipulating information flow, national security, and censorship.

BI-PARTISAN AGREEMENT FOR BREAKING UP BIG TECH

Would you support or oppose a policy breaking up big tech companies by undoing recent mergers, like Facebook buying Instagram, so there is more competition in the future?

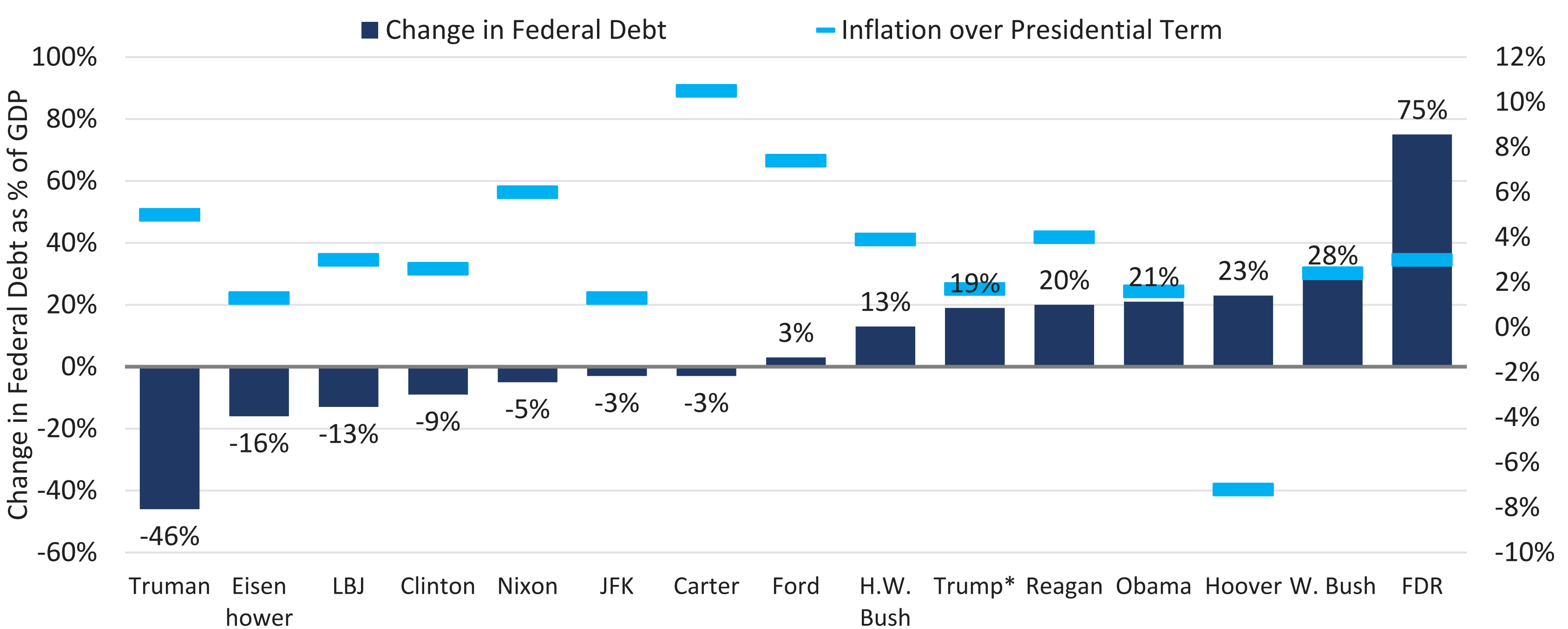


Data sources: Vox, YouGov/Data for Progress, September 2019.

INFLATION CONCERNS

- Democratic presidencies tend to push for policies that further federal spending on social programs and infrastructure, in addition to further stimulus desired by both parties in response to COVID-19.
- Presidential party affiliations have little to do with the management of gross federal debt. Nevertheless, many worry that this expansion of federal spending, and thereby debt, may lead to inflation concerns.
- Recent research by a Hoover Institute fellow suggests that large federal deficits do not typically create unexpected inflation. Rather, the level of and expected changes to the discount rate on government debt tend to create fiscally-driven inflation by decreasing the total market value of debt. The research suggests this contributed to the lack of inflation following the monetary and fiscal response to the Global Financial Crisis.

CHANGE IN FEDERAL DEBT AS A PERCENT OF GDP BY PRESIDENTIAL TERM



*Estimated as of April 2020

Data Source: Federal Reserve Bank of St. Louis

CONCLUSION

IN CONCLUSION

Polls, Markets and Party Control

- Polls do not differ dramatically from 2016, meaning the outcome remains unknowable. One hopes that there is not a strained period of uncertainty, the markets will digest the results and refocus on the fundamentals of the economy and commerce. Markets can respond well regardless of who controls public policy.

There is No Escape from Taxes

- Taxes may be the most substantial wild card in the forthcoming election. The degree to which the pandemic-recovering economy can accept a substantial tax burden, even for the benefit of government infrastructure spending, remains undeterminable.

Economic Concerns and Policy Implications

- The economy is clearly hampered by the pandemic, but the trajectory is positive and the U.S. benefits from being on sound economic footing prior to the pandemic. Although the pace of new regulations may change, the drivers of inflation remain subdued, and renewable energy and technology companies will likely face the same opportunities and challenges that they face today.

No party has a monopoly on the success of the U.S. economy and markets and investors should generally not make substantial asset allocation changes based on election forecasts, which like any forecast, are typically inaccurate.

DISCLOSURES

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Standard deviation is a measure of the dispersion of a set of data from its mean.

The S&P 500 Index is capitalization-weighted index of 500 stocks. The S&P 500 Index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

All data as of September 30, 2020 unless otherwise specified.

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