2020 ELECTION

Invesco

2020 US Presidential Election

10 TRUTHS NO MATTER WHO WINS

Letter to Investors

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"Be sure you put your feet in the right place, then stand firm." – Abraham Lincoln

Coronavirus has upended the traditional cadence of an American presidential election year. 2020 is still an election year, however, and the campaigns will go on. While the election will have a momentous impact on the country, one area where we caution investors from drawing too many links to is the world of investing.

Politics and investing have always been spoken about in the same breath. Market commentators, and even presidents themselves, have linked the performance of the stock market as a sort of "barometer" of the effectiveness of a president's policies.

The data don't support this link, and investors would be wise to think critically before making an investment decision based on who's occupying the White House. Over the past 120 years, the long-term performance of the market has shown almost no correlation with government policies.

Instead, the key drivers of stock market performance have been earnings and economic growth. Much of our collective memory about the performance of the economy under various past presidents stems from historical narratives, not hard data.

Other factors – like the decisions made by the US Federal Reserve – have a much greater impact on market sentiment than any sound bite we hear from politicians. Several years ago, we coined a phrase that bears repeating: "Hating the government is not an investment strategy."

This election season will be no different from the prior ones, and investors should brace themselves for vitriol on both sides of the political spectrum.

Rest assured, investors have prospered in markets even during difficult political times. The average return of the S&P 500 Index is approximately 11% since the end of World War II, even though we've had impeachments, additional wars and ambitious new spending. While we can't say with any certainty who will win in November 2020, we can say for sure that staying the course has always made the most sense for investors. Even in the middle of a recessionary environment related to the impact of COVID-19, investors should focus on staying buckled in and look past the headlines to the underlying story that really matters. What Lincoln said in the nineteenth century remains wise advice for 2020: stand firm.

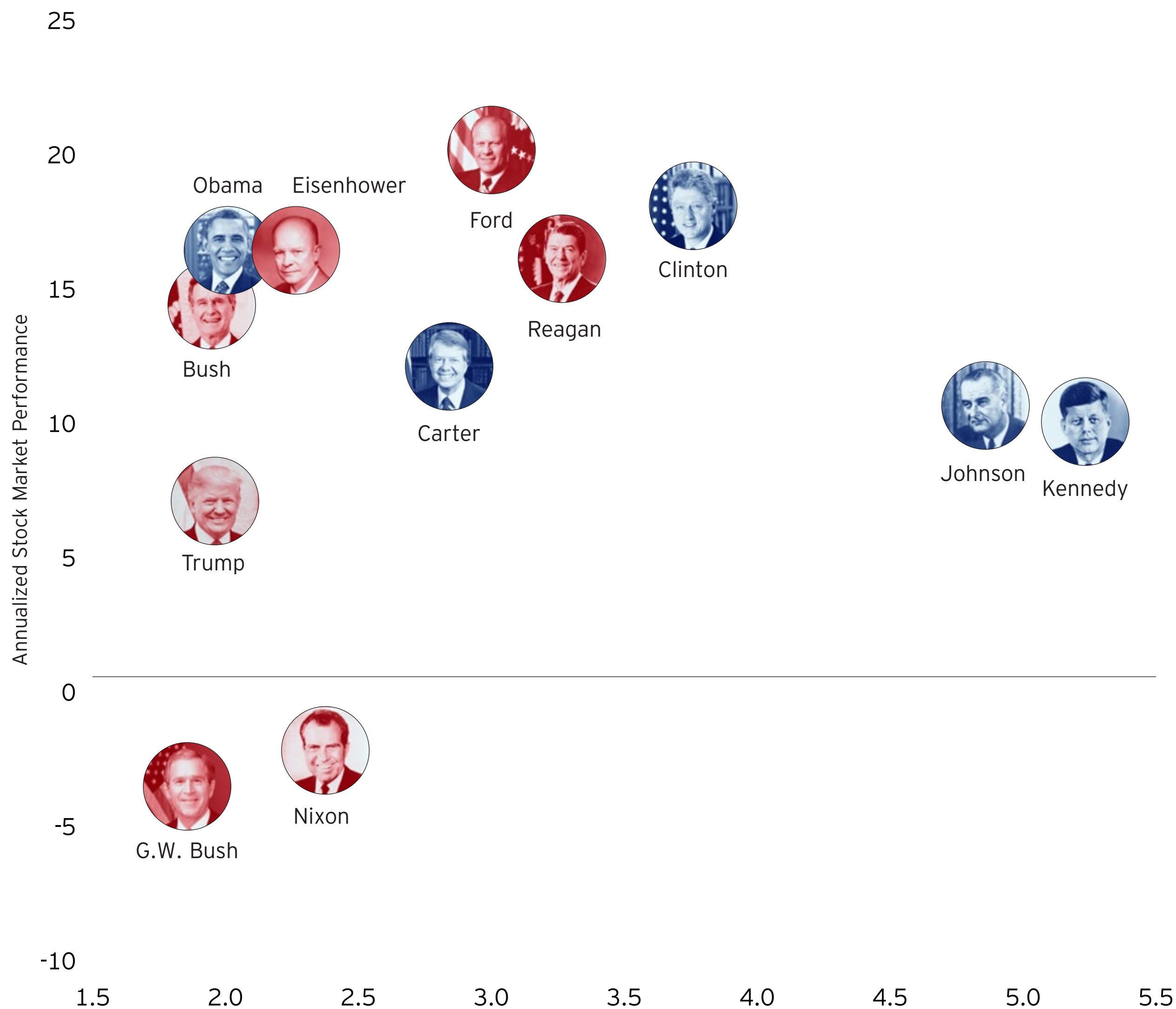
Our 10 truths no matter who wins

1. Markets have performed well under both parties.
2. Investors are better off staying fully invested.
3. We do not radically re-engineer the US economy.
4. The historical narrative is not as you remember it.
5. Signature legislative accomplishments are infrequent, and the impact is not always as expected.
6. Predictions tend to be wrong.
7. Monetary policy matters more.
8. It's okay if you don't like the President. The market doesn't care.
9. No, this is not the most vitriolic election.
10. Don't confuse partisan politics with market analysis and keep your eye on one indicator.

Markets Have Performed Well Under Both Parties

+ The S&P 500 Index delivered an average annual return of approximately 11% over the past 75 years, through both Democratic and Republican administrations.
+ The US economy also expanded around 3.0% during that period.
+ The stock market's return was negative for a presidential administration only when the country was in a financial crisis (2008) or experiencing a stagflationary spiral (1973).
+ Neither party can lay claim to superior economic or financial market performance.

Presidential term stock market returns vs. economic growth (1957-present)

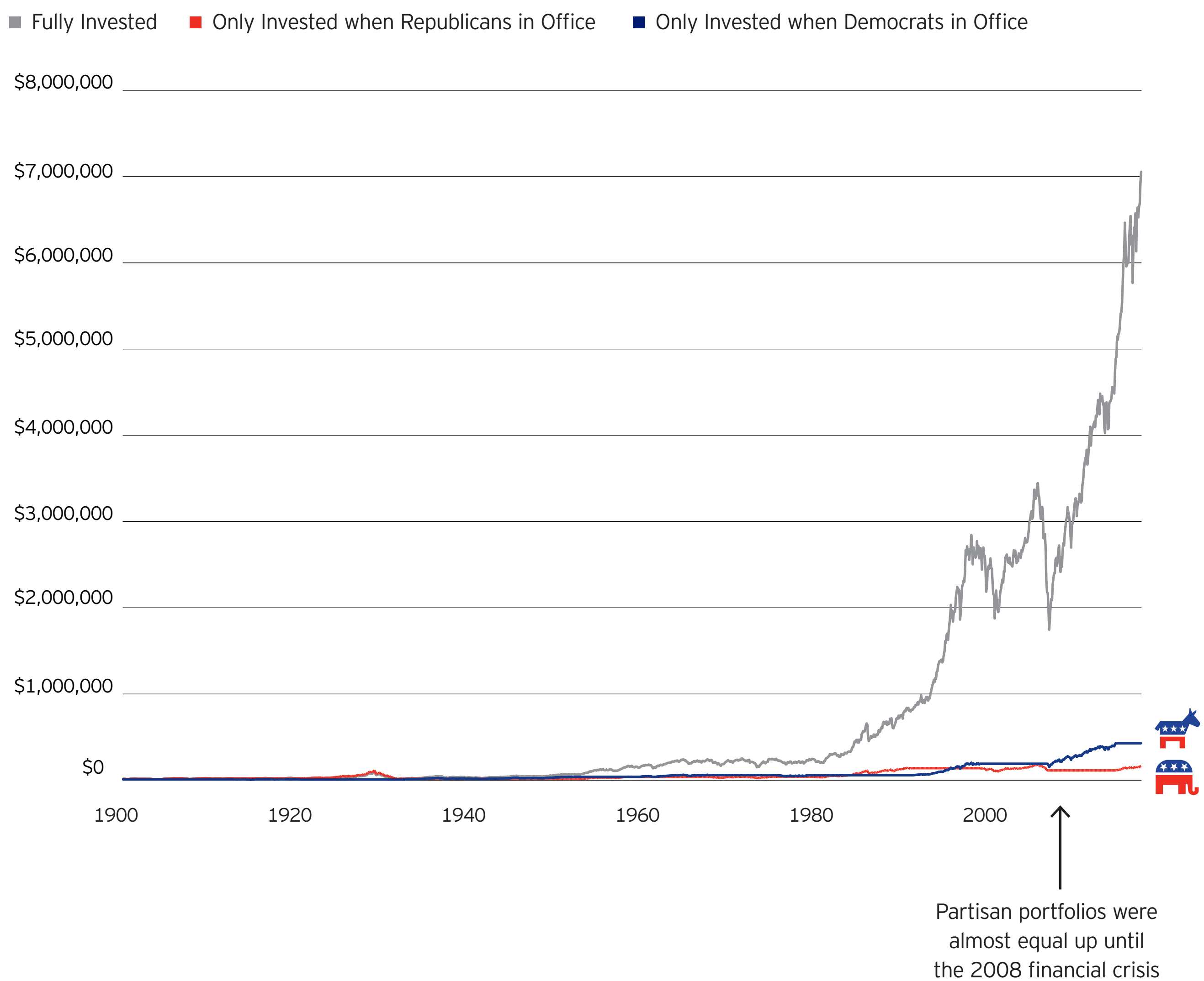


Sources: Haver, Invesco, 3/31/20. President Trump data from 1/31/17-3/31/20. Stock market performance is defined by the total return of the S&P 500 Index. Index definitions can be found on page 13. **Past performance does not guarantee future results.**

Investors Are Better Off Staying Fully Invested

+ The best-performing portfolio over the past 120 years was one that stayed fully invested through both Democratic and Republican administrations.
+ "Partisan" portfolios – which would invest only when a Democrat or a Republican was in office – underperformed, by millions of dollars, the "bipartisan" portfolio that stayed invested regardless of who was in power.
+ The difference is a result, in part, of the fact that the US stock market rose consistently over the past 120 years, even while enduring two world wars and two major financial crises (the Great Depression and the global financial crisis of 2008-2009).
+ The more time investors spent participating in markets, the better they did financially.

Growth of $10,000 in the Dow Jones Industrial Average since 1896

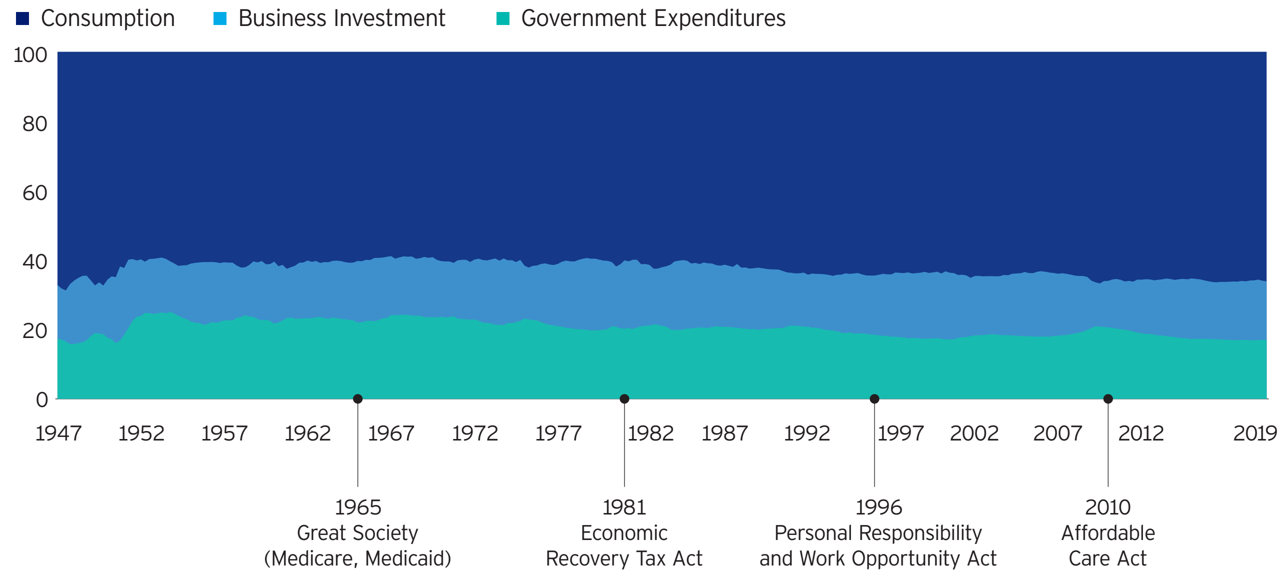


Sources: Haver, Invesco, 3/31/20. For illustrative purposes only. Index definitions can be found on page 13. **Past performance does not guarantee future results.**

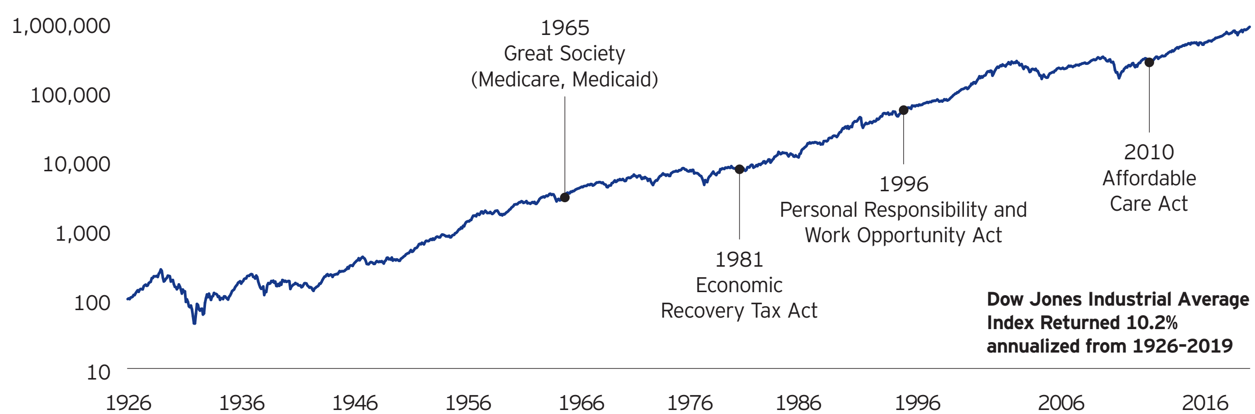
We Do Not Radically Re-engineer the US Economy

+ Among the biggest fears among investors is that a progressive candidate might radically re-engineer the economy. Remember: All presidents also need control of congress, and our system of checks and balances resulted in the last two presidents getting one signature achievement before losing the House.
+ Despite concerns about major government policy changes, business investment and government spending have been remarkably consistent as a percent of GDP.
+ Even through the enactment of major government spending programs, the Dow Jones Industrial Average Index (right chart) has still achieved returns of approximately 10% annualized.

Breakdown of major components of GDP as a % of total spending in the United States since 1947



Dow Jones Industrial Average Total Return Index (Growth of $100)



Scale is exponential.

Sources: Bloomberg, L.P., FRED, 3/31/20. Index definitions can be found on page 13. **Past performance does not guarantee future results.**

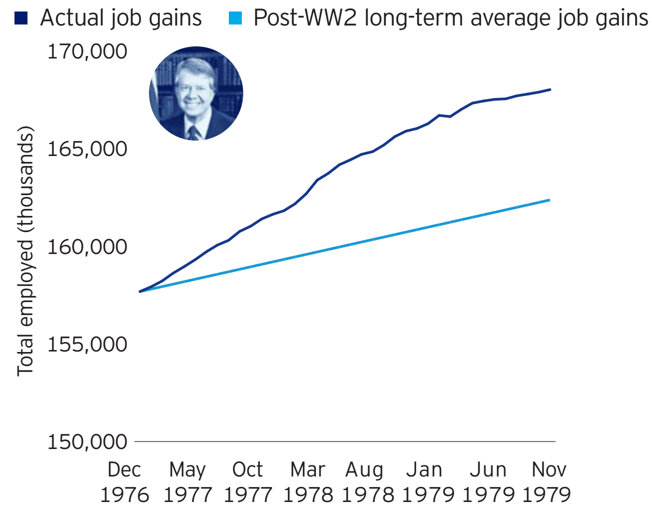
The Historical Narrative Is Not as You Remember It

+ We may attempt to use historical narratives to inform the future, but do we get the history right? Who among us remembers that:
+ Jimmy Carter presided over significant job growth.
+ Under Reagan, income for those in the 50th percentile of the population, ranked by income, grew by almost 20%.
+ During Obama's presidency, despite concerns that his policies would be massively inflationary, the US had one of the longest disinflationary environments on record.
+ Under President Trump, capital expenditures have been below their historical growth rate, even in the aftermath of a large corporate tax cut.
+ The charts here show a metric for each president, in dark blue, compared with the long-term average growth rate for that metric since the end of World War II.
+ Clearly, history is often remembered differently than the actual data.

Sources: Bureau of Economic Analysis, Bureau of Labor Statistics and Haver Analytics, 12/31/19. Note: Long-term trends are all averages since the end of World War II in 1945 except for Median Weekly Earnings, which is an average of the change since 1971, when data collection began on that statistic.

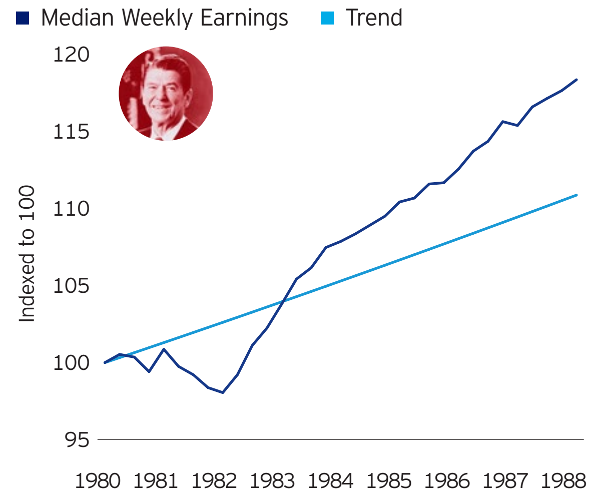
President Jimmy Carter and jobs

Nonfarm payrolls



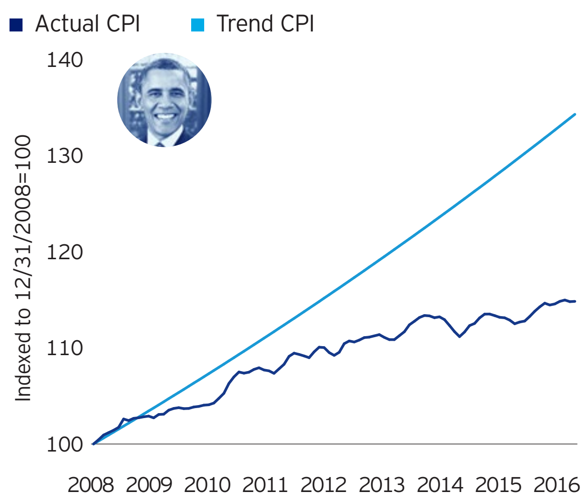
President Reagan and income gains

Average weekly earnings growth



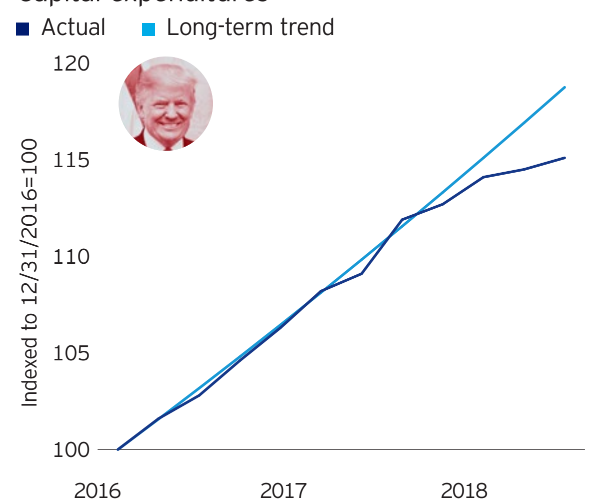
President Barack Obama and inflation

CPI trend vs. actual



President Trump and business investment

Capital expenditures



Signature Legislation Is Infrequent and Its Impact Often Unexpected

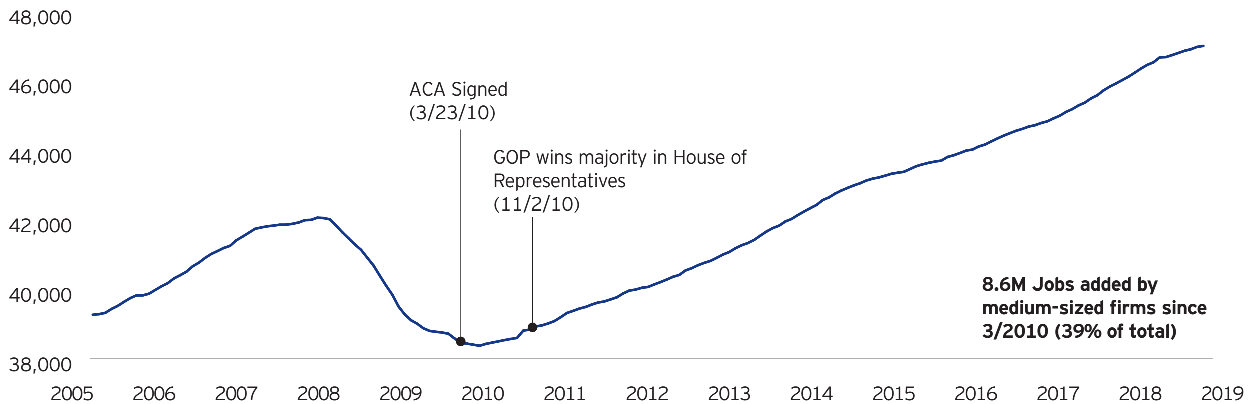
Case Study: Signature legislative accomplishments under Obama and Trump

+ Predictions and assessments about the ultimate impact of legislation are often far removed from the actual results.
+ For instance, it was predicted that the Affordable Care Act would destroy small-business hiring. But since 2010, 8.6 million jobs have been added in this sector.
+ Similarly, the Tax Cut and Jobs Act (TCJA) was intended to unlock capital expenditures, but it has thus far failed to bring an acceleration in business investment. The explanation may be that business confidence in 2019 was weak amid the uncertainty over trade.
+ In both cases, the presidents lost single-party rule, as the House of Representatives turned over to the opposition party after their signature accomplishment was enacted.

Sources: Bloomberg, L.P., FRED, 12/31/19. Index definitions can be found on page 13. **Past performance does not guarantee future results.**

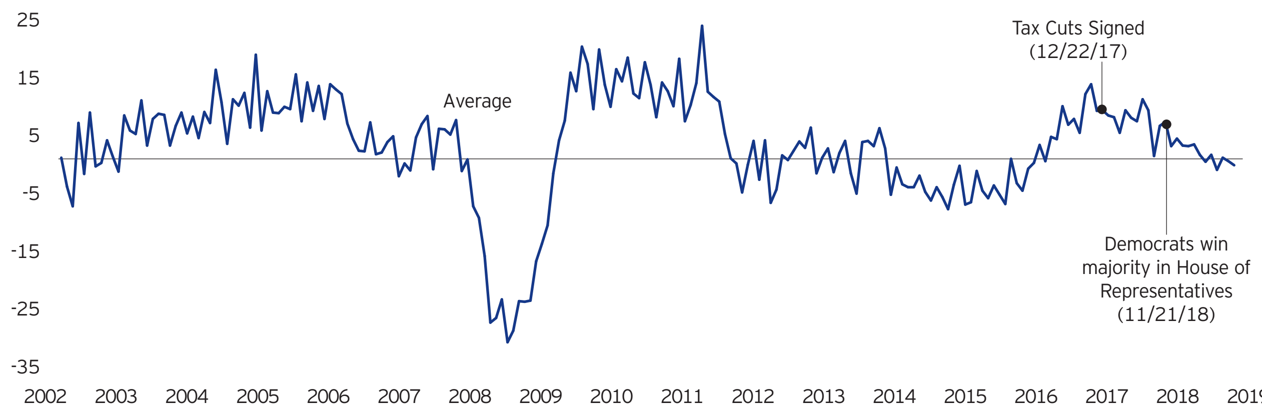
Example 1: Patient Protection and Affordable Care Act
Employers with 50 or more full-time employees are considered "large business" and therefore required to offer employee health coverage or pay a penalty.

Nonfarm private medium payroll employment (50-499)



Example 2: Tax Cuts and Jobs Act of 2017
Section 179 allows taxpayers to deduct the cost of certain property (such as machinery and equipment purchased for use in trade or business) as an expense when the property is placed in service.

US capital goods new orders (nondefense ex-aircraft and parts)

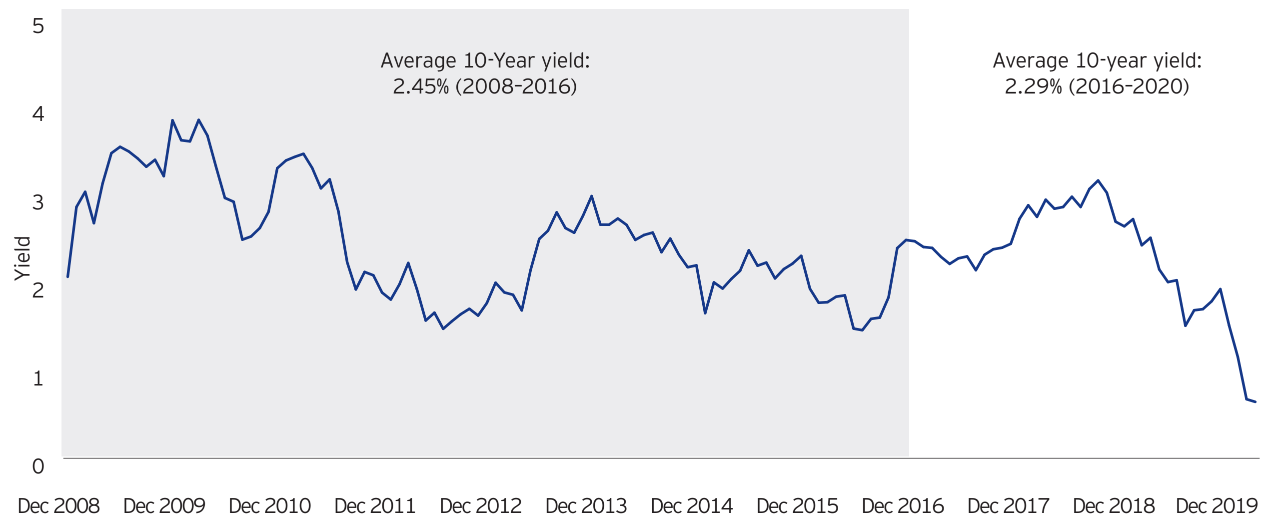


Predictions Tend to Be Wrong

- We have always resisted making market calls based on the results of presidential elections. Why? Because such calls rarely get it right.
- The past 10 years provide an interesting case study. Two very different presidents have had similar market performance.
- Growth stocks have continued their spectacular run against value, as companies that find ways to grow revenues faster than the headline rate of economic growth are rewarded. This is a far cry from what President Trump's policies were expected to do, which was to accelerate growth, thereby raising real yields, steepening the yield curve and unlocking value in the market. But value stocks didn't receive the catalyst they needed to outperform.
- Conventional narratives are often wrong on candidates' stated policies. Remember the end of health care stocks in 2008? The health care sector returned 15.31% annualized, just below the 15.99% return of the S&P 500 Index while President Obama was in office.
- The US 10-Year yield has been lower during President Trump's term than it was during President Obama's.

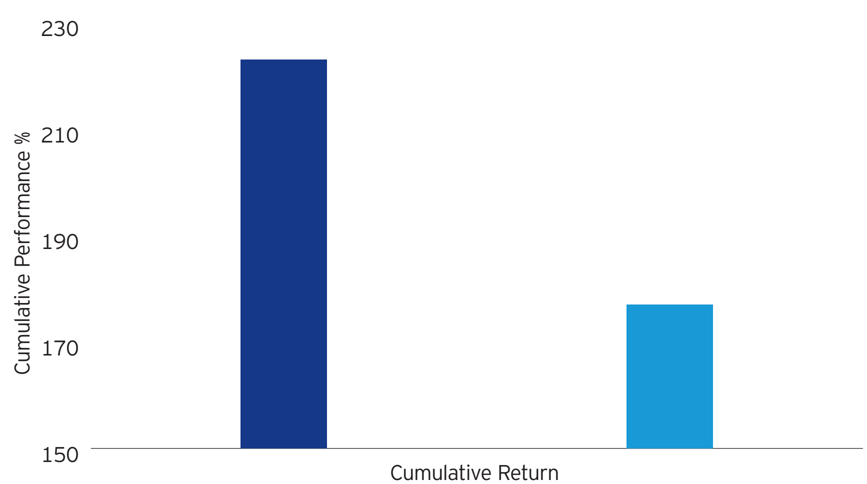
Sources: Bloomberg L.P., Russell, 4/30/20. Index definitions can be found on page 13. **Past performance does not guarantee future results.**

Nominal US 10-year yield

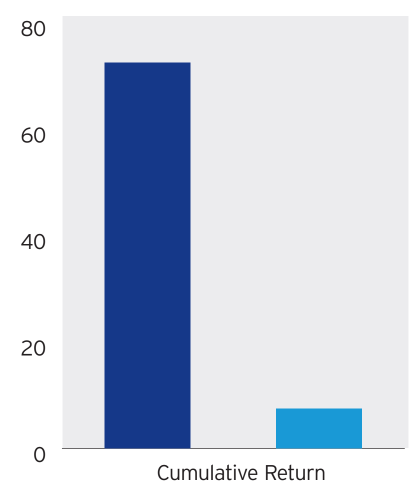


2008-2016

■ Russell 1000 Growth ■ Russell 1000 Value



2016-4/30/2020

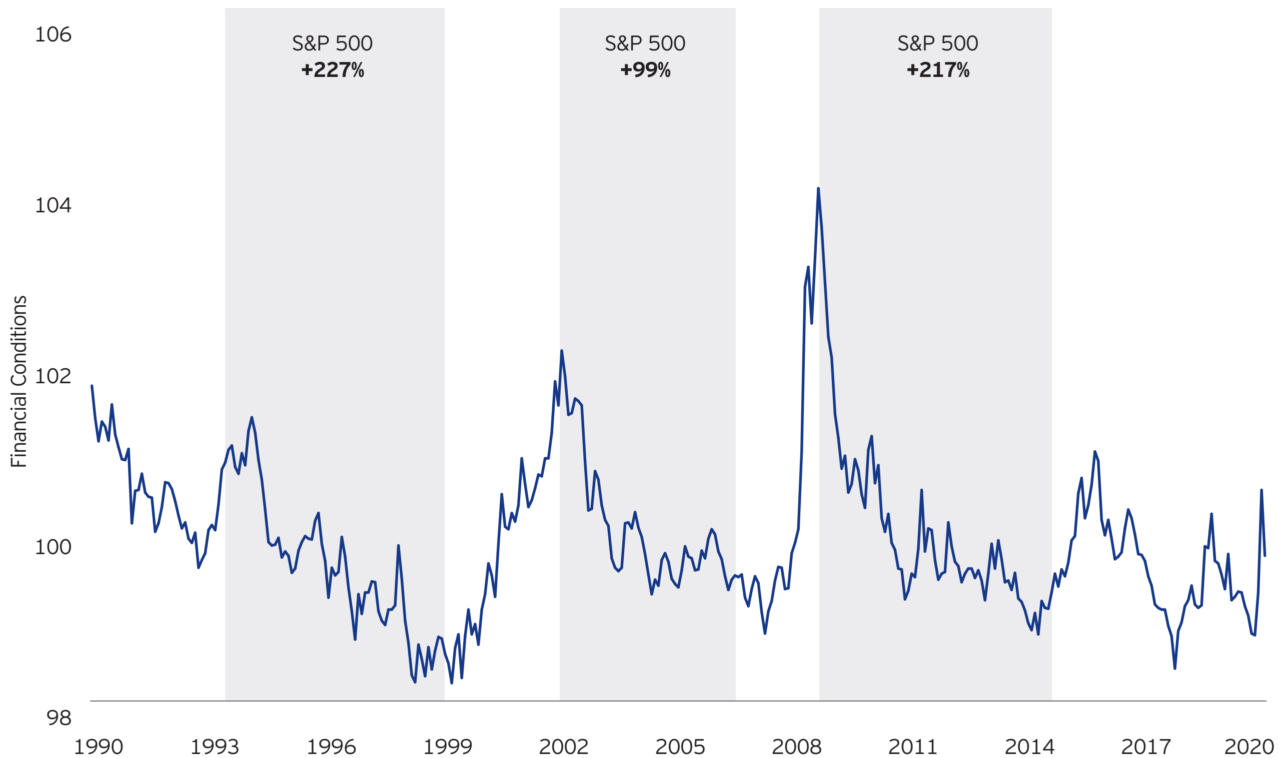


Monetary Policy Matters More

+ For all the focus put on the executive branch, we would argue that it is monetary policy that matters more. The old adage holds true: Don't fight the Fed.
+ Currently, the Fed is providing policy support but does not intend to cut rates meaningfully. As a result, we would expect the current environment to remain relatively benign for stocks and the yield curve to keep steepening modestly.
+ Historically, presidents have been hurt or helped by monetary policy conditions. For instance, both Presidents Reagan and Clinton benefited from consistently falling interest rates during the great moderation. Both Presidents George H.W. Bush and George W. Bush were hurt by Fed tightening, an inverted yield curve, and a recession. President Obama benefitted from a benign rate environment (minus a brief moment in 2015–2016) during his term, and President Trump was the unfortunate recipient of tighter policy during his first two years.
+ Markets have done well during prior periods of easing financial conditions.

Sources: Goldman Sachs, Bloomberg L.P., 4/30/20. See index definitions on page 13. An investment cannot be made in an index. **Past performance does not guarantee future results.**

Financial conditions and S&P 500 performance during easing conditions

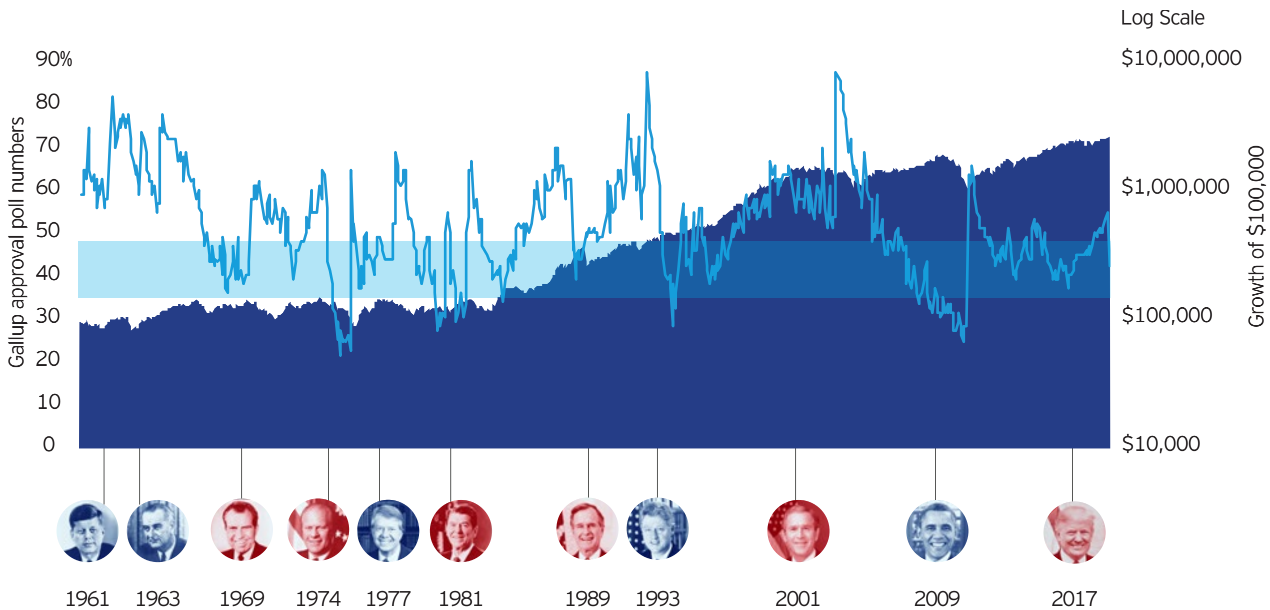


Markets Don't Care If You Don't Like Who's President

+ Investors don't have to love what is going on in Washington, DC, to prosper in the markets.
+ Some of the best returns in the market came when the presidential approval rating was in the low range of between 36% and 50%.
+ That means the market had delivered some of its best returns during periods when half or more of the country didn't approve of the job the current administration was doing!
+ Still, it's hard to discern any direct relationship between a president's popularity and the health of the US economy and the performance of financial markets.

Source: Bloomberg, L.P., 12/31/19. See index definitions on page 13. An investment cannot be made in an index. **Past performance does not guarantee future results.**

Gallup poll presidential approval ratings and the growth of $100,000



Presidential Approval Rating	Gain/Annum	% of Time
>65	5.4%	13.9%
50-65	4.2%	36.2%
30-50	15.3%	36.8%
<35	-19.7%	6.6%

No, This Is Not the Most Vitriolic Election

+ Vitriol has always been a part of our political process.
+ In fact, some of the worst incidences of press-facilitated slander against national heroes like Thomas Jefferson and even George Washington himself induced these men to be frustrated with the free press.
+ One of the most infamous duels in American history was the result of political disagreements. On the cliffs of Weehawken, in 1804, Alexander Hamilton, the former US Treasury secretary, fought with Aaron Burr, the then sitting vice president of the United States, which ultimately led to the death of Mr. Hamilton.
+ As long as Vice President Pence isn't fighting any duels, we're actually maintaining a higher level of political discourse today.

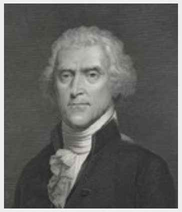
All quotes are in the public domain.

Newspaper Laments

Even though early presidents were staunch defenders of a free press, they still were upset by newspaper coverage.

George Washington

Newspapers filled "with all the invective that disappointment, ignorance of facts, and malicious falsehoods could invent to misrepresent my politics."

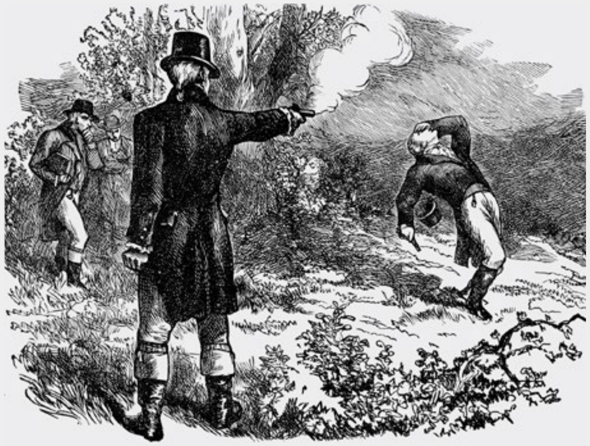


Thomas Jefferson

"Nothing can now be believed which is seen in a newspaper. Truth itself becomes suspicious by being put into that polluted vehicle."

A Deadly Duel

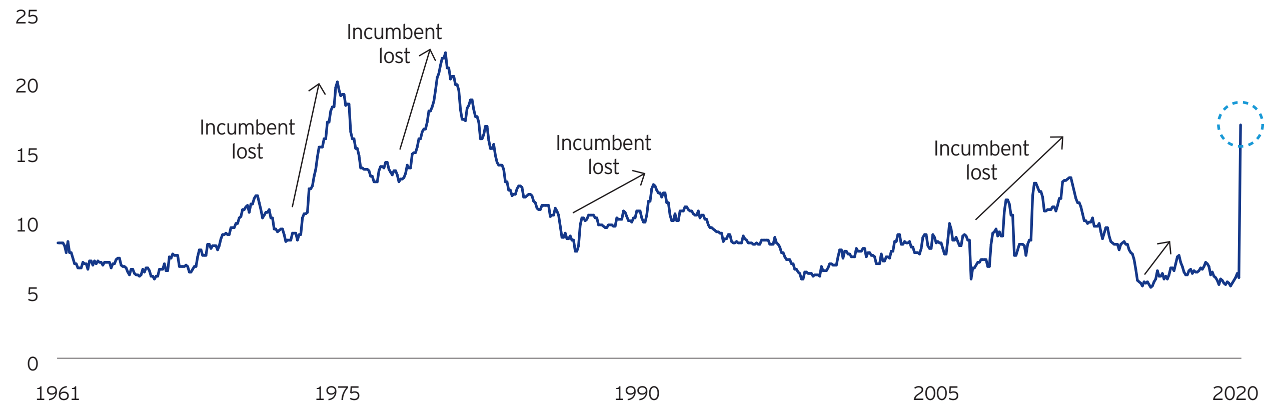
While political debates and sound bites make for contentious TV today, fortunately, nothing in recent memory compares to the personal vendetta between sitting vice president Aaron Burr and former treasury secretary Alexander Hamilton that led to a duel with pistols.



Don't Take Punditry as Objective Market Analysis and Focus on a Key Indicator

- As we close, do we have a concluding prediction for the election or the markets? We will withhold.
- One thing to watch is the Misery Index. It is a combination of unemployment and inflation.
- As of now, the index suggests the path to reelection may be challenging for President Trump.
- Regardless of who you favor, don't let your favorite election indicators, or the ultimate result, disrupt your financial plan.
- Consider the predictions of entrepreneur Mark Cuban, who thought the market would tank if Donald Trump won the 2016 election, or economist Michael Boskin, who believed President Obama's policies were killing the Dow. The dire predictions of disappointed voters tend not to come true.

Unemployment plus inflation



US stock market performance

Sources: Bloomberg L.P., Haver Analytics, S&P, as of 4/30/20.
Past performance does not guarantee future results.

Index Definitions

Consumer Price Index (CPI) program produces monthly data on changes in the prices paid by urban consumers for a representative basket of goods and services.

The Dow Jones Industrial Average is a price-weighted index of the 30 largest, most widely held stocks traded on the New York Stock Exchange.

The S&P 500 Index is a market-capitalization-weighted index of the 500 largest domestic US stocks.

The Russell 1000 Value is an unmanaged index considered representative of large-cap value stocks. The Russell 1000 Value Index is a trademark/service mark of the Frank Russell Co. Russell® is a trademark of the Frank Russell Co.

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The Misery Index is an economic indicator calculated by adding the current unemployment rate and the inflation rate.

Indexes are unmanaged and cannot be purchased directly by investors. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment. **Past performance does not guarantee future results.**

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