BESPOKE BRIEFING

REICH FITZPATRICK PRIVATE WEALTH
GROUP OF WELLS FARGO ADVISORS

A letter from Rob Reich:

"Democracy… is a charming form of government, full of variety and disorder; and dispensing a sort of equality to equals and unequals alike"

- Plato

The Politics of Wealth

Last month, we addressed the question we've been hearing from clients most frequently: "when will the markets return to normal?" This month we're tackling the question we know we'll hear the most for the next nine months: "how will the elections affect the markets and my portfolio?"

Politics is always a topic of interest for investors, it seems. Yet after having spent three decades in the industry, and witnessing some pretty remarkable election cycles, I'm convinced political cycles, economic cycles, and market performance are at best loosely correlated, and whatever correlation does exist is weak and short lived.

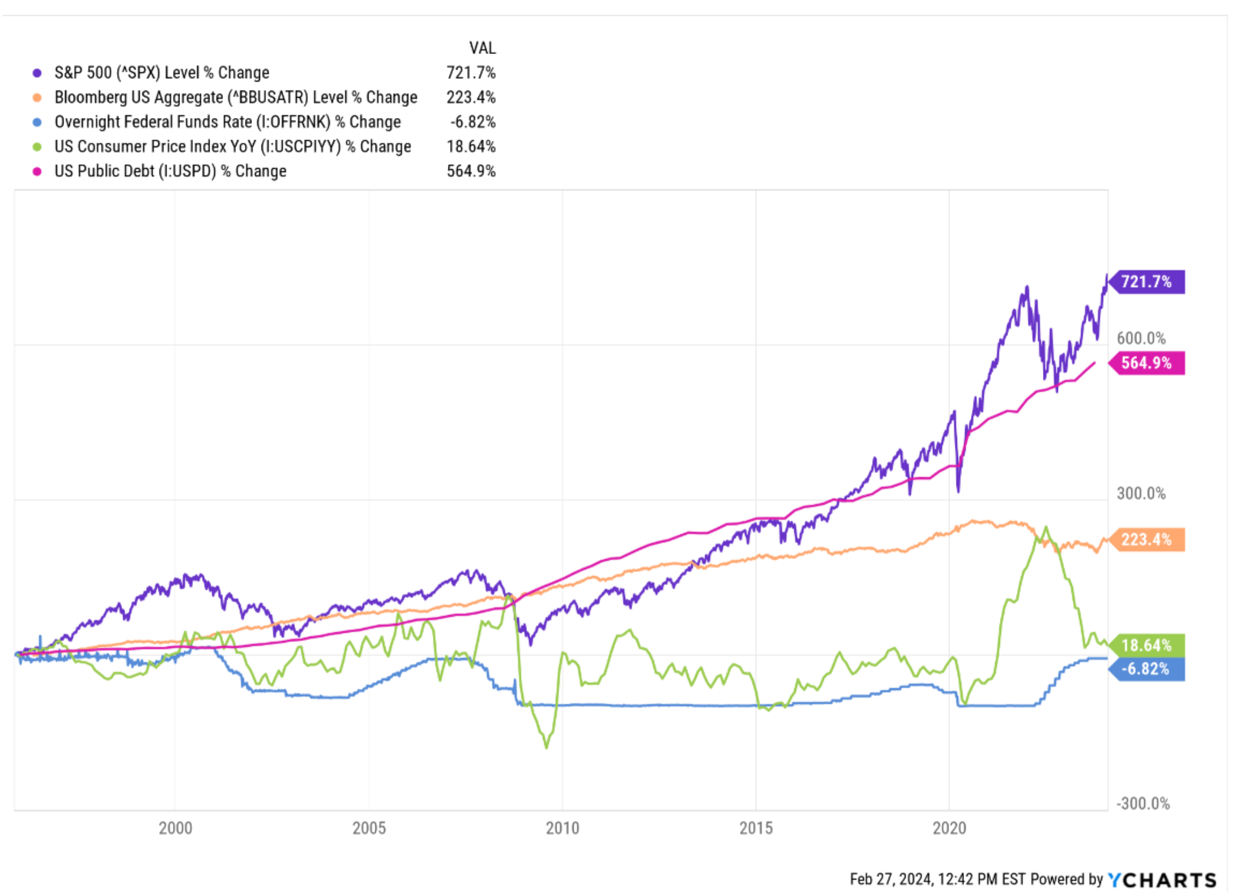
Politics' impact on markets tends to be "headline risk." And while the impact of a news story can be material initially, it is generally relatively short lived.

I acknowledge that this theory runs contrary to the opinion of some media, and perhaps even some of you. Allow me to make my case, relying not on opinion, but on some of the most respected practitioners in our industry and history.

Jeremy Segal of Wharton stated in his highly regarded book, "Stocks for the Long Run": "Bull markets and bear markets come and go, and it's more to do with the business cycle than presidents." We agree wholeheartedly with Professor Segal and contend that presidents get too much of the credit when markets go up and too much blame when they go down. Markets and economies tend to move in and out of troughs. It's called the business cycle.

The chart below, prepared through Y-Charts, illustrates two important elements of our thesis. First it makes clear that investors have the potential to prosper under both Democratic and Republican administrations. Second, it shows that the equity market has the potential to move or be influenced more by the Fed, than by the party of the president.

If you examine the curves of "Federal Funds Rate" and the "S&P 500," you will see that, when the Fed raises rates, typically the S&P begins to lag. Conversely, when the Fed cuts rates, stocks tend to move higher. Included in the chart are some of the key macroeconomic indicators we rely on to forecast and define business cycles - inflation, Fed Funds Rates, and interest rates.



Past performance is not an indication of future results An index is not managed and is unavailable for direct investment..

Our thesis is not that politics have no impact on equity prices, especially in the near term, but rather that political trends are not ultimately determinative. Politics have an "indirect effect" on equity markets and not a direct one. Yes, administrations can pass regulations and laws that will impact companies, at least until those companies can adjust to the new environment. But ultimately, politics will not typically be the primary driver of an equity's performance over the long-term. Many companies have typically navigated changing landscapes, multiple changes in political power, numerous expansions and contractions in the business cycle, and constantly changing regulations and legislation. As investors, the prospects and outlook for these companies themselves are what we are researching, not one political party or another.

In July 2020, just prior to the last "most consequential election of our lifetimes," Forbes published an interesting article examining how "The Stock Market Performed Under Every U.S. President Since Truman," by Sergei Klebnikov and Halah Touryalai.

According to the article, "From 1952 through June 2020, annualized real stock market returns under Democrats have been 10.6% compared with 4.8% for Republicans." When considering this data, bear in mind two key facts: proximal does not necessarily imply causality and averages can be very misleading.

President Clinton experienced the most robust aggregate stock market returns during his time in office, as the market soared over 200%. Interestingly, his predecessor George W. Bush suffered the greatest aggregate erosion in equity prices during his administration of about 40%. During the same timeframe, according to Forbes, the country experienced 12 economic expansions, 5 under Democrats and 7 during Republican administrations. There were 12 recessions, 2 taking place during Democratic administrations and 10 while Republicans occupied the White House.

Having immersed ourselves in this data and revisited it again and again over decades, we are left with the inescapable conclusion that markets have done well under the leadership of both parties.

History and experience have taught us to invest in world class companies that are dominant in their marketplace, have strong financials, enjoy durable moats around their business and investor centric leadership, and have a strong focus on the long term.

Yes, headline risk will introduce heightened volatility from time to time. But volatility is relevant only if an investor chooses or is forced to interact with it. One of our most important jobs is to make sure that doesn't happen to you. We work to assure that our clients don't find themselves in this position, and at times to look for opportunities in the chaos. Then when the clouds clear and the waters return to calm, you can continue your journey, confident in your ability to live your best life and take care of the people and organizations dearest to you.

One of our team's key goals is to constantly elevate the level of service we provide to our client families. Recently, we were fortunate enough to be introduced to a new client family by a long-time client.

After having begun working with the family, they asked: "what is your team email?" We had to reply that we did not have one. The client said that it would be easier for he and his family to communicate effectively if we had one. He told us their previous advisor team had one and the family found it very handy.

What a great idea we thought. Kitty and the team got to work and now we have a team email. It is ReichFitzpatrickPWG@wellsfargoadvisors.com. Feel free to use it whenever you are not sure who to contact or to ensure we all get the message.

If you have any suggestions as to how we can serve you and your family better, we would love to hear your suggestions. If it is possible, we will do our best to make it happen.

Thanks, Rob

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