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WEALTH OF KNOWLEDGE

NEWSLETTER COVERING THE WEALTH CONTINUUM

The Impact of the U.S. Presidential Election on Markets

American politics has been highly polarized for at least the past 20 years, and often the policy proposals of the two major parties have been significantly different from each other. So, it is not surprising that each side views itself as good for the economy while portraying the other as a looming disaster. With polls expected to tighten as election day draws near, many investors wonder how financial markets might respond to the various possible outcomes.

A quick summary of the candidates and their party platforms suggests that Republicans would continue to promote an environment of lower corporate and personal taxes, reduced regulations, renegotiation of trade agreements and increased re-opening of the economy nationwide. Democrats, on the other hand, have advocated a rollback of the Trump tax cuts, with a particular focus on raising corporate taxes and personal taxes on top earners, and a reversal of deregulation strategies to pursue environmental goals. Former Vice President Biden has also acknowledged that he might close the economy again to fight Covid-19, if recommended by the scientific community.

All of these reveal stark differences in economic proposals that are comparable to the policy changes that were enacted through many previous Democrat and Republican presidential administrations, including the Clinton era, the Reagan Revolution, the Great Society, the New Deal and beyond. We make this point because study after study shows a remarkable similarity in the performance of broad measures of the stock market for Democratic and Republican administrations despite their policy differences. For example, a recent Vanguard article using 150 years of US market history shows an average annual return on a balanced portfolio of 8.2% under Republican presidents and 8.4% under Democrats – a statistically insignificant difference.[1]

Another study, by Invesco, shows that "partisan" portfolios, held only during either Republican or Democratic administrations, underperform "bi-partisan" portfolios that are held throughout both parties' administrations.[2] The explanation is simple: since the market has tended to perform well under both parties, getting out of the market during one or the other party would generally cause investors to miss out on significant market gains. The big takeaway from both studies is that it is better to stay invested even if one dislikes the winning candidate.

But will all stocks do equally well under either administration? Since Democrats will more likely pursue a "Green New Deal," companies that focus on renewable energy might benefit more from a Biden Administration than traditional fossil fuel companies. Similarly, President Trump's focus on national security might benefit defense companies relative to others. Furthermore, both Trump and Biden have advocated for significant infrastructure spending, which would help the bottom lines of industrial firms, such as engineering companies and heavy machinery.

Still, investors are often surprised by a sector's performance relative to their expectations under a given administration. Many investors expected the Affordable Care Act to be bad for the health care industry, but health care stocks returned an annualized 15.31% during the Obama Administration, compared to 15.99% for the S&P 500 as a whole,[3] and defense stocks underperformed the broad market under President Trump. These facts underscore the importance of maintaining diversified portfolios with exposure to broad sectors of the economy, not just the "politically favored" industries. All while staying fully invested.

Election season does present other concerns for stock investors besides the worrisome policies of the competing parties. October, for example, is a notoriously volatile month. Yet, over the past 50 years the S&P 500 has, on average, realized slight gains during the month of October – except in presidential election years. Forbes.com reports that the S&P 500 has actually lost an average of 2.5% during the month before a presidential election.[4] This is likely due to the fact that voters get more focused on the election as the day draws near, and often, the polls begin to tighten and uncertainty of the outcome grows. And all investors know that "the market hates uncertainty."

One source of uncertainty in this year's election is the possibility that election night will come and go with no clear winner. Due to Covid-19, it is possible that millions of mail-in ballots will be waiting to be counted long after election night has passed. And the armies of lawyers on both sides makes it almost a certainty that this year's vote will end up in the courts. The recent passing of Supreme Court Justice Ruth Bader Ginsburg only heightens the uncertainty in this respect.

How might such a scenario affect market performance? We can look to the 2000 Bush-Gore post-election battle as a rough guide. During the five weeks it took to declare a winner in that presidential election, the S&P 500 lost 11% of its value. However, a big difference between now and then is that, in 2000, the post-election turmoil was unexpected. This time around, everyone anticipates a messy, legally-charged process of counting the ballots. As a result, those expectations may already be priced into the market.

When all is said and done, our best counsel to our clients is to stay fully invested. If you've ridden the recent equity rebound to new heights in your asset allocation, then rebalancing to your long-term targets is wise and appropriate. Otherwise, stay invested, buckle your seatbelts, (Did we mention that November and December are typically good months for stocks in election years?) and enjoy the ride.

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[1]Vanguard.com, "What U.S. Elections Mean for Investors," https://investornews.vanguard/what-u-s-elections-mean-for-investors/ [2]Invesco, "2020 Election: 10 Truths No Matter Who Wins" [3]Ibid
[4]Forbes.com, "Fasten Your Seat Belts: Markets Could Have a Bumpy Election Season," https://www.forbes.com/sites/randywatts/2020/08/27/fasten-your-seat-belts-markets-could-have-a-bumpy-election-season/#23d2114c420a

Financial Planning: Helping You See the Big Picture

Do you picture yourself owning a new home, starting a business, or retiring comfortably? These are a few of the financial goals that may be important to you, and each comes with a price tag attached.

That's where financial planning comes in. Financial planning is a process that can help you target your goals by evaluating your whole financial picture, then outlining strategies tailored to your individual needs and available resources.

Why is financial planning important? One of the main benefits of having a financial plan is that it can help you balance competing financial priorities. A financial plan will clearly show you how your financial goals are related–for example, how saving for your children's college education might impact your ability to save for retirement. Then you can use the information you have gleaned to decide how to prioritize your goals, implement specific strategies, and choose suitable products or services. Best of all, you will be more confident that your financial life is headed in the right direction.

The financial planning process. Creating and implementing a comprehensive financial plan involves working with financial professionals to:

- Develop a clear picture of your current financial situation by reviewing your income, assets, and liabilities, and evaluating your insurance coverage, your investment portfolio, your tax exposure, and your estate plan
- Establish and prioritize financial goals and time frames for achieving them
- Implement strategies that address your current financial weaknesses and build on your financial strengths
- Help ensure that the services you are utilizing are tailored to your goals
- Monitor your plan and prepare to adjust as your goals, time frames, or circumstances change

Some members of the team. The financial planning process will likely include a team of professionals to ensure the plan is effective. Financial planners typically play a central role in the process, focusing on your overall financial plan, and often coordinating the activities of other professionals who have expertise in specific areas. Planners who have the CFP designation are held to a high standard and have expertise in all areas of the planning process. Accountants or tax attorneys provide advice on federal and state tax issues. Estate planning attorneys help you plan your estate and give advice on transferring and managing your assets before and after your death. Insurance professionals evaluate insurance needs and recommend appropriate products and strategies. Investment advisors provide advice about investment options and asset allocation and can help you to build and manage an investment portfolio to meet your long-term goals.

The most important member of the team, however, is you. Your needs and objectives drive the team. Once you have carefully considered any recommendations, all decisions lie in your hands.

Staying on track. The financial planning process doesn't end once your initial plan has been created. Your plan should generally be reviewed at least once a year. It's also possible that you'll need to modify your plan due to changes in your personal circumstances or the economy. Here are some of the events that might trigger a review of your financial plan:

- Your goals or time horizons change
- You experience a life-changing event such as marriage, the birth of a child, health problems, or a job loss
- You have a specific or immediate financial planning need
- Your income or expenses substantially increase or decrease
- Your portfolio hasn't performed as expected
- You are affected by changes to the economy or tax laws

No matter what type of help you need, CNB Wealth Management's financial planning team can help ensure you are on track to meet your financial goals and will gladly answer any questions you have.

Laurie Haelen, AIF® is a Senior Vice President, Manager of Investment and Financial Planning Solutions with CNB Wealth Management. She may be reached at (585) 419-0670, ext. 41970 or by email at LHaelen@CNBank.com.

Welcoming Andrew W. Murray to CNB Wealth Management

Andy joined CNB Wealth Management in May 2020 as Vice President, Wealth Advisor, bringing more than 30 years of experience in the financial services industry. Andy joins a team of professionals providing clients at any life stage with the tools and resources necessary to make educated and informed choices to help them achieve their financial goals.

Andy is located at Basin Park Financial Center and may be reached at (585) 419-0670, ext. 57753 or at AMurray@CNBank.com.

CNC Shareholder Corner

Today more than ever, it is important to stay in-touch. Please give us a call and verify your current contact information so we can continue to share the CNC story with you.

Contact Kirsten Johnson, Shareholder Relations Specialist at (585) 394-4260, ext. 36067.

1180 WHAM Ask the Experts

Our professionals are featured on radio talk show, "Ask the Experts", to discuss a variety of financial topics. The show is broadcast on WHAM 1180 in the Western NY region, Saturdays at 8:00 pm. Those who reside outside of the region can listen online at wham1180.com.

2020 Shows
November 28