TRIVANT

CUSTOM PORTFOLIO GROUP, LLC

October 2020

Quarterly Insights

Third Quarter 2020

EXECUTIVE SUMMARY

US Stocks Lead Developed Markets In Q3

In the Third Quarter, the domestic S&P 500 Index was up 8.93% to further extend its 2020 lead over developed markets. Enthused by Federal Reserve actions (zero target rate, economic stimulus), investors downplayed Covid-19 and election anxiety. Successful covid management has propped China's economy and stocks. The Bloomberg Barclay's US Aggregate Bond Index was flat, rising 0.62% in Q3 following a 2.90% rise in Q2. We remain cautious in both our stock and bond portfolios.

Which Party Is Better For The Stock Market?

As the November 3 election approaches, the inevitable question arises as to which Presidential candidate will be better for the stock market. How do we assess this question? Is it as simple as comparing party ideology regarding tax policy (lower or higher taxes) and market regulations (lenient or strict)?

If you are like most investors, your perception of which party is better for the stock market does not match the reality. Further, we argue that in spite of the market data, neither party is better for the stock market. Follow the Fed, not the president.

John Barber, CFA

Dan Laimon, MBA

Michael Harris, CFA, CFP®

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www.trivant.com

1-866-4-TRIVANT

toll free

Investor Perception: Republican Presidents Are Better For The Stock Market

Most investors, regardless of political affiliation, perceive that Republican presidents are better for the stock market. Their rationale is that the Republicans' perpetual push towards lower taxes and reduced regulations should benefit companies. Intuitively, it stands to reason that companies should out-perform under these conditions, and should under-perform with the Democrats' relatively stricter approach to taxes and regulations. Has the stock market out-performed with Republican presidents? No, it has not.

Historical Data: Democratic Presidents With A Split Congress Are Better For Stocks

The stock market has historically out-performed with a Democratic President. However, this statement bears further clarification. The magnitude of out-performance depends on party control of the House and Senate. The combination of a Democratic President and a split Congress has been the best for stocks - a relative 4.49% annual out-performance (13.60% annual performance versus 9.11% average annual performance for all years).

Looking ahead to the November 3 election, the outcome is not clear-cut. The only certainty is that the House will remain under Democrat control. This leaves four possible combinations of White House control and Congress control.

Scenario	White House Control (President)	Senate Control	House Control
1	Republican (Trump)	Republican	Democrat
2	Republican (Trump)	Democrat	Democrat
3	Democrat (Biden)	Republican	Democrat
4	Democrat (Biden)	Democrat	Democrat

Average Annual Performance

Source
Strategis (as of August 31, 2020)

	Political Scenarios	% Change (1933 – 2019)	Number of Years (1933 – 2019)	Relative Performance
	Unified Government	10.03%	42	
Scenario 4:	Democratic President	9.34%	34	Average
	Republican President	12.95%	8	
	Unified Congress	7.42%	32	
	Democratic President	12.96%	10	
Scenario 2:	Republican President	4.91%	22	**Worst**
	Split Congress	10.38%	12	
Scenario 3:	Democratic President	13.60%	4	**Best**
Scenario 1:	Republican President	8.77%	8	Average
	All Years	*9.11%*	*86*	

Be careful with interpreting the data. Isolating one factor - stock market performance - does history tell us we should root for a Democratic President (a Biden victory) and a split Congress? No, it does not.

While Market Data Favors Democrats, There Is No Cause And Effect

The scorecard for stock market performance leans heavily in favor of Democratic Presidents.

PRESIDENTIAL PERFORMANCE

Which presidents have delivered the best stock returns? So far Democrats are dominating.

President	Political Party	Years In Office	S&P Return (%)
William J. Clinton	D	1993-2001	210
Barack H. Obama	D	2009-2017	182
Dwight D. Eisenhower	R	1953-1961	129
Ronald W. Reagan	R	1981-1989	117
Harry S. Truman	D	1945-1953	87
George H. W. Bush	R	1989-1993	51
Lyndon B. Johnson	D	1963-1969	46
Donald J. Trump	R	2017-	43
Jimmy E. Carter	D	1977-1981	28
Gerald R. Ford	R	1974-1977	26
John F. Kennedy	D	1961-1963	16
Richard M. Nixon	R	1969-1974	-20
George W. Bush	R	2001-2009	-40

Source: YCharts. Table: Forbes
Performance represents price change only. Figure for Truman reflects the Dow Jones Industrial Average. (As of June 30, 2020)

From 1952 through June 2020, annualized real stock market returns under Democrats have been 10.6% compared with 4.8% for Republicans. Presidents Clinton (1993-2001) and Obama (2009-2017) lead the pack. Their significant out-performance had more to do with circumstances and luck rather than an innate ability to propel the stock market. No president can control the stock market. Market performance has much more to do with the current economy, special events, and prevailing Fed policy rather than who is president.

To illustrate, the current environment (a pandemic) presents many challenges. We have previously seen the:

- Financial crisis (2007-2008) and terrorism threat (starting September 11 ,2001) faced by George W. Bush
- Civil unrest that challenged the Johnson and Nixon administrations
- High inflation, rising interest rates, surging unemployment, and energy crisis faced by Jimmy Carter

"Stock markets do perform better under Democrats than under Republicans. That's a well-known fact, but it does not imply cause and effect. Bull markets come and go, and it's more to do with business cycles than presidents."

Jeremy Siegel
Professor of Finance
Wharton School of the University of Pennsylvania

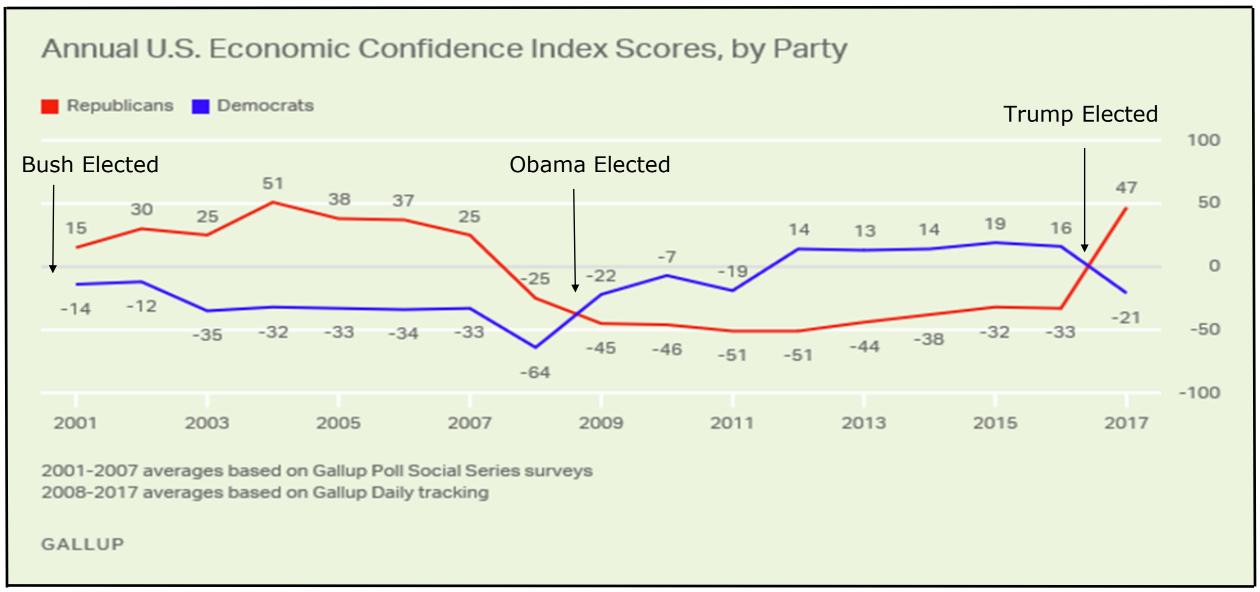
Political Affiliation Drives Investment Bias - Avoid The Trap!

Published on February 26, 2012, an academic research paper entitled “Political Climate, Optimism, and Investment Decisions” (Yosef Bonaparte, Alok Kumar, Jeremy K. Page) established that the prevailing political climate and political affiliation of individuals jointly influence their optimism towards financial markets and the macro-economy (see Quarterly Insights, April 2017). Put in the context of the upcoming election, Republicans will be more enthused about stocks than Democrats with a Trump victory and Democrats will be more enthused about stocks than Republicans with a Biden victory.

Gallup’s Economic Confidence Index is based on the combined responses to two questions:

1. Rate economic conditions in the US today.
2. Are economic conditions as a whole getting better or worse?

Republicans had a dismal view of the economy - especially of its future direction - during Democratic President Barack Obama’s two terms (2009-2017). Immediately after the Trump win (November 9, 2016), Republicans became significantly more optimistic. Conversely, Democrat confidence in the economy plummeted after that election. We postulate that many Republicans who were on the sidelines for many years came back to the market on November 9, 2016. The S&P 500 Index was +182% during Obama’s time. Political biases have been very damaging to investors in the past - avoid the trap no matter who wins in November!



Follow The Fed, Not The President

Neither party is better for the stock market. Follow the Fed, not the president. Fed policy is by far the greatest predictor of stock performance. The market tends to out-perform when the Fed is “stimulative” (low interest rates, security purchases, aggressive lending) and tends to under-perform when the Fed is “restrictive” (high interest rates and selling securities from its balance sheet). In response to current economic challenges, the Fed announced on September 16 that its target rate remains 0% - 0.25% and could stay there through 2023. Its full-year GDP decline estimate was lowered to 3.7% and it sees GDP improvement (+4% in 2021, +3% in 2022, and +2.5% in 2023). The Fed will maintain its lending and liquidity programs as well as continue its bond-buying program. As Fed Chairman Jerome Powell has previously stated, the Fed will “do whatever it takes to move the economy forward”. Chairman Powell has also urged Congress to approve more stimulus spending.

We are apolitical as your investment manager. Our investment decisions regarding style rotation are solely based on prevailing/anticipated market conditions, not political leanings. We take cues from the Fed.

US Stocks Lead Developed Markets In Q3

In the Third Quarter, the domestic S&P 500 Index was up 8.93% to further extend its 2020 lead over developed markets. Investors "followed the Fed" (zero target rate and economic stimulus) and downplayed Covid-19 and election anxiety. Better control of covid has propped China's economy and stocks.

Equity Index Performance

Index	Q3 2020	2020 YTD
S&P 500 (Domestic)	**8.93%**	**5.57%**
MSCI EAFE (Foreign) *	**4.80%**	**(7.09%)**
China	**12.50%**	**16.45%**
MSCI EMU (European Monetary Union)	**4.61%**	**(8.27%)**
MSCI Japan	**6.94%**	**(0.68%)**

* Europe, Australia and the Far East

Looking Ahead To The Election Outcome: "What-If" Portfolio Considerations

Control of White House and Congress	"What If" Portfolio Considerations
Scenario 1 Republican White House Republican Senate Democrat House	• Affordable Care Act in peril (an Act removal may alleviate risk in the Health Care sector) • Spending on infrastructure, not clean energy • More aggressive trade rhetoric and tariffs • Lower corporate taxes (boost company earnings) • Lower individual taxes (boost consumer spending)
Scenario 2 Republican White House Democrat Senate Democrat House	The Most Unlikely Scenario
Scenario 3 Democrat White House Republican Senate Democrat House	• Tough environment to pass legislation • Tax plan (higher taxes) may not pass Congress
Scenario 4 Democrat White House Democrat Senate Democrat House	• Push for broad health care (more sector risk) • Clean energy mandate (sector opportunities) • Global trade cooperation (less tariffs) • Higher taxes (may not be immediate)

Stock Portfolio Strategy: Don't Move Prematurely, Maintain Conservative Position

This election is hazardous to predict. We will wait for clarity and maintain our conservative stock position.

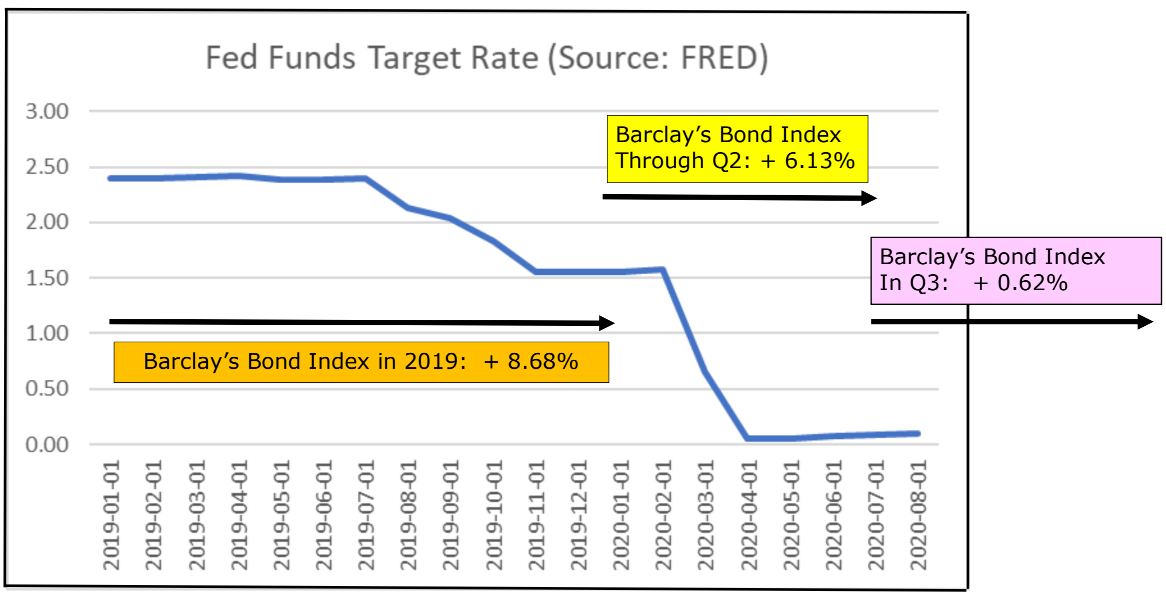
Bonds Flat In Q3

The Bloomberg Barclay's US Aggregate Bond Index, a broad-based representation of bond performance, rose 0.62% in Q3, following a 2.90% rise in Q2. To stimulate the economy, the Federal Reserve maintained its zero target rate with no increase anticipated through 2023. The yield curve slightly steepened as the spread widened between longer-term (10-year) and short-term (2-year) rates.

Key US Interest Rates	June 30, 2020	Sept. 30, 2020	Change
Federal Reserve Board Funds Target Rate	0-0.25%	0-0.25%	No Change
2-Year Treasury (Constant Maturity)	0.16%	0.13%	- 3 basis points
5-Year Treasury (Constant Maturity)	0.29%	0.28%	- 1 basis points
10-Year Treasury (Constant Maturity)	0.66%	0.69%	+ 3 basis points

With The Fed Funds Target Rate At Zero, Bonds Have Limited Upside Potential

With a Fed target rate of zero that may remain through 2023, there is little upside potential for bonds. Remember the inverse relationship with interest rates and bonds. As rates fall, bond prices rise (and vice versa). The problem now is that interest rates have hardly any room to fall further. Bond prices have tremendous downside potential (rising interest rates) and hardly any upside potential (falling interest rates). The current yield on bonds is so low because bond prices have gone so high as interest rates have fallen to almost zero. This is evident when we consider Barclay's bond performance amidst Fed rate cuts.



Bonds Are The Defensive Component Of Your Portfolio

Duration measures sensitivity of bond prices to interest rates. The greater the time to maturity, the higher the duration. On September 16, the Fed stated it would maintain a zero target rate even if inflation (now 1.3%) exceeds 2%. Treasury Inflation Protected Securities (TIPS) will rise (both the principal and coupon payments) with inflation increases.

BOND MARKET STRATEGY
(flat yield curve and concern for economic weakness)

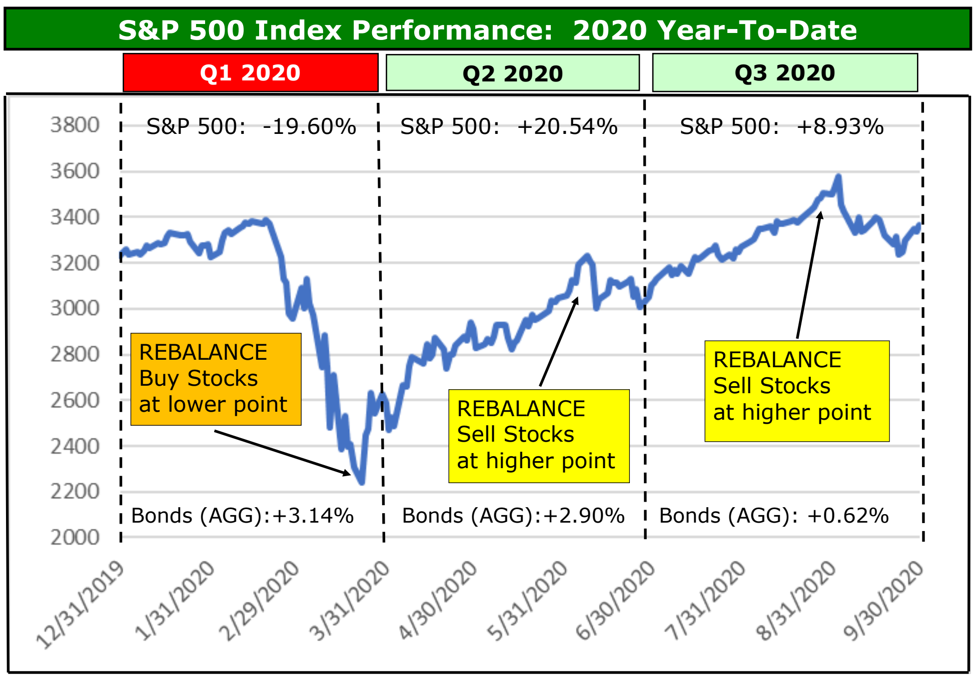
- Shorter maturities (average duration=3 years)
- Focus on quality bonds (mortgage-backed-securities)
- Higher TIPS exposure (inflation protected securities)
- Minimal corporates (low BBB spread=poor risk/return)
- No Treasurys (the yields are simply too low)

Rebalancing Portfolios Amidst Market Volatility Has Enhanced 2020 Performance

As part of our disciplined approach to managing your portfolio, we set a target asset allocation - the relative weighting of stocks and bonds we aim to have in your portfolio at all times. This is not a perfect exercise because the market fluctuates. Of course, we do not want to generate needless minor transactions to "exactly" maintain your target on a daily basis. Instead, we regularly run a report that gauges actual asset allocation versus target asset allocation. When we get outside a reasonable range of your target, we rebalance. Assuming a relatively tame bond market:

1. When the stock market falls, the relative stock weight falls - hence we will increase your stock weight.
2. When the stock market rises, the relative stock weight rises - hence we will decrease your stock weight.

In times of high market volatility, rebalancing works to your advantage. We end up buying stocks at a lower point and selling stocks at a higher point. Let's look at what has happened so far in 2020, a year marked by tremendous stock market volatility.



Assume your target asset allocation is 60% stocks and 40% bonds. Further assume we maintained a perfectly disciplined approach to your target asset allocation and rebalanced according to the chart above. Rebalancing enhanced returns in 2020.

Quarter	S&P 500 Index	Barclay's Aggregate Bond Index (AGG)	60/40 Portfolio (Disciplined Rebalancing)
Q1 2020	-19.60%	+ 3.14%	-10.50%
Q2 2020	+20.54%	+ 2.90%	+13.48%
Q3 2020	+ 8.93%	+ 0.62%	+ 5.61%
YTD Total	+ 5.57%	+ 6.79%	**+ 7.26%**

Balanced portfolios that are rebalanced in choppy markets take advantage of volatility.

We made several portfolio adjustments in Q3. Right now, we are cautious and see specific investment opportunities within the broad market: hold the strongest companies, greater emphasis on dividend-paying stocks, and more foreign exposure. The adjustments are consistent with these objectives.

We bought Orange SA (symbol: FNCTF; $33 billion market cap), one of the world's leading telecom providers. Headquartered in Paris, France, the company serves over 250 million customers in 26 countries. Its current dividend yield is 4.22%. We also bought China Mobile Ltd. ADR (symbol: CHL; $143 billion market cap), the largest telecom operator in China (and the world). The company has 946 million mobile subscribers. Its current dividend yield is 6.07%. We sold Union Pacific Corp (symbol: UNP; $121B market cap), the largest public railroad in North America. The company more than tripled since 2012 (when we initially bought the stock). We also pared back PayPal Holdings (symbol: PYPL, $206B market cap), a California-based company that provides electronic payment solutions to merchants and consumers. At the time, PYPL was up 205% over three years and 465% over 7 years. Given PYPL's recent run (up over 60% year-to-date), we took profits.

We started to "tax-loss sell" for 2020 in select taxable accounts. Tax-loss selling is when we try to reduce realized capital gains by realizing losses with stocks whose price is (currently) below acquisition cost. We will continue to tax-loss sell when feasible as we approach year-end in an effort to be as tax-efficient as possible. As we are not tax professionals, we are happy to work with you and/or your tax advisor as needed.

We will continue to closely monitor the market and adjust your portfolio as needed. Please feel free to contact us anytime to discuss questions or comments you may have. We will keep you informed of portfolio progress.

Respectfully submitted,

TRIVANT

CUSTOM PORTFOLIO GROUP, LLC

John Barber, CFA Dan Laimon, MBA Michael C. Harris, CFA, CFP®