

## RED AND BLUE PERSPECTIVES

A look at the upcoming election and your portfolio



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We all love a good showdown – Luke vs. Vader, Yankees vs. Red Sox, Ali vs. Frazier — and 2020 brings us another showdown for the books, Biden vs. Trump. This year’s presidential election is happening amidst the worldwide COVID-19 pandemic and makes it a very atypical election year. Therefore, the traditional relationships between predicted outcomes and the markets may not hold true.

### So, what do we typically see in regards to elections and the markets?

Historically, we see positive average annual returns in the equity markets

- On election years, the average is about 7.1% positive return
- One year out, the average is a little under 6% positive return
- Two years out, the average is about 4.5% positive return
- Three years out, we have the largest return on average of a little under 14%



The exceptions:

- From the 1920s to present, there have been six times that we have actually had a negative return in the equity markets in an election year with four of those years having major events associated with them. These four exceptions include:

YEAR	EVENT	RETURN
1932	The Great Depression	-14.78%
1940	World War II	-15.09%
2000	Tech Bubble	-10.14%
2008	Great Financial Crisis	-38.49%

Source: Bloomberg

We also see the S&P 500 Index return for the three months prior to the election as a strong predictive indicator

- Looking historically at the three months leading up to an election, if the return on the S&P 500 is positive in that 3-month period, then the majority of the time, the current administration wins reelection
- If the return is negative, then you see the challenger step in and win the election
- Looking back to the 1920s, this methodology has predicted correctly about 87% of the time. Since the 1980s, it has correctly predicted the outcome of the election 100% of the time

But, as we all know, this has not been a typical year. And with the markets currently being driven more by COVID-19 headlines than by election predictions, we don't know if we will continue the trend and see a positive return in the equity markets or maybe we will see negative return and add 2020 to the list of exceptions.

### What are the most likely election outcome scenarios?

Let's look at three possibilities and see how we believe these could affect the markets and your portfolio.

1. "Status Quo"	2. "Democratic Sweep"	3. "Combination Scenario"
<p><b>Trump Victory</b></p> <ul style="list-style-type: none"> <li>Split Congress</li> <li>Slight positive move in the markets</li> </ul>	<p><b>Biden Victory</b></p> <ul style="list-style-type: none"> <li>Congressional Sweep</li> <li>Slight downside to the market</li> </ul>	<p><b>Biden Victory</b></p> <ul style="list-style-type: none"> <li>Split Congress</li> <li>Flat market</li> </ul>

At this point, although outlooks change frequently prior to the election, it appears most analysts see a slight risk-on response in the markets if President Trump wins re-election. If Biden wins the election, expectations currently show a range of risk-off scenarios from flat markets to down high single digits for the equity markets.

### What does all this mean for my portfolio?

When it comes to this particular election, the honest answer is that we don't think it will make that much of a difference for the markets in general. There is one thing that is driving the markets right now and it's not the election, it's COVID-19. Many anticipate that with COVID-19 issues taking precedence, the specific priorities of the winning party may not be as important in this uncertain environment as we might normally expect. The focus will remain on developing a vaccine and providing continued monetary and fiscal support to the economy from the COVID-19 fallout. As Federal Reserve Chairman Jay Powell spoke about at the last Federal Open Market Committee (FOMC) press conference, the path of the economy will follow the recovery path from COVID-19.

### What can I do?

Although the specific proposals of the different parties may not affect the markets as much as we have seen historically during an election year, we don't recommend that you ignore your portfolio and do nothing.

We suggest putting a focus on the following three areas as it relates to your portfolio:

Focus:	Crossmark strategies for consideration:
<p><b>2021 Trends</b></p> <ul style="list-style-type: none"> <li>We caution investors on making COVID-19 bets, and suggest focusing on longer-term trends that will provide opportunities following the COVID-19 crisis.</li> <li>We are seeing increased interest in clients wishing to align their values and their investments. SRI/ESG factors built into one's portfolio is becoming a stronger trend and one that Crossmark has assisted clients with for many years.</li> </ul>	<p><b>Large Cap Core Growth Screening Overlays</b></p>
<p><b>Balance Sheets</b></p> <ul style="list-style-type: none"> <li>Invest in companies with strong cash flows and low debt</li> <li>Do bottom-up fundamental analysis on companies to see who is going to have the strong balance sheets in order to whether potential volatility</li> </ul>	<p><b>Large Cap Core Growth Core Fixed Income Intermediate Fixed Income</b></p>
<p><b>Income Generation</b></p> <ul style="list-style-type: none"> <li>The Fed Fund Rates will remain lower for longer affecting the yield curve and making higher levels of income generation more elusive</li> <li>Look for other opportunities that can produce the levels of income you need</li> </ul>	<p><b>Global Equity Income Covered Call Income Current Income Portfolio</b></p>

## How Crossmark Can Help

Drawing from our portfolio themes for election season, below are Crossmark strategies that we believe can help meet specific client needs during this atypical time.

Large Cap Core Growth	Global Equity Income	Covered Call Income
<p>Crossmark's Large Cap Core Growth strategy seeks to provide above average long-term growth. The strategy is designed for investors seeking above-average long-term growth in their portfolios with added stability. The strategy creates portfolios made up of large-cap companies that offer strong earnings growth and have the potential to continue delivering high levels of profit growth.</p>	<p>Crossmark's Global Equity Income strategy seeks to provide high dividend income with long-term capital appreciation. The strategy invests in U.S. and non-U.S. dividend-paying stocks that have demonstrated a higher yield within their respective sectors, increasing dividends and favorable earnings growth. We invest in the common stocks of companies that represent a broad spectrum of the global economy. Although the strategy invests primarily in large cap stocks, it is also able to invest in mid-cap and small-cap stocks. The non-U.S. investments are primarily in the form of depositary receipts which are U.S. dollar denominated instruments representing securities of non-U.S. issuers that are traded in the U.S. and in non-U.S. markets.</p>	<p>Crossmark's Covered Call Income strategy seeks to generate income, provide limited capital appreciation, and generate lower volatility than the broad equity markets. Crossmark uses a combined quantitative/fundamental approach to identify large-cap, dividend paying domestic stocks selling at a low range of valuation measurements which also exhibit positive price momentum. The strategy then supplements the overall portfolio's dividend yield by implementing a covered call option overlay.</p>
<p>Key Benefits:</p> <ul style="list-style-type: none"> <li>• Growth</li> <li>• Quality</li> <li>• Disciplined Investment Process</li> </ul>	<p>Key Benefits:</p> <ul style="list-style-type: none"> <li>• Current Income</li> <li>• Capital Appreciation</li> <li>• Global Diversification</li> </ul>	<p>Key Benefits:</p> <ul style="list-style-type: none"> <li>• Current Income</li> <li>• Capital Appreciation</li> <li>• Decreased Volatility</li> </ul>
Core Fixed Income	Intermediate Fixed Income	Current Income Portfolio
<p>Crossmark's Core Fixed Income strategy seeks current income with reduced credit risk by investing in high quality government and corporate securities. The strategy seeks to outperform the bond market over a market cycle while providing diversification, the ability to match liabilities and assets, and a steady income stream to the investor. The strategy focuses on high quality securities, active duration management, selective sector rotation, and selective security rotation, with intermediate-maturity.</p>	<p>Crossmark's Intermediate Fixed Income strategy seeks to provide capital preservation, current income and capital appreciation opportunities through investment in intermediate maturity bonds. This strategy is designed for the investor who desires to achieve returns through active duration management, the selective rotation of market sectors, and the securities within those sectors, while maintaining a maximum maturity of ten years.</p>	<p>Crossmark's Current Income Portfolio strategy seeks to provide investors with above average income flows within investment-grade, intermediate maturity focused portfolios. The strategy is designed for investors who desire the characteristics of a fixed income portfolio without forfeiting the ability to take distributions. The strategy focuses on investment grade corporate bonds, mortgage-backed securities, agencies and preferred stocks, with active duration management to achieve the objective.</p>
<p>Key Benefits:</p> <ul style="list-style-type: none"> <li>• High Quality Securities</li> <li>• Active Duration Management</li> <li>• Selective Sector &amp; Security Rotation</li> <li>• Intermediate-Maturity</li> </ul>	<p>Key Benefits:</p> <ul style="list-style-type: none"> <li>• High Quality Securities</li> <li>• Active Duration Management</li> <li>• Selective Sector &amp; Security Rotation</li> <li>• Intermediate-Maturity</li> </ul>	<p>Key Benefits:</p> <ul style="list-style-type: none"> <li>• High Current Income</li> <li>• Diversified Fixed Income Exposure</li> <li>• Investment-Grade Securities</li> </ul>

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**All Investments are subject to risks, including the possible loss of principal. Past performance does not guarantee future results.** The Strategies may not achieve their objectives if the managers' expectations regarding particular securities or markets are not met.

Equity investments generally involve two principal risks—market risk and selection risk. The value of equity securities will rise and fall in response to general market and/or economic conditions (equity market risk). The value of any individual equity security will rise and fall in response to the market's perception of the issuer's revenues, earnings, balance sheet, credit worthiness, business plan, and overall perception of the viability of the issuer's business (selection risk).

Investments in securities of issuers in foreign countries involves additional risks not associated with domestic investments. These risks include, but are not limited to: (1) political and financial instability; (2) currency exchange rate fluctuations; (3) greater price volatility and less liquidity in particular securities and in certain foreign markets; (4) lack of uniform accounting, auditing, and financial reporting standards; (5) less government regulation and supervision of some foreign stock exchanges, brokers and listed companies; (6) delays in transaction settlement in certain foreign markets; (7) less availability of information; and (8) imposition of foreign withholding or other taxes.

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Fixed income investments generally involve three principal risks—interest rate risk, credit risk, and liquidity risk. Prices of fixed-income securities rise and fall in response to interest rate changes (interest rate risk). Generally, when interest rates rise, prices of fixed-income securities fall. The longer the duration of the security, the more sensitive the security is to this risk. There is also a risk that the issuer of a note or bond will be unable to pay agreed interest payments and may be unable to repay the principal upon maturity (credit risk). Lower-rated bonds, and bonds with longer final maturities, generally have higher credit risks. As interest rates rise and/or the credit risk associated with a particular issuer changes, bonds held within a portfolio may become difficult to liquidate without realizing a loss (liquidity risk).

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