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### Market Comment:

#### **Overreactions (to elections) Have Consequences:**

It is famously said that elections have consequences, but as investors perhaps we should be more concerned about overreactions to elections than the elections themselves. A forthcoming paper in the Journal of Behavioral Finance<sup>[1]</sup> finds that after President Obama's 2008 election, Republican-leaning equity hedge fund managers underperformed their Democratic-leaning competitors over the 10 subsequent months. Many Democratic-leaning investors certainly suffered the same fate after President Trump's election in 2016.

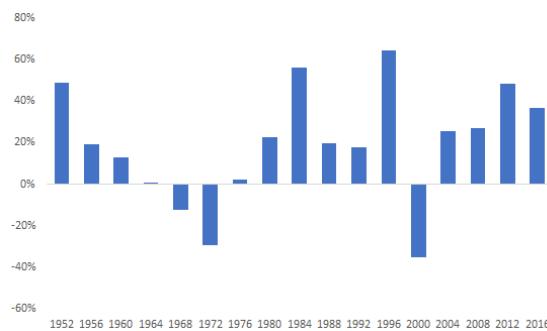
We have had 17 presidential elections in the United States since 1950. Each of these elections led to changes in tax policy, trade policy, foreign policy, and domestic policy. Even so, the S&P 500 was positive over 80% of the time, and increased 19%, on average, in the two years following each of those elections (Fig. 1). More importantly, the three post-election periods with negative returns can be explained by non-partisan factors: rising interest rates and Fed policy in the years following the 1968 and 1972 elections and the dot com bust following the 2000 election.

Tomorrow's election could certainly result in near term volatility, but the outcome, no matter the winner, is unlikely to significantly impact the long-term profitability of American corporations. Vote with your ballot, not your equity allocation.

Fig. 1: Equity market performance following presidential elections (24-months)

[1] Moszoro, Marian W., Political Cognitive Biases Effects on Fund Managers' Performance (March 20, 2020). Journal of Behavioral Finance (Forthcoming). Available at SSRN: <https://ssrn.com/abstract=2811350> or <http://dx.doi.org/10.2139/ssrn.2811350>

**Fig. 1: Equity market performance following presidential elections (24-months)**



Source: Bloomberg, Mill Creek

### Updated Benchmark Performance:

Benchmark Performance by Asset Class			
	Week-to-Date	Month-to-Date	Year-to-Date
U.S. Large Cap Equities	-5.69%	-2.41%	3.83%
U.S. Small Cap Equities	-6.21%	2.09%	-6.77%
International Developed Equities	-5.51%	-3.99%	-10.80%
Emerging Markets Equities	-2.89%	2.06%	0.87%
Global Equities	-5.30%	-2.43%	-1.09%
U.S. Bonds	-0.04%	-0.45%	6.32%
Intermediate Municipal Bonds	0.00%	-0.22%	2.99%
High Yield Bonds	-1.05%	0.51%	1.13%
Oil	-9.82%	-11.24%	-49.14%
Gold	-1.33%	-0.81%	20.39%
Key Rates	10/30/2020	12/31/2019	10/30/2019
U.S. 2 Year Treasury Note	0.14	1.58	1.61
U.S. 10 Year Treasury Note	0.88	1.92	1.78

### Week in Review:

- Global equities struggled last week as investors grappled with rapidly rising corona virus cases, countries across Europe reinstating measured lock downs, and the decreasing odds of another round of fiscal stimulus in the US before year-end. The technology sector, which has led the rebound in stocks this year, was a notable laggard last week despite Facebook, Twitter, Amazon, Apple, and Alphabet reporting solid earnings on Thursday. A day earlier, the CEOs of Facebook, Google and Twitter defended themselves before the Senate Commerce Committee over their censorship policies and overall power in their respective markets.
- The US economy grew at a record 33.1% annual rate in the third quarter (7.4% increase quarter-over-quarter) according to the Commerce Department. The economy had contracted 9% quarter-over-quarter, and 31.4% annualized, in the second quarter. Even with the record pace of growth, US gross domestic product still stands 3.5% below where it was at the end of 2019 before the pandemic struck. Recent data indicates that the economic growth seen in the third quarter has continued into the fourth, albeit at a slower rate.
- The World Trade Organization made a long-awaited ruling on a dispute between the US and European union over their respective state support of Boeing and Airbus. The WTO ruled that the EU can impose up to \$4 billion worth of tariffs on American products in retaliation for illegal subsidies given to Boeing by the US. The US had previously filed an identical case with the WTO against the EU over illegal subsidies given to Airbus – the WTO gave the green light for tariffs on \$7.5 billion worth of European products in that case. The ruling will not help the struggling companies get through the pandemic – both Boeing and Airbus have announced plans to cut their workforces by over 30,000 employees.

### Economic Calendar:

- ISM Manufacturing - Monday, November 2nd
- Election Day - Tuesday, November 3rd
- ADP Employment - Wednesday, November 4th
- Unemployment Rate - Friday, November 6th

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Indices Used: U.S. Large Cap equities: Russell 1000 Index, U.S. Small Cap Equities: Russell 2000 Index, International Developed Equities: MSCI EAFE Index, Emerging Market Equities: MSCI Emerging Markets Index, U.S. Bonds: Barclays Aggregate Bond Index, U.S. 10 Year Treasury Note: Bloomberg 10 Yr. Treasury Note, Municipal Bonds: Barclays Intermediate Municipal Bond Total Return Index, High Yield Bonds: Barclays U.S. High Yield Total Return Index, Oil: Bloomberg WTI Crude Sub-Index Total Return Index, Gold: Bloomberg Gold Sub-Index Total Return Index

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