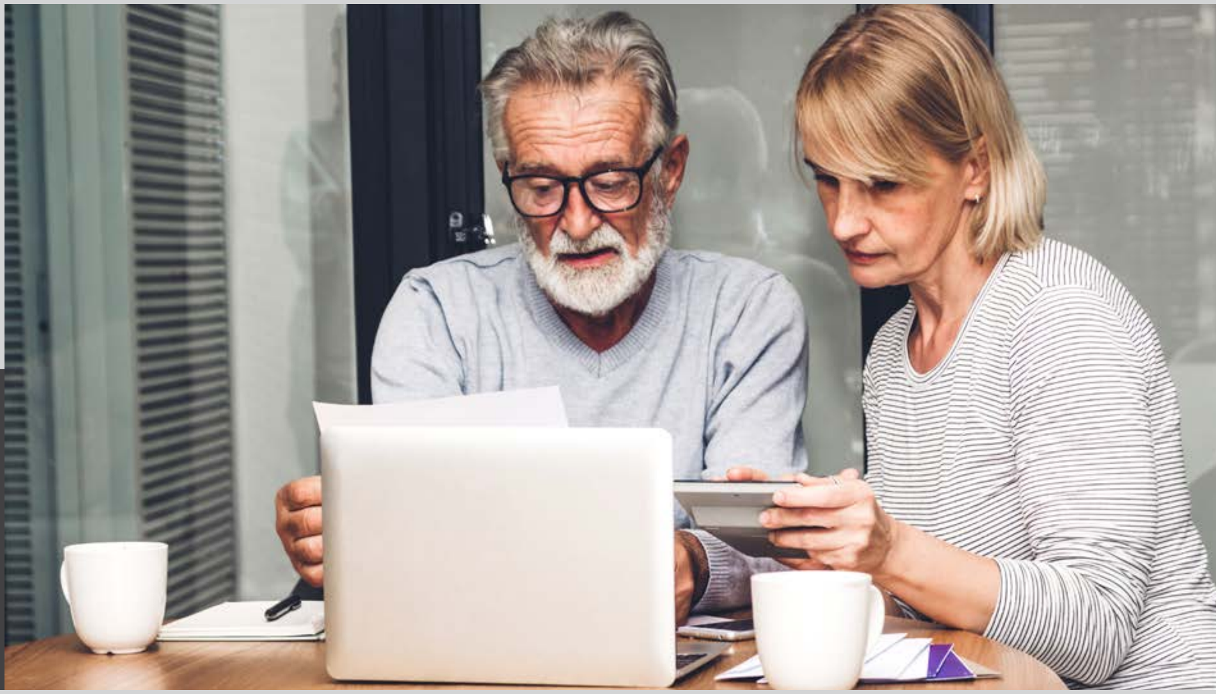


Will the Biden Presidency Influence Stock Markets?

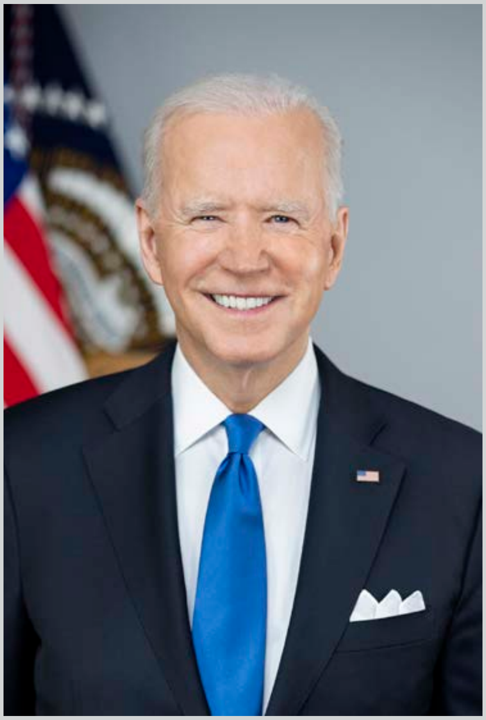
A look at parties, politics and potential returns

A New Administration

President Joe Biden took office on Jan. 20, 2021. While the country was divided over the election of our leader for the next four years, one thing could not be disputed: History shows that markets have performed equally well under both Republican and Democratic leadership.[1]

As the U.S. continues to grapple with the pandemic and recovery, we are beginning to learn more about the president's policies and priorities. No matter what their political views, investors are anxious to see how a new administration could influence markets — and potentially returns — in the next four years.

How did the S&P 500 perform while previous U.S. presidents were in office?[2]



Eisenhower 1 (R)	↑	70.7%
Eisenhower 2 (R)	↑	34.3%
Kennedy+Johnson (D)	↑	44.3%
Johnson (D)	↑	17.4%
Nixon (R)	↑	16.8%
Nixon+Ford (R)	↓	13.3%
Carter (D)	↑	27.9%
Reagan 1 (R)	↑	30.1%
Reagan 2 (R)	↑	67.3%
Bush (R)	↑	51.2%
Clinton 1 (D)	↑	79.2%
Clinton 2 (D)	↑	72.9%
Bush 1 (R)	↓	12.5%
Bush 2 (R)	↓	31.5%
Obama 1 (D)	↑	84.5%
Obama 2 (D)	↑	52.9%
Trump (R)	↑	69.6%
Biden (up to 2/12/2021) (D)	↑	2%

Since 1942, the S&P 500 declined in only three (out of 17) presidential terms.

[1] Caleb Silver. Investopedia. Jan. 25, 2021. "Presidents and the Stock Market." https://www.investopedia.com/presidents-and-their-impact-on-the-stock-market-4587369. Accessed Feb. 26, 2021.

Presidential Influence

Every president would like to take the credit for a market that's performing well — and deflect the blame for one that's declining. Yet it's actually Congress who has more influence over the market's activities, as they are the ones that establish tax laws and pass spending bills.

But the president does have some indirect influence on our economy and the stock market in various ways, including:

- Appointment of policymakers. The president appoints individuals to a variety of powerful positions. These include cabinet secretaries and heads of departments such as Labor and Commerce. The president also nominates a chairperson for the Federal Reserve, the independent government agency that sets monetary policy for the U.S.

- International relations. Presidential policies and actions toward foreign countries can spur market movement, both positively and negatively. For example, markets responded positively after the U.S. and China tentatively reached a trade agreement in late 2019 and early 2020.[2]

- An effect on new laws. While members of the House and Senate introduce and pass bills, all new legislation ultimately comes to the president, who can either sign it into law or choose to veto. The president's team can also influence members of Congress to introduce new legislation. These new laws — particularly in the areas of taxation, business regulation, trade and foreign policy — can drive markets.

Looking Ahead to the Next Four Years

COVID-19 wreaked havoc on the U.S. economy. Economic shutdowns led to high unemployment levels resulting from business closures, some of which became permanent. Americans stayed close to home, especially in the early days of the pandemic, resulting in decreased spending. Congress spent trillions of dollars in an effort to keep individuals and businesses going until the economy regained its footing.

There is still a long way to go. Although the U.S. has made some strides toward recovery, the pandemic's full economic effects may not be known for quite some time. Industries hit hard by shutdowns — such as retail, hospitality and travel — may struggle to recoup losses, especially as they implement changes to accommodate consumers' post-pandemic preferences. Individuals who experienced long periods of unemployment could experience hardship as they work to pay off bills and catch up on retirement saving. Many uncertainties remain as we regroup and rebuild over the next few years.

One thing is certain: A one-party Congress and presidency makes it easier for new policies to be pushed through. In light of the government's recent spending, increased taxes are likely to be at the top of the list for discussion. Rising taxes could be of particular concern to investors who wish to retire within the next decade, as higher tax rates could directly impact individual retirement plans.

Taxes Through Time[3]

The Tax Cuts & Jobs Act of 2017 set the tax rate for top earners at 37%. How does it compare to other periods in U.S. history?

1913

Americans whose tax income was $500,000 or more were charged 7% in taxes.

The Great Depression

At the start of the Great Depression, the tax rate was 25%. In 1932, Congress raised the rate to 63%.

1944

During World War II, the top tax rate was 94% for Americans who had taxable income of $200,000 or more.

1950s – 1970s

The federal income tax rate never dropped below 70%.

1986

The Tax Reform Act of 1986 dropped the top tax rate to 28% in 1988 but was raised again by 1991.

2013-2017

With the introduction of the Patient Protection and Affordable Care Act, the top federal income tax rate jumped to 43.4%.

2018-2021

The Tax Cuts & Jobs Act set the highest tax rate at 37%. However, an additional 3.8% was still applied to the highest bracket, bringing the top federal income tax rate to 40.8%.

[2] Fred Imbert. CNBC. Dec. 12, 2019. "S&P 500 jumps to record as US and China get set to finalize 'phase one' trade deal." https://www.cnbc.com/2019/12/12/stock-market-us-china-trade-war-and-fed-in-focus-on-wall-street.html. Accessed March 17, 2021.
[3] Bradford Tax Institute. "History of Federal Income Tax Rates: 1913-2021." https://bradfordtaxinstitute.com/Free_Resources/Federal-Income-Tax-Rates.aspx. Accessed Feb. 26, 2021.

"With a good perspective on history, we can have a better understanding of the past and present, and thus a clear vision of the future."

- Carlos Slim Helu

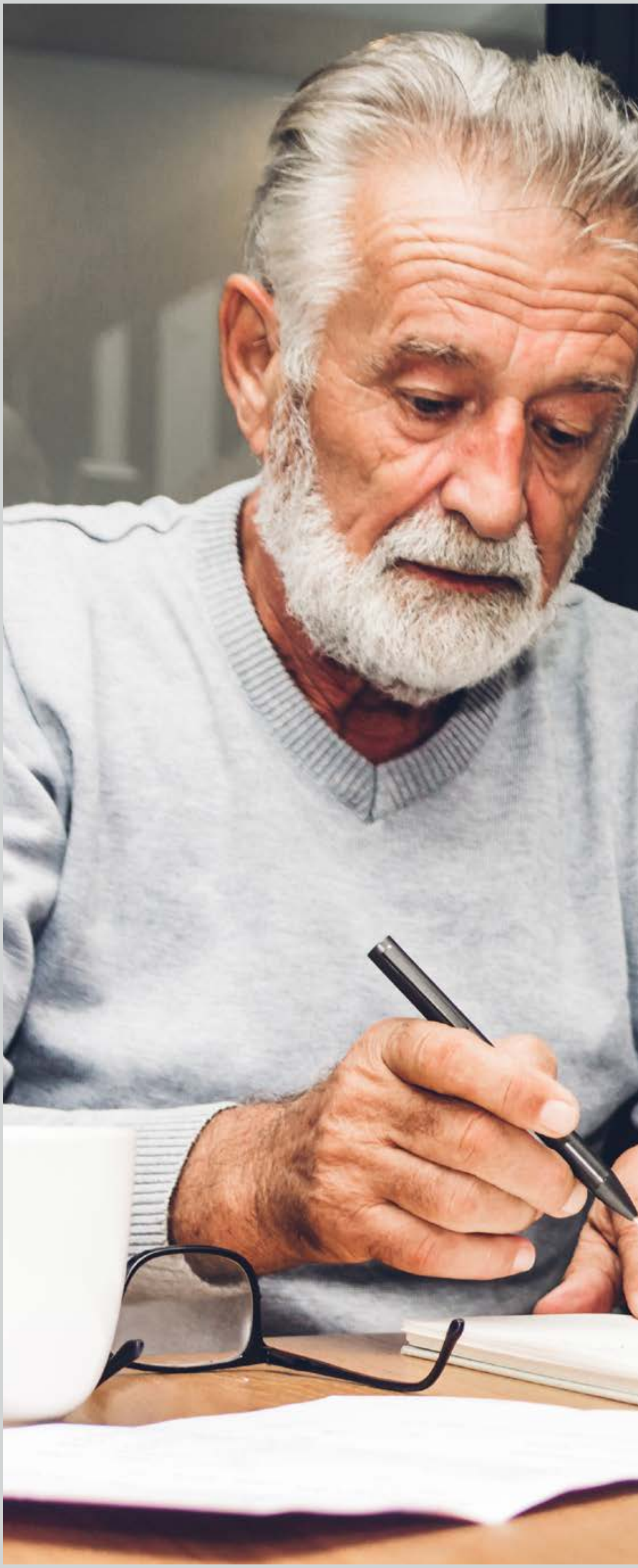
Preparing for the Unknown

The pandemic has reminded us that none of us can accurately predict what the future holds. But we can take steps to help prepare and protect our hard-earned retirement savings.

When it comes to planning for the future, individuals often overlook and underrate the importance of tax planning. The bad news is that we can't predict future tax rates or tax laws related to retirement income. The good news is that there are strategies you can use to potentially reduce your tax bill and maximize your income well into your 60s, 70s and 80s.

As we saw in the first quarter of 2020, market drops can — and do — happen. As you prepare for your financial future, it would be wise to review how you reacted to recent market declines. If those declines caused concern or anxiety, it's a good time to review your portfolio and realign your assets with your tolerance for risk.

A financial professional can help you identify potential risks and implement strategies to address market volatility and rising taxes. They can also help you think through the what-ifs and create a plan for a confident retirement, no matter which political party is in office.



Planning for the Next Four Years and Beyond

Are you concerned about possible tax changes and potential market drops? Call our office today for a comprehensive financial analysis. Let's work together to make sure you're ready for whatever the future may bring.

Prepared on behalf of:

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