

# THIRD QUARTER MARKET COMMENTARY



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AAFMAA Wealth Management & Trust LLC



The best stock market since 1987 for the month of July was matched in August with its best return in 30 years. Then, just when the optimism reached a short-term peak, a three-day, 10% correction in the NASDAQ happened in early September. Market declines and volatility have continued as we work through a seasonally weak period of the calendar year. Such is the back-and-forth in what has been, understatedly, an interesting market year. Until the election results are finalized, expect rapid and sharp changes in market sentiment.

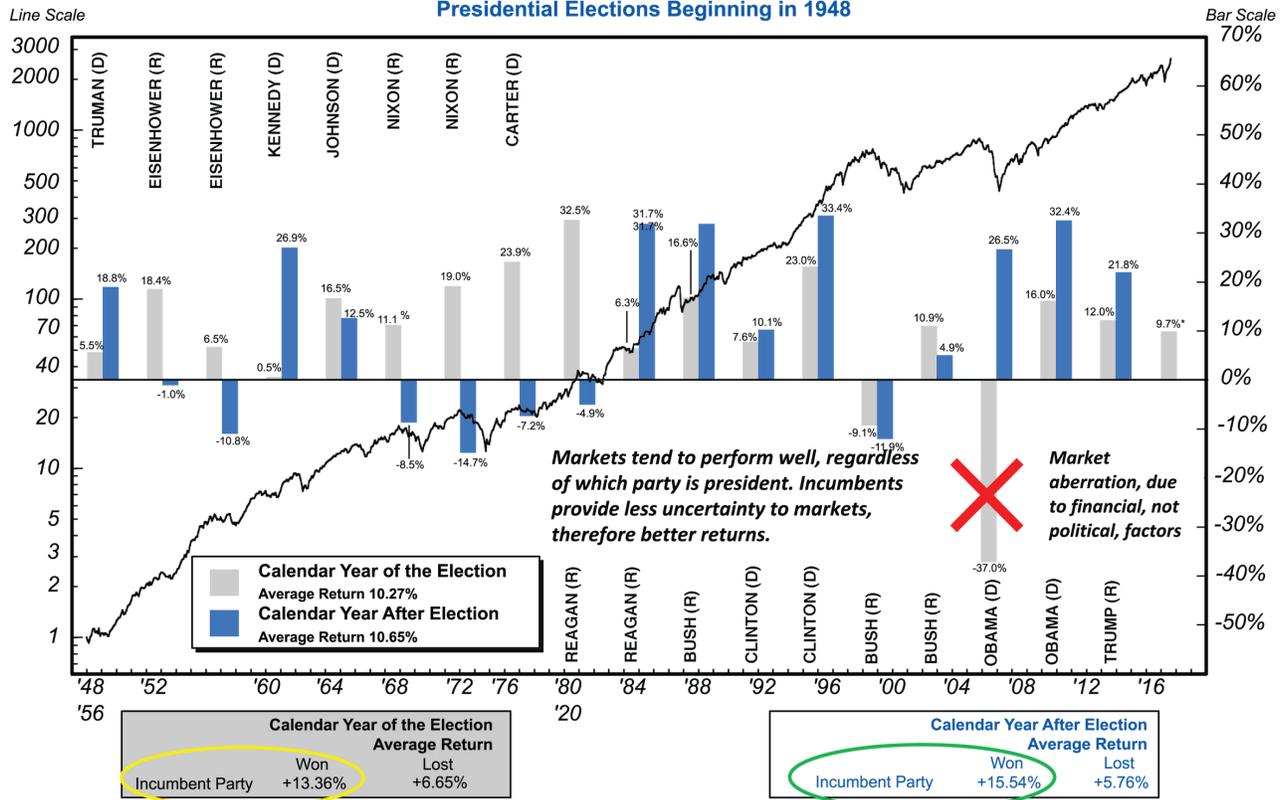
As the outlook for a COVID-19 vaccine improves, broader market sectors beyond technology should react positively. Equity markets continue to be as varied and selective as they have been all year. Year-to-Date returns through September 30 range from the NASDAQ's whopping +25.4%, to the S&P 500 5.57%, to the dismal Russell 1000 Value, down (11.57%). U.S. small cap stocks, as measured by the Russell 2000, were down (8.7%), and the all-world MSCI was nearly unchanged at 0.48%.

This disparity, in our estimation, will continue for the foreseeable future, as investors become more focused on companies with strong financial statements and earnings growth. This is also true for the broader categories of growth and value. While value stocks have occasionally performed well in recent months, the trend continues to reward companies with earnings growth. AWM&T fashions itself as a "GARP" (Growth at a Reasonable Price) investor, so we are always searching for earnings growth – but priced reasonably, based on relative value measures and other catalysts.

Thanks to the Fed, expect interest rates to continue at these levels throughout at least the end of 2021. Inflation remains low, despite a recent 3% annualized increase in wages. Advances in technology, throughout all industries, appears to be the constant and significant factor in fueling productivity. While very hard to quantify in government statistics, increased productivity appears to be instrumental in reducing the traditional inflation factors of wage growth, fiscal spending, monetary policy and producer prices.

The back-and-forth with Chinese trade has taken a back seat to the upcoming election. I've started to receive the usual quadrennial inquiries and wanted to provide some historical insight into its effect. Let's look at the first of three charts:

### ELECTION STOCK RETURNS Standard & Poor's 500 Total Return Index Presidential Elections Beginning in 1948



\*Preliminary through August; averages do not include 2020 data.  
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First, going back to 1948, during the calendar year of the election (like this one) if the incumbent party won — regardless of the political party — the market was up 13.36%, on average. The return was twice as much as if the challenger won, which was still a positive return. Continuing this theme the year after the election, again the incumbent party presided over stellar market returns of 15.54% versus the challenger's return of 5.76%.

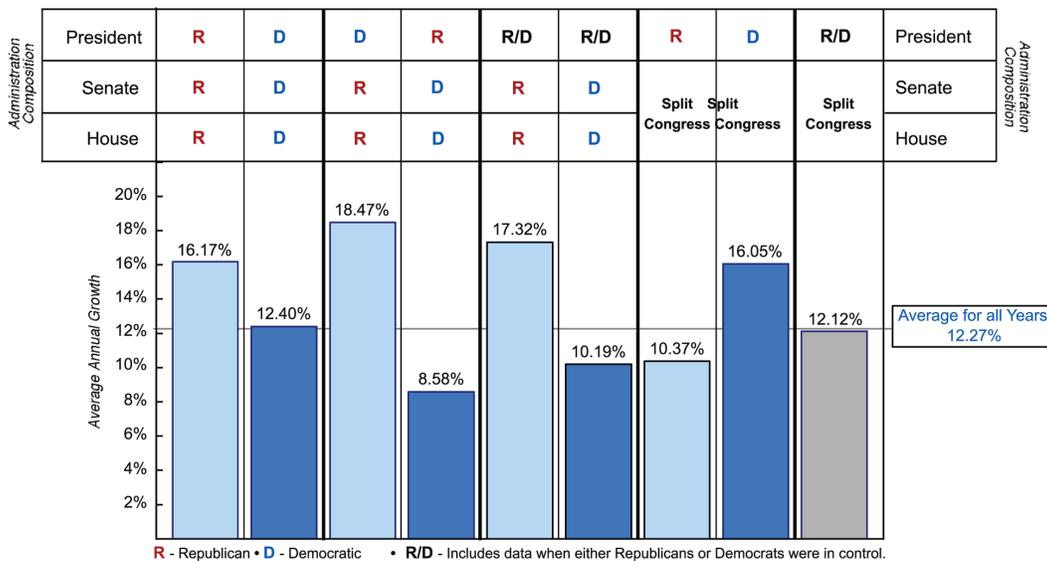
Given these numbers, consider the following:

1. During an election year the market has gone up the vast majority of the time, regardless of who wins.
2. When the market has declined, there were usually significant, non-political factors and events that were the overriding cause.
3. If we remove 2008 from the calculation, which featured a major market recession unrelated to an election, the difference between the winner and loser becomes far more narrow.

The political landscape in America has always been varied, contentious, and to some degree, uncertain. Over the past 40 years, there have been at least a dozen elections that were “the most important in our country’s history.” Politics certainly has its place, but its real effect on the stock market is not as great as it may seem. True, certain combinations of political parties have had better outcomes than others, but that was probably due more to timing or coincidence than policy and governing. Furthermore, since the 1952 election (“I like Ike”), every party combination of the executive and legislative branch has averaged a positive return.

***While some political combinations perform better than others, none have a negative return. This indicates that there may be other factors with greater influence than politics on equity markets, for example, monetary policy.***

### The Political Landscape - President & Congress Standard & Poor's 500 Stock Index



Data: Total Return; Administrations - 1953 Through December 2019  
Sources: Standard & Poor's Corporation; Copyright © 2020 Crandall, Pierce & Company

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Temporary anxiety and uncertainty in the stock market can be overcome. Once again, AWM&T emphasizes its time-tested investment philosophy, as highlighted in the final chart, showing the long-term trend of the market. Notice there is always a reason to remain on the sidelines, or some event that brings on a fearful response. Yet, despite all the uncertainty, turmoil, anxiety and challenge that life has brought, the United States has been able to adapt, overcome, persevere and work its way forward. It is critical that investors ignore the short-term emotion and volatility. That's not to say this election is unimportant. It is very important, but far more from a political perspective than an investment one. History has demonstrated, time and again, that "ignoring the noise" has been a successful approach to long-term investment success.

### The Dow Jones Industrial Average: 1945-2020\* Chronological Perspective - Market Resiliency



Shaded areas represent recessionary periods. \* 2020 data is preliminary through August.

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# About AAFMAA Wealth Management & Trust (AWM&T)

## Our Commitment

At AWM&T, we know what it means to serve, which is why we make it our mission to serve you.

In fact, more than half of our employees – including Relationship Managers – have served, are currently serving, or are spouses of those who served. We know that between deployments, relocations, family separations and other stressful military life changes, the last thing you need to worry about is your financial security, and we're here to help.

Our team of experts match you with the right investment strategy based on your individual needs. We help you anticipate challenges, adjust to the unexpected, and keep you focused on the right priorities for a successful financial future.

## Financial Planning

As life changes, so do your financial goals. Whether you're looking to create a comfortable retirement, generate income, protect your heirs, or support your favorite charity, our team approach to your financial plan can ensure you stay on track for success.

## Investment Management

AWM&T offers customized solutions tailored to your individual situation. Your Relationship Manager helps develop and maintain the right portfolio around your goals, time frame and risk comfort. And you'll get unparalleled personal service from a team of seasoned professionals focused exclusively on the military community.

## Trust Services

Establishing a trust can be an essential piece of your long-term financial plan, which protects both your assets and your beneficiaries, but managing that trust can be complex. Whatever the goals are for your trust, our fiduciary team has the specific knowledge and expertise in trust services to safeguard your estate and your legacy.

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