Student of the Market

August 2020

Election year special
### Stocks have continued higher regardless of presidential party
As elections come up, we tend to get concerned about which party might be better for the market. Historically, the market has continued to rise, regardless of which party is in the White House. Since 1926, $1,000 invested in the S&P 500 would have grown to $8.96m as of 6/30/20, with a number of regime changes along the way.

### U.S. stocks across the election cycle
Stocks have historically performed above average in presidential election years. However, they've also tended to post their strongest performance in years where there is no presidential or mid-term election.

### Investors build cash in election years (especially this year)
During presidential election years, there are usually greater inflows into money market funds than in years with no presidential election. This election year has seen historically large flows, due to the combined effect of the election and coronavirus pandemic.

### Divided governments and the U.S. stock market
Stock markets tend to post stronger performance when the White House and Congress are controlled by the same party, on average. We have seen this happen roughly half of all presidential terms throughout history.

### Stocks across a presidential term
Over a president’s term, the third year is often the highest performing year for the stock market. If a president is lucky enough to be elected to a second term, stock returns tend to reflect those of the first term (roughly 12% on average for each term).

### New vs. incumbent presidents
On average, stocks have historically performed better in election years where an incumbent president wins reelection (13.4%) than when a new president is elected (9.3%).

### Asset class performance in presidential election years
This year, we’re seeing asset classes performing much differently than their historical average in election years.

### Market seasonality in election years
On average, the period known as “Mommies to Mummies” (May 1 to October 31) have historically performed worse than the period known as “Turkey to Tax” (November 1 to April 30). In election years, however, “Mommies to Mummies” tends to perform better than average, and “Turkey to Tax” tends to perform worse.

Source: Morningstar as of 6/30/20. *Past performance is no guarantee of future results.* Index performance is shown for illustrative purposes only. You cannot invest directly in an index.
Stocks have continued higher regardless of presidential party

Morningstar as of 6/30/20. Stock market represented by the S&P 500 Index from 1/1/70 to 6/30/20 and IA SIBI U.S. large cap stocks index from 1/1/26 to 1/1/70. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.
U.S. stocks across the election cycle

U.S. stock performance
Average annual return, 1/1/26 – 12/31/19

- All years: 10.1%
- Presidential election years: 11.3%
- Mid-term elections: 8.6%
- Non-election years (odd years, no midterm or pres election): 14.3%

Morningstar as of 6/30/20. Stock market represented by the S&P 500 Index from 1/1/70 to 12/31/19 and IA SBBI U.S. large cap stocks index from 1/1/26 to 1/1/70. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.
Investors build up cash in election years (especially this year)

Fund flows and presidential election years
In billions USD, 2/1/93 – 6/30/20

- Presidential election years
- Non-Pres election years

2020 flows
In billions USD, 1/1/20-6/30/20

Money funds

Stock and bond funds

Money funds

Stock and bond funds

Morningstar as of 6/30/20. Money funds, stock funds, and bonds funds are represented by their respective U.S. fund categories as defined by Morningstar. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.
Divided governments and the U.S. stock market

Calendar years of divided government
1/1/26 – 12/31/19

- Same party: 47 years
- Divided government: 47 years

Next 1 and 3 years for U.S. stocks
Rolling annual average, 1/1/26 - 6/30/20

- 1 year
  - Divided government: 10.8%
  - Same party: 10.9%
- 3 years
  - Divided government: 13.6%
  - Same party: 10.2%

Morningstar as of 6/30/20. Stock market represented by the S&P 500 Index from 1/1/70 to 6/30/20 and IA SBBI U.S. large cap stocks index from 1/1/26 to 1/1/70. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.
Stocks across a presidential term

Years of a presidential term and U.S. stock performance
1/1/26 – 12/31/19

- Year 1: 9.9%
- Year 2: 8.6%
- Year 3: 18.5%
- Year 4: 11.3%

Presidential term and U.S. stock performance
1/1/26 – 12/31/19

- 1st term: 12.0%
- 2nd term: 12.2%

Morningstar as of 6/30/20. Stock market represented by the S&P 500 Index from 1/1/70 to 12/31/19 and IA SBBI U.S. large cap stocks index from 1/1/26 to 1/1/70. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.
New vs. incumbent presidents
Calendar year performance during presidential election years (1/1/28 – 12/31/16)

- New president is elected:
  - Stocks: 9.3%
  - Bonds: 6.7%

- All presidential election years:
  - Stocks: 11.3%
  - Bonds: 5.5%

- Incumbent president wins:
  - Stocks: 13.4%
  - Bonds: 4.2%

Morningstar as of 6/30/20. Stock market represented by the S&P 500 Index from 1/1/70 to 12/31/16 and IA SSBII U.S. large cap stock index from 1/1/28 to 1/1/70. US Bonds represented by the BbgBarc US Aggregate Bond Index from 1/1/76 to 12/31/16 and the IA SBBII US IT Bond Index from 1/1/28 to 1/1/76. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.
## Asset class performance in presidential election years

### Average election year performance by asset class
(1/1/80 - 6/30/20)

<table>
<thead>
<tr>
<th>Asset class</th>
<th>Election year average</th>
<th>One year after election</th>
<th>Republican president</th>
<th>Democratic president</th>
<th>YTD 6/30/20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology</td>
<td>2.2</td>
<td>17.4</td>
<td>8.5</td>
<td>27.0</td>
<td>14.7</td>
</tr>
<tr>
<td>Large Growth</td>
<td>4.7</td>
<td>17.2</td>
<td>8.9</td>
<td>17.5</td>
<td>7.8</td>
</tr>
<tr>
<td>Health</td>
<td>8.2</td>
<td>23.7</td>
<td>12.8</td>
<td>20.1</td>
<td>5.8</td>
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<tr>
<td>Intermediate Core Bond</td>
<td>5.1</td>
<td>8.3</td>
<td>8.2</td>
<td>5.5</td>
<td>5.7</td>
</tr>
<tr>
<td>Short-Term Bond</td>
<td>4.7</td>
<td>6.8</td>
<td>7.0</td>
<td>4.3</td>
<td>1.7</td>
</tr>
<tr>
<td>Muni</td>
<td>3.2</td>
<td>5.7</td>
<td>6.6</td>
<td>3.9</td>
<td>1.2</td>
</tr>
<tr>
<td>Multisector Bond</td>
<td>7.4</td>
<td>8.9</td>
<td>7.3</td>
<td>8.1</td>
<td>-2.0</td>
</tr>
<tr>
<td>High Yield Bond</td>
<td>5.9</td>
<td>12.3</td>
<td>8.4</td>
<td>9.2</td>
<td>-5.2</td>
</tr>
<tr>
<td>Diversified Emerging Mkts</td>
<td>-3.0</td>
<td>28.9</td>
<td>11.5</td>
<td>10.5</td>
<td>-9.8</td>
</tr>
<tr>
<td>Foreign Large Blend</td>
<td>2.2</td>
<td>17.5</td>
<td>9.6</td>
<td>10.6</td>
<td>-10.9</td>
</tr>
<tr>
<td>Mid Cap</td>
<td>10.0</td>
<td>19.2</td>
<td>10.1</td>
<td>16.8</td>
<td>-12.6</td>
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<tr>
<td>Large Value</td>
<td>9.4</td>
<td>16.7</td>
<td>9.3</td>
<td>14.7</td>
<td>-15.2</td>
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<tr>
<td>Real Estate</td>
<td>12.4</td>
<td>14.0</td>
<td>8.5</td>
<td>14.1</td>
<td>-16.2</td>
</tr>
<tr>
<td>Small Cap</td>
<td>11.5</td>
<td>18.9</td>
<td>10.1</td>
<td>16.4</td>
<td>-16.9</td>
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<tr>
<td>Financial</td>
<td>16.5</td>
<td>21.7</td>
<td>11.5</td>
<td>17.5</td>
<td>-23.3</td>
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<tr>
<td>Equity Energy</td>
<td>13.3</td>
<td>20.8</td>
<td>6.2</td>
<td>13.3</td>
<td>-37.8</td>
</tr>
</tbody>
</table>

Morningstar as of 6/30/20. All asset classes represented by their respective Morningstar category. *Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.*
Market seasonality in election years

Election years have historically caused disruptions to market seasonality

“Mommies to mummies” (May 1 to Oct 31)
Six months prior to the election (1/1/26 – 12/31/19)
- All years: 4.2%
- Election years: 5.9%
- Non-election years: 3.7%

“Turkey to tax” (Nov 1 to Apr 30)
Six months after the election (1/1/26 – 4/30/20)
- All years: 7.3%
- Election years: 6.0%
- Non-election years: 7.7%

Morningstar as of 6/30/20. Stock market represented by the S&P 500 Index from 1/1/70 to 4/30/20 and IA SBBI U.S. large cap stocks index from 1/1/26 to 1/1/70. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.
<table>
<thead>
<tr>
<th>Returns as of 6/30/2020</th>
<th>Total Ret 1 Year</th>
<th>Total Ret 5 Years</th>
<th>Total Ret 10 Years</th>
</tr>
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<tbody>
<tr>
<td>S&amp;P 500 TR USD</td>
<td>7.51</td>
<td>10.73</td>
<td>13.99</td>
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<tr>
<td>BBgBarc US Agg Bond TR USD</td>
<td>8.74</td>
<td>4.30</td>
<td>3.82</td>
</tr>
<tr>
<td>IA SBBI US IT Govt TR USD</td>
<td>10.75</td>
<td>4.09</td>
<td>3.26</td>
</tr>
<tr>
<td>IA SBBI US Large Stock TR USD Ext</td>
<td>7.51</td>
<td>10.73</td>
<td>13.99</td>
</tr>
<tr>
<td>US Fund Diversified Emerging Mkts</td>
<td>-3.66</td>
<td>2.46</td>
<td>3.27</td>
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<tr>
<td>US Fund Equity Energy</td>
<td>-39.38</td>
<td>-17.41</td>
<td>-6.84</td>
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<tr>
<td>US Fund Foreign Large Blend</td>
<td>-4.66</td>
<td>1.79</td>
<td>5.33</td>
</tr>
<tr>
<td>US Fund Health</td>
<td>17.18</td>
<td>6.57</td>
<td>15.97</td>
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<tr>
<td>US Fund High Yield Bond</td>
<td>-1.89</td>
<td>3.38</td>
<td>5.49</td>
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<tr>
<td>US Fund Intermediate Core Bond</td>
<td>7.89</td>
<td>3.90</td>
<td>3.66</td>
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<tr>
<td>US Fund Large Blend</td>
<td>3.74</td>
<td>8.35</td>
<td>12.22</td>
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<tr>
<td>US Fund Large Growth</td>
<td>17.34</td>
<td>12.84</td>
<td>15.12</td>
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<tr>
<td>US Fund Large Value</td>
<td>-7.59</td>
<td>4.47</td>
<td>9.75</td>
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<tr>
<td>US Fund Mid-Cap Blend</td>
<td>-6.19</td>
<td>3.86</td>
<td>10.02</td>
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<tr>
<td>US Fund Multisector Bond</td>
<td>0.69</td>
<td>3.30</td>
<td>4.44</td>
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<tr>
<td>US Fund Muni National Intern</td>
<td>3.13</td>
<td>3.14</td>
<td>3.50</td>
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<tr>
<td>US Fund Short-Term Bond</td>
<td>3.09</td>
<td>2.18</td>
<td>2.08</td>
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<tr>
<td>US Fund Small Blend</td>
<td>-11.41</td>
<td>2.49</td>
<td>9.32</td>
</tr>
<tr>
<td>US Fund Technology</td>
<td>25.97</td>
<td>18.50</td>
<td>17.44</td>
</tr>
</tbody>
</table>

Source: Morningstar. Performance data quoted represents past performance and is no guarantee of future results. Current performance may be lower or higher than that shown.

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