

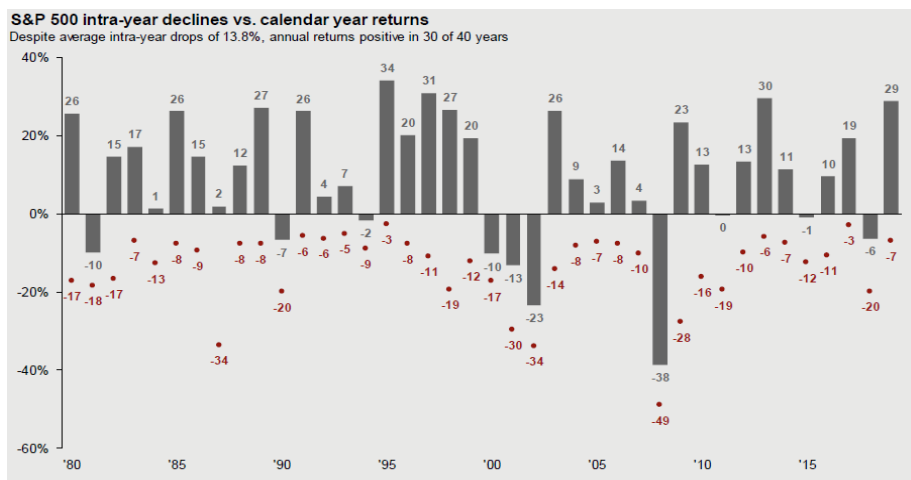
## The Markets & the Economy - What We're Watching

### Top Theme of the Week:

- › A historical look at volatility and Presidential elections effect on the markets

The final countdown to the election has begun and we are prepared to see a wild ride until and possibly beyond the November 3<sup>rd</sup> date! With the Presidential election just days away, rising coronavirus cases across the country, and Big Tech reporting earnings, the stock market has been volatile. Specifically around the election, reports state the volatility is partially due to investors' fears of receiving no clear outcome to Tuesday's vote. Regardless of the outcome, it's important to consider historical context and understand that volatility is normal and the stock market has endured such volatility previously.

For example, as shown in this chart<sup>1</sup>, volatility can be seen across a 40 year period of time. The S&P 500 annual returns have been positive over 75% of the time in the last 40 years. The solid grey bars indicate that year's annual return. The chart also shows how the stock market endures sell-offs every year as indicated



by the red dots below their respective year. On average, the market endures a -13.8% pullback in a typical year. So the type of volatility we've been seeing (i.e. Wednesday's sell-off, October 28<sup>th</sup>), at varying degrees can be seen every year. Over long time periods, investors have generally been rewarded for patience even while enduring negative years – hence our belief timing the market is not effective, but rather “time in the market” will reap benefits. So while volatility seems elevated right now, it is not a new phenomenon and the market will withstand the fluctuations.

<sup>1</sup> Image Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management

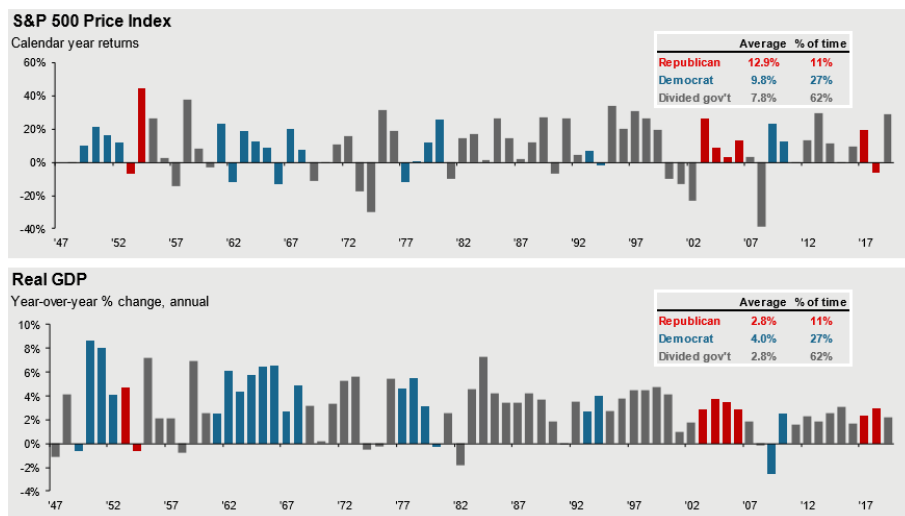
Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns are calendar year returns from 1980 to 2019, over which time period the average annual return was 8.9%

Guide to the Markets – U.S. Data are as of December 31, 2019.

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We are often asked what will happen to the markets should we have a Republican sweep, a Democratic sweep, or a divided government?

Shown in this chart<sup>2</sup> is the performance of the stock market and the actual economy on a yearly basis. The good news is as the chart shows, the S&P 500 and GDP are positive the majority of the time



regardless of which party is in the White House. The S&P average returns range from 7.8% to 12.9% under all scenarios which are very strong annual outcomes. Similarly, GDP average growth numbers from 2.8% to 4.0% are quite strong. Both parties have reasons to cheer – with one party seeing higher stock market returns and the other party boasting higher economic (Real GDP) growth.

Click [HERE](#) to watch IMG’s latest webinar on the markets and the economy through the 3<sup>rd</sup> quarter.

While the current times feel different, the long term statistics show that regardless of outcome, the United States finds its way and moves forward. Future earnings, regardless of politics, will drive future stock prices. We expect volatility, but also think the future is bright regardless of short term volatility. So stay the course, but also know when things are uncertain, it’s more important than ever to have a solid financial plan. A financial plan can help you understand the volatility and risk that is appropriate for your situation. If you already have a financial plan, revisit it. As time goes by, life and circumstances change and what was appropriate before may not be appropriate now. Contact your local IMG professional to understand how we provide the expertise today to meet your needs tomorrow.

For questions or more information, please contact your local IMG professional. For additional insights from IMG experts, please visit our new website’s [Insights](#) page and follow us on [LinkedIn](#).

*Commentary is reflective as of the close Thursday, October 29, 2020.*

<sup>2</sup> Image Source: FactSet, Office of the President, J.P. Morgan Asset Management; (Top) Standard & Poor’s; (Bottom) Bureau of Economic Analysis. Top chart shows S&P 500 price returns.

*Guide to the Markets – U.S. Data are as of September 30, 2020*

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