



Politics, policy, fundamentals, and the markets

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While our political discourse can dominate headlines and drive investor sentiment over the near-term, the stock market ultimately focuses on three main areas:

- Monetary policy
- Fiscal policy
- Economic fundamentals

A look back at market history affirms our confidence in these three areas. During the 20th century, the United States experienced two constitutional crises - Watergate in the 1970s and Whitewater in the 1990s. In both instances, the country was divided culturally and politically and confronted daily by a poisoned political and cultural discourse. Yet, the S&P 500 Index (S&P 500) provided investors with opposite return streams during two equally difficult political and cultural time periods.

The charts on the following page illustrate how the S&P 500 was off approximately 30% during the Watergate years and up approximately 20% during the Whitewater years.

If politics were the sole driver of markets, we would think both return streams would have been negative. Instead, the economy and policy fundamentals of the competing periods were quite different. For example, in the 1970s the country had to contend with the Arab oil embargo, high inflation, and modest economic growth. Meanwhile, in the 1990s the US was benefiting from increased productivity and declining commodity costs. In both scenarios, the markets responded in kind.

The bottom line is, markets care little for personalities and politics; ultimately always coming back to policy and fundamentals.

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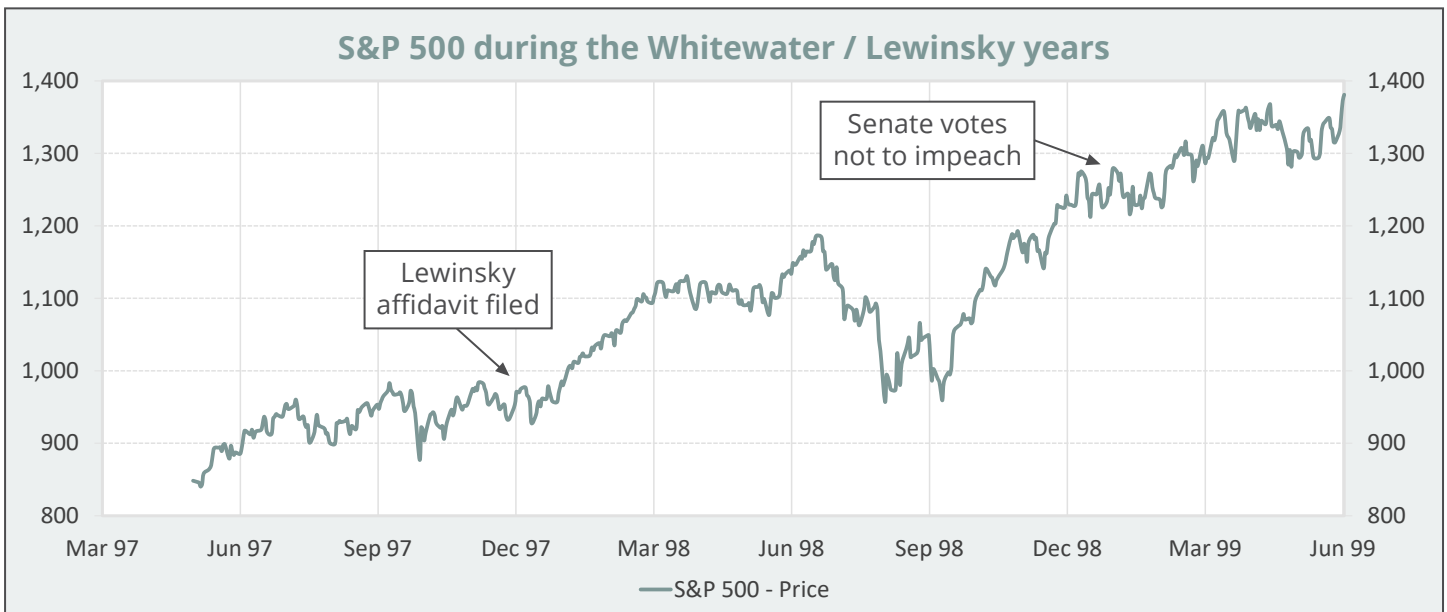
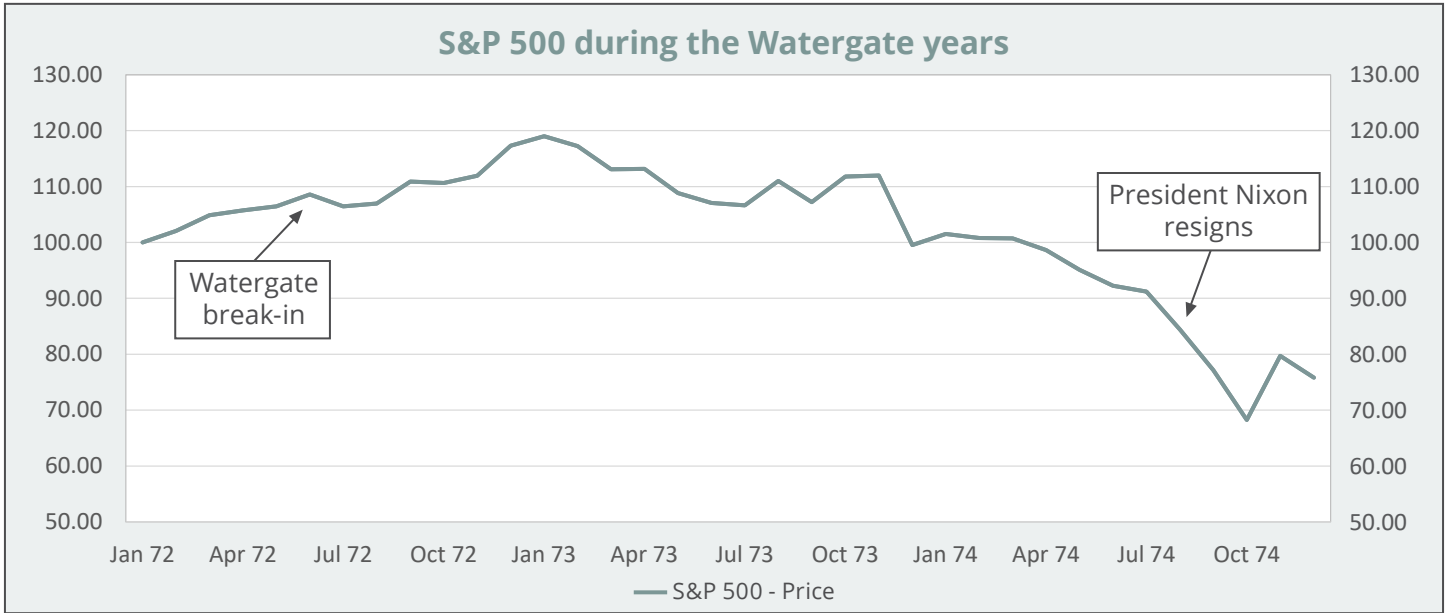


Chart source: FactSet



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