CANNELL
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MAY YOU LIVE IN INTERESTING TIMES

Dear clients,

Unfortunately, this ancient Chinese curse captures 2020 all too well. Covid 19 has fundamentally changed how we work; limited our ability to socialize; exposed long simmering socioeconomic tensions; and has forced us to recalibrate our expectations about the future.

Since the start of the pandemic, our investing efforts have focused on navigating the market's reaction to its impact. Our financial counsel has concentrated on helping you filter the constant stream of information, most of which is just noise, so that you won't be distracted from your long-term goals. Finally, structuring a portion of your portfolio to meet your specific near-term fiscal needs, we have sought to reduce the inevitable stress caused by the stock market's volatility.

The third quarter witnessed the continued recovery of global stock, bond and commodity markets from their March lows. Driven by the coordinated effort of global central banks, direct government stimulus and the gradual growth of the world economies, many asset classes have turned positive for the year. Nevertheless, as was true in the second quarter, the markets are still being driven by the performance of a select group of companies, though many of those less prized sectors narrowed their performance gap. As a result, notwithstanding the performance of these overly loved securities, the global stock and bond markets are in much better shape than they were six months ago.

The first three quarters of 2020 have already demonstrated that we do indeed live in interesting times. It is likely that the current election cycle will ensure that the fourth quarter will continue to be "interesting". Therefore, it may prove instructive to help put the political climate into perspective with respect to the stock market.

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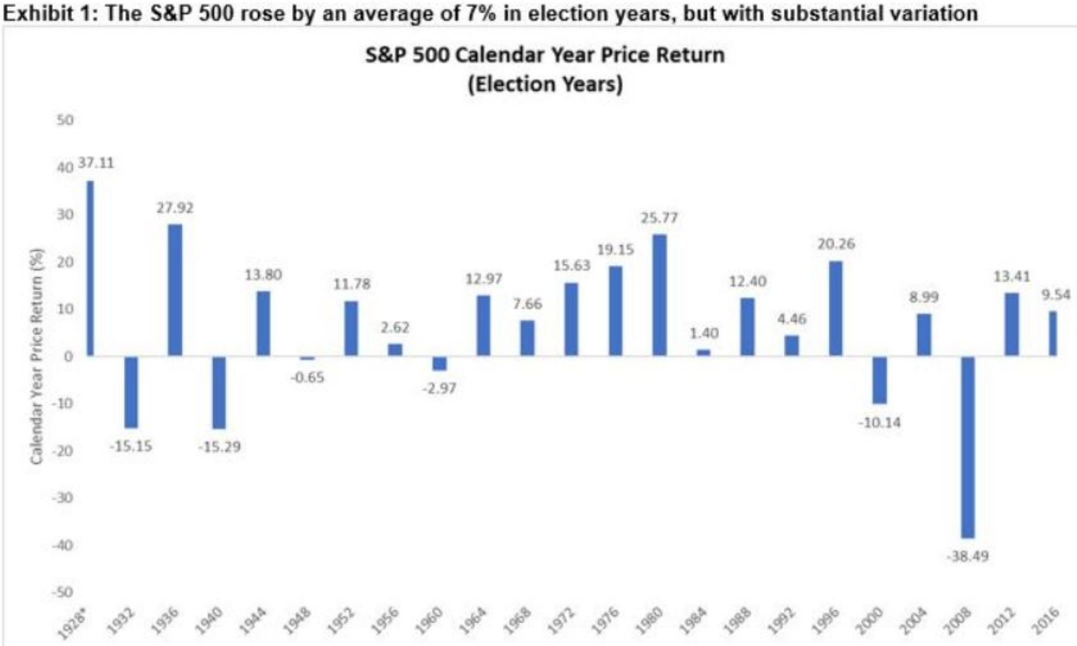
Let’s examine the S&P 500’s performance in presidential election years. Looking back to 1928, the S&P 500 was up in about 75% of those presidential election years, averaging about a 7% return.

Exhibit 1: The S&P 500 rose by an average of 7% in election years, but with substantial variation



Source: S&P Dow Jones Indices LLC. Chart shows S&P 500 calendar year price returns during U.S. Presidential election years between 1928 and 2016. Data begins on January 3, 1928. Past performance is no guarantee of future results. Chart provided for illustrative purposes only.

It is important to note that there is no correlation between market performance and which party is victorious in November. But this does beg the question as to what the subsequent four years might look like.

When one delves deeper and examines full presidential terms, a popular belief immediately is dispelled: that Republican presidents are better for the stock market than Democratic presidents. Starting in 1926, when the first data for the S&P 500 is available, through 2019, the Republicans and Democrats have held the presidency for roughly the same amount of time (46 and 48 years respectively). The S&P 500’s average annual return for Republican presidents is 9.12% and Democratic presidents is 14.94%.

Given the current uncertainty about which party might win the Presidential and the Senate elections, examining the market performance under various combinations of unified or divided government might also be helpful.

Situation	Number of Years	S&P 500 Index Annual Average Return
Unified Republican	13 years	14.52%
Unified Democrat	34 years	14.52%
Divided with Republican President	33 years	6.99%
Divided with Democratic President	14 years	15.94%

Clearly these observations should not lead one to the expectation that voting for a particular candidate or party will have a deterministic impact on the markets. But in thinking about the data, it should be obvious that economic cycles impact these returns. For example, the Republican data set is saddled with Herbert Hoover's dismal -27.19% annual return as he faced the devastating impact of the Great Depression. The conclusion one should draw, to paraphrase President Clinton's 1992 campaign, "it is the economy, stupid."

Companies' senior managements are hired to guide their businesses through current and future economic cycles. For public companies, this is quantified by delivering earnings to shareholders. Their business plans tend to be longer-term in nature and are tweaked in response to changes in economic circumstances. Moreover, a company's stock performance tends to reflect the ability of that company to deliver on their plan, as investors seek to share in those earnings. By and large, it is irrelevant to most businesses as to which party sits in the White House or on Capitol Hill. Therefore, focusing too closely on the impact of an election, as the data suggests, is likely to drive an investor to act when doing nothing is preferable.

Whomever wins in November, we will continue our discipline and thoughtful research of companies that can deliver for their investors.

We wish you and your families continued health. Our commitment to our clients is unwavering and we thank you for your trust.

Sincerely,

The Partners of CANNELL & CO.