LPL RESEARCH

WEEKLY MARKET COMMENTARY

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PRESIDENT TRUMP'S FIRST YEAR

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KEY TAKEAWAYS

The Dow's 28.5% advance during the year after the election ranks as one of the best ever.

Current technical conditions suggest that the bullish trend in equities could continue into 2018, and potential dips may present buying opportunities.

We continue to closely monitor fundamentals, particularly policy developments out of Washington, as we believe they will be a necessary component for stock market gains in 2018.

Last week marked the one-year anniversary of President Trump's Election Day victory. The period since the president was elected has been one of the best ever for U.S. stock markets. The 28.5% rally in the Dow Jones Industrial Average (Dow) one year after the election ranks 4 out of 31 overall among one-year post-election rallies for U.S. presidents since the inception of the Dow in 1896 [Figure 1] and is one of the best performances since World War II (WWII). The best? President Coolidge during the Roaring Twenties. The worst? Woodrow Wilson's second term during WWI.

A CLOSER LOOK AT THE PAST YEAR

The Dow gained 28.5% the year after the election, which ranks as one of the best one-year post-election performances ever; digging further into the numbers reveals some other interesting developments:

- The post-election period has been among the least volatile ever for equity markets. In fact, the largest pullback for the S&P 500 Index since Election Day has been only 2.8% (from peak to trough), one of the smallest pullbacks over a full year in history.
- The Dow set 76 new all-time closing highs in the past year—the most ever in a post-election year—with the previous record of 60 coming during President Coolidge's first and only term.
- The Dow closed either higher or lower by more than 1% only 11 times, tying the least ever which took place after President Lyndon B. Johnson (LBJ) during the historically tranquil mid-1960s.

Needless to say, this combination of a strong bull market with historically low volatility is surprising. Interestingly, one of the other least volatile years ever took place the year after LBJ took office after John F. Kennedy's assassination in November 1963. Few in 1963 expected calm markets in the year ahead, but in both cases a strong underlying economy covered up some blemishes.

HOW'D WE GET HERE?

A year ago at this time many thought that a Trump victory would lead to a stock market correction. Some pointed out that many new presidents were greeted with recessions early in their terms. In the wee hours on Tuesday, November 8, 2016 (more precisely, early Wednesday, November 9), a pullback occurred in the futures markets, but it was

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1 DOW RETURNS ONE YEAR AFTER A U.S. ELECTION

Election	President	Dow at Start	One Year Change	New Highs	1% Daily Moves
11/04/1924	Calvin Coolidge	103.89	52.1%	60	61
11/08/1932	Franklin Roosevelt	64.58	47.9%	0	161
11/07/1944	Franklin Roosevelt	147.92	29.8%	0	30
11/08/2016	**Donald Trump**	**18332.74**	**28.5%**	**76**	**11**
11/05/1996	Bill Clinton	6081.18	26.5%	51	72
11/08/1904	Theodore Roosevelt	66.21	24.1%	11	79
11/08/1988	George H.W. Bush	2127.49	23.3%	8	49
11/08/1960	John F. Kennedy	597.63	21.1%	15	24
11/03/1908	William Taft	82.90	20.9%	0	47
11/06/2012	Barack Obama	13245.68	18.9%	33	27
11/03/1896	William McKinley	40.93	16.5%	33	92
11/06/1984	Ronald Reagan	1244.15	12.8%	22	29
11/03/1992	Bill Clinton	3252.48	12.6%	25	15
11/03/1964	Lyndon B. Johnson	875.51	9.8%	37	11
11/06/1900	William McKinley	60.87	6.1%	2	91
11/02/2004	George W. Bush	10035.73	4.4%	0	32
11/04/1952	Dwight D. Eisenhower	270.23	2.4%	0	15
11/04/2008	Barack Obama	9625.28	1.8%	0	128
11/02/1948	Harry Truman	189.76	1.7%	0	27
11/07/1972	Richard Nixon	984.80	-6.6%	16	71
11/04/1980	Ronald Reagan	937.20	-7.5%	0	67
11/05/1968	Richard Nixon	946.23	-9.7%	0	27
11/06/1928	Herbert Hoover	257.58	-9.9%	44	119
11/05/1940	Franklin Roosevelt	135.21	-11.4%	0	44
11/06/1956	Dwight D. Eisenhower	495.37	-12.0%	0	32
11/07/2000	George W. Bush	10952.18	-12.8%	0	100
11/05/1912	Woodrow Wilson	90.29	-13.5%	0	49
11/02/1920	Warren G. Harding	85.48	-14.0%	0	91
11/02/1976	Jimmy Carter	966.09	-17.1%	0	28
11/03/1936	Franklin Roosevelt	176.67	-26.3%	0	87
11/07/1916	Woodrow Wilson	107.21	-33.3%	6	96
		Average	6.0%	14.2	58.5
		Median	4.4%	0	49
		Max	52.1%	76	161
		Min	-33.3%	0	11

Source: LPL Research, FactSet 11/09/17

The Dow Jones Industrial Average is an unmanaged index which cannot be invested into directly. Past performance is no guarantee of future results.

completely reversed during Wednesday's session. In fact, the S&P 500 ended higher Monday, Tuesday, Wednesday, and Thursday of election week. So what did markets like so much back then that pushed stocks higher?

- **One party rule.** Party control of all branches of government was viewed positively by markets as it set the stage for an end to the political logjam in Washington, D.C. and opened up the possibility of pro-growth policies, including tax reform.
- **Better economic growth.** The economic growth outlook had already started to improve ahead of the election based on data available after the energy downturn in early 2016. Pro-growth fiscal policies were expected by many market participants to provide an additional lift.
- **Deregulation.** Regulatory headwinds for many companies, particularly financial companies, would turn to a tailwind. The regulatory environment was expected to get better for energy companies as well, and indeed it has. The combination of deregulation and possible tax reform has led to a big increase in business confidence, particularly among small businesses.

But it was not just optimism back then—far from it. One concern for markets was a possible trade war, given then President-elect Trump's strong words directed at China and Mexico. Another was the potential for a more hawkish Federal Reserve (Fed), a risk that remains even after Jay Powell's nomination as the next Fed chair given additional open positions at the Fed.

WHERE ARE WE GOING?

The big question now is, what does year two have in store? Based on the historical presidential cycle, next year may be good, not great. Since WWII, the midterm election year (based on calendar years) has produced an average gain of 6.7%, slightly behind the average year. Of course, this year's gain is in a position to outpace the average post-election year gain of 6.2%.

There are a number of reasons to suggest that stocks may outperform the presidential cycle pattern. Economic growth is steadily improving in the U.S. and abroad, inflation remains well contained, monetary policy—though tighter—is still accommodative, and earnings are growing solidly across the globe. Tax policy remains a wildcard but our expectation is that something gets done.

From a technical analysis perspective, a number of market dynamics suggest that stocks will do well over the next year and possibly longer. Based on historical data, these conditions are favorable:

- **Strong market uptrend.** The six major U.S. equity indexes: S&P 500, Dow Jones Industrial Average, Nasdaq Composite, Russell 2000, Dow Jones Transportation Average, and the New York Stock Exchange Composite are each trading above their positively sloping 200-day moving averages, indicative of a prevailing bullish long-term trend.
- **Solid global breadth.** Much like the U.S., the price trends of the MSCI Emerging Markets and EAFE Index, and the price trends of most of the index constituents, are bullish under the same conditions described above. Healthy global breadth increases the potential for stocks to continue to move higher over the intermediate-to-longer term.
- **Stocks have beaten bonds.** Stocks have soundly beaten bonds since Election Day, based on the S&P 500 and Bloomberg Barclays U.S. Aggregate Bond Index. The performance gap between the two, at roughly 20%, suggests continued gains for stocks over the coming year.*
- **Cyclical sectors have outperformed.** More specifically, the combination of technology and financials outperformance, as observed over the past year, has historically been followed by above-average one-year performance.

*Looking at historical data going back to 2004, when the weekly reading on the S&P 500 Index / Barclays Capital U.S. Aggregate Bond Index relative strength line chart is sustained above its 40-week simple moving average (SMA) for three trading weeks, subsequent long term price levels on the S&P 500 tended to rise. In the eight such occurrences since 2004, the S&P 500 was higher one year later seven out of eight times with an average total return of 7.0%.

CONCLUSION

It has been a great year for stocks since President Trump's election victory, one that ranks up there with like periods over the past 120 years spanning 31 different elections. Gains can be attributed to a number of factors, some policy related and some not. But following up the strong year one with a good year two will be a tougher task. While the technical conditions look good, we continue to closely monitor fundamentals, particularly policy developments out of Washington and geopolitical risks overseas. We expect to see potential gains in the coming year, but policy achievements will likely be required.

More on the policy environment coming soon in *LPL Research Outlook 2018* due out later this month. ■

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INDEX DESCRIPTIONS

The Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Dow Jones Industrial Average (DJIA) Index is comprised of U.S.-listed stocks of companies that produce other (nontransportation and nonutility) goods and services. The Dow Jones Industrial Averages are maintained by editors of The Wall Street Journal. While the stock selection process is somewhat subjective, a stock typically is added only if the company has an excellent reputation, demonstrates sustained growth, is of interest to a large number of investors, and accurately represents the market sectors covered by the average. The Dow Jones averages are unique in that they are price weighted; therefore, their component weightings are affected only by changes in the stocks' prices.

The Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS, and CMBS (agency and non-agency).

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The MSCI Emerging Markets Index consists of the following 21 emerging market country indices. The MSCI EAFE Index is made up of approximately 1,045 equity securities issued by companies located in 19 countries and listed on the stock exchanges of Europe, Australia, and the Far East. All values are expressed in U.S. dollars. Past performance is no guarantee of future results.

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