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UNIT TRUST CORPORATION

ADVISORY SERVICES DEPARTMENT

Newsletter

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The United States is one of the world's largest economies and has the top financial markets worldwide, trading trillions of dollars daily. Thus, with the 2016 presidential election carded for November, the question is often asked "how will the upcoming election affect the financial markets?" and ultimately, "how will this affect my portfolio?"

Based on history, the average returns in a presidential election year is 6.6% and market returns are not that different whether there is a Republican or Democrat leader selected. However, history suggests that the markets respond far better to election processes whose outcomes are more predictable, according to Mary Ann Bartels, Head of Merrill Lynch Wealth Management Portfolio Strategy. "This time, we've got a lot of uncertainties," Bartels says, "and if there's one thing markets hate, it is uncertainty."

According to Stephen Suttmeier, technical research analyst at BofA Merrill Lynch Global Research, since 1928, the S&P 500 Index has dropped an average of 2.8% in presidential election years that do not include an incumbent seeking re-election. In fact, of the eight years in a two-term presidential cycle, the final year of the second term, when the incumbent cannot run, is the only one that has averaged negative market returns, Suttmeier says. By contrast, in years when the sitting president is up for re-election, the S&P 500 has averaged returns of 12.6%. Table 1 shows the returns of the S&P 500 Index during election years and the return during each President's tenure of four years.

Sr	Year	President	Party	Returns for the year of election	Returns for the tenure of
1	1952	Dwight D. Eisenhower	Republican	11.8%	86%
2	1956	Dwight D. Eisenhower	Republican	2.6%	17%
3	1960	John F. Kennedy	Democrat	-3.0%	59%
4	1964	Lyndon B. Johnson	Democrat	13.0%	22%
5	1968	Richard Nixon	Republican	7.7%	8%
6	1972	Richard Nixon	Republican	15.6%	-8%
7	1976	Jimmy Carter	Democrat	19.1%	24%
8	1980	Ronald Reagan	Republican	25.8%	30%
9	1984	Ronald Reagan	Republican	1.4%	68%
10	1988	George H. W. Bush	Republican	12.4%	50%
11	1992	Bill Clinton	Democrat	4.5%	68%
12	1996	Bill Clinton	Democrat	20.3%	103%
13	2000	George W. Bush	Republican	-10.1%	-21%
14	2004	George W. Bush	Republican	9.0%	-14%
15	2008	Barack Obama	Democrat	-38.5%	46%
16	2012	Barack Obama	Democrat	13.4%	49%

Source: Wealth-monitor.com

Table 1: Showing US Presidential Results vs. S&P 500 Returns for Election Year & Tenure of each US President from 1952 to 2012

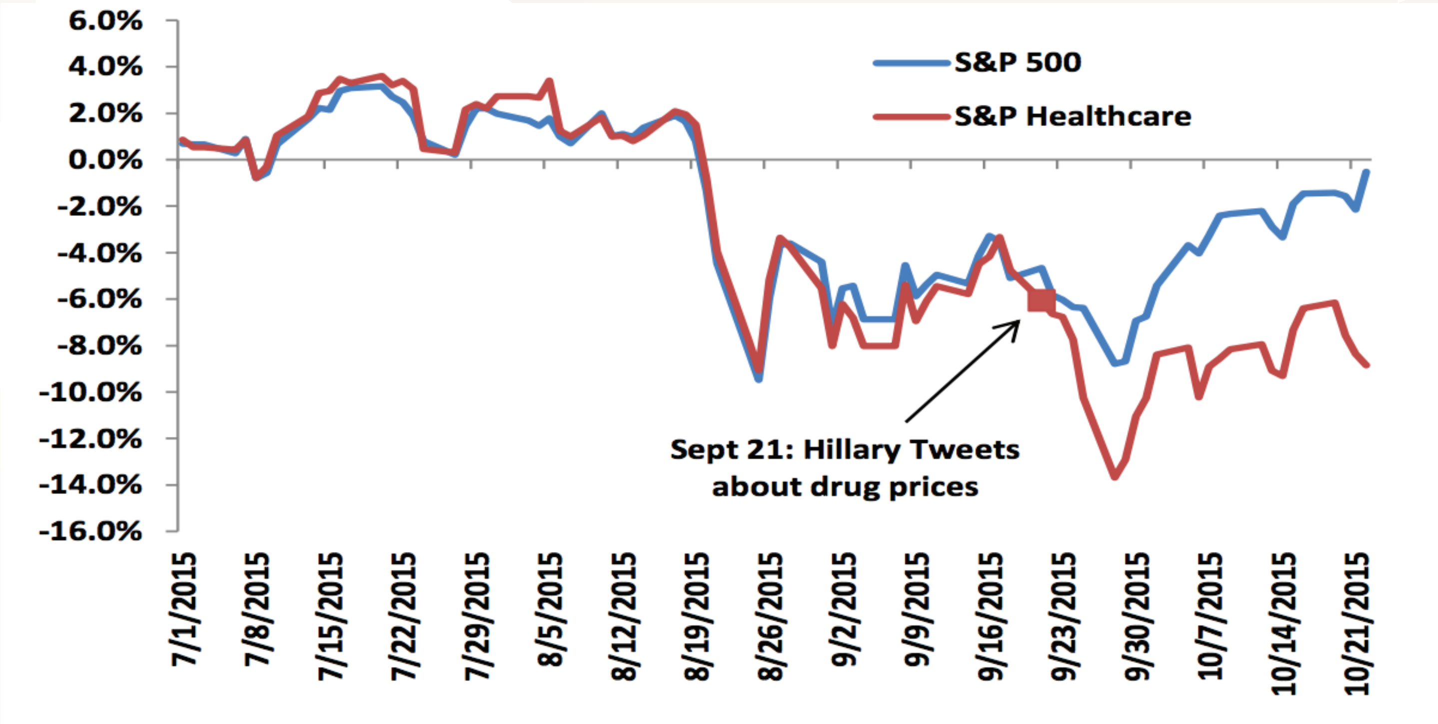
In addition, there are parts of the US stock market that would be affected differently. Healthcare, pharmaceutical, energy and defence stocks could be impacted during the year, as campaign statements translate into buying and selling pressure. For example, the US presidential election is expected to impact health care stocks, as Republican front-runners may repeal or limit the Affordable Care Act, known as Obamacare. Democratic candidates may also add to the negative impact, as Hillary Clinton criticised the high cost of prescriptions in 2015, setting off a biotech and pharmaceutical decline that has continued into 2016. (See Graph 1)

How Will This Impact Global Economies and Financial Markets?

Whether a Republican or Democratic president is selected for the United States, international trading partners are expected to be affected, and subsequently, their economies. Both sides have blamed America's present economic situation and declining middle class, on having disadvantageous trade deals.

candidates rejected the Trans-Pacific Partnership trade deal President Obama promoted.

Therefore, trade with Russia and China could be drastically impacted by a new US President. As the Russian economy is faltering, due to the fall in the price of oil, American and Western European sanctions will only worsen their economic situation. Also, all candidates have mentioned the 2015 American trade deficit of $365 billion with China. Given China's economic slowdown, any change to the rules of trade with the US will deliver a blow to the Chinese economy.



Source: IBES, Deutsche Bank

Graph 1 | Showing the fall in US Health Care Stocks after Hillary Clinton's comment on September 21, 2015

In addition, markets may respond well to proposals from a front-runner to provide regulatory relief for businesses or reduce the US corporate tax rate, which at the current rate of 39% is the highest in the developed world. It is expected that any reduction in rates may move the market positively.

Republican candidate, Donald Trump, repeats in every major speech how terrible the trade deals with China are. Furthermore, his position is the most aggressive, proposing to break existing trade agreements. He declared that he would either renegotiate or break NAFTA. In addition, both Democratic

However, India seems to be unaffected by any changes to trading rules, due to the strength of the Indian economy. The World Bank has predicted that India will be the fastest growing economy in the world for the next three years, and has the potential to surpass China.

Where Should I Put My Money?

In an environment of higher volatility and rising correlations, we believe investors can no longer rely solely on traditional passive strategies. Investors should ideally be looking for ways to minimise risk and include greater diversification in their portfolio. A pragmatic approach should also be taken where investors should take into consideration their risk appetite, investment time horizon, and their goals and objectives. Our Financial Advisors recommend that a great way to mitigate against any fall out or volatility related to the US presidential elections is through investments that are inherently diversified, and offer lower costs such as Exchange Traded Funds.

Exchange Traded Funds (ETFs) are a rapidly growing class of financial products, which were introduced in 1993. An ETF is a pooled investment vehicle with shares that can be bought or sold throughout the day on a stock exchange at a market-determined price. ETFs are bought and sold just like stocks, through a brokerage house, and their prices can change from second to second. ETFs also offer lower costs as they are passively managed and offer greater diversification.

For a local investment opportunity in this time, our Advisors recommend the UTC's Growth and Income Fund, which has a diverse international equity component, focused on long-term growth, not short-term performance. Also, for investors with the appetite for a direct play on the US market, our Advisors recommend the UTC's North American Fund. This Fund has a medium to long-term investment horizon and gives investors the opportunity to own some of the top US stocks and bonds.

Think Long Term

In a global environment of low returns and high volatility, seeking a positive return becomes even more critical. Investors should maintain a long-term approach to their investments, based on their personal goals, as poor market timing and numerous trades can prove to be very costly.

Continuously Monitor

It is important that you keep up to date with what is going on with your investments and in the economy generally so you are not acting on dated information.

Manage Expenses

In a volatile environment, transaction fees can suck up a larger portion of your returns. You should manage your expenses with low-cost investments such as mutual funds and ETFs.

Talk to Your Financial Advisor

Your Financial Advisor will ensure that you make decisions on your investments based on your long-term goals and objectives and not based on short-term fluctuations in the markets. Your Advisor can also recommend strategies to benefit from market fluctuations and realign your portfolio to better manage your risk.

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The Advisory Services Department of the Trinidad and Tobago Unit Trust Corporation was established to serve our valued clients seeking financial and investment advice and solutions from a trusted service provider. We will assist you in enhancing your personal wealth and financial well-being by providing you with financial counselling, investment advice and solutions.

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