

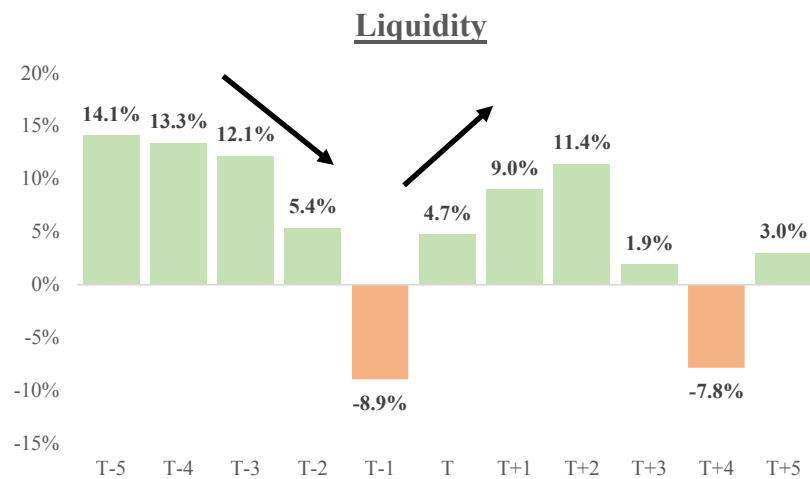
U.S. Presidential Election Market Data Study

Summary:

November 8th will be a historical day for the United States as the 45th president will be decided. The last year and a half has been undoubtedly one of the most volatile, unpredictable and memorable elections in recent history. In this report we shed light on liquidity profiles and S&P 500 performance during past election cycles and offer thoughts on sector rotation under different election outcomes.

Liquidity

Exhibit 1: Average Relative Change in Market Volumes



The U.S. election cycle tends to stir up plenty of drama both globally and domestically. Candidate policy and credibility headlines dominate the airwaves, while markets digest probable outcomes and those respective implications. This uncertainty translates directly into noticeable shifts in market liquidity. The illustrated data takes into account tape A+B+C volumes going back to 2008 and NYSE volumes going back to 1988. A clear noticeable trend is that volumes tend to contract in the days leading up to the election, are down on average -8.9% on the day before the election (we are -7.8% lower this year on Monday's), up slightly on the day of the election and up significantly on T+1 and T+2 (this year we're up +1.8% on Wednesday and Thursday).

Table 1: Relative Change Market Volumes

	T-5	T-4	T-3	T-2	T-1	T	T+1	T+2	T+3	T+4	T+5	White House	Senate	House
1988	8.2%	14.2%	12.6%	4.1%	-11.1%	8.0%	1.5%	-11.8%	-1.7%	-2.7%	-11.0%	Republican	Democrat	Democrat
1992	2.9%	2.7%	4.8%	0.3%	3.0%	6.4%	-0.8%	11.9%	4.3%	-0.1%	12.2%	Democrat	Republican	Democrat
1996	9.4%	8.6%	19.8%	15.1%	-3.0%	20.6%	26.3%	24.2%	-0.2%	-12.2%	17.0%	Democrat	Republican	Republican
2000	34.6%	18.9%	15.0%	-1.7%	-8.3%	-13.2%	-10.5%	9.4%	-3.9%	11.2%	10.2%	Republican	Republican	Republican
2004	20.0%	24.3%	16.0%	6.8%	-0.7%	18.4%	26.1%	27.3%	23.0%	-3.4%	3.5%	Republican	Republican	Republican
2008	30.3%	27.4%	11.4%	12.5%	-22.0%	0.8%	-1.6%	12.2%	-10.6%	-18.9%	-6.8%	Democrat	Democrat	Democrat
2012	-7.0%	-2.5%	5.5%	0.6%	-20.5%	-8.0%	21.8%	6.4%	2.3%	-28.8%	-4.3%	Democrat	Democrat	Republican
Average	14.1%	13.3%	12.1%	5.4%	-8.9%	4.7%	9.0%	11.4%	1.9%	-7.8%	3.0%			

Major volume drawdown on T-1

There is a notable volume expansion on T+1 and T+2 as the market digests the results. Whether the market is up or down, investors proactively alter respective portfolios.

Table 2: Average Relative Change in Market Volumes Broken Down by Election Outcome

Party	T-5	T-4	T-3	T-2	T-1	T	T+1	T+2	T+3	T+4	T+5
Republican	20.9%	19.1%	14.5%	3.0%	-6.7%	4.4%	5.7%	8.3%	5.8%	1.7%	0.9%
Democrat	12.3%	8.3%	13.4%	4.6%	-10.6%	-0.2%	12.5%	13.3%	-0.6%	-9.9%	7.7%

Asset Class Performance

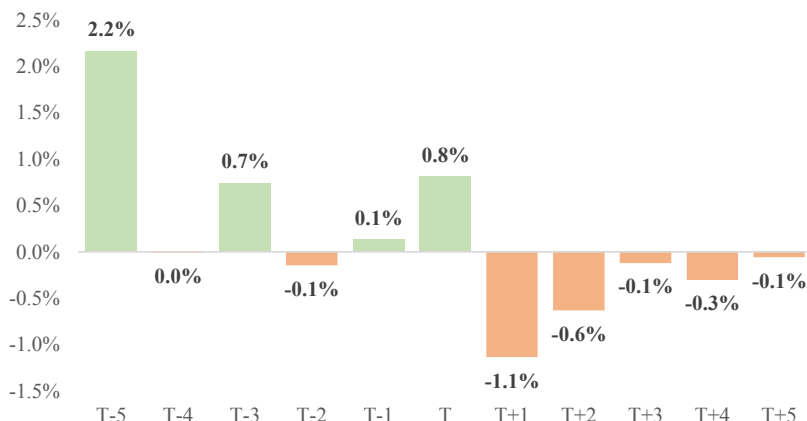
Table 3: S&P 500 Performance T-3 Weeks, T+3 Weeks and T+3 Months During the Election Period

	S&P 500 Performance			White House	Senate	House
	T-3 Weeks	T + 3 Weeks	T + 3 Months			
1988	-1.2%	-1.3%	8.5%	Republican	Democrat	Democrat
1992	2.7%	2.1%	6.1%	Democrat	Republican	Democrat
1996	1.7%	6.0%	10.7%	Democrat	Republican	Republican
2000	6.1%	-6.6%	-5.1%	Republican	Republican	Republican
2004	0.8%	4.3%	4.9%	Republican	Republican	Republican
2008	0.9%	-14.5%	-17.3%	Democrat	Democrat	Democrat
2012	-1.8%	-1.8%	5.3%	Democrat	Democrat	Republican
Average	1.3%	-0.7%	2.2%			
Median	0.9%	-1.3%	5.3%			
% Up	67%	44%	67%			

While the goal of this piece isn't to dive into the historical market performance around an election, we thought it would be interesting to highlight the total return of the S&P 500 during the election period. Table 3 displays the S&P 500's total return T-3 weeks, T+3 weeks and T+3 months from the election. It also shows the average and median values. The party majorities are also presented.

Exhibit 2: Average S&P 500 Performance T-5 to T+5 During the Election Period

S&P 500 Performance



To go one step further, we provided a different observation period to break out S&P 500 performance. Exhibit 2 uses 11 time periods to show the S&P 500's performance (T-5 to T+5). Most notably may be the apparent market drawdown which took place on T+1 during five of the last seven election cycles.

Table 4: S&P 500 Performance T-5 to T+5 During the Election Period

	T-5	T-4	T-3	T-2	T-1	T	T+1	T+2	T+3	T+4	T+5	Party	Senate	House
1988	0.0%	0.0%	0.1%	-1.0%	-0.9%	0.4%	-0.7%	0.1%	-2.1%	-0.1%	0.2%	Republican	Democrat	Democrat
1992	0.1%	0.4%	0.2%	-0.5%	1.0%	-0.7%	-0.7%	0.3%	-0.2%	0.2%	0.0%	Democrat	Republican	Democrat
1996	0.6%	-0.1%	0.6%	-0.2%	0.4%	1.0%	1.5%	0.4%	0.4%	0.1%	-0.3%	Democrat	Republican	Republican
2000	2.2%	-0.6%	0.5%	-0.1%	0.4%	0.0%	-1.6%	-0.6%	-2.4%	-1.1%	2.3%	Republican	Republican	Republican
2004	1.5%	1.3%	0.2%	0.2%	0.0%	0.0%	1.1%	1.6%	0.4%	-0.1%	-0.1%	Republican	Republican	Republican
2008	10.8%	-1.1%	2.6%	1.5%	-0.3%	4.1%	-5.3%	-5.0%	2.9%	-1.3%	-2.2%	Democrat	Democrat	Democrat
2012	-0.1%	0.0%	1.1%	-0.9%	0.2%	0.8%	-2.4%	-1.2%	0.2%	0.0%	-0.4%	Democrat	Democrat	Republican
Average	2.2%	0.0%	0.7%	-0.1%	0.1%	0.8%	-1.1%	-0.6%	-0.1%	-0.3%	-0.1%			

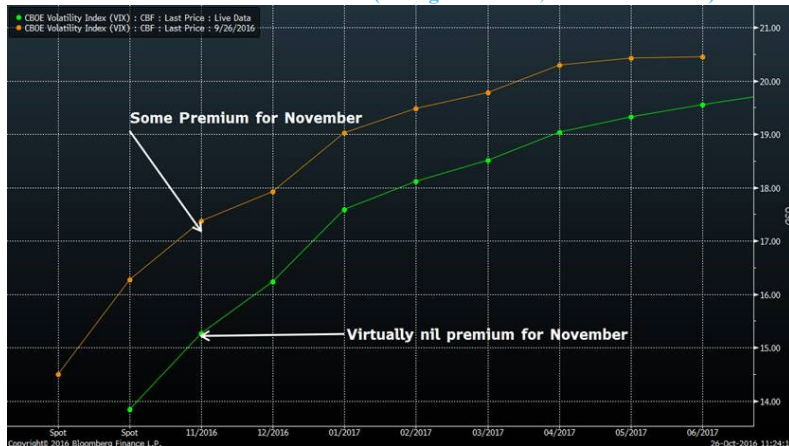
Table 5: Average S&P 500 Performance T-5 to T+5 Broken Down by Election Outcome

Party	T-5	T-4	T-3	T-2	T-1	T	T+1	T+2	T+3	T+4	T+5
Republican	1.2%	0.2%	0.2%	-0.3%	-0.1%	0.1%	-0.4%	0.4%	-1.4%	-0.4%	0.8%
Democrat	2.9%	-0.2%	1.1%	0.0%	0.3%	1.3%	-1.7%	-1.4%	0.8%	-0.2%	-0.7%

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Average Largely Influenced By 2008

Trade Ideas

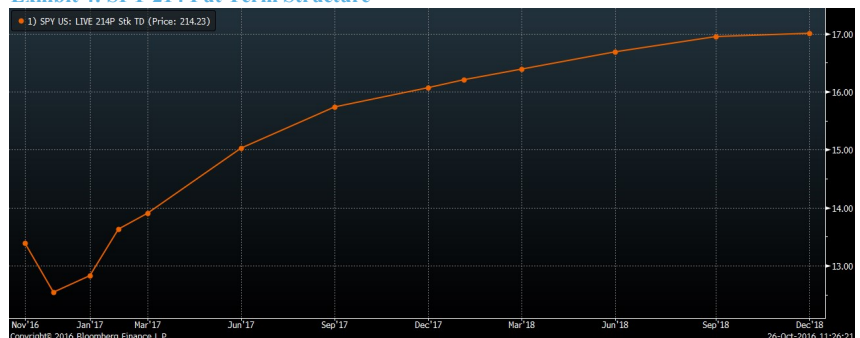
Exhibit 3: VIX Futures Term Structure (Orange as of 9/26, Green as of 10/26)



As Trump's polls have slid, the premium for VIX calls in November has faded as you can see in Exhibit 3 which shows the VIX futures curve today and one month ago. Exhibit 4 shows SPY close to the money put term structure; from the look of it you would never know there is an election just three weeks away.

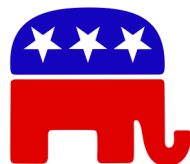
For those who think either a Trump victory or a Democratic sweep is a risk to the markets, a sub 14 VIX suggests attractive levels to buy protection. Investors should also consider that a market friendly grid lock scenario (Clinton White House/Republican House/Mixed Senate) likely increases the odds of a December rate hike, which may well present an incremental headwind for equities once November 8th clears. For these reasons, we like December quarterly put options.

Exhibit 4: SPY 214 Put Term Structure



For Institutional/Accredited Investors Only

For Institutional/Accredited Investors Only



Trump Victory...

Clinton Victory...

<ul style="list-style-type: none"> A. Sell yield equities such as REITs, utilities (higher longer term rates). B. Get long gold miners (dollar likely to be weaker). C. Sell emerging market assets, or U.S. companies with high exports to emerging markets – (trade barriers). Similarly, look for companies which have a significant part of their supply chain overseas. D. Sell companies (particularly in media) which are subject to mega mergers. TWX comes to mind. Hillary will be more large M&A friendly than Trump (or so it seems based on his Gettysburg speech last Saturday). E. Get long certain oil and gas companies and mining companies with U.S. assets (more benign regulatory environment). F. Get long defense contractors (increased defense spending). G. Buy put options on the market (policy uncertainty and higher rates means higher volatility and an excuse to sell). 	<ul style="list-style-type: none"> A. Buy the market and make sure you have some higher beta exposure (grid lock is market friendly). B. Be thoughtful around big banks (increased Dodd Frank and other regulatory pressures; Elizabeth Warren is going to use her political capital in this arena). C. Be very careful around big pharma and companies exposed to higher drug prices (more political pressure on controlling drug prices). D. Keep in mind that if Hillary wins, it will likely increase the odds of a December hike dramatically. So hedging assets most exposed to a rate hike (e.g. banks) is a further consideration.
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