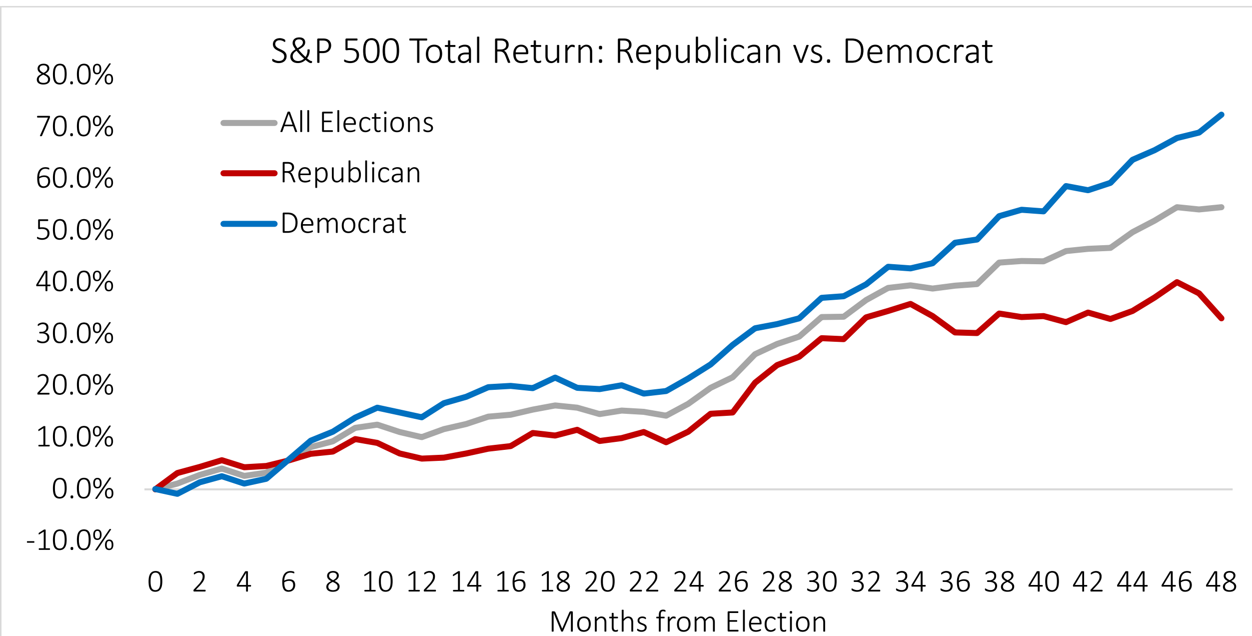
Politics and Your Portfolio: Stay the Course

With the U.S. election rapidly approaching, many investors are wondering how a Joe Biden or President Donald Trump victory could impact their investments. Should you be making any changes to your portfolios? What can history teach us about stock market performance under different regimes? We analyzed the past 23 elections going back to 1928 to see if we could glean any clues about how markets perform under different political parties and whether transitions of power impact returns. We also took a closer look at asset class performance during the 2000 election to get a better understanding of what we might expect under a contested election in 2020.

Red or blue, old or new – does it matter?

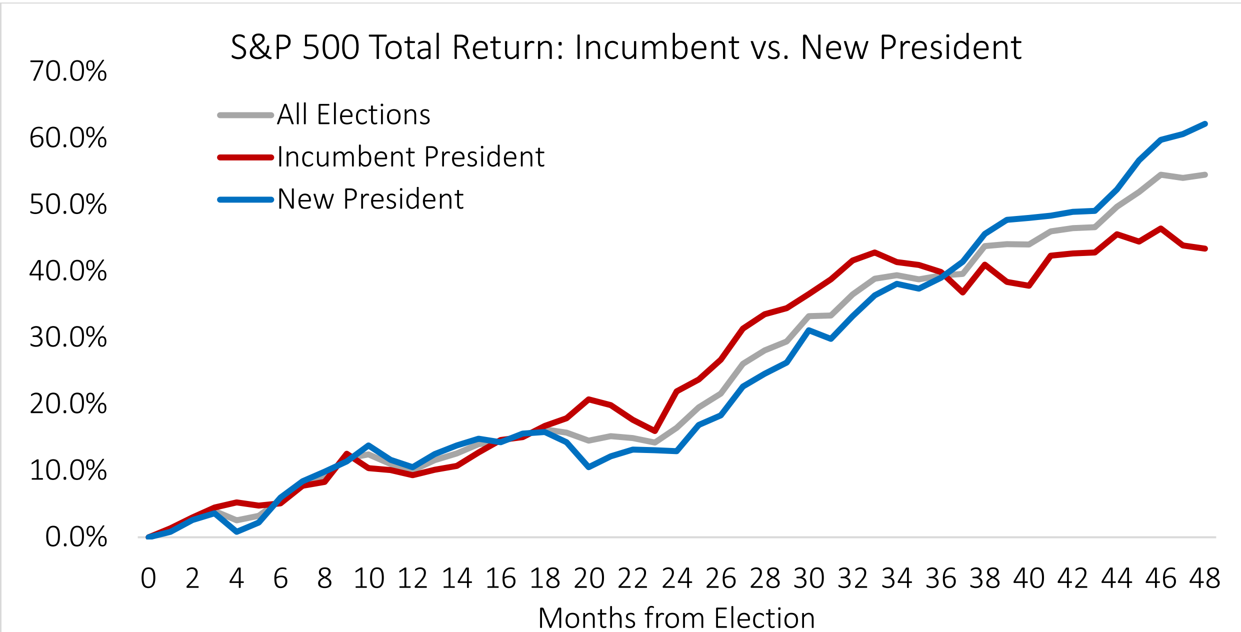
Let's start by looking at the total return of the S&P 500 Index under each of the two main political parties in the U.S. Of the 23 elections since 1928, Democrat and Republican victories were evenly split at 12 and 11 respectively. Anecdotally, we might expect stock market returns to be higher under Republican administrations because their party has historically had a more pro-business agenda focused on reducing regulation, increasing globalization, etc. However, stock markets have performed better only in the first one and three months under Republican presidents on average. Stock market performance has been stronger over every period from six months onwards under Democratic presidents.



Average Return	One Month	Three Months	Six Months	One Year	Three Years	Four Years
Average	1.0%	3.9%	5.6%	10.0%	39.3%	54.5%
Republican	3.1%	5.6%	5.5%	5.9%	30.3%	33.0%
Democrat	-0.9%	2.5%	5.6%	13.9%	47.6%	72.4%

Source: Shiller, Bloomberg Finance L.P. All data is monthly starting at the beginning of November. Based on the last 23 elections beginning in 1928.

We also segmented stock market returns to compare performance between incumbent president wins with transitions of power to new presidents. In our sample period, the incumbent president retained office in nine scenarios while new presidents were elected into office 14 times. The results between these data sets are much closer, with comparable performance over every time period through the first three years of the presidential term.



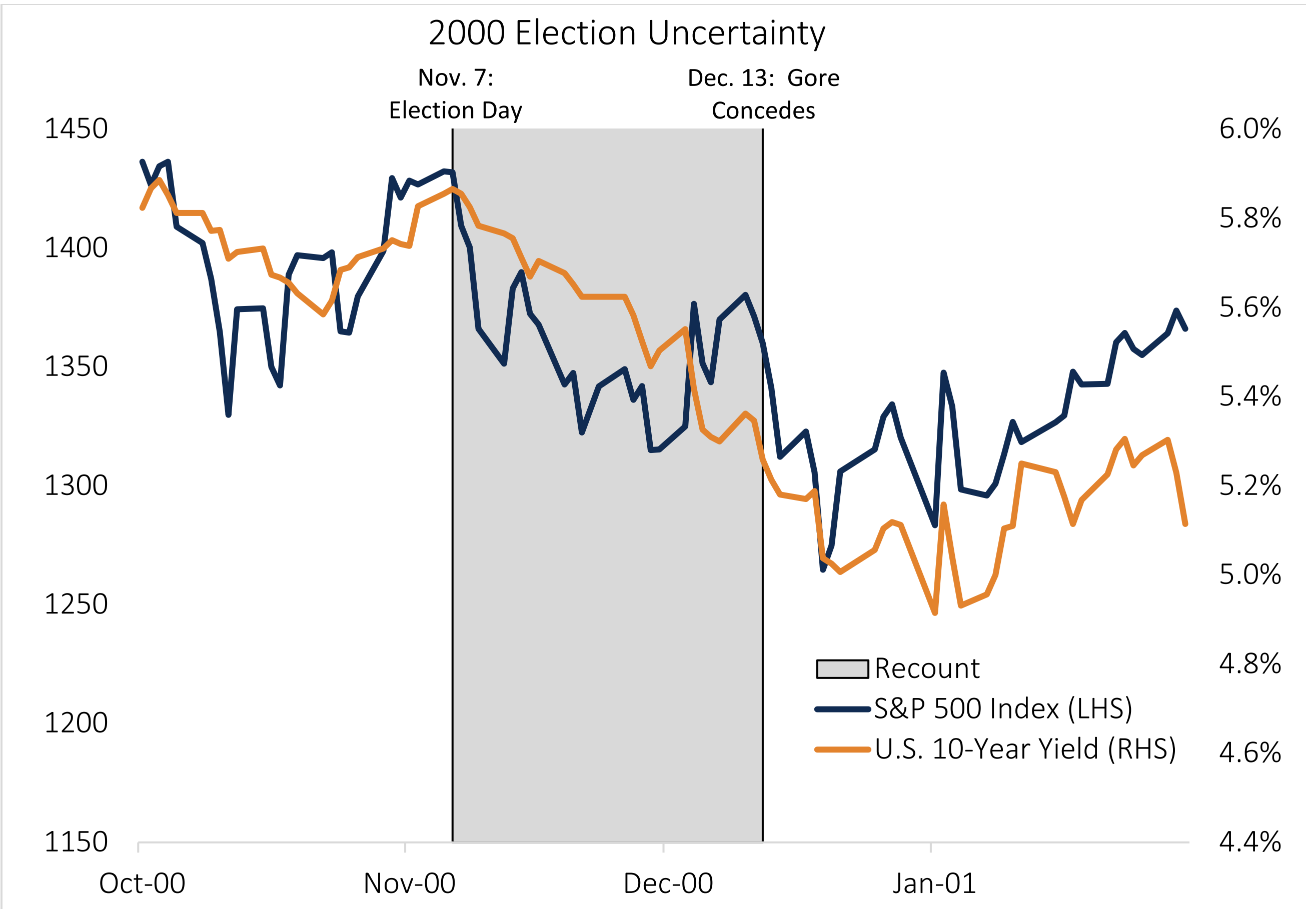
Average Return	One Month	Three Months	Six Months	One Year	Three Years	Four Years
Average	1.0%	3.9%	5.6%	10.0%	39.3%	54.5%
Incumbent	1.4%	4.4%	5.1%	9.3%	39.9%	43.4%
New	0.8%	3.6%	5.9%	10.5%	39.0%	62.2%

Source: Shiller, Bloomberg Finance L.P. All data is monthly starting at the beginning of November. Based on the last 23 elections beginning in 1928.

The “hanging chad” scandal

To accommodate the COVID-19 pandemic, the U.S. is relying on mail-in ballots on a large scale for the 2020 election. This could lead to uncertainty about the election result, either in the form of a delay in counting votes and/or a contested election from the losing campaign. The last contested election was in 2000 when the voting results in the deciding state, Florida, were so close on election night that a legally mandated recount was conducted starting the next day (November 8). Republican George W. Bush was ahead by a razor thin margin of just over 300 votes after the recount, and his opponent Al Gore began a legal process to appeal for recounts in certain jurisdictions. After numerous recounts and legal proceedings, the Gore campaign officially conceded the election about five weeks later on December 13, 2000.

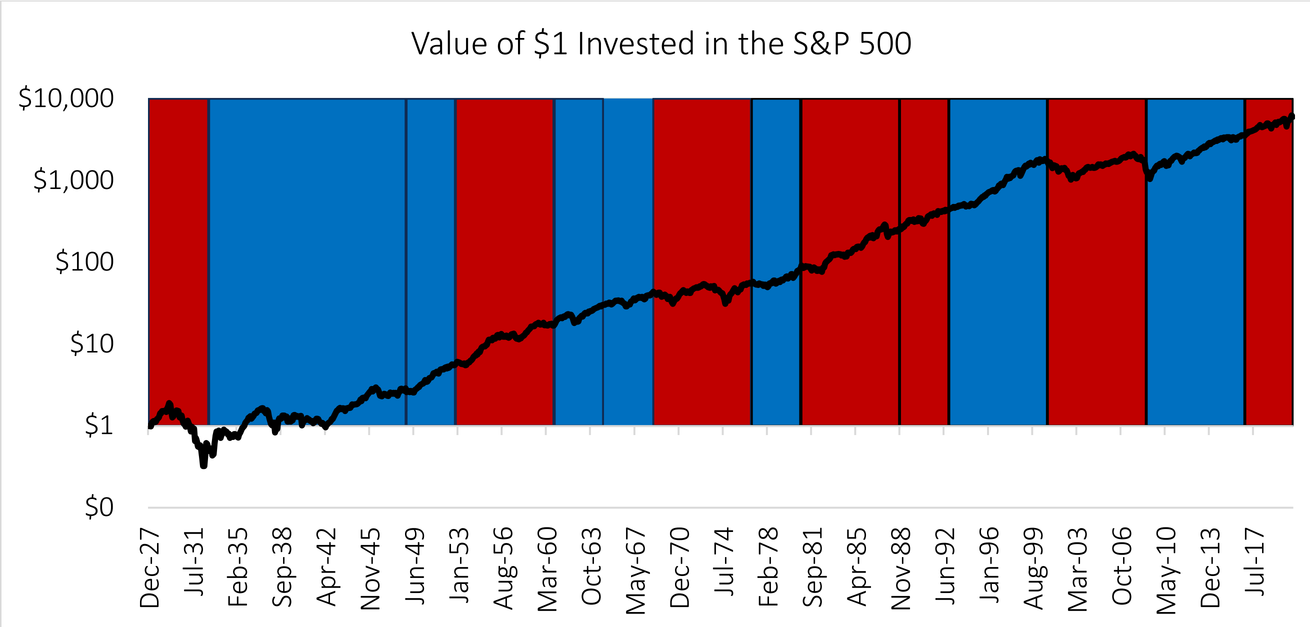
In the chart below, we show asset class performance during the five-week period of uncertainty following the 2000 election. Measuring from the day of the election; stock markets fell by more than 11% from peak to trough, U.S. 10-year Treasury yields dropped by 95 basis points, gold surged 5% and the U.S. dollar dropped by more than 6%.



Source: Bloomberg Finance L.P. From October 1, 2000 to January 31, 2001.

Process over politics

Should you make changes to your portfolio ahead of the U.S. election in November? It is difficult enough to predict who will win, let alone which items from their political agenda will be prioritized and implemented after they are sworn in. The chart below shows that, since 1928, equity markets have generally risen regardless of who was in office. In our view, elections create more noise than actionable investment ideas, and we believe investors are best served by sticking to their long-term investment plan rather than trying to profit from politics.



Source: Shiller, Bloomberg Finance L.P. All data is monthly starting at the beginning of November.

Important Disclaimers