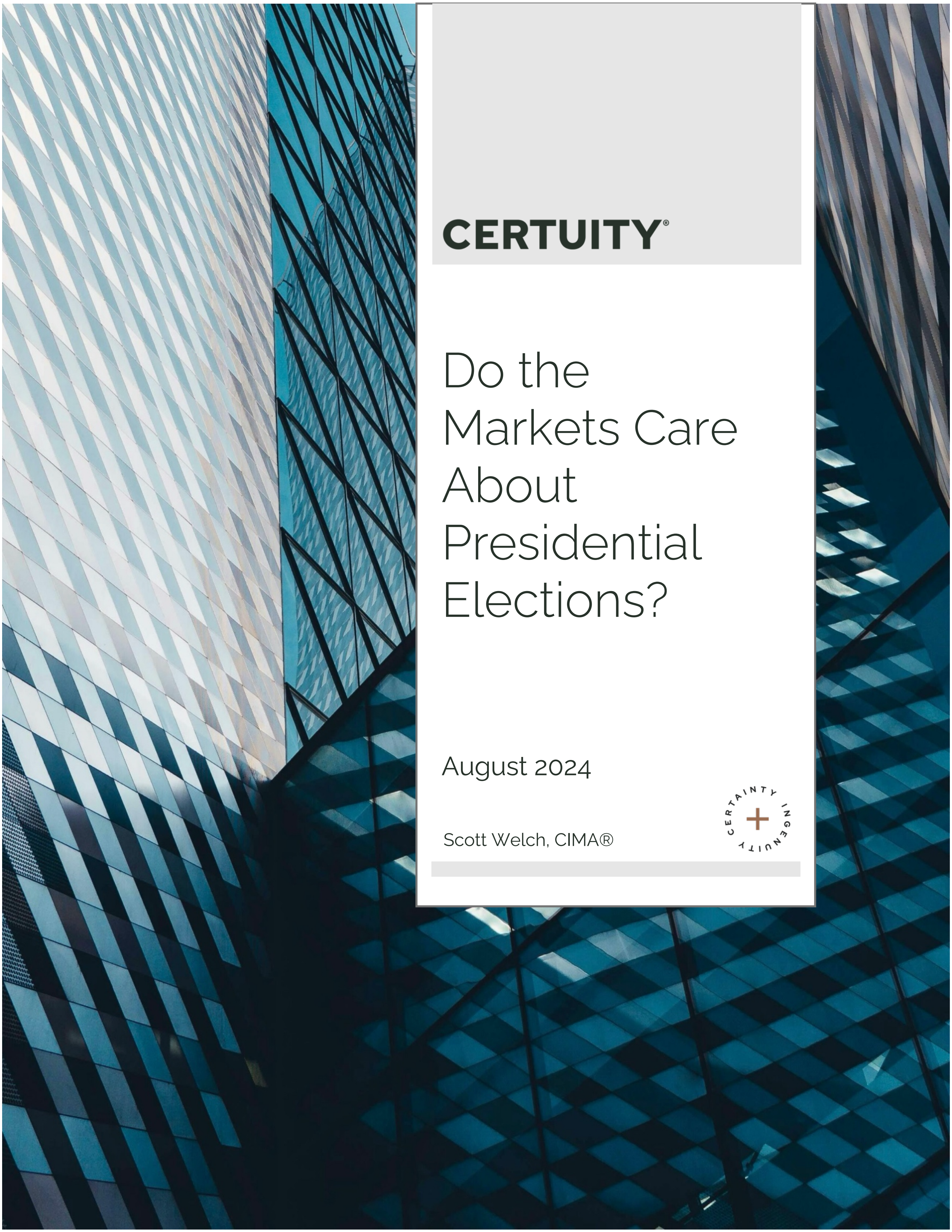


CERTUITY®

Do the Markets Care About Presidential Elections?

August 2024

Scott Welch, CIMA®

There's nothing in the street
Looks any different to me
And the slogans are effaced, by-the-bye…

…And the parting on the left
Is now parting on the right
And the beards have all grown longer overnight…

…Meet the new boss
Same as the old boss…

- (FROM "WE WON'T GET FOOLED AGAIN", BY THE WHO, 1971)

Talk about irony: This year's presidential election race is now between one candidate millions of people find highly controversial but who garnered millions of primary votes from supporters, and another (new) candidate who captured zero primary votes but whom millions of people now say they support. Go figure.

To be sure, this promises to be a close and likely acrimonious election like no other.

With every presidential election, the media is filled with stories about which candidate would be "better" for the markets. Before we get ahead of ourselves, let's examine what history tells us.

First, a remedial civics lesson. Under our form of government, who the president is shouldn't matter much to the markets because the president is not supposed to be that important to domestic affairs. Congress is supposed to be the lead domestic agenda driver, as it represents the branch of government closest to its constituents.

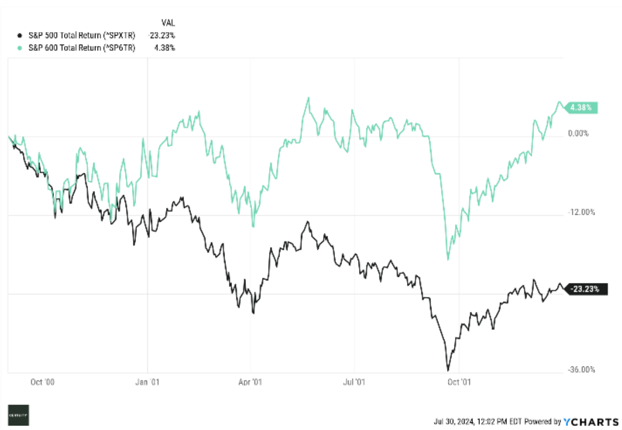
But the evolution of the role of president over the past 30-40 years has changed that dynamic, and the president is now viewed as a primary driver of the domestic agenda. It certainly is true that, in today's environment, any president gets too much credit when things go well and too much blame when things go poorly.

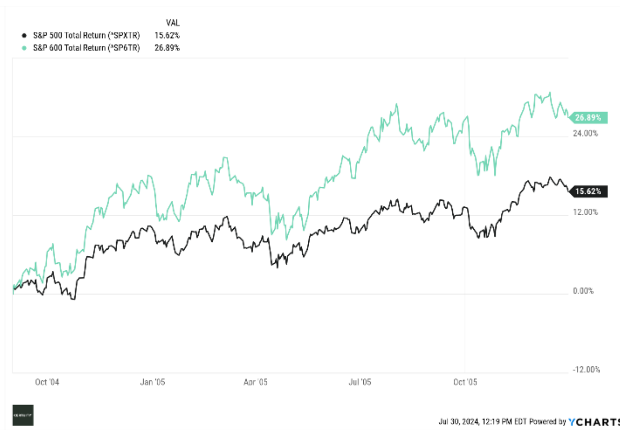
The reality is the underlying drivers of economic activity in a capitalistic, free-market society are far too massive and unpredictable to be controlled by any one person, let alone an elected official who can only recommend policies and agendas – not force or control them. [The caveats, of course, are "Executive Orders", but those are not binding legislation and can be – and often are – overturned by the next president.]

One thing we know for sure is that markets hate *uncertainty*. It is not necessarily who is in charge but rather the uncertainty about that person's political and economic agenda that drives volatility in the markets.

Look at the performance of the U.S. stock market over the past six presidential election cycles (in the period from September of the election year (when most voters begin to pay attention) through the end of the following calendar year. We use the S&P 500 index (black line) as a proxy for large cap stocks, and the S&P 600 index (green line) as a proxy for small and midcap stocks.

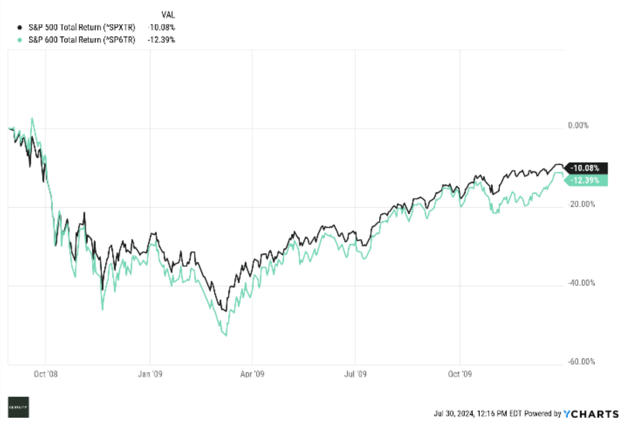
George W. Bush, 1st and 2nd:

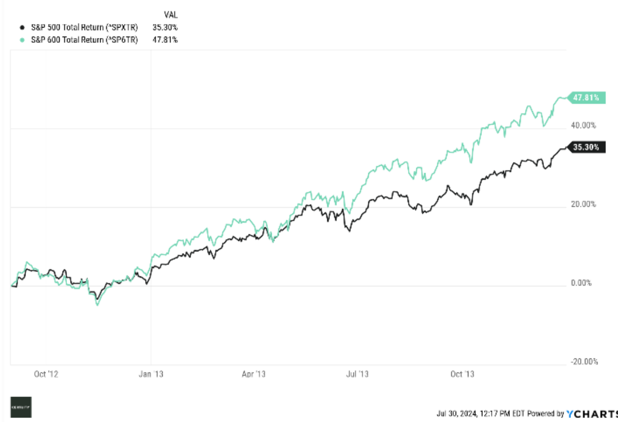




Source: Ycharts, dates from September 1, 2000 – December 31, 2001 (left chart) and September 1, 2004 – December 31, 2005 (right chart). You cannot invest in an index and past performance is no guarantee of future results.

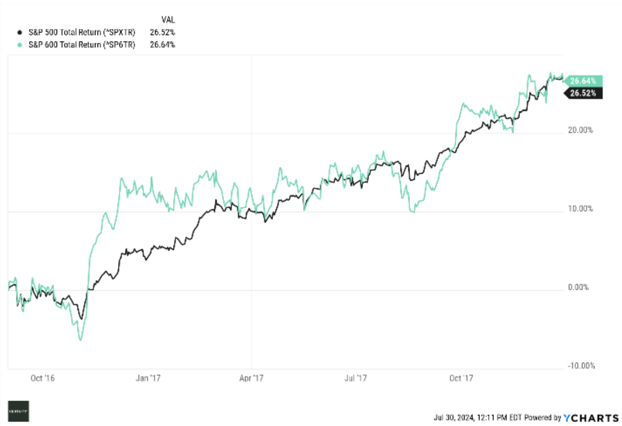
Barack Obama, 1st and 2nd:

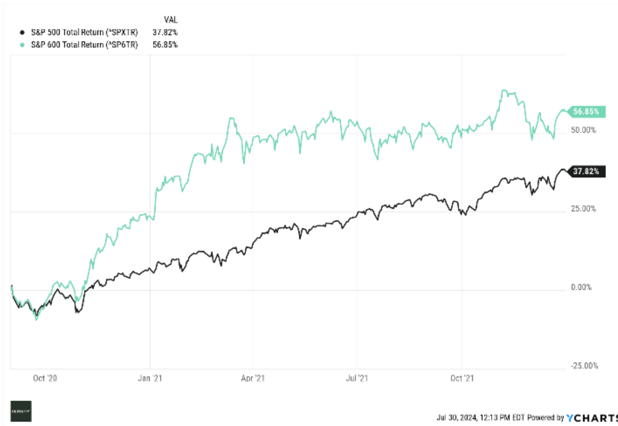




Source: Ycharts, dates from September 1, 2008 – December 31, 2009 (left chart) and September 1, 2012 – December 31, 2013 (right chart). You cannot invest in an index and past performance is no guarantee of future results.

Donald Trump (left) and Joe Biden (right):



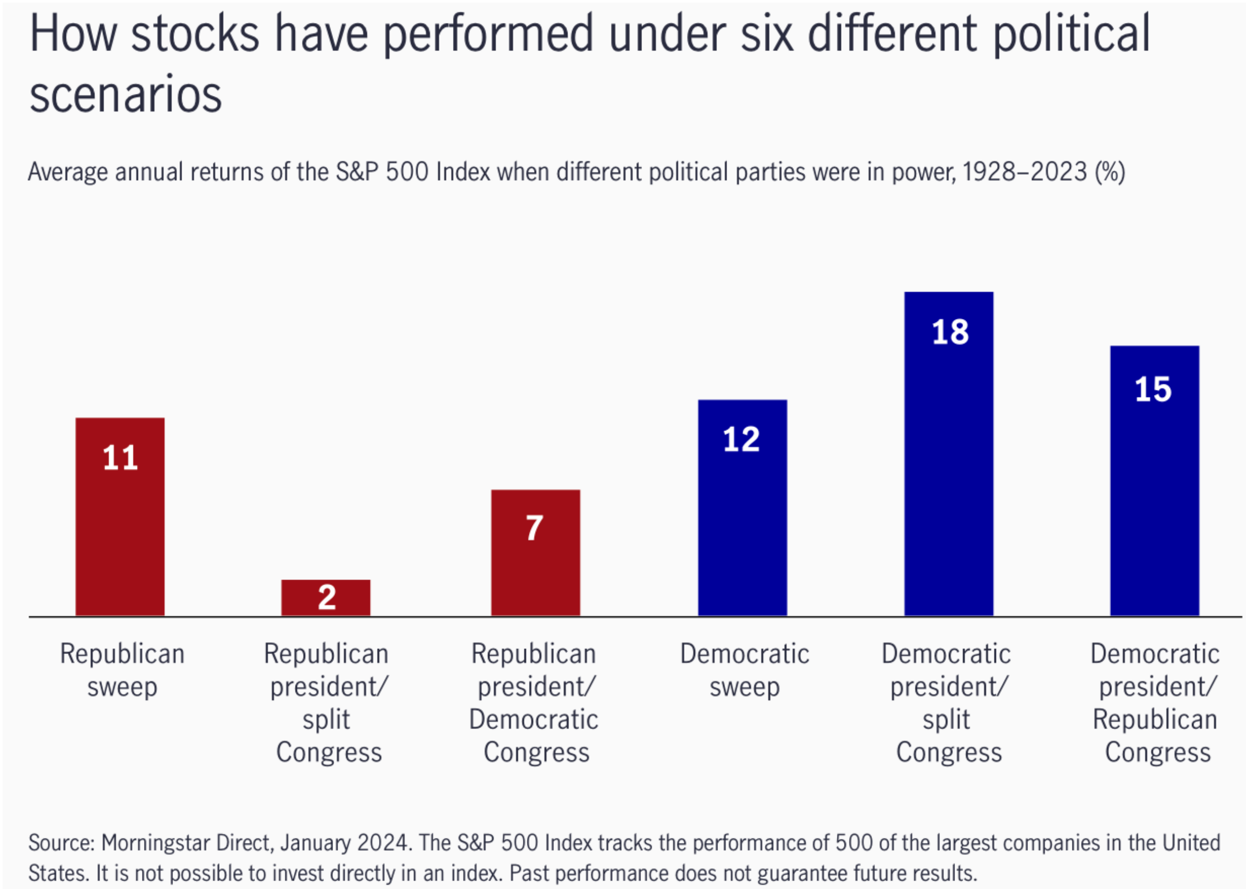


Source: Ycharts, dates from September 1, 2016 – December 31, 2017 (left chart) and September 1, 2020 – December 31, 2021 (right chart). You cannot invest in an index and past performance is no guarantee of future results.

What we see is no discernable pattern of market behavior based on who was elected, other than a slight dip at election time in some (but not all) of the elections because of uncertainty about the election itself (e.g., in 2000 during the Bush / Gore "hanging chad" election, and then again in 2016).

Otherwise, the market did whatever its underlying drivers dictated (economic recession or recovery, 9/11, pandemics, etc.)

Market performance exhibits far more of a pattern based on how the Administration and Congress are divided (or not).



Source: John Hancock Investment Management, January 2024. You cannot invest in an index and past performance is no guarantee of future results.

It is dangerous to draw definitive conclusions from this chart, as there were any number of underlying economic regimes and geopolitical situations in place during each of these scenarios. However, one hypothesis as I reference above is that what the market really doesn't like is *uncertainty*.

Put differently, a split between the power in Washington often leads to political gridlock, which is another way of saying "not much new is going to happen." So, companies (and therefore the market) can plan and execute their business plans accordingly.

Look at how the White House and Congress have been split since Ronald Reagan's first election in 1980 – arguably the beginning of the "imperial presidency" era (though both Regan / Bush "41" and their successor, Bill Clinton, were held much more in check by their Congresses in comparison to today's environment).

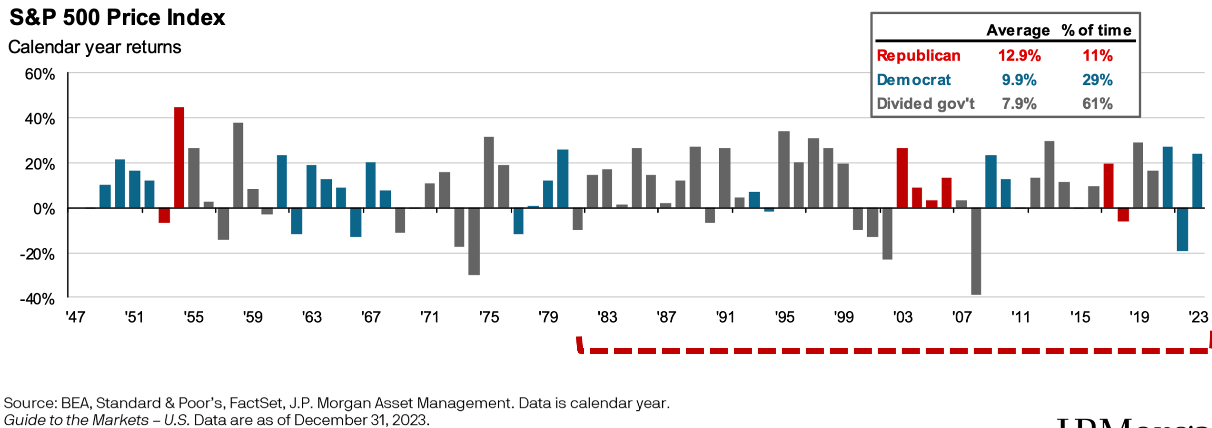
Balance Of Power Between Congress and The Presidency

Year	Pres.	Cong.	Senate 100	House 435
2023	D	118th	D:48, I:2	R – 218[10]
2021 – Biden	D	117th	D:48, I:2	D – 222[9]
2019	R	116th	R – 53	D – 235
2017 – Trump	R	115th	R – 51	R – 238[8]
2015	D	114th	R – 54	R – 247[7]
2013 – Obama	D	113th	D – 52	R – 232[6]
2011	D	112th	D – 56	R – 241
2009 – Obama	D	111th	D – 57	D – 256[5]
2007	R	110th	D – 49	D – 233[4]
2005 – Bush	R	109th	R – 55	R – 232
2003	R	108th	R – 51	R – 229
2001 – Bush	R	107th	R-50	R – 221[3]
1999	D	106th	R – 55	R – 223
1997 – Clinton	D	105th	R – 55	R – 228
1995	D	104th	R – 52	R – 230
1993 – Clinton	D	103rd	D – 57	D – 258
1991	R	102nd	D – 56	D – 267
1989 – Bush	R	101st	D – 55	D – 260
1987	R	100th	D – 55	D – 258
1985 – Reagan	R	99th	R – 53	D – 253
1983	R	98th	R – 54	D – 269
1981 – Reagan	R	97th	R – 53	D – 242

Source: WiredPenn, as of November 2022. Darker yellow boxes indicate presidential election years.

In only five of the past 22 biennial election cycles has one party been in control of both the White House and Congress.

How did the market behave over this period?



J.P.Morgan
ASSET MANAGEMENT

Source: JP Morgan "Guide to the Markets", as of December 31, 2023. You cannot invest in an index and past performance is no guarantee of future results.

While it appears that total control by either party is generally positive for the markets (and we believe that goes back to the "certainty" argument), we see again there is no repeatable pattern between control of Washingtonand corresponding market behavior.

As we suggested, there seems to be a higher correlation between market behavior and the underlying economy.

Historical economic regimes and market performance

Economic regime	Average 3-month S&P 500 return during period	Average 3-month return relative to all periods	Statistically significant (>95%)?
Rising growth	2.99%	+0.81%	Yes
Falling growth	1.54%	-0.64%	Yes
Rising inflation	1.36%	-0.82%	Yes
Falling inflation	2.70%	+0.52%	Yes
Rising growth/ falling inflation	3.52%	+1.34%	Yes
Falling growth/ rising inflation	0.49%	-1.70%	Yes

Source: US Bank Asset Management, March 2024. Past performance is no guarantee of future results.

Not surprisingly, markets historically performed best in a rising-growth / falling-inflation economic regime, and worst in a falling-growth / rising-inflation regime.

Summary and Conclusions

It is a fun parlor game to attempt to corelate who wins the presidency and Congress and how the market will react. But it is just that – a parlor game.

Because of political affinities, many voters *want* to see such a correlation – it allegedly helps the argument to vote for their candidate.

But, unless this year represents an historical anomaly, it won't matter much over the medium to longer term. And that's the way it should be.

As we write this, this election cycle looks to be very close, with the presidency, Congress, and the Senate, to varying degrees, all up for grabs.

As such, we fully expect increased market volatility as we move closer to the election, especially after Labor Day, when historically seasonal higher volatility is likely to be increased further by the impending election (barring an unknown event between now and then).

But, once the outcomes are known and companies can plan accordingly, we fully expect market fundamentals (economic growth, earnings, inflation, interest rates, etc.) to move to the forefront of investors' minds.

As they should, especially for disciplined, long-term investors.

Scott Welch, CIMA®
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Certuity

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