Presidential Elections, Markets and the Economy:

It's not what presidents do that matters, but rather when they get elected

We are often asked about how the results of an upcoming presidential election could affect the market, the economy and more specifically how it might affect your investment portfolios and financial plans. To that end, we are grateful that you are engaged and asking good questions. Clients who are engaged and appropriately follow good proven advice and strategies and remain committed and dedicated to their long-term investment strategies and financial plans typically continue to enjoy successful results irrespective of temporary market adjustments or economic slowdowns – including presidential elections.

We want to assure you that our advice or recommendations are not based on any personal affiliation with any political party, whether it is the majority parties of Republicans or Democrats or based on our own political beliefs. We try our very best to have an unbiased and unconflicted view.

Unfortunately, in today's age of media, information is often shared that is undocumented and without merit or fact. Often, these are attempts to instill a variety of emotions in individuals that can illicit feelings of anxiety, fear, or even irrational exuberance. Our goal is to consistently provide you with sound advice based on well researched and documented strategies and facts and make the best possible estimates we can at the time with the information that is currently available.

More specifically, some of you may be wondering what happens if Joe Biden wins the presidency or if Donald Trump wins and remains the incumbent? What happens if Democrats maintain control of the House of Representative or perhaps even win control of the Senate? or vice versa if Republicans maintain control of the Senate or somehow regain control of the House of Representatives? Does the economy or market react differently based on whether government is unified within a single party or divided?

Election uncertainties are difficult to predict, and governmental policies post-election are difficult to predict as well. If you research things like "Does the stock market do better under Republicans (or Democrats)" or similarly "Does the economy do better under Democrats (or Republicans) you will get a variety of opinions, perspectives, qualifiers, etc.

There are several well documented studies that suggest the market (either utilizing the DOW or the S&P 500 as the benchmark) has done at least "marginally" better under Democrats than Republicans. You are welcome to reference these studies below.

However, there is a saying that you should avoid discussing politics or religion – especially over Thanksgiving with family.

A couple of things to keep in mind.

1. There is nothing wrong with having a political view. (However, historical data suggests that it may not be the most productive use of time trying to incorporate that into your investment portfolio or financial plan.)
2. Market timing is an ineffective strategy – trying to profit (or avoid loss) by predicting election results is a fool's errand.
3. Data might be fact, but sometimes its interpretation is subject to perspective. What we mean by this, is that often very positive or very negative economic or market results are not necessarily directly, or even indirectly, tied to the policies or actions of a president or that of a political party in control. No president or party was directly responsible for the 2001 Dotcom bubble burst, the Global Financial Crises of 2008, or even the Global Pandemic of 2020. Both parties have historically made policy contributions that have eventually both benefited and hurt the economy and the market.
4. Often it is simply a timing issue of when someone (or some party) was elected or in office. Both parties have suffered or benefited from good timing and bad timing of events that were likely beyond their control to influence.
5. Typically, there are multiple factors that contribute to economic and stock market performance – much of which is related to business factors. Where the country is at in the business cycle is a key determinant. Government monetary or fiscal policy certainly has its effect, but these are just additional variables in a very complex economic system.

In summary, we believe that the Global Pandemic and economic fallout and ensuing economic recovery is going to have a far greater impact on future economic growth and market performance than the 2020 presidential election. Markets do not like uncertainty, same as us as individuals, and while there is relatively little in life that is an absolutely certainty, it is highly unlikely that in this environment that in 2021 any materially significant presidential or congressional policies or legislation will be enacted. Trying to pass or enact bold, drastic reforms during a once in a century global pandemic is unlikely to happen.

Remaining engaged and disciplined and committed to proven long-term investment strategies and following sound financial planning advice provide the greatest likelihood of long-term success.

For more information about 2020 U.S. Election Policy Insights please visit https://www.raymondjames.com/commentary-and-insights/washington-policy

McLean Asset Management conducted a study and posted their findings on July 10, 2020 in an article by Bob French, CFA entitled ***Are Republicans or Democrats better for the stock market?***[7] They used a sample period of return data between 1926 through 2019 and indicated over that time span that there have been 23 presidential elections. According to their research, over that timeframe that average annual return for the S&P 500 Index was 12.09%. Interestingly, during election years, the S&P 500 only averaged 11.28%, however, during non-presidential election years, the average annual return was 12.35%. One could possibly conclude that election years are not good for the stock market. However, this is likely primarily due to uncertainty and markets, like us, tend to not like uncertainty.

During this span of time there has been a Democratic president for 48 years and a Republican president for 46 years. According to their research, the average annual return for the S&P 500 index when there was a Republican president was 9.12%. When there was a Democratic president, the S&P 500 average was 14.94% - a startingly difference of 5.8% per year on average.[7]

What is the effect on the analysis if one factors in Congress, when at least one of the House of Representatives and/or the Senate is controlled by the same party? Please see the chart below.

Situation	Number of Years	S&P 500 Index Annual Average Return
Unified Republican	13 years	14.52%
Unified Democrat	34 years	14.52%
Divided with Republican President	33 years	6.99%
Divided with Democratic President	14 years	15.94%

Data from 1926 through 2019. Unified government means that the Presidency, the House of Representatives and the Senate are all controlled by a single party. Divided government means that at least one houses of Congress or the Presidency is controlled by the other party. Indexes are not available for direct investment. For educational purposes only.

According to French*, "The first thing to notice is that there is essentially no difference between the historical average returns between unified Republican and Democratic administrations. If we take the return out one more decimal place, the Democrats have a tiny edge (14.520% vs 14.521%). To put this in perspective, 0.001% of a thousand dollars is one cent. That's not moving the needle very much, even if we compound that through time."*

French goes on to explain*, "The interesting story is what happens in divided government – there's a pretty big split here. The market has done significantly better with Democratic divided government (meaning that the President was a Democrat, and the Republicans controlled at least one house of Congress) than with Republican divided government. In fact, the premium, averaging nearly 9% per year, is by far the biggest premium we've looked at so far."*[7]

According to French, the best way to interpret the results is simply that Democratic presidents have presided during periods when the world has done better relative to expectations than the world did when Republican presidents were in office. This would suggest that often it is the timing of which party happens to be in office when certain exogenous events occur.

His conclusion, "*All of this is just a long way of saying that you shouldn't be basing your investment decisions on who the President happens to be (or who controls which house of Congress). You want to focus on the long-term and stick with the asset allocation that you have built around your specific risk preferences and retirement income situation. In the context of the markets, how the President affects prices is just noise.*[7]

Here is what the CFA Institute (Chartered Financial Analyst) had to say on the matter. Joachim Klement, CFA in a post titled ***Republicans or Democrats; Who is Better for the Economy***[1], separated out two periods of time in US History and looked a several factors. (His source for his information was the Federal Reserve Economic Data obtained from the St. Louis Fed). His conclusions were that since 1947 Real GDP (Gross Domestic Product) growth was 3.6% under Democratic presidents and 2.6% under Republican Presidents. Between 1947 and 2006, just preceding the Financial Crises or Great Recession that Real GDP growth was 4.2% under Democratic presidents and 3.0% under Republican presidents. His conclusion, since 1947 the economy grew 1 percentage point faster on average under Democratic versus Republican presidents.

Real GDP is only one measure of economic performance. How about stock markets? Utilizing, the same data source, Mr. Klement concludes that total returns, and adjusted for inflation as with GDP, the performance differential is even greater. Since 1947, real stock market performance under a Democratic president is 10.8% on average and for Republican presidents has been 5.6% on average. Between 1947 and 2006, just preceding the Financial Crises or Great Recession that Real stock market performance was 10.6% under Democratic presidents and 6.3% under Republican presidents.

Mr. Klement ultimately concluded *"Thus, we should just ignore claims that one party or another is better for markets because in the end it probably doesn't matter all that much and, regardless, past performance is no guarantee of future results."*[1]

According to an article in Forbes magazine, *"Stock markets do perform better under Democrats than under Republicans. That's a well-known fact, but it does not imply cause and effect,"* says Jeremy Siegel, the Russell E. Palmer Professor of Finance at the Wharton School of the University of Pennsylvania. "*From 1952 through June 2020, annualized real stock market returns under Democrats have been 10.6% compared with 4.8% for Republicans."*[2]

According to Siegel, who also authored the 1994 investment classic book Stocks for The Long Run, Wall Street's obsession with politics is mostly misplaced: *"Bull markets and bear markets come and go, and it's more to do with business cycles than presidents."*[2]

PRESIDENTIAL PERFORMANCE

Which presidents have delivered the best stock returns? So far Democrats are dominating.

President	Political Party	Years In Office	S&P Return (%)
William J. Clinton	D	1993-2001	210
Barack H. Obama	D	2009-2017	182
Dwight D. Eisenhower	R	1953-1961	129
Ronald W. Reagan	R	1981-1989	117
Harry S. Truman	D	1945-1953	87
George H. W. Bush	R	1989-1993	51
Lyndon B. Johnson	D	1963-1969	46
Donald J. Trump	R	2017-	43
Jimmy E. Carter	D	1977-1981	28
Gerald R. Ford	R	1974-1977	26
John F. Kennedy	D	1961-1963	16
Richard M. Nixon	R	1969-1974	-20
George W. Bush	R	2001-2009	-40

Source: YCharts. Table: Forbes
Performance represents price change only. Figure for Truman reflects the Dow Jones Industrial Average.

According to Hartford Funds in a post titled, ***How Political Parties in Power Influence Markets***[3] When political questions are in the headlines, especially during election seasons or times of uncertainty, one may ask what impact the party in power has on the markets. Whether the White House and Congress are in sync or divided, and regardless of which party has majority control, markets tend to be resilient. History shows that the stock market (as represented by the S&P 500 Index)[3] generally marches higher regardless of which party is in charge.

How markets react when the president and Congress represent the <u>same political party</u>

(D) Democrat, (R) Republican, 1937–Present

					S&P 500 Index (%)				
Start	End	President	Senate	House	1 Yr	3 Yr	5 Yr	10 Yr	20 Yr
1937	1939	D - Franklin D. Roosevelt	D	D	-34.75	-5.27	-7.47	4.37	11.12
1939	1941	D - Franklin D. Roosevelt	D	D	-0.38	-7.37	3.71	7.18	13.38
1941	1943	D - Franklin D. Roosevelt	D	D	-11.59	10.11	16.81	13.25	14.66
1943	1945	D - Franklin D. Roosevelt	D	D	25.63	26.97	14.74	16.95	15.16
1945	1947	D - Harry S. Truman	D	D	36.31	9.82	10.60	17.00	14.88
1949	1951	D - Harry S. Truman	D	D	18.60	24.58	17.74	19.94	14.86
1951	1953	D - Harry S. Truman	D	D	23.97	13.21	23.76	16.08	12.06
1953	1955	R - Dwight D. Eisenhower	R	R	-0.94	25.63	13.51	13.40	11.64
1961	1963	D - John F. Kennedy	D	D	26.88	12.48	13.25	8.18	8.31
1963	1965	D - Lyndon B. Johnson	D	D	22.76	17.14	12.37	9.91	8.30
1965	1967	D - Lyndon B. Johnson	D	D	12.46	7.83	4.98	1.25	7.79
1967	1969	D - Lyndon B. Johnson	D	D	23.89	8.01	8.38	6.62	10.15
1977	1979	D - Jimmy Carter	D	D	-7.19	5.41	8.09	13.80	14.54
1979	1981	D - Jimmy Carter	D	D	18.45	14.27	17.30	16.27	17.73
1993	1995	D - Bill Clinton	D	D	10.08	15.35	20.27	9.35	8.22
2003	2005	R - George W. Bush	R	R	28.68	14.39	12.83	7.10	
2005	2007	R - George W. Bush	R	R	4.91	8.63	0.42	7.68	
2009	2011	D - Barack Obama	D	D	26.46	14.12	17.94	13.12	
2017	2018	R - Donald Trump	R	R	21.83	15.28			
Average					**12.95**	**12.14**	**11.62**	**11.19**	**12.19**

Sources: Senate.gov and House.gov. Congressional sessions run two years (e.g., the House became Republican in the 2016 midterm election and served from January 2017 to January 2019).

How markets react when the president and Congress represent <u>different political parties</u>

(D) Democrat, (R) Republican, 1937–Present

					S&P 500 Index (%)				
Start	End	President	Senate	House	1 Yr	3 Yr	5 Yr	10 Yr	20 Yr
1947	1949	D - Harry S. Truman	R	R	5.63	9.70	16.56	18.29	13.65
1955	1957	R - Dwight D. Eisenhower	D	D	31.41	7.70	14.90	12.79	6.86
1957	1959	R - Dwight D. Eisenhower	D	D	-10.72	12.69	12.77	9.19	7.90
1959	1961	R - Dwight D. Eisenhower	D	D	11.95	12.58	9.86	10.00	6.52
1969	1971	R - Richard Nixon	D	D	-8.40	2.82	1.99	3.16	9.52
1971	1973	R - Richard Nixon	D	D	14.22	5.06	3.22	8.45	11.14
1973	1975	R - Gerald Ford	D	D	-14.67	-4.82	-0.18	6.71	11.32
1975	1977	R - Gerald Ford	D	D	37.14	16.37	14.74	14.75	14.56
1981	1983	R - Ronald Reagan	R	D	-4.88	12.28	14.63	13.90	15.66
1983	1985	R - Ronald Reagan	R	D	22.46	19.63	16.40	16.13	12.69
1985	1987	R - Ronald Reagan	R	D	31.64	18.00	20.33	14.36	13.21
1987	1989	R - Ronald Reagan	D	D	5.18	17.32	15.35	15.28	11.80
1989	1991	R - George H.W. Bush	D	D	31.69	18.53	14.55	19.21	8.43
1991	1993	R - George H.W. Bush	D	D	30.47	15.62	16.59	17.45	9.14
1995	1997	D - Bill Clinton	R	R	37.58	31.15	28.56	12.07	9.85
1997	1999	D - Bill Clinton	R	R	33.36	27.58	10.70	8.42	7.68
1999	2001	D - Bill Clinton	R	R	21.04	-1.03	-0.57	-1.38	5.62
2001	2003	R - George W. Bush	D	R	-11.89	-4.05	0.54	1.41	
2007	2009	R - George W. Bush	D	D	5.49	-5.63	-0.25	6.94	
2011	2013	D - Barack Obama	D	R	2.11	16.18	12.57		
2013	2015	D - Barack Obama	D	R	32.39	15.14	15.79		
2015	2017	D - Barack Obama	R	R	1.38	11.41	11.70		
2019	2021	R - Donald Trump	R	D	31.49				
Average					14.61	11.56	11.40	10.90	10.33

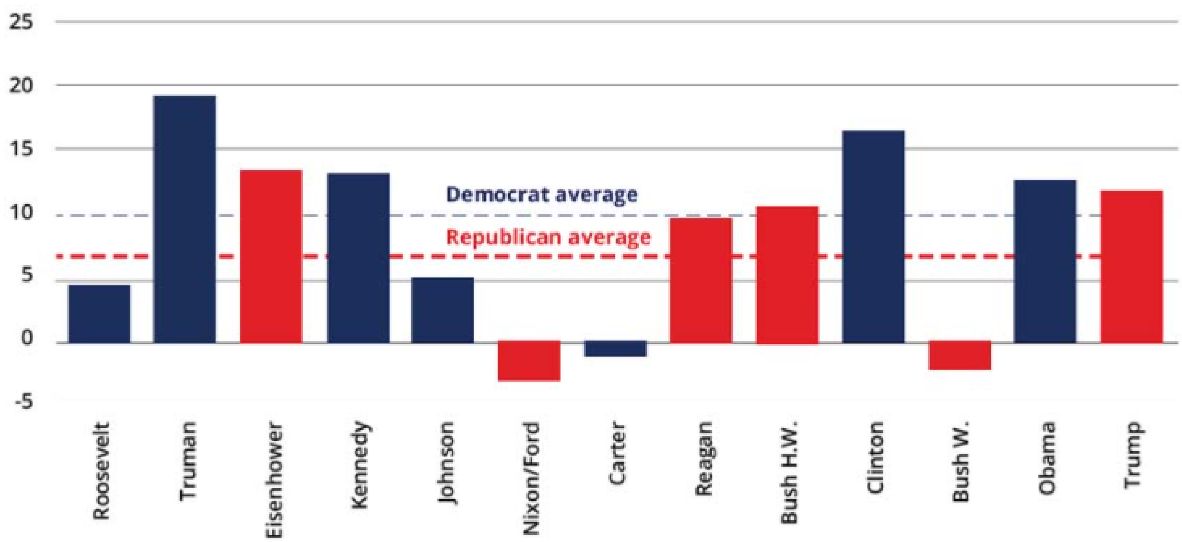
So, it bears the question, why do some investors view Democratic presidents as a reason to have a bearish outlook? Often, they assume that Democratic presidents may have policies that the perceive to be less business friendly, such as possible corporate tax increases and or increased regulation, which could affect corporate profitability. However, these perceptions do not translate in into the reality of the data.

A separate Hartford Study asks the question **Who is better for Investors? A Democratic or Republican President?**[4] According to their study since 1933 Democratic presidents have, on average seen higher stock market returns than Republican ones. The average real (adjusted for inflation) total return for the S&P 500 Index under Democratic Presidents was 10.2% versus 6.9% under Republicans.

FIGURE 2

Democratic Presidents Saw Higher Stock Market Returns Compared to Republican Presidents

S&P 500 Index annual real total return, %



Past performance does not guarantee future results. Indices are unmanaged and not available for direct investment. Source: Datastream Refinitiv, Robert Shiller dataset, and Schroders, 7/31/93-10/31/19. Notes: Real (adjusted for inflation) total return from 1st year in office to 7/31 of final year in office so as to exclude the election effect (President Trump's term is shown through 12/31/19).

Important to note relative to their conclusion is that adjusting for the dotcom bust and the Global Financial Crises the difference in returns is "practically zero". Their conclusion - *"Neither political party is exclusively good or bad for markets. Instead, what matters more is the policies presidents choose to enact and their net impact."*[4]

Looking at another analysis, according to an article from The Balance on July 16, 2020, titled ***Democrats vs. Republicans: Which Is Better for the Economy?***[5] They summarize that "Democrats and Republicans have widely different views on the economy. But once in power, candidates' actions don't always coincide with their party's views. That makes it difficult to determine which party is better for the economy." Their study looks at minimum wage, immigration, climate change, the national debt, trade, job creation, taxes, health care, the role of government, national security, and the party that is best for the economy. While we cannot expand on the full article in this post, their conclusions are based on a variety of factors. According to a study done by NBER (the National Bureau of Economic Research) they found that

Democratic presidents since WWII have performed much better than Republican presidents. On average, Democratic presidents grew the economy 4.4% each year versus 2.5% for Republicans. (The data, as part of the study, is based on the academic research of Alan S. Blinder and Mark W. Watson from the Woodrow Wilson School and Department of Economics and Princeton University. The paper was first published in July 2015 and was title ***Presidents and the US Economy: An economic Exploration***. The paper can be accessed at http://www.princeton.edu/~mwatson).

Additionally, according to an article in BusinessInsider.com published on August 24, 2020 and titled ***"Democratic presidents are better for the stock market and economy than Republicans, one study shows"***[6] "Since 1947, the S&P 500 has posted a total annual return of 10.8% under Democratic presidents, versus 5.6% under Republican presidents. And if you exclude the Great Recession and COVID-19 pandemic, both of which happened under a Republican president, the data still points to stronger returns for Democratic presidents versus Republican presidents."[6]

Many would likely argue that the data is skewed to favor a Democratic president because it includes the Great Recession of 2008, and the COVID-19 induced market sell-off of 2020, both of which happened under Republican presidents. From 1947 to 2006, the average annual return for stocks under a Democratic president was 10.5%, versus 6.1% under a Republican president. Additionally, according to the study, since 1947 the average annual US GDP growth rate under a Democratic president was 3.6%, compared to 2.6% for a Republican president.

In summary, we believe that the Global Pandemic and economic fallout as well as the ensuing economic recovery is going to have a far greater impact on future economic growth and market performance than the 2020 presidential election. Markets do not like uncertainty, same as us as individuals, and while there is relatively little in life that is an absolutely certainty, it is highly unlikely that in this environment that in 2021 any materially significant presidential or congressional policies or legislation will be enacted. Trying to pass or enact bold, drastic reforms during a once in a century global pandemic is unlikely to happen.

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[1] https://blogs.cfainstitute.org/investor/2020/09/08/republicans-or-democrats-who-is-better-for-the-economy/

[2]https://www.forbes.com/sites/sergeiklebnikov/2020/07/23/historical-stock-market-returns-under-every-us-president/#7a36886faaf4

[3]https://www.hartfordfunds.com/practice-management/client-conversations/political-parties-power-influence-markets.html

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[5]https://www.thebalance.com/democrats-vs-republicans-which-is-better-for-the-economy-4771839

[6]https://markets.businessinsider.com/news/stocks/stock-market-election-democratic-republican-presidents-better-performance-economy-gdp-2020-8-1029528932#

[7]https://www.mcleanam.com/are-republicans-or-democrats-better-for-the-stock-market/

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The S&P 500 is an unmanaged index of 500 widely held stocks that's generally considered representative of the U.S. stock market. You cannot invest directly in any index.

The information has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material is accurate or complete.