Stocks and Elections: Think Long-Term

Presidential elections and their outcomes may cause market volatility, but they have had little bearing on long-term stock performance, regardless of which party wins or loses.

Stock market performance is more about business cycles than politics.

As if there weren't already enough reason for stock investors to fret, now there's the election outcome. Does a Biden win spell trouble for stocks? Does a Trump victory mean further gains? Or does the opposite hold true?

With stark differences in programs and policy, the two candidates would seem to pose completely different prospects for equity investors. Many reason that a Biden win means an increase in corporate taxes and greater regulation of certain industries -- negatives for stocks -- while a Trump victory signals further tax cuts and less regulation -- positives for stocks. But many others feel that a Biden win implies a more centralized approach to handling of the pandemic, freer trade, and more infrastructure spending -- all positives for stocks -- while a Trump win means more trade wars and less fiscal stimulus -- both negatives.

In fact, it's anyone's guess whether the stock market will fare better or worse under different party leadership. Just look at history.

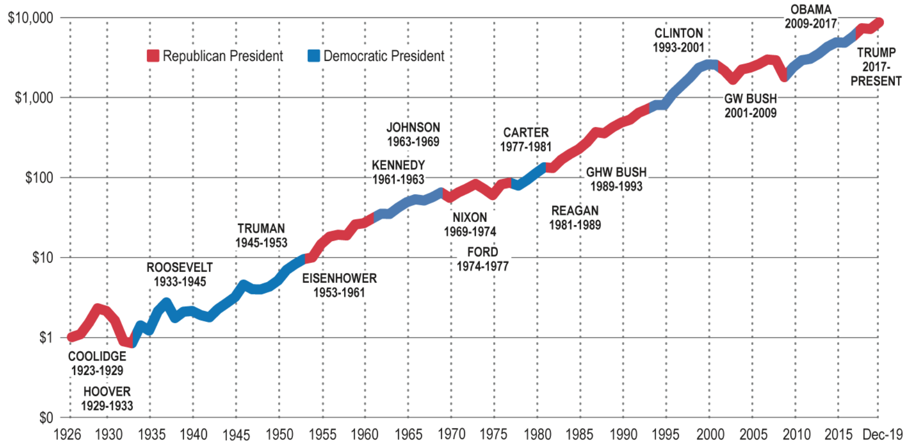
A Timely Perspective

Numerous studies have been made over the years examining which party or combination of parties in control in the White House, Senate, and House is the best for stocks. While they have identified certain patterns, their findings have been inconclusive.

From 1926 through 2019, Democratic administrations have seen a higher average return (as measured by the S&P 500 index) than Republican ones, with an average annual return of 14.9% versus 9.1%, respectively. What's more, market returns have been highest when one party controlled the White House and both houses of Congress.[1]

But such statistics can be misleading, in that they ignore many factors influencing markets other than political leadership. For instance, the strong stock market gains realized in the late 1990s were much less about the Clinton administration's policies than they were about the digital revolution and dotcom boom. Likewise, the losses realized during the G.W. Bush years were the result of the dotcom bust and global financial crisis rather than the administration's practices. Moreover, whatever legislative initiatives a President wishes to pursue must first be passed by Congress.

Growth of a Dollar Invested in the S&P 500 1926 to 2019[2]



There also can be a disconnect between government policy, the economy, and stocks. Just look at stock market performance in 2020. In the face of a pandemic that has taken over 200,000 American lives, forced lengthy lockdowns, and brought about the greatest economic downturn since the Great Depression, stocks continue to hit record highs.

Takeaways

So what's the bottom line for investors? Here are several points to consider.

- Post-election year stock performance varies widely.
- Party affiliation is a poor indicator of future stock returns.
- Economic health and interest rates tend to move stocks more than the electoral cycle.
- Unforeseen shocks, such as the 2008 financial crisis, have had the greatest negative impact on stocks.
- Technological innovations -- such as the personal computer, cell phones, and the Internet -- have had a much greater impact on markets than politics.

In the end, the stock market's random walk is just that. But that walk has been upward. Over the long run, stocks have significantly outperformed other asset classes, although past performance is no guarantee of future results. So, rather than fixating on politics, consider tuning out the noise, keeping your sights on your goals, and focusing on the long-term.

[1]Source: McLean, *Are Republicans or Democrats Better for the Stock Market?*, July 10, 2020.

[2]Source: ChartSource®, DST Retirement Solutions, LLC, an SS&C company. For the period from January 1, 1926, through December 31, 2019. Stocks are

represented by the S&P 500 index. It is not possible to invest directly in an index. Past performance is not a guarantee of future results.