
Monthly Market Update

How presidential elections impact markets | April 2024

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Key takeaways

- The presidential election season is ramping up, and there will be increasing focus on the presidential candidates and their parties.
- History shows that the stock market has performed well under both parties. What has mattered more to long-run returns were business cycle dynamics.
- Average returns are largely positive under both parties. While specific policies can impact individual taxpayers, businesses and industries, there are no simple patterns when it comes to political parties and market performance.

Market update

The presidential election season is heating up, and, at the moment, polls suggest that the rematch between President Biden and former President Trump will be close. It's natural for investors to be concerned about the impact of politics on the stock market and economy. After all, the political climate has never felt more polarized — not only due to elections but also due to disagreements in Washington around the budget, immigration, foreign policy and more. How can investors stay balanced during this year's presidential election?

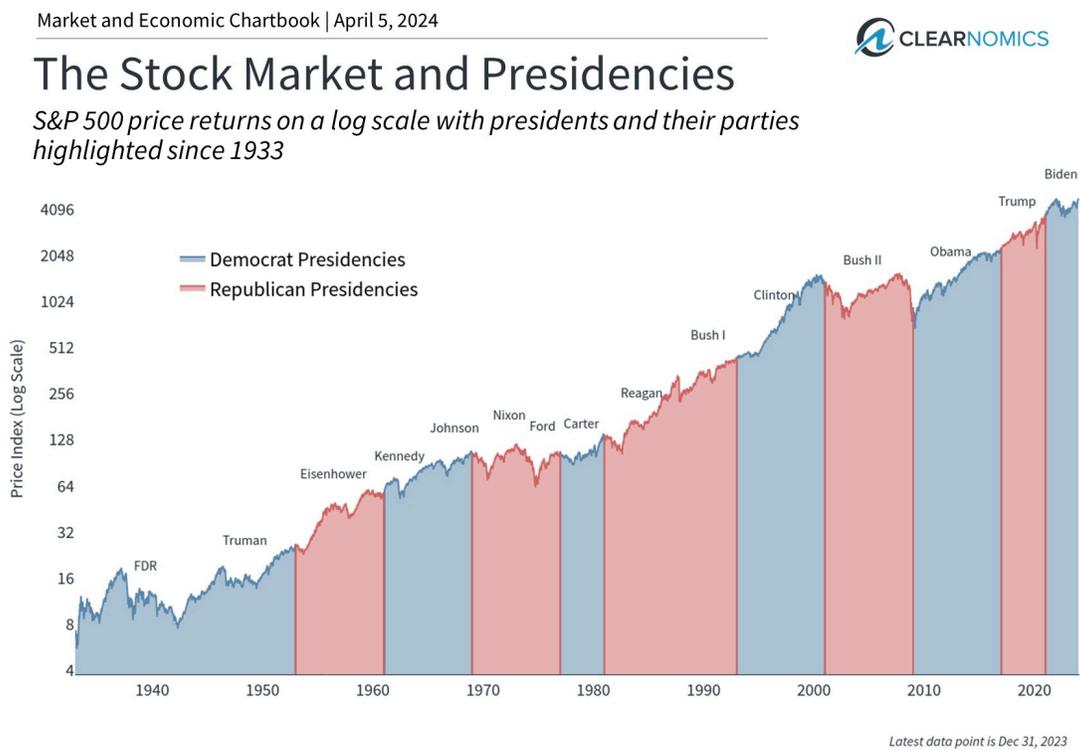
As citizens, taxpayers and voters, elections are extremely important, regardless of which side of the aisle you're on and which candidate you support. However, when it comes to investment strategies, it's important to vote at the ballot box — and not with our hard-earned savings. Long-term investors should be wary of claims that one candidate or another will "kill the market" or "ruin the economy." This has likely been said about every president in modern times across 15 presidencies since 1933 (7 Republicans and 8 Democrats), and it was certainly said about



Presidents Obama, Trump and Biden. Thus, it's important to separate personal and political feelings from financial plans and investments.

Exhibit 1

The stock market has performed well across many presidents.



Sources: Clearnomics, Standard & Poor's

Exhibit 1 highlights the broad fact that the economy and stock market have performed well across both parties. Focusing too much on who was in the White House would have resulted in poor investment decisions throughout history.

For example, from 2008 through 2020, the S&P 500 generated a total return of 236% across the Obama and Trump administrations. This occurred despite the vast perceived differences between the parties and the increasing polarization of Washington politics. This also occurred despite many budget battles, fiscal cliffs, debt ceiling crises and U.S. credit rating downgrades, not to mention the global financial crisis and Covid-19 pandemic.



Of course, good policy does matter. Policies on taxes, trade, industrial activity, antitrust and other issues have critical impacts on specific industries, which can then affect the broader economy. However, not only do policy changes tend to be incremental, but history shows that it is very difficult to predict how any particular policy might affect the economy and markets. Stock prices account for new policies quickly, and companies and industries tend to adapt.

This is why, for most long-term investors, it makes more sense to focus on fundamentals such as those related to the business cycle rather than on the day-to-day election coverage. This is perhaps best illustrated by the 1990s and early 2000s. President Bill Clinton's two terms were perfectly timed with the information technology boom, while the ensuing dot-com bust coincided with the start of the George W. Bush presidency. The 2008 financial crisis also occurred at the tail end of George W. Bush's second term, resulting in his presidency encompassing both market crashes.

However, it would be a stretch to argue that their presidencies were responsible for these booms and busts. While policies influenced these events, they had much more to do with technological and financial innovations. These and other historical episodes suggest that presidents often receive too much blame and credit for economic conditions.



Exhibit 2

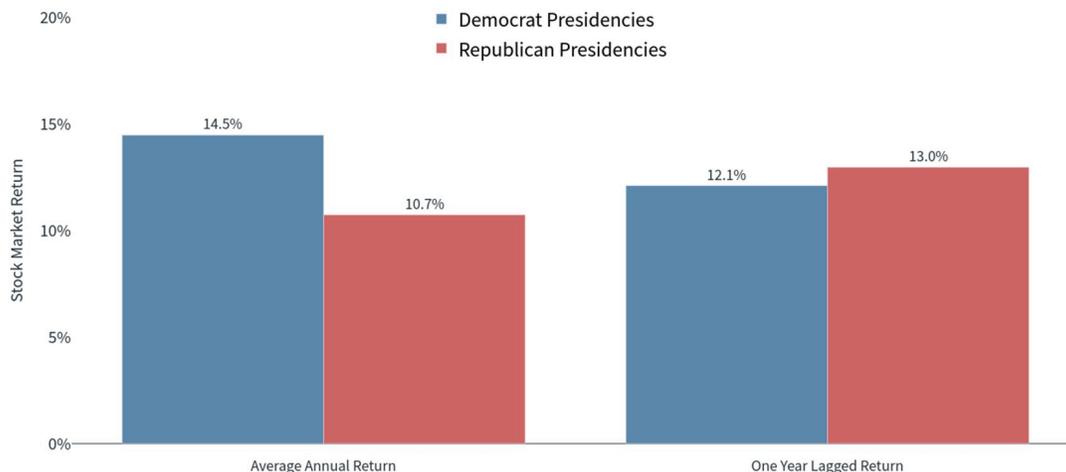
Average returns have been largely positive under both parties.

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Presidential Elections and Stocks

*S&P 500 total returns by presidential party
Returns during presidency and lagged one year since 1933*



Latest data point is Dec 2023

Sources: Clearnomics, Standard & Poor's, LSEG

For those who are unconvinced that they should avoid day-to-day political headlines when it comes to investing, the final point is that average stock market returns have historically been positive under both parties. This is true during presidential election years, midterm elections and non-election years.

It is not the case that markets always crash under one political party. Exhibit 2 shows that no matter how you slice it, the S&P 500 has averaged double-digit gains whether Democrats or Republicans are in the White House. Additionally, history tells us that market returns are positive on average during both election and non-election years. While the past is no guarantee of the future, and returns in any individual year are unpredictable, jumping out of the market due to the outcome of an election — or simply because an election is occurring — is not a decision supported by history.



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