
# Elections and your investments

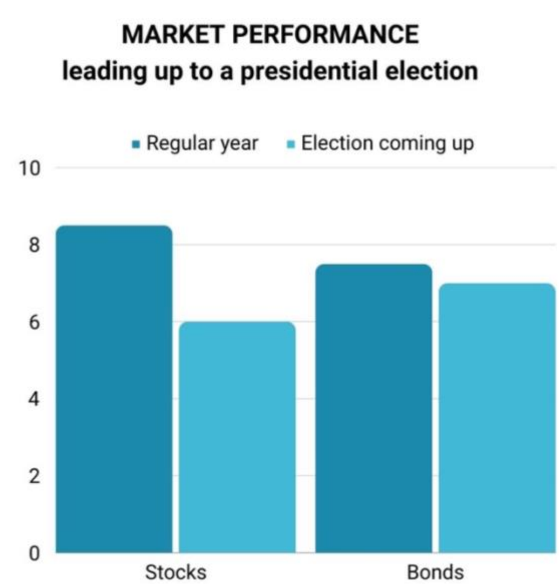
During presidential elections, campaigning politicians tend to scrutinize (or promote) government policy, spending decisions, and the overall health of our country's economy. The ever-present debate, coupled with the general uncertainty election years bring, can make investors concerned about market performance.

But is that concern warranted? Election cycles are cyclical, after all, so while the results are uncertain, it's an uncertainty we know and expect. With that in mind, let's review how the market historically performs leading up to and following presidential elections.

## Pre-election market performance

One thing is certain: Investors do not like uncertainty. Elections are, by definition, uncertain. It's likely this unpredictability contributes to stock market performance leading up to a presidential election.

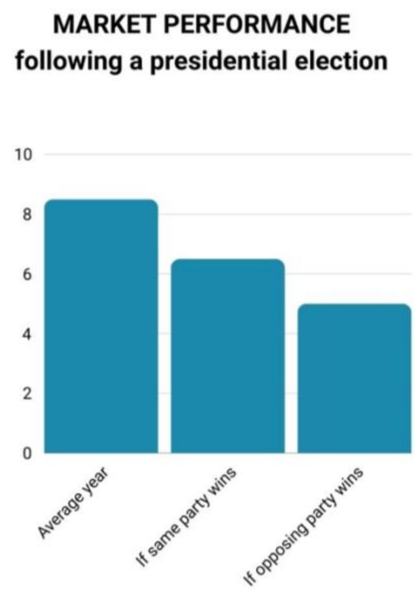
For example, [analysts at U.S. Bank] found that during any one-year period, stocks grew roughly 8.5% with bond total returns around 7.5%. In the years leading up to a presidential election, however, those averages dropped to 6% and 6.5%, respectively.




Does this slight decline mean presidential elections negatively impact the markets, though? The short answer is no: Market performance isn't dictated by a single event. We live in a globally connected economy, where turmoil Ukraine can impact the price of wheat in Chicago.

Election years are no different—weather, conflict abroad, company-specific scandals, interest rates and more may all have an impact on investors, in addition to the election.

## Post-election market performance




Politicians would have you believe that who you vote for will impact stock and bond market performance in the years ahead. There's no evidence to show investments perform better under either Democrats or Republicans, however.

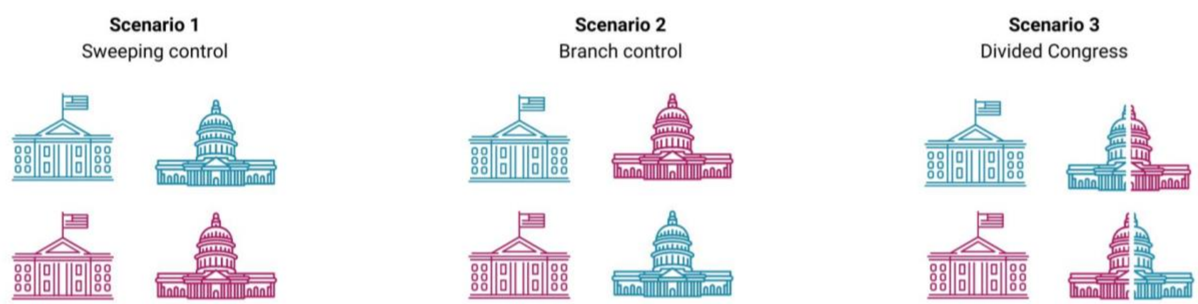
Where we do see some distinction is in the continuation of power versus a shift in control. In other words, when a president is reelected, or when the country elects another member of his political party, the stock market returns 6.5% on average in the year following the election. When the opposing party wins, returns average just 5% in the following year.

Experts credit this phenomenon to familiarity bias. We're more comfortable with what we know. (Or, put another way, we dislike uncertainty.) A shift in political power carries with it a certain amount of uncertainty. Investors may wait to see how new leadership performs before buying.

## What about Congress?

The presidential election isn't the only contest that matters. Each November comes with a chance to flip both the Senate and the House, leading to another power shift. During a presidential election, this impact may be amplified.

Remember, there are three ways this can shake out. Scenario one: A single party controls both houses of Congress and the White House. Scenario two: One party controls both branches of Congress, the other controls the white house. Scenario three: Control of Congress is split between the parties.




When one party takes control of the executive and legislative branches—scenario one—they tend to enact more significant policy changes than if control is divided. (Consider the Affordable Care Act under President Obama or the Tax Cut and Jobs Act under President Trump.)

With a severely divided Congress, on the other hand, we tend to encounter legislative gridlock. While investors may appreciate the lack of sweeping change, political infighting can also create unexpected risks to the economy. (Consider the near constant debates over increasing the debt ceiling, putting the United States at risk of a potential default.)

Still, data shows that even when Congress is divided, the S&P 500 didn't fluctuate significantly from other periods.

## Dems or GOP: Who's better for stocks?

Before we get into the numbers, consider what we've reviewed so far—that is, more goes into market performance than who sits in the oval office. The following recap covers 90 years of American history, encompassing two world wars, the invention of computers and the internet, a global financial crisis and a global pandemic, just to name a few. The presidents tackling these challenges have likewise faced a scandal, impeachment, Congressional infighting, global adversaries and more.

Still, there were only two instances where the stock market lost value during a presidential term.

| President | Time in office | S&P 500 returns: Cumulative | S&P 500 returns: Annualized |
|---|---|---|---|
| John F. Kennedy | 34 months | 20% | 7% |
| Lyndon B. Johnson | 62 months | 42% | 7% |
| Richard Nixon | 67 months | -20% | -4% |
| Gerald Ford | 29 months | 27% | 10% |
| Jimmy Carter | 48 months | 29% | 7% |
| Ronald Reagan | 96 months | 114% | 10% |
| George H.W. Bush | 48 months | 52% | 11% |
| Bill Clinton | 96 months | 209% | 15% |
| George W. Bush | 96 months | -37% | -6% |
| Barack Obama | 96 months | 166% | 13% |
| Donald Trump | 48 months | 67% | 14% |

Source: FactsFirst

The biggest takeaway here is that it's impossible to say that one party is better for investors than the other. As we can see above, the S&P 500 will always fluctuate in the short term and trend toward long-term growth.

At Tevis Investment Management, we help our clients develop portfolios that can withstand short-term market fluctuations. We encourage you to reach out if you have questions about your investments or want to discuss upcoming election concerns further.