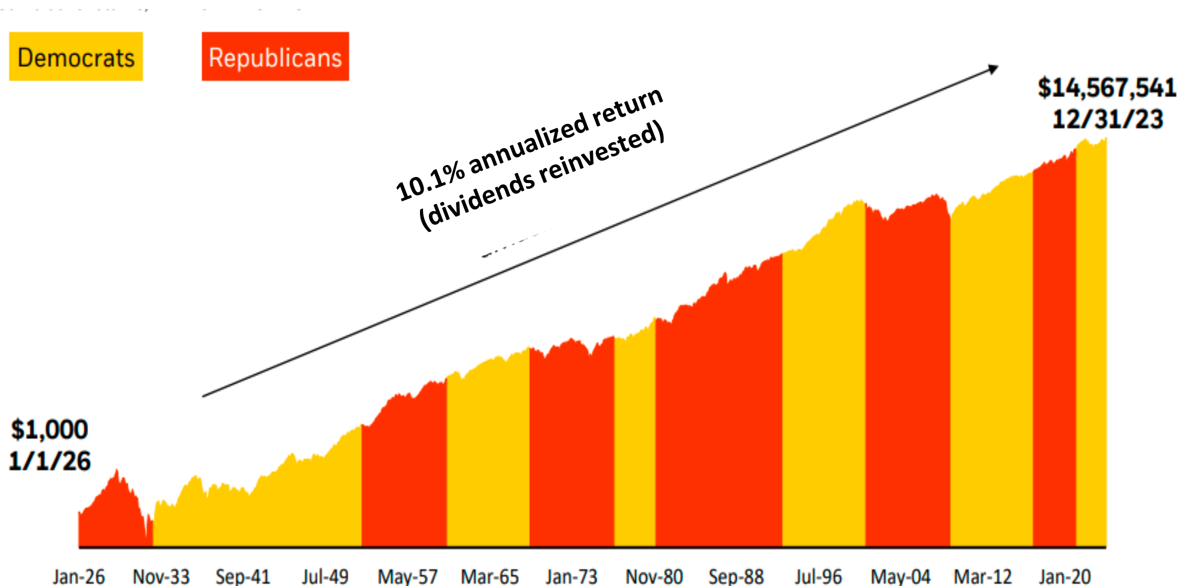
Elections and the Market

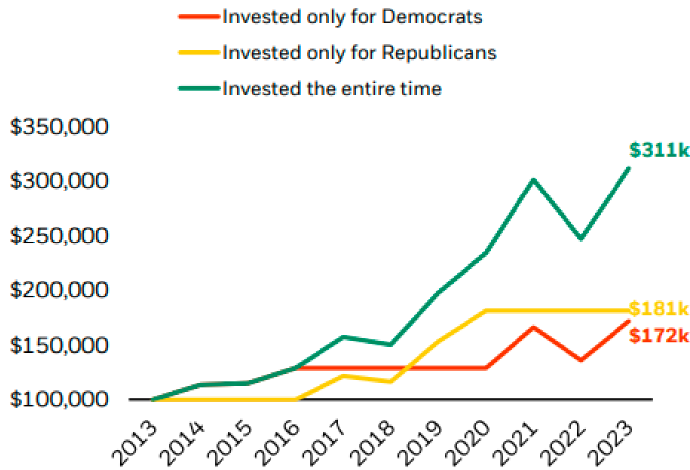
Every four years at this time, some investors analyze how markets may move based on who is elected president. Media predictions are made, bets are placed, and each side of the aisle is convinced that electing the "other candidate" spells doom for the stock market. However, historical data shows that stocks continue to rise, regardless of which party resides in the White House, and the key to capturing returns is to simply stay invested.

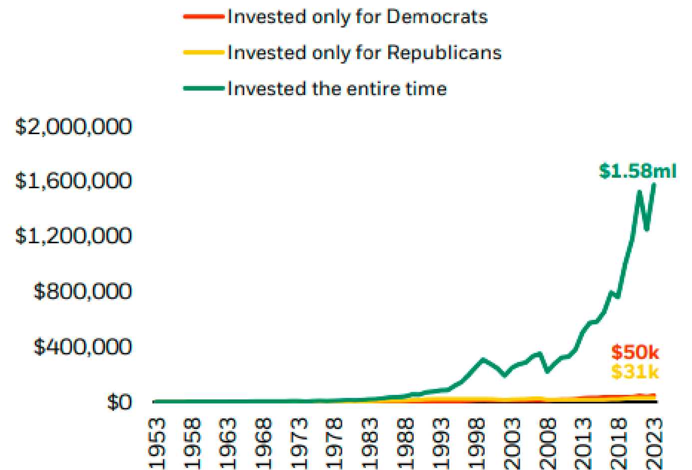
Since 1926, presidential parties changed eleven times with 16 different presidents. This timeframe also encompasses the five largest market declines, including the Great Depression crash of 1929, Black Monday in 1987, the Tech Bubble in 2000, the 2008 Global Financial Crisis, and the 2020 COVID-19 crash, where the S&P 500 Index dropped more than 10% in a single week. Despite all of this, stocks continuously reached new heights as shown below.

Stock Gains through Democrat and Republican Presidents [1]



History indicates that capturing long-term returns of the capital markets does not depend on which party controls the White House. Instead, the key to capturing returns is ***time in the market***. As shown on the next page, top-left, over the last ten years, if someone only invested during a Democratic or Republican presidential term, their returns would be 45% and 42% less than if they had remained invested for the entire ten years.[1] These results are even more dramatic over longer periods. As shown on the next page, top-right, $1,000 invested continuously over the last 70 years would have grown to $1.58 million, many times the value if investing only during Democratic or Republican terms.[1]





This market behavior exists because many factors influence stock prices, which represent expected corporate earnings extending over future decades. These factors include competitive actions of individual companies, macroeconomic forces like interest rates and inflation, commodity prices, technology advances, and much more.

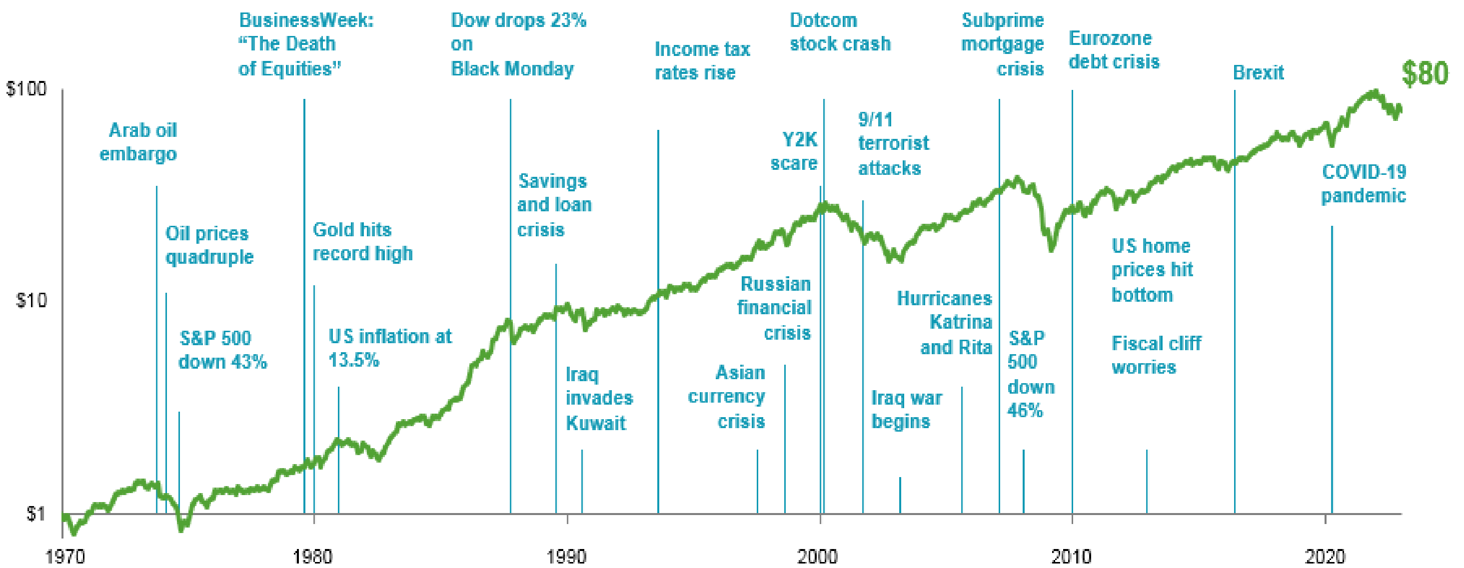
This Time It's Different – Or Is It?

With the highest interest rates in decades, inflation, catastrophic storms, political division, and overall pessimism as a backdrop for the upcoming election, some believe "this time it's different." However, every decade has had its share of economic headwinds, political strife, civil unrest, and other calamities.

In the 1970's we experienced high inflation, the oil crisis, and the Vietnam War. The 1980's experienced high unemployment, the savings and loan crisis, and Black Monday. The 1990's had income tax rate hikes, Middle East conflicts, and the Asian currency crisis, which nearly toppled financial markets. The 2000's saw the Dotcom crash, natural disasters including hurricanes, terrorist attacks and more. Each time, many investors thought, "this time it's different."

They were partly correct. Each new crisis was caused by something different. The market, however, continued to march along a familiar upwards path. The chart below shows the growth of $1 from 1970 to the end of 2022.[2] Some of the crises from this era are labeled for context. Through this time frame, every $1 invested in 1970 grew to nearly $80 over the next 52 years.[2] Note that value grows exponentially, so stock history charts spanning long time periods, such as this one and the one on the previous page, are typically shown with logarithmic scales.

Stock Gains through Crises 1970 - 2022 [2]



Contrarian Indicator?

All of us can be swayed by pessimistic attitudes. However, satisfaction with the direction of the country may be a contrarian indicator of the market. Consider the monthly Gallup poll where satisfaction with the direction of the U.S. is measured. In June 1992, at the height of the early 1990's recession, and in October 2008, as the financial crisis raged, satisfaction levels were at their lowest, 14% and 7%, respectively.[1,3] Interestingly, these were also turning points for the market with the beginnings of the most recent bull runs. Historically, when satisfaction with the direction of the U.S. was below 33%, the market returned 11.3% over the next 12 months on average.[1,3] When satisfaction was above 33%, the market returned 9.7% over the next 12 months on average.[1,3] In December 2023 satisfaction with the direction of the U.S. was 22%. [1]

To capture a premium on returns, long-term investors must bear some uncertainty. And part of successful investing is understanding what can be controlled and keeping emotions separate from financial planning. By maintaining perspective, discipline, and a long-term outlook, you can sustain progress toward your financial goals, despite any short-run uncertainty caused by key events.

Notes and Acknowledgements:

1. BlackRock, “Student of the Market, Election Year Special,” February 2024
2. MSCI World Index data net dividends 2023, 1970 – 2022
3. Stock Market represented by S&P 500 Index, Morningstar and Gallup data, December 31, 2023

All forms of securities investing involve risk of loss for which clients should be prepared. There are no guarantees or insurances of principal preservation, and market fluctuations of any level may occur and impact portfolio value. Past performance is not a good predictor of future performance. [Spring 2024]