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The Truth About Election Results and Stock Market Performance

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Dan Lefkovitz • Oct 10, 2024

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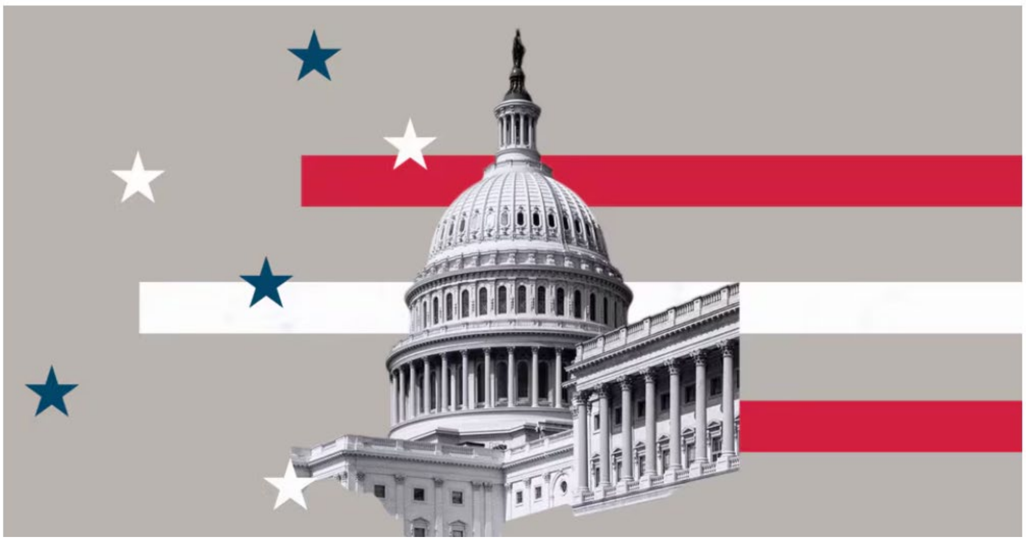

If you had to guess which sector of the US stock market has performed best under the Joe Biden presidency, what would you say? Industrials, perhaps, given infrastructure spending and the administration's emphasis on domestic manufacturing? Or is it technology, spurred by the Chips Act and enthusiasm about artificial intelligence?

You probably wouldn't say energy, as in traditional oil and gas stocks. After all, renewables like solar and wind have been promoted under "Bidenomics." The Strategic Petroleum Reserve was released to bring oil prices down after Russia's invasion of Ukraine sent them soaring. Yet, for reasons explained by Morningstar vice president of research John Rekenthaler, fossil-fuel-related businesses have thrived under Biden. The Morningstar US Energy Index has been the best performer of the market's 11 economic segments from the start of 2021 through the third quarter of 2024.

What about former President Donald Trump's influence on stock market leadership? After his victory in November 2016, investors expected economically sensitive, domestically oriented economic sectors to benefit from regulatory rollbacks, tax cuts, protectionism, and turbocharged growth. Financials, basic materials, energy, and industrials enjoyed the biggest "Trump Bump." Tech stocks lagged in the immediate aftermath of the election of a candidate perceived to be hostile to Silicon Valley.

Yet, technology ended up the top performing equity sector under the Trump presidency. Again, market forces took charge. Mobile computing, the cloud, and e-commerce captivated investors even before the onset of a pandemic that amplified tech sector leadership.

The lesson is clear. At the end of the day, earnings, cash flows, and valuations drive the performance of financial assets. While policy matters, its investment impact is hard to predict and often overestimated.

Don't Elections Move Markets?

Financial market volatility has accompanied elections in several countries this year. Morningstar equity indexes focused on India, Mexico, South Africa, France, and the UK all reacted to polling results. Surprises have triggered the most significant moves. For example, the Morningstar India Index lost more than 6% on June 4 after Prime Minister Narendra Modi's party fell short of expectations.

But India is an instructive case study. After the market digested the results, share prices recovered. Focus returned to the fundamentals: companies accelerating their earnings against the backdrop of robust economic growth.

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>
> Dan Lefkovitz, strategist with Morningstar Indexes

These days, investors are busy scrutinizing the Trump and Kamala Harris economic platforms. The former loves tariffs and low interest rates. He'd cut taxes, regulation, and immigration. The latter attacks price gouging and wants to boost corporate tax rates. She'd fund homebuying and childcare.

Yet, the road from platform to policy is long. Congressional action is required for taxing and spending. Monetary policy is the domain of the Federal Reserve, an independent institution. As seen with the Biden administration's attempts to forgive student loan debt, the judicial branch often has the final word.

Investing Based on Politics Is Tricky

Investors should remember that markets have thrived, and crashed, under administrations of all stripes. It's true that stocks soared under Trump. But they also posted exceptional returns under former President Barack Obama. Performance under Biden has been solid, too.

Can former President George W. Bush be blamed for the 2000-10 "Lost Decade" in US stocks? While the Bush administration passed large, proinvestor tax cuts, the aftermath of the late 1990s' dot-com bubble, the shock of 9/11, the recession of 2002, and the financial crisis that began in 2007 suppressed returns. The broader context is key.

Indeed, the interplay of politics with other variables is complex. Taxing and spending, policy and regulation matter. But the prices of stocks, bonds, currencies, and commodities move for all sorts of reasons.