BARRISTER
BULLETIN

ELECTIONS AND MARKETS

In case you missed our discussion about Elections and Markets in the Barrister Quarterly, here Founding Partner, Charles Weeks, writes in Business Insider about the subjects in a bit more detail.

I'm a financial planner, and my clients always panic about their investments around a presidential election. Here's what I tell them.

By: Charles Weeks *October 19, 2020*

First and foremost, this is not about politics. In fact, in this particular case, politics matters very little, which is great news for all of us.

Every four years, we are lucky enough to be given the freedom to vote and choose a president to run our country. During these election years, especially over the past few elections, more and more of my clients have called questioning how we should "position" their portfolios. I hear things like;

"If this person wins, this industry should do great!"

"If this person wins, the economy is doomed!"

"Don't you think we should just go to cash and see what happens?"

As Mark Twain is reputed to have said, "History doesn't repeat itself, but it often rhymes." So, with the caveat that past performance does not dictate future results, let's see what history tells us about investing and elections.

Portfolio values under past presidents

Vanguard recently published a report detailing how, since 1860, a balanced portfolio of 60% stocks and 40% bonds has returned 8.2% under Republican presidents and 8.4% under Democratic presidents. Further, starting from that same time period, election year returns have averaged 8.9%, while non-election years have averaged 8.1%.

This shows us a couple things: First, the executive branch in our country doesn't control everything; it must share power with the legislative and judicial branches. While one party may control the White House, they don't control the entire government. Both parties over time end up with essentially the same types of returns because neither can go to either extreme in implementing their policies.

Second, while most people think election years are bad years to invest and they should get out of the markets and go to cash, they actually end up being better years than non-election years. This is likely due to emotional investors exiting the markets, allowing for those who stay to earn higher returns.

Stock market returns from 1980 onward

Now, obviously 1860 was a long time ago, so some might argue these numbers are no longer relevant. With that in mind, let's look at a more modern time period, from 1980 to today, and how the S&P 500 performed during different presidential administrations.

For this analysis, I looked at the total return of the market over the full term of the presidents. For example, Ronald Reagan was elected in November of 1980, but his market returns are based on the years 1981-1988, when the S&P 500 compounded annually at 9.22%.

The best market performance was under the Clinton administration, notching a compound annual growth rate of 14.86%. Next came President Obama with 11.96%, then George H.W. Bush at 11.54%. President Trump, through the market close on September 15, stands at 11.05%. President Reagan was next, followed by George W. Bush with a negative 4.42% return.

Each presidency had its ups and downs; President Clinton's returns benefited from the internet, while President George W. Bush's returns were marred by the continued fallout of the dot-com bubble bursting, 9/11, and the Great Recession. The interesting takeaway for me is that, for most of the past 40 years, no matter which party controlled the White House, the S&P 500 averaged close to, or over, double-digit returns.

S&P 500 Returns under recent Presidents

R. Reagan		G. H.W. Bush		B. Clinton		G. W. Bush		B. Obama		D. Trump	
1981	-10%	1989	27%	1993	7%	2001	-13%	2009	23%	2017	19%
1982	15%	1990	-7%	1994	-2%	2002	-23%	2010	13%	2018	-6%
1983	17%	1991	26%	1995	34%	2003	26%	2011	0%	2019	29%
1984	1%	1992	4%	1996	20%	2004	9%	2012	13%	2020*	5%
1985	26%			1997	31%	2005	3%	2013	30%		
1986	15%			1998	27%	2006	14%	2014	11%		
1987	2%			1999	20%	2007	4%	2015	-1%		
1988	12%			2000	-10%	2008	-38%	2016	10%		
9.22%		11.54%		14.86%		-4.42%		11.96%		11.05%	

Notes:
*Trump 2020 performance YTD as of market close 9/15/20
Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management

Charles Weeks

Political parties don't matter, so what does?

So, if election years don't matter and which party or person controls the White House doesn't matter, what does? Fundamentals and time.

Fundamentals still do and will always matter. The level of interest rates, how many people are working versus unemployed, how much companies earn or lose in a given year, and fiscal and monetary policy play a huge part in how the S&P 500 and other markets perform.

While those markets can be volatile and produce drawdowns over the short-term, time heals all wounds and all portfolios. If you pick any rolling 20-year period from 1950 to 2019, the S&P 500 has never had a negative compounded annual return. The worst performance still returned 6%, while the best returned 17%. On average, you could expect an 11.3% return.

Get out and vote — and let your money continue to grow in your investments. Just know that whomever you choose will not likely themselves have a direct impact on market returns, at least over the long term.