OCTOBER 2020

Do Elections Move the Markets?

It's as inevitable as death and taxes—an election year rolls around, and headlines in the financial news begin to breathlessly speculate about the impact of the outcome on the markets. Will stocks soar or tank if Biden wins? Vice versa?

The headlines do their job of attracting financially-conscious eyeballs to the publication and its advertisers. But those headlines also impact the job of financial advisors, whose clients understandably wonder if they should be doing something different.

Our position is that these headlines are mostly clickbait—elections don't move the markets the way people think they do, or at least the way publications hype them to.

In fact, markets tend to truck through presidencies in a remarkably predictable pattern, regardless of who the President or the House Speaker is. Most savers and investors with long-term strategies are well-advised to stay the course.

Yes, Trump's approach to trade and Biden's approach to energy will make a difference if one or the other emerges victorious in November.

An analysis of the S&P 500 since 1930 reveals the following patterns relative to election cycles and presidential terms:

- **Stocks and bonds slightly underperform in the runup to the election.** This may be a result of conservative, risk-averse markets pricing the uncertainty of the election outcome into their current prices. Market growth in the 12-month runup to elections averages 6%, compared to an average of 8.5% in any given 12-month period.

- **Stocks tend to underperform in the 12 months after an election, while bonds do slightly better.** How much the market underperforms in that first year depends on the outcome of the election, but the variance is slight.

If the White House changes hands from one party to the other, stock returns tend to be slightly worse at 5%, possibly pricing in more uncertainty due to the likelihood for significant policy changes rather than a "stay the course" attitude.

If the party in power retains the white house, stocks return an average of 6.5%, slightly higher. In addition to less uncertainty of big policy changes, incumbency is powerful and most presidents win re-election. Since this is typically the more likely outcome, markets tend to price that likelihood in, resulting in less correction for uncertainty.

- **Stocks tend to return more robust gains** in the second and third year of a presidential term.

These trends tease at an underreported quality of financial markets—they tend to price expectations of future outcomes into today's prices. Yes, the outcome of the election moves the needle a little, but not as much as people suspect, and not enough to warrant big changes in long-term strategies.