# 2020 Election: For Investors, Does It Matter Who Wins?

**Perspectives | February 2020**

Regardless of which candidate wins the 2020 election, the incoming president will likely be confronted with a litany of pressing economic and geopolitical challenges, including slowing corporate earnings growth, lingering trade frictions with China, issues of national security, continued political infighting between the two major parties, an increasing national debt, budget deficits and the potential of further rate cuts by the Federal Reserve (Fed). Each of the challenges is likely to have some impact on the future performance of major U.S. capital market indices.

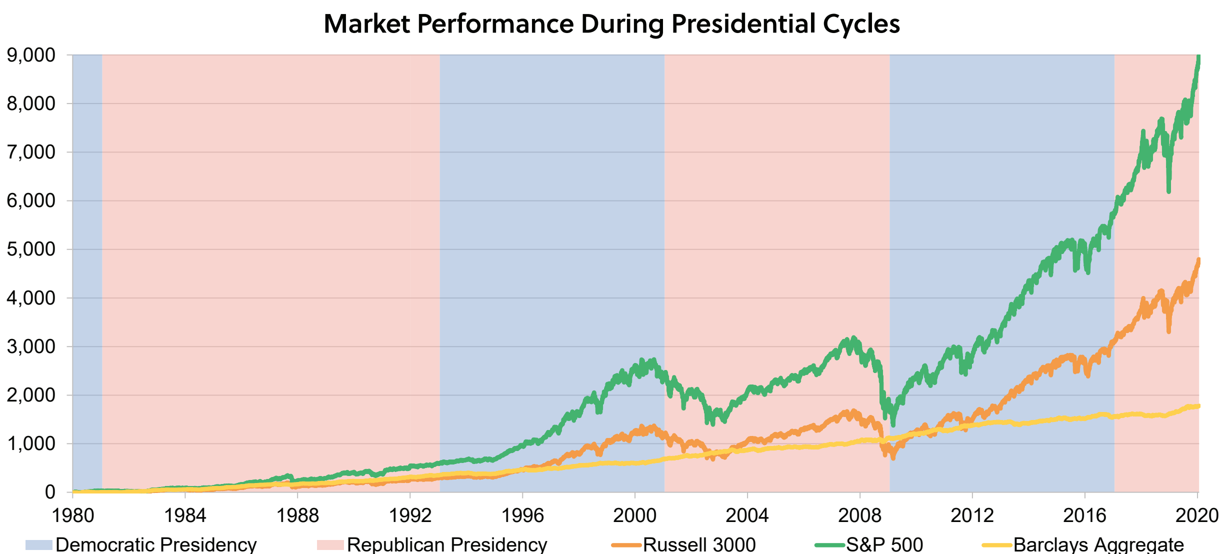
And, because many of these issues are contentious, there is likely to be a spirited debate as to whether a Democrat or a Republican administration will be better for the financial markets, aside from the issue of which party controls Congress.

## Giving Credit Where Credit Is Due Is Not So Easy

While the economy is always a focal point in the election cycle, demographic and economic trends (e.g., population growth, productivity and inflation) tend to drive markets over the long run. That being said, the domestic economy has grown markedly over the past forty years, creating a positive wealth effect due to positive stock market returns, which has occurred during the terms of presidents from both major political parties. During this period, presidents have worked to implement their policies through congressional delegations that were friend, foe and split, so crediting one party or another for the economy or market performance in any one, or small group of years, is not that simple. However, there remains an ongoing debate as to which party was responsible for creating the conditions which led to each period of prosperity or crisis.

To better visualize how the market performed over time, during both Democratic and Republican administrations, consider the chart below:

**Market Performance During Presidential Cycles**




Source: Bloomberg. Past performance is not indicative of future results.

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Since World War II, when assessing the relationship between market performance and which party holds the White House, there has been only a minimal difference in stock returns when looking at a one year lagged return.[1] The one year lagged return for the S&P 500 during a Democratic administration shows a 12.8% return, whereas during Republican presidencies it has been 12.3%.

However, reading too deeply into this small discrepancy returns might be a fool's errand. Again, this is because the question remains as to which party is responsible for creating economic conditions that lead to a return (positive or negative) in any one or group of years.

## Election Year Risk?

It is also worth mentioning that one of the biggest myths is that election years carry more risk than other years. To address this and dig deeper into the numbers, we created the table below, which highlights election years and the corresponding equity and sample portfolio returns.

**Annual Index Performance**

| | Annual Total Return | |
|---|---|---|
| Year | S&P 500 | 60% Equity/40% Fixed Income[2] |
| 1980 | 32.50% | 11.36% |
| 1984 | 6.27% | 5.61% |
| 1988 | 16.61% | 13.90% |
| 1992 | 7.62% | 2.77% |
| 1996 | 22.91% | 11.38% |
| 2000 | -9.10% | -1.35% |
| 2004 | 10.88% | 10.90% |
| 2008 | -37.00% | -21.95% |
| 2012 | 15.99% | 11.75% |
| 2016 | 11.95% | 7.09% |

Source: Bloomberg.
[2] Consists of 39% Russell 3000 Index, 21% MSCI ACWI ex. USA, and 40% Bloomberg Barclays U.S. Aggregate Bond Index. The data for the MSCI ACWI ex US begins in 1988.

## The Result

Over a 20-year period, the only time the S&P 500 experienced a truly extreme return in an election year was in 2008, during the height of the Global Financial Crisis (GFC).

In short, based upon the above examples and data, we can confidently state that it is incredibly difficult to assign credit to any one political party for economic conditions, particularly since some fiscal policy and legislative (e.g., tax increases or cuts) decisions may take several years to fully impact GDP, or other economic measures of our nation's health. In short, our view is that making portfolio decisions purely on the basis of politics has the potential to result in poor portfolio performance, since both the election result and the impact on the economy and markets are unknowable in advance.

## Conclusion

This report is meant to offer a snapshot of how presidential elections impact capital market performance. What we can see from the charts and tables above is that election years do not seem any more extreme (with perhaps the exception of 2008), nor do they seem to carry more risk than post-election years.

1 Clearnomics, Standard & Poor's 2019.

Because the political rhetoric and debate around which candidate is better for the overall economy (and financial markets) is likely to heat up in the coming months, we will be monitoring the candidates and their policy proposals. While we will analyze what we think the potential impact that their policies might have on the financial markets and broader domestic economy, we will leave much of the hand wringing and politically charged rhetoric to others.

At PFM, our approach is to continue to focus on the big picture – economic fundamentals and long-term strategic asset allocation – which are the most important decisions driving investor's portfolio performance. Please consult your PFM representative for any further questions or concerns.

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