

Active Insights

What can market history tell us about the presidential election?



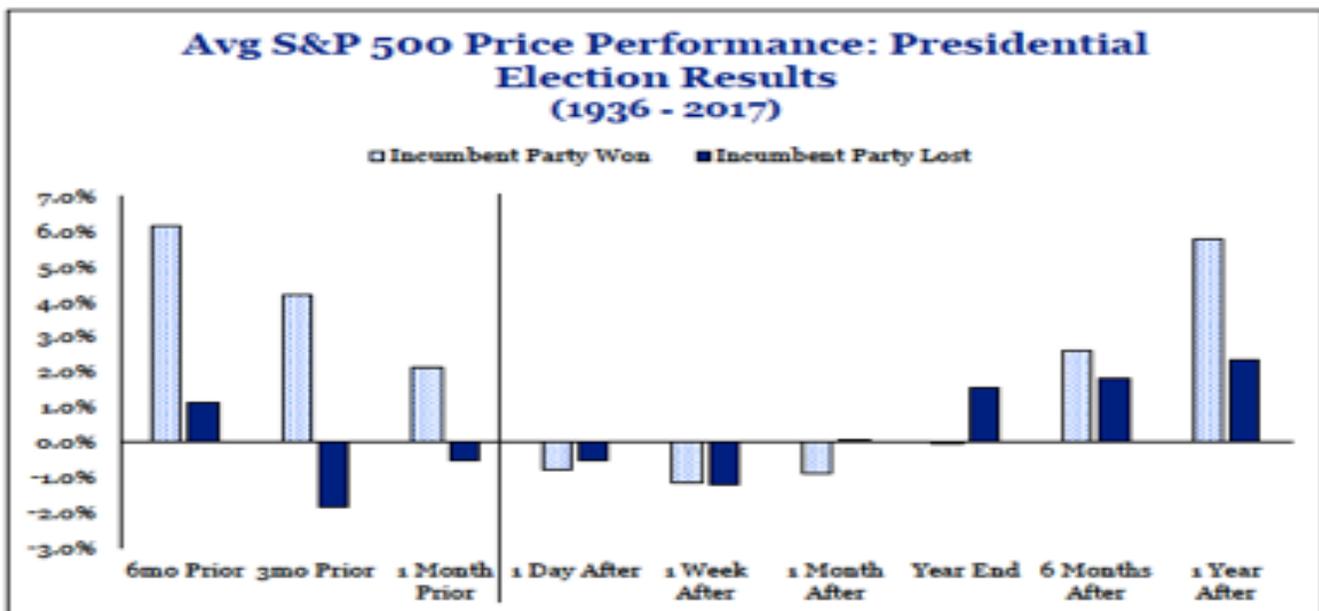
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Investors are beginning to shift their attention to the 2020 Presidential election. We look to history and markets to give us a framework for what may happen in November. Below you will find empirical data and tools to help you monitor the situation.

Some interesting facts:

- Looking back on stock performance leading up to an election, we see that in a year when the incumbent is re-elected, the market has produced a positive average return over the prior 1 month, 3 months, and 6 months. In fact, when the market has been positive in the three months prior to an election, the incumbent has been re-elected 85% of the time. Start the clock on August 3!

The S&P 500 has been a great indicator of presidential elections three months out



Source: Strategas Research Partners.

- Since 1900, the incumbent party has won three times and lost eight when there was a 20% decline in the DJIA or a recession in the election year. The last to do so was the Democratic party under Truman in 1948. Since 1952, no

party has retained the White House when there was either a 20% decline or a recession. Both have occurred this year. Please see the table below.

Incumbents 0–6 when a recession or 20% drop in election year

Market and Economic Influence on Presidential Elections				
Year	20% Decline or Recession in Election Year	Incumbent Party	Incumbent Party Win/Lose	
1900	No	R	Win	
1904	Yes	R	Win	
1908	No	R	Win	
1912	Yes	R	Lose	
1916	Yes	D	Win	
1920	Yes	D	Lose	
1924	Yes	R	Win	
1928	No	R	Win	
1932	Yes	R	Lose	
1936	No	D	Win	
1940	Yes	D	Win	
1944	No	D	Win	
1948	Yes	D	Win	
1952	No	D	Lose	
1956	No	R	Win	
1960	Yes	R	Lose	
1964	No	D	Win	
1968	Yes	D	Lose	
1972	No	R	Win	
1976	Yes	R	Lose	
1980	Yes	D	Lose	
1984	No	R	Win	
1988	No	R	Win	
1992	No	R	Lose	
1996	No	D	Win	
2000	Yes	D	Lose	
2004	No	R	Win	
2008	Yes	R	Lose	
2012	No	D	Win	
2016	No	D	Lose	
2020	Yes	R	??	
Since 1900				
20% Decline or Recession				
Incumbent Party	Win	Yes	No	
	Lose	5	13	
		9	3	
Since 1952				
20% Decline or Recession				
Incumbent Party	Win	Yes	No	
	Lose	0	8	
		0	3	

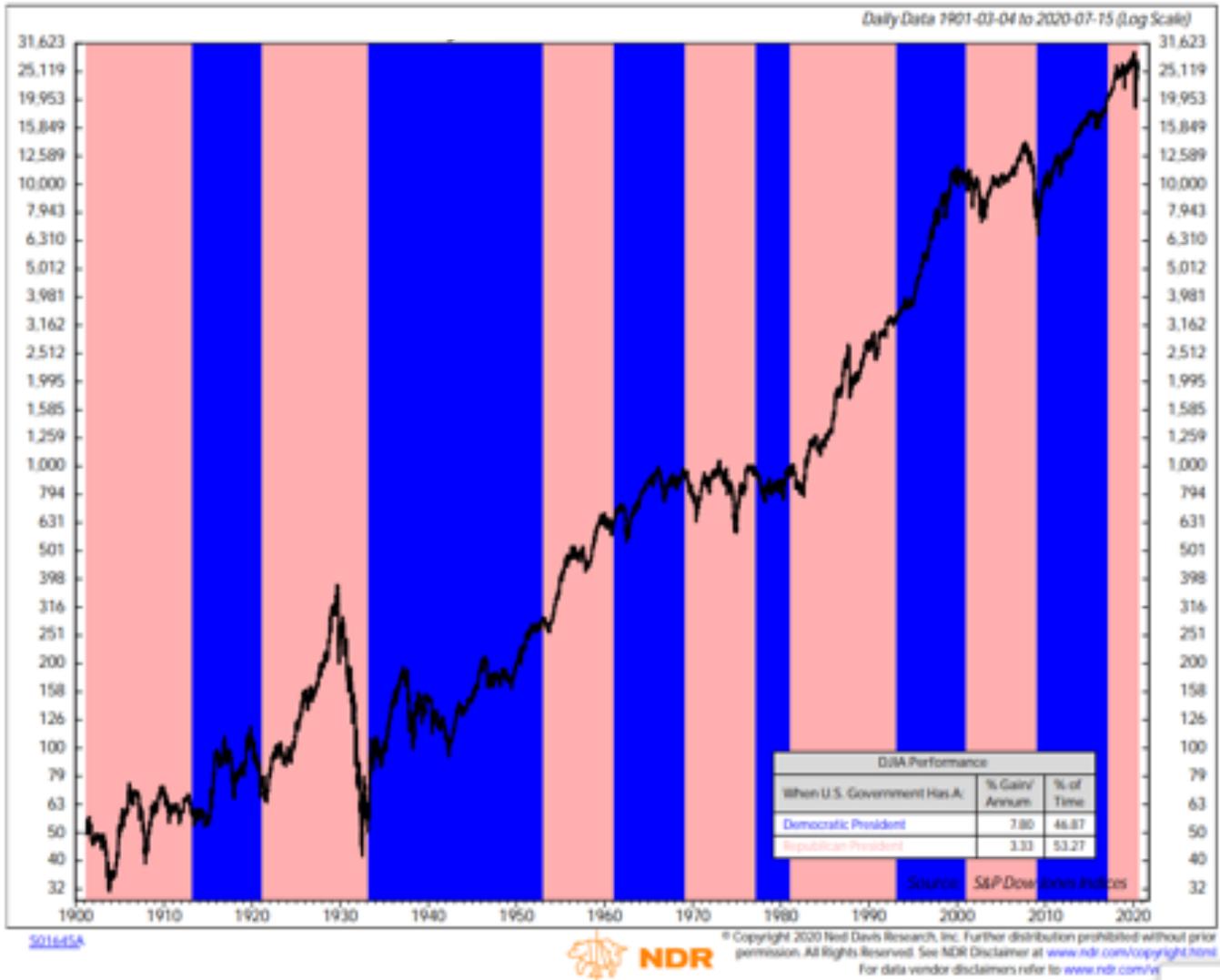
20% decline based on Dow Jones Industrial Average.
 Recession dates from National Bureau of Economic Research.
 D - Democrat, R - Republican.

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- The Dow Jones Industrial Average has historically posted stronger nominal returns under a Democratic president. Since 1901, the Dow Jones Industrial Average has

returned 7.80% per annum with a Democratic president versus 3.28% per annum for a Republican president. See the table below.

DJIA versus presidential political party



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Conclusion

It is hard to argue with the stock market's ability to predict the results of the presidential election. Investors will be well served to monitor the performance of the S&P 500 from August 3 to November 3, 2020. Given the historical precedent, if the market is up during that period it is highly likely that the incumbent will be re-elected.

Since 1952, no sitting president has been re-elected when there has been a 20% decline in equities or a recession in the election year. This year, both have occurred. Annual returns are stronger under a Democratic president by better than 2:1 going back to 1901. Investors have a lot to monitor as we move into the fall. Stay tuned!

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