On The Mark

December 2019

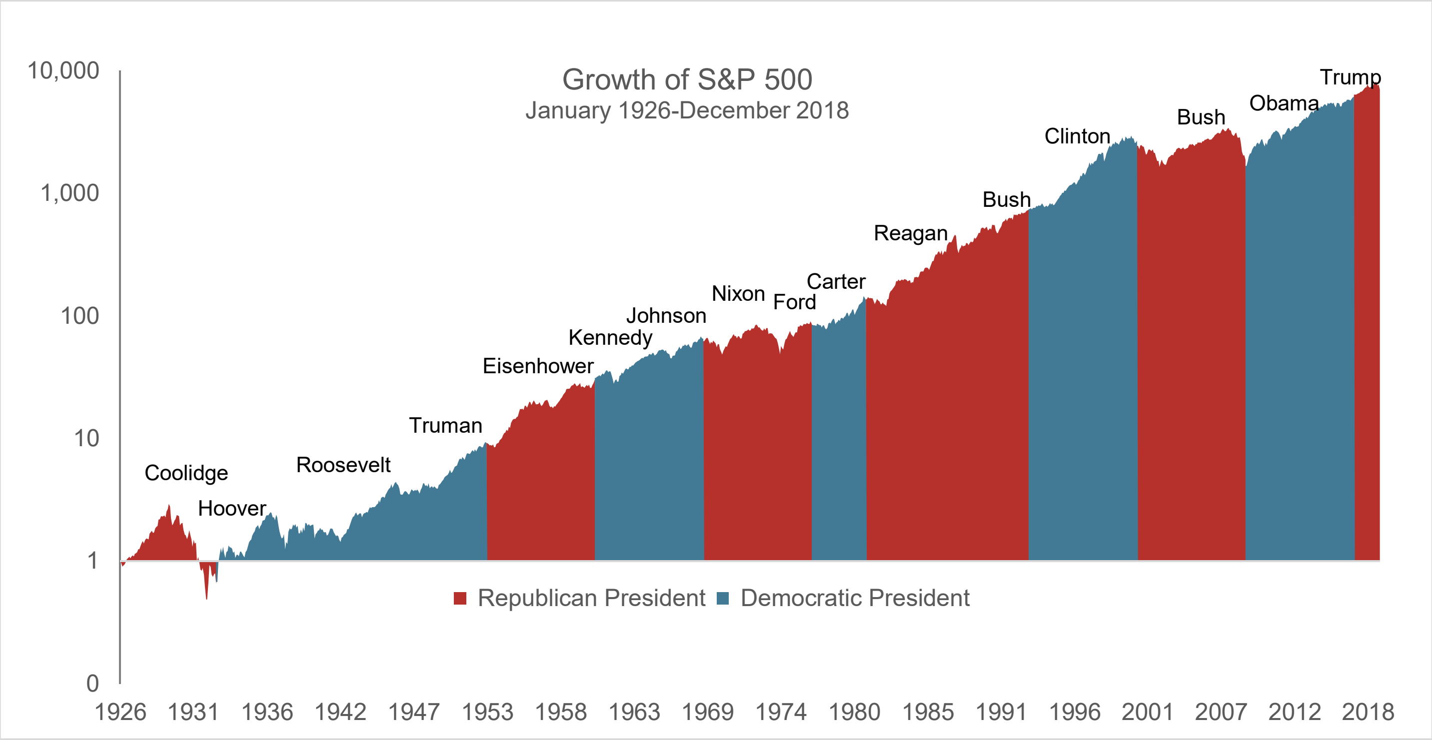
Do presidential elections influence the stock market?

Key Takeaways

- With the 2020 presidential election less than a year away, the relationship between politics and stock markets is likely to be dissected endlessly by pundits.
- Historically, the strength of the economy matters more than politics.
- Over the long-term, markets have provided strong returns regardless of the party or candidate that won the election.

Next year – 2020 – marks a presidential election year. In this polarized environment, there will be no shortage of opinions about how the election will impact the stock market. These opinions are often focused on predicting which party or candidate will be "better" for the market. However, as seen by the chart below, the lesson over the long term is that the markets have provided substantial returns regardless of the party or candidate that won the election. The chart by Dimensional Fund Advisors shows the growth of the S&P 500 index since 1926, which covers 16 presidencies from Coolidge to Trump.

Additionally, when we look at each of the election cycles, there were 23 election cycles since 1928 with only four election cycles leading to negative years[1]. The first two negative years came early during 1932 and 1940, both associated with the Great Depression. More recently, the



Source: chart adapted from Dimensional Fund Advisors, *Market Returns During Election Years*

2000 and 2008 election years also posted negative returns, each aligning with the tech bubble and the Great Recession respectively. The four negative years have coincided with economic crisis more so than the party that won the election. While negative years are never pleasant, looking at the longer-term trend, those negative years tend to occur less frequently than the positive years. Accurately predicting when those 'down election years' will occur is nearly impossible, just like trying to predict any down year in the market.

The simple truth is that stock markets are volatile, regardless of who wins presidential elections. Elections notwithstanding, your portfolio should reflect your risk appetite to avoid panicking and selling at the wrong time. History has shown having a long-term perspective lets you win either way in the election.

---

[1] https://www.thebalance.com/presidential-elections-and-stock-market-returns-2388526

Brian A. Nolan, CLTC
Nolan Wealth Management, LLC
4454 Main Street, PO Box 505
Kingston, NJ 08528-0505

Tel. – Main: 609-920-0321
Toll Free: 877-NOLANWM (877-665-2696)
Fax: 609-651-8209
Email: bnolan@nolanwealth.com
Website: www.nolanwealth.com

01062020-0006