

## Market Musings 04/24



# An Easter Look at Presidential Elections and Stock Markets

### **“Never talk about religion, politics or money”**

This paper breaks two of the three taboo rules and looks at how US Presidential elections influence, or don't, US stock market returns. Given the dominance of the US stock market in global (developed market) equity portfolios, we can broadly extend any effect to that global level.

US Presidential Elections provide a useful feature for analysis: they are at the same point in the year each time they happen, “the Tuesday next after the first Monday in November”. That removes a lot of the arbitrary effects from analysis which would otherwise need controlling for. There is one drawback which is, even going back to 1928 (to when we have S&P stock market data), we only have 24 elections to consider. This is a small sample set, particularly as the stock market of a century ago is quite different to that of today. Hence, whilst we find some interesting results, these are to be treated with due caution and certainly not as a prediction of this upcoming (or any future) election cycle.

We consider the S&P 500 performance 180 days prior to a presidential election and 180 days after. We can then compare these against years where there was no election to see if presidential elections influence markets, and consider more niche topics such as whether markets predict party changes (or vice versa). All data is price change only (for completeness).



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Given their fixed date every 4 years, US Presidential Elections provide a very useful feature for analysis.

### Sell in May and go away (unless it's an election year)?

The answer to that question appears to be a big “yes”, but not in quite the way you’d expect. Election years have historically produced significantly higher equity returns in the 180 days before and after the election date – c. 11% vs 7% for a non-election year.

S&P 500 price change	Election year	Non election year	All years
Average 180 days prior	5.8%	1.5%	2.6%
Average 180 days after	4.3%	4.8%	4.7%
180 days before and after	10.9%	6.8%	7.8%

Source: VLK, SSGA, S&P

What is surprising is that this return mainly comes in the 180 days leading up to the election (i.e. the period May to November, exactly against the “sell in May” saying). Whereas the period after the election (November to May) is not significantly different from a non-election year.

### Party politics – do they matter?

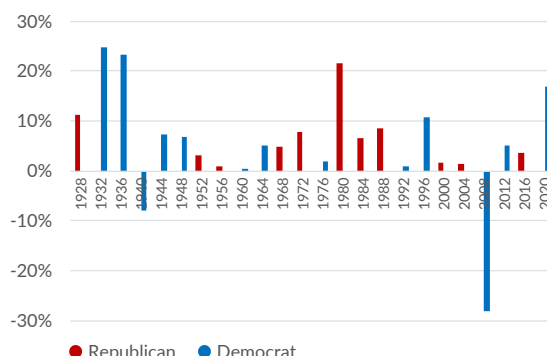
Here, its worth pointing out we’re fully in small data set territory and trying to work out causality could lead to a headache, but, in summary, again yes.

S&P 500 price change & party of next President:	Republican	Democrat	Total
Average 180 days prior	6.5%	5.2%	5.8%
Average 180 days after	3.3%	5.2%	4.3%

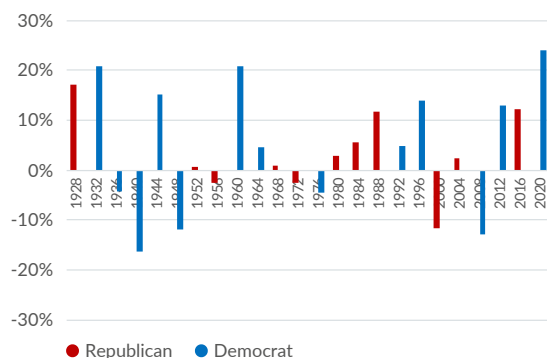
Source: VLK, SSGA, S&P

A future Democrat president appears to have almost identical performance before and after an election. With a Republican win there is stronger performance before the election, followed by more muted returns thereafter.

Return 6 months pre-election based on winner



Return 6 months post-election based on winner



### Changing of the guard – equity returns and a change of Presidential Party

Let’s dig into this a little more. Does a changing of the guard make a difference? There are only 11 changes of Presidential party power in the last 92 years of data.

Winner	Republican	Democrat	Total
Average 180 days prior	7.0%	2.8%	4.7%
Average 180 days after	1.0%	8.8%	5.3%

Source: VLK, SSGA, S&P

What we see couldn’t be more different depending on the winning party.

A Republican victory over a former Democrat is usually preceded by strong markets before an election, but not much happens after the switch. Whereas a Democrat victory over a Republican incumbent sees muted returns before the election, and a blockbuster outcome thereafter. For fear of fully wading fully into politics, we’ll let you make your own theories as to why.

## In summary

You need a see-through crystal ball to forecast election results, but at Easter all you have is a solid chocolate egg (or whatever's left of it)

Pollsters, with their clever models, have been famously wrong about elections in recent years, leading to the sense that forecasting of election outcomes has become nothing more than statistical sophistry.

So this piece, whilst a bit of fun, is best read whilst enjoying your Easter egg. Certainly it shouldn't be taken as political, financial or religious advice. Whether we are seeing strong pre-election returns for switches to Republicans being an expectation that they are coming into power, the electorate not really caring about market returns when re-electing, or just plain misfortune by the Democratic party to not take credit for stock markets is anyone's guess. It is however, striking to see the differences.

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