KIM: Will upcoming election give investors performance anxiety?

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May 21, 2016

Hillary Clinton and Donald Trump will almost certainly be their respective parties' presidential nominee. Passions and the level of vitriol are sky high and certain to escalate even further heading into the conventions this summer and election in November, leading to heightened anxiety for investors.

With both candidates predicting doom if the other is elected, it's useful to take a cool, analytical look at how stocks have performed in past presidential/congressional elections.

In a recent report, Sam Stovall, U.S. Equity Strategist for S&P Global Market Intelligence, dissected price changes for the S&P 500 going back to 1945 to see if history provides any clues.

In presidential election years since 1945, the S&P 500 gained an average of 5.9% and rose in 71% of those years. This trailed the average annual gain of 8.6% for all years since 1945, but exceeded the 66% positive frequency.

However, looking below the surface yielded a striking divergence between election years at the end of first terms (i.e. incumbent seeking reelection) versus second terms (i.e. non-incumbents seeking election). In the former case, the S&P 500 gained 10.2% on average and was up 83% of the time. By contrast, in the latter case (our current situation), ***the S&P 500 dropped by an average of 3.3% and rose only 50% of the time.***

According to Stovall, the reason for the performance differential is Wall Street hates uncertainty. Since WWII, incumbents running for reelection won 80% of the time (Truman, Eisenhower, Johnson, Nixon, Reagan, Clinton, Bush 43 and Obama) and lost only twice (Carter and Bush 41). Since it is certain a new president will be elected, investors will have to deal with leadership uncertainty in the coming months.

Additionally, the S&P 500 has been a good predictor of whether the incumbent president, or his party, was reelected or replaced. In presidential election years since 1944, when the S&P 500 rose in price from July 31 to October 31, the ***incumbent or his party was reelected 82% of the time***. When the S&P 500 dropped during these three months, it ***signaled the replacement of the incumbent 86% of the time.***

Republican administrations are generally viewed as pro-business. Conventional wisdom is stocks do better with a Republican in the White House and there is, indeed, a huge difference in performance. As is often the case, conventional wisdom is wrong. Stovall calculated from 12/31/44-12/31/15, the ***S&P 500 rose an average of 6.7%/year during Republican administrations vs. 9.7% for Democrats.***

Over this period, the S&P 500 performed best under the following administrations: Ford (18.6% annual average), Clinton (14.9%), Obama (12.4%) and Bush 41 (11.9%). The worst performance was under Nixon (-5.1%) and Bush 43 (-4.6%).

Finally, contrary to the popular belief "gridlock is good" because when the White House and Congress are controlled by different parties, the odds of "bad" legislature being enacted are theoretically lower, Stovall found the ideal composition for investors is actually one party controlling *both* branches. This was the case during 28 years since WWII, resulting in an average price increase in the S&P 500 of 10.9% (vs. the average 8.6% gain for all years).

Past performance in no guarantee of future results. As Mark Twain said, "there are lies, damned lies and statistics." Still, history offers important clues for investors.