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Impact! US Elections

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Impact! U.S. Elections

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The U.S. election season is in full swing, and the implications for economic growth prospects and market returns are more elusive and more profound than any market moves in the early days of November may imply.

Economic and social policies can improve or undermine our economy and society, and their effects cumulate over many years. This explains why we observe little direct correlation between a presidency and contemporaneous economic or market performance.

Many of the forces that will likely impact market performance next year and beyond are already in play.

How Did Prior Elections Affect Market Direction and Returns?

It is difficult to attribute any part of lasting market trends to either politics or the policies of a particular administration. Public equities—as measured by S&P 500 Index—returned 12.4% annualized under Barack Obama's administration and 13.9% under Donald Trump's administration.

Meanwhile, S&P 500 Index sector leadership was comparable between the Obama and Trump administrations. Under both presidents, the top-performing sectors were consumer discretionary, technology, and healthcare; the worst-performing sectors were financials and energy.

Many expected the industrials sector to thrive under Trump, with his promises to "make America great again," to bring manufacturing jobs home, and to impose tariffs on foreign competition. Yet, the industrials sector finished in sixth place, just as under Obama.

Energy returns during the Obama years were barely positive. In the Trump years, energy was the only sector to deliver negative returns. This is an unexpected outcome under a Republican administration, especially one that aggressively reduced the regulatory burdens for energy extractors.

Indeed, we can see little, if any, direct impact of elections on market returns and economic growth when we broaden the time frame to most of the 20th century. Presidential records over the past 100-plus years suggest that gross domestic product (GDP) growth, corporate profits, and S&P 500 Index returns can thrive or languish under either party.

Impact of Elections on Economy and Markets

S&P 500 Index Total Real Average Annual Return	
Coolidge	29.1%
Ford	16.7%
Harding	16.1%
Clinton	14.2%
Eisenhower	13.9%
Obama	11.8%
Reagan	10.7%
GHW Bush	9.4%
F. Roosevelt	8.8%
Truman	8.2%
Kennedy	7.4%
Johnson	6.7%
T. Roosevelt	4.0%
Carter	2.1%
Taft	1.9%
Wilson	−4.5%
GW Bush	−5.5%
Nixon	−7.6%
Hoover	−19.2%

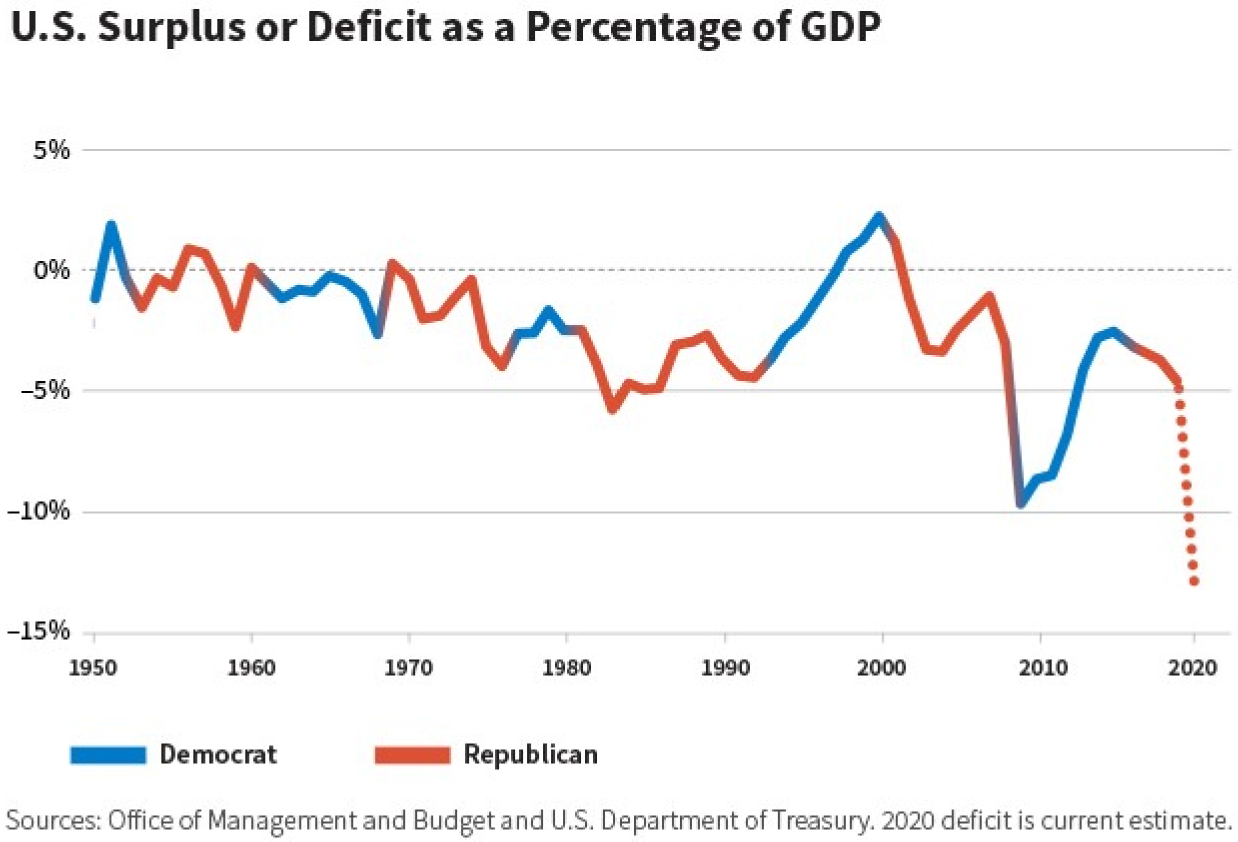
Real Corporate Profit Growth	
Obama	35.6%
Harding	17.7%
Clinton	9.2%
Coolidge	8.8%
Kennedy	7.3%
Truman	6.6%
Johnson	4.4%
F. Roosevelt	4.2%
Reagan	2.3%
Eisenhower	2.1%
Nixon	1.9%
T. Roosevelt	1.1%
Taft	0.1%
Carter	0.0%
Wilson	−1.6%
Ford	−2.3%
GHW Bush	−9.5%
GW Bush	−17.4%
Hoover	−21.3%

Average Annual Real GDP Growth Per Capita	
F. Roosevelt	8.0%
Harding	6.3%
Johnson	4.3%
Ford	2.8%
Reagan	2.6%
Clinton	2.5%
Kennedy	2.5%
Coolidge	2.0%
Carter	1.6%
Nixon	1.5%
Taft	1.4%
Obama	1.2%
Eisenhower	0.9%
GHW Bush	0.7%
GW Bush	0.5%
Truman	0.3%
Wilson	0.0%
T. Roosevelt	−4.0%
Hoover	−8.2%

Average Annual Change in Consumer Price Index	
Carter	10.1%
Wilson	8.1%
Ford	6.2%
Nixon	6.2%
Truman	5.2%
GHW Bush	4.1%
Reagan	4.1%
F. Roosevelt	2.9%
Johnson	2.8%
Clinton	2.6%
GW Bush	2.3%
T. Roosevelt	2.0%
Obama	1.7%
Eisenhower	1.5%
Taft	1.5%
Kennedy	1.1%
Coolidge	−0.2%
Harding	−2.3%
Hoover	−7.1%

Sources: Morgan Housel, Robert Shiller.

Even claims of fiscal conservatism or profligacy do not stand up to scrutiny. A review of the U.S. national budget position over the past 70 years suggests that every Republican administration either maintained or worsened the U.S. fiscal position.

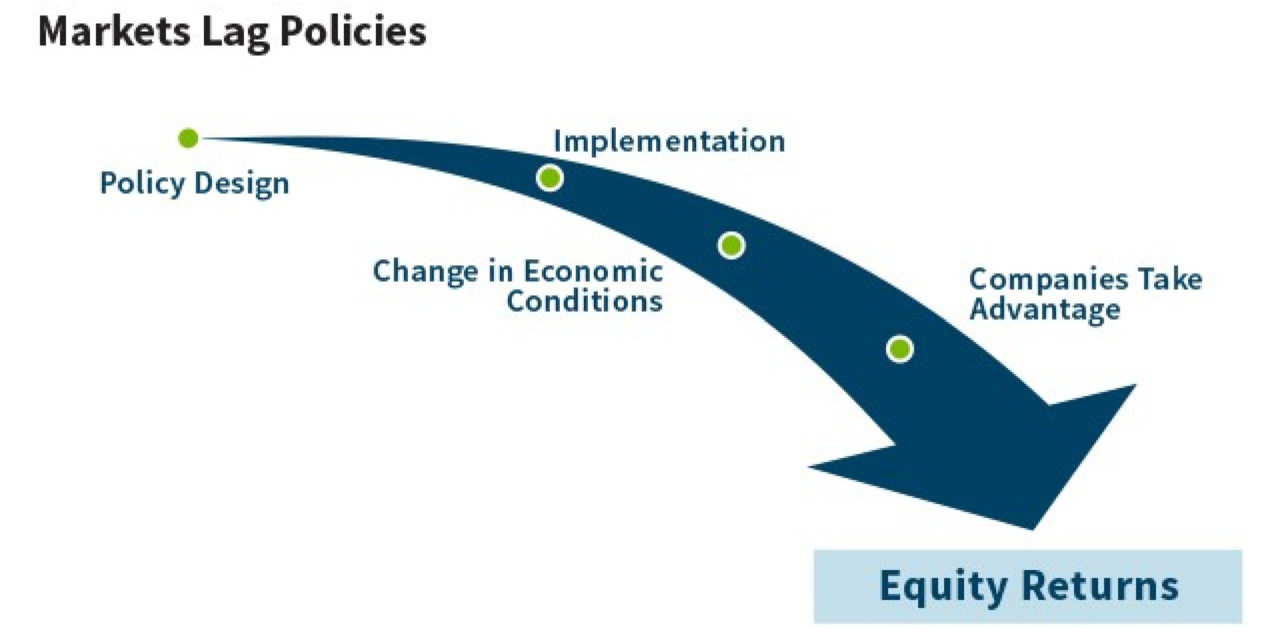


Why, Then, Do Elections Really Matter?

The effects of policies accumulate over many years, much longer than a presidential term or even two.

Consider a proposal to improve access and quality of early education. Its impacts won't be felt for at least two decades. We will be able to assess its influence on economic growth only when the first affected cohort of five-year-old children reaches their mid-20s and enters the workforce.

More generally, policies take a while to design and implement. Only then do they change economic conditions on the ground. Companies respond to these changes; new entrants emerge; some incumbents embark on new strategies. Eventually, a change in course shows up in equity market returns.



Some policies, such as tax reductions, produce more direct effects in a relatively short order. That is one reason they are a favorite among politicians of all stripes. Unfortunately, short-term policies do not often cumulate to sustainable economic growth.

Economic and social policies, then, should be assessed based on how well they are likely to address current challenges and whether they improve or undermine the sustainability of our economy and way of life.

Returning to Markets, Can We Identify Drivers of 2021 Returns Before the U.S. Election?

Many drivers of market returns in 2021 and beyond are already in play, irrespective of the next White House occupant. We believe investors should consider the following.

First, we could see yield-curve steepening driven by economic recovery and significant new bond issuance. Even if the 10-year U.S. Treasury yield doubles from current levels, it will remain below its early 2020 levels.

Second, technological advances suggest that a dramatic shift away from internal combustion engines toward electric vehicles may be only a handful of years away. This new-economy growth is likely to increase the demand for some of the commodities used in production of electric vehicle and other batteries, most notably high-grade nickel.

Then there is the regulatory agenda.

Corporate taxes have long become a pan-national issue, and the Organisation for Economic Co-operation and Development (OECD) tabled a set of proposals for the Group of Twenty (G20) to consider earlier this year.

Big-tech regulation is being driven by a bipartisan effort in the House Judiciary Committee Antitrust Report, and Facebook CEO Mark Zuckerberg is endorsing Section 230 changes.

Lastly, there is China: even if it achieves less than 50% of its next five-year plan, China's rise will have been meteoric.

How the next U.S. administration manages these developments will have profound consequences for our economy and society for decades to come.

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The S&P 500 Index is a market capitalization-weighted index designed to measure large capitalization U.S. equity market performance.

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