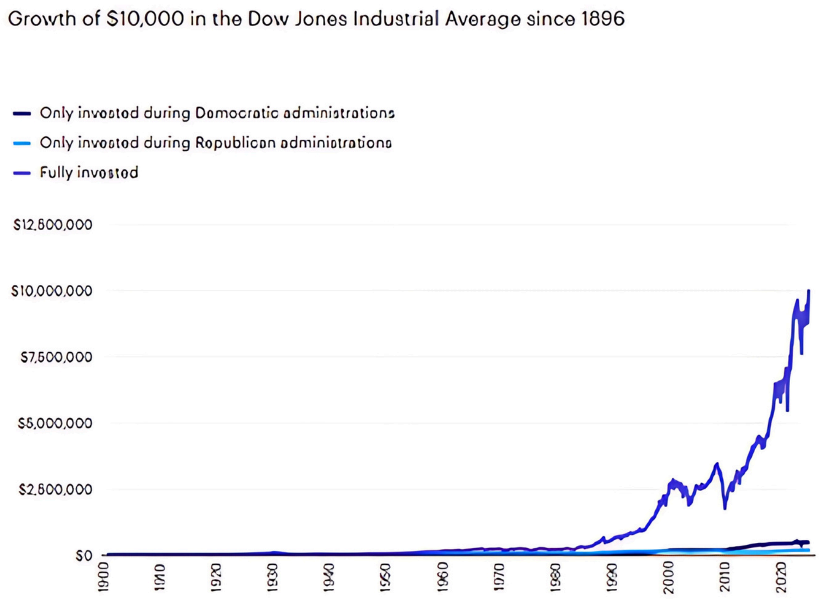
Separating Perception from Reality

How Markets View Democrats vs. Republicans

Erik Laymon | November 19, 2024

Historically, there have been two prevailing schools of thought regarding the impact of political parties on the stock market. One perspective suggests that Republican administrations are more "pro-business" and therefore better for market performance. The opposing view argues that Democratic administrations offer more predictable regulatory frameworks, which also benefit the stock market. However, a closer examination of historical data reveals a more nuanced picture that challenges both closely held beliefs.

To gain insight into this complex relationship, we examined studies conducted by several reputable financial institutions. The results reveal that the connection between political party control and stock market performance is indeed intricate and not easily predictable.



Sources: Haver, Invesco, 12/31/23. The Dow Jones Industrial Average is a price-weighted index of the 30 largest, most widely held stocks traded on the New York Stock Exchange. An investment cannot be made in an index. **Past performance does not guarantee future results.**

Presidential Administrations

Invesco conducted a simulation using market returns dating back to 1896, tracking the growth of $10,000 under Democratic, Republican, and bipartisan administrations. The results were surprising and highlighted the importance of remaining invested regardless of political leanings (1). ▶

Congressional Control

When examining the balance of power in Congress over various decades, a similar pattern emerges. The data is not as conclusive as one might expect:

Source	Time Period	Democratic Congress	Republican Congress	Split Congress
Fidelity Investments	1945-2022	10.8%	7.3%	13.0%
Charles Schwab	1950-2019	15.9%	15.1%	17.2%
Goldman Sachs	1928-2022	14.0%	12.9%	10.8%

- Fidelity Investments found that from 1945 to 2022, the S&P 500 has gained an average of 10.8% annually under Democratic-controlled Congresses, versus 7.3% under Republican-controlled Congresses. Interestingly, they noted the best returns (13.0% annually) occurred when Congress was split (2).
- Charles Schwab's analysis of S&P 500 performance from 1950-2019 showed similar results across party lines: 15.9% average annual returns under Democratic control, 15.1% under Republican control, and 17.2% under a split Congress (3).
- Goldman Sachs, looking at data spanning 1928 to 2022, found that the S&P 500 returned an average of 14.0% annually under Democratic-controlled Congress, 12.9% under Republican control, and 10.8% under split control (4).

The correlation between stock market performance and political party control varies significantly depending on the specific time period analyzed. This variation explains the discrepancies in market returns across studies. For instance, Fidelity's study began in 1945, Charles Schwab's in 1950, and Goldman Sachs' in 1928. Choosing the start and end dates for a study is more art than science, leading to diverse outcomes.

Factors Influencing Market Performance

Several factors contribute to the variability in market performance beyond political party control:

- **Business Cycles:** Booms and busts often last longer than presidential and congressional terms, potentially beginning or ending during a term rather than aligning with its start or finish.
- **Natural Disasters and Geopolitical Events:** Unpredictable "black swan" events can significantly impact markets for undetermined periods. For example, the COVID-19 crisis of March 2020 occurred during the Trump administration, while one of the worst years in stock and bond market history followed in 2022 during Biden's administration, coinciding with Russia's invasion of Ukraine.
- **Corporate Scandals:** Unexpected revelations of corporate misconduct can affect multiple stock market sectors regardless of which party is in control. Examples include the Enron, WorldCom, and Tyco scandals, as well as the housing crisis involving Lehman Brothers.

The impact of any single event, policy, or administration is often overshadowed by larger economic trends and global events, despite media hype. Long-term market performance is more dependent on broader economic factors such as GDP growth, corporate earnings, interest rates, regulatory frameworks, and tax policy.

Investment Philosophy and Strategy

Without a clear correlation between political affiliation and market return performance, we encourage clients to focus on their financial planning objectives rather than making decisions based on politics. Recent data suggests that a "gridlocked" government, where political power is split between parties, may be most favorable for market returns.

Although it is natural to speculate about the impact of administrations on the stock market, historical data suggests that the relationship between political party control and market performance is not as straightforward as many believe. Instead, focus on fundamental economic indicators, broad market trends, and maintaining a diversified portfolio. By adhering to long-term investment strategies and time-tested principles, you can concentrate on enjoying life, whether saving for retirement, funding your children's education, or living out your best years. ■

References:

1. Invesco, “Do Presidential Elections Influence the Stock Market?”, October 2024
2. Fidelity Investments, "How Elections Affect the Stock Market", October 2022
3. Charles Schwab, "How do Elections Affect the Stock Market?", September 2020
4. Goldman Sachs, "US Elections and Equity Markets", August 2022

Helpful Articles & Links

5 Financial Habits for Long-Term Success - When it comes to money, it isn't how much you make; it's how you manage what you make. Whether you're starting your first job, eyeing retirement, or somewhere in between, these five financial habits can help you reduce money stress, build wealth, and reach your long-term goals.

Value Investing: When to Proceed with Caution - As financial planning and retirement specialists, we understand the importance of a well-balanced investment strategy. While value investing has been a cornerstone of many successful portfolios, it's crucial to recognize when this approach might not be the most beneficial for every situation.

Protecting Your Digital Footprint - Our devices and apps collect a vast amount of data that can be used to enhance your personalized experience online...or be exploited by criminals if your presence online is not properly managed.

We are thrilled to announce the marriage of our beloved team member, Emily Horn, now Emily Ziegler! Emily has been an integral part of Align since she joined us as an intern in early 2020.

Not only did Emily recently pass her certification exam to become a CERTIFIED FINANCIAL PLANNER® Professional, but she also tied the knot with Jacob Ziegler, a successful real estate agent from Lancaster (thejacobzieglerteam.com).

Join us in congratulating Emily and Jacob on beginning of their beautiful journey together. We are so proud of Emily's professional achievements and excited for this next chapter in her life.

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