BIRLING CAPITAL ADVISORS, LLC **Think Strategically**

From Kennedy to Trump and Hernández-Colón to Pierluisi: How U.S. Presidential Elections and Puerto Rico's Governorship Shape Stock Market Performance

November 11, 2024

Francisco Rodríguez-Castro, President & CEO

Election Cycles and Market Trends: Insights for Investors

Every four years, the U.S. presidential and Puerto Rico general elections profoundly shape politics, law, foreign relations, and daily life. But have you considered their impact on stock markets and investment strategies? Birling Capital has analyzed data dating back to 1960 in the U.S. and from 1985 in Puerto Rico to uncover recurring patterns tied to election cycles. This analysis aims to help investors navigate market uncertainty and potential opportunities, particularly after pivotal elections such as the 2024 electoral cycle.

Since 1932, no U.S. president has lost re-election unless a recession occurred during their term. Economic stability is key, as reflected in market patterns:

- **Dow Jones Industrial Average (DJIA):** Gains an average of 10% in a president's first year and 7.9% in the second, with the year before an election showing the most robust performance at 13.3%.
- **In the 2024 Electoral Cycle, 1 Day After The Elections**, the Dow Jones rose 4.63%, the S&P 500 4.56%, the Nasdaq rose 5.99%, the Birling PR Stock Index rose 11.10% and the Birling U.S. Bank Index 11.04%.

S&P 500 Analysis Following Presidential Elections

We compare the market results the day after the elections in 2016, 2020, and 2024 using the S&P 500:

- **2016 Trump 1 Day After The Elections**: The S&P 500 posted a return of 1.11%.
- **2020 Biden 1 Day After The Elections:** The S&P 500 posted a return of 2.20%.
- **2024 Trump 1 Day After The Elections**: The S&P 500 posted a return of 3.77%.

When comparing President Trump's 2016 1.11% results versus President Trump's 2024 3.77%, the increase is 238.73%

Election-Year Market Behavior

- **Market Yields During Elections:** Average around 6%.
- **Non-Election Years:** Tend to perform better, averaging 8.5%.
- **Bond Market:** Election years see average yields of 6.5%, compared to 7.5% outside these periods.

Post-Election Market Performance

- **Stock Market:** Typically yields are slightly lower in the year following an election.
- **Bond Market:** Yields are marginally higher post-election.

- **Presidential Party Transitions:** When a new party assumes power, the market gains an average of 5%.
- **Continuity in Leadership:** If the same party retains the presidency, average yields increase to 6.5%.

The control of the Senate is a critical variable influencing tax policies, spending, and key appointments, often as impactful as the presidency itself. As you know, the Senate is now in control of the Republicans with 52 Senate seats, with Democrats with 46, and the House remains undecided. However, the latest report had the Republicans ahead 213 to 202 by the Democrats with 218 seats needed to control the House. The Republicans are five seats away from the majority, and it would be unusual for the party that won the presidential race not to secure the House.

How did markets perform under different presidents? 1961-2024

Since John F. Kennedy's inauguration in 1961, the S&P 500 has seen negative returns during only two presidencies.

John F. Kennedy (1961-1963)

- S&P 500 Performance: **+26.1%**

Lyndon B. Johnson (1963-1969)

- S&P 500 Performance: **+43.7%**

Richard Nixon (1969-1974)

- S&P 500 Performance: **-23.0%**

Gerald Ford (1974-1977)

- S&P 500 Performance: **+29.2%**

Jimmy Carter (1977-1981)

- S&P 500 Performance: **+24.0%**

Ronald Reagan (1981-1989)

- S&P 500 Performance: **+117.5%**

George H.W. Bush (1989-1993)

- S&P 500 Performance: **+51.4%**

Bill Clinton (1993-2001)

- S&P 500 Performance: **+210.9%**

George W. Bush (2001-2009)

- S&P 500 Performance: **-39.0%**

Barack Obama (2009-2017)

- S&P 500 Performance: **+182.9%**

Donald Trump (2017-2021)

- S&P 500 Performance: **+67.80%**

Joe Biden (2021-11.8.2024)

- S&P 500 Performance: **+55.65%** Data as of November 8, 2024.

The only two Presidents concluded their terms with a negative S&P 500 return were Richard Nixon, with -23%, and George W. Bush, with -39.0%.

Puerto Rico Governors Performance Using the Birling PR Stock Index

Since 1985, only two Governors concluded their terms with a negative Birling Capital Puerto Rico Stock Index return

Governor Rafael Hernandez-Colón (1985-1993)

- Birling Capital Puerto Rico Stock Index: **144.90%**

Governor Pedro Rosselló (1993-2001)

- Birling Capital Puerto Rico Stock Index: **485.50%**

Governor Sila M. Calderón (2001-2005)

- Birling Capital Puerto Rico Stock Index: **273.53%**

Governor Anibal Acevedo-Vilá (2005-2009)

- Birling Capital Puerto Rico Stock Index: **-80.20%**

Governor Luis Fortuño (2009-2013)

- Birling Capital Puerto Rico Stock Index: **-9.04%**

Governor Alejandro García-Padilla (2013 -2017):

- Birling Capital Puerto Rico Stock Index: **+18.46%**

Governors Ricardo Rosselló/Wanda Vázquez (2017 -2021):

- Birling Capital Puerto Rico Stock Index: **+68.92%**

Governor Pedro Pierluisi (2021-11.8.2024)

- Birling Capital Puerto Rico Stock Index: **+90.57%**

Similarly to the U.S., also two Governors of Puerto Rico concluded their terms with a negative Birling Capital Puerto Rico Stock Index return were Anibal Avededo-Vila, with -80.20%, and Luis Fortuño, with -9.04%.

The S&P 500 and Birling PR Stock Index Performance: Unveiling the Long-Term Impact of President's and Governor's Leadership

Overall, the S&P 500 has generally trended upward over the long term, reflecting economic growth, technological advancements, and increasing corporate profits. However, individual presidencies have seen varying performance due to various factors, including economic policies, global events, and market cycles.

The negative returns during Nixon and George W. Bush's presidencies were due to specific crises and economic downturns that overshadowed their terms. Nixon's presidency was marred by the Watergate scandal and an oil crisis, while George W. Bush faced the fallout from the tech bubble burst, the 9/11 attacks, and the 2008 financial crisis.

In terms of Puerto Rico, the **Birling Capital Puerto Rico Stock Index** has generally trended upward over the long term, reflecting periods of economic growth, structural reforms, and external factors such as federal investments and recovery from natural disasters. However, the performance under different governors has varied significantly, driven by various internal and external factors, including fiscal policies, economic crises, and market cycles.

The negative returns during the terms of **Aníbal Acevedo-Vilá** (2005-2009) and **Luis Fortuño** (2009-2013) were caused by the global financial crisis and Puerto Rico's ongoing fiscal challenges. The sharp decline under Acevedo-Vilá was driven by the aftermath of the 2008 financial crisis, while Fortuño's term faced a sluggish recovery, with efforts to reduce the public sector and address debt struggles not immediately translating into positive market outcomes.

In contrast, the **Pedro Rosselló** (1993-2001) administration marked the best performance for the index, reflecting a period of economic expansion, liberalization, and a surge in investor confidence, resulting in an extraordinary return of **485.57%.** Similarly, the post-crisis recovery during **Governors Ricardo Rosselló and Wanda Vázquez's** terms (2017-2021) saw a notable rebound, with the index returning **68.92%,** supported by federal disaster relief, rebuilding efforts and economic reforms following the devastation of Hurricane Maria.

Most recently, under **Governor Pedro Pierluisi** (2021-2024), the index has shown positive returns, up **90.57%**, as Puerto Rico navigates the post-pandemic recovery and focuses on stabilizing its economy and investing in infrastructure.

Thus, like the broader market, the **Birling Capital Puerto Rico Stock Index** has mirrored the challenges and resilience of Puerto Rico's political and economic environment, with significant volatility during periods of crisis and substantial growth reflecting broader economic trends and governance efforts.

The Final Word: The Investment Landscape: A Long-Term Perspective

While the political landscape undoubtedly plays a significant role, only one factor influences investment outcomes. Historical events like the 2008 Financial Crisis and the 2020 global pandemic demonstrated how external shocks can sometimes impact markets more than political leadership alone. These crises presented formidable challenges for Presidents Bush, Obama, Trump, and Biden, underscoring that markets respond to various factors beyond political control.

With President Trump's strong electoral performance in 2024, winning both the electoral college with 312 electoral votes versus 226 for Kamala Harris and popular vote count with 74,708,657 million votes versus 70,979,779 million votes, he enters with a clear mandate, which influences market sentiment and policy direction.

However, investors should remember that the critical takeaway is to stay focused on long-term objectives. While elections and political changes may induce short-term volatility, a long-term perspective is essential for sound investment decisions. Economic cycles, technological innovations, and global events are critical in shaping market dynamics. Therefore, maintaining a disciplined approach—anchored in careful research and a well-defined investment strategy—is crucial. This strategy should align with your specific financial goals, ensuring a diversified portfolio that includes stocks, bonds, and other assets while keeping reserves for potential opportunities.

Lastly, as you can see in the graph, the results are pretty impressive when we compare the S&P 500 to the Birling Puerto Rico Stock Index from 1985 to 2024 YTD. While the S&P 500 recorded a 276.30% return, the Birling Puerto Rico Stock Index beat it with a 281.30% return, food for thought.

A successful investment strategy remains grounded in a diversified portfolio that balances stocks, bonds, and alternative assets. You can maintain resilience through election cycles and beyond by aligning your portfolio with your risk tolerance, time horizon, and long-term goals.

Understanding historical trends and market responses during elections can provide valuable insights. However, a disciplined approach and a focus on fundamentals will ensure your portfolio remains robust amid political and economic uncertainties.

John Pierpont Morgan, Founder of JP Morgan Chase said it best: "A great business is not built by great businessmen, but by men who are great at building businesses; these are the men that shape the future".

BIRLING CAPITAL ADVISORS, LLC

Francisco Rodriguez-Castro, President & CEO • frc@birlingcapital.com
PO Box 10817 San Juan, PR 00922 • 787.247.2500 • 787.645.8430