BIRLING CAPITAL ADVISORS, LLC Think Strategically

How Presidential Elections Affect the Markets

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The High Stakes of the Race to The White House

The only constant in life is change. The secret to embracing change lies in focusing on building a better future. This timeless truth holds particularly strong in financial markets, where uncertainty and change are perennial features. Among the myriad factors that introduce change into the market, presidential elections stand out as particularly significant. Every four years, the United States undergoes a period of intense political activity that culminates in the election of a new president. While primarily political, this event has far-reaching economic and financial market implications. Investors, businesses, and policymakers closely monitor these elections, understanding that the outcomes can shape the economic landscape for years to come.

Presidential elections are not just about choosing the next leader of the free world; they represent a shift in policies, regulations, and economic strategies that can lead to market volatility and uncertainty. The anticipation of potential changes in fiscal policy, trade agreements, taxation, and regulatory frameworks can cause market sentiment and behavior fluctuations. As candidates present their visions for the future, markets respond, sometimes dramatically, to the perceived economic implications of their proposals.

In this discussion, we will explore how presidential elections affect the markets, analyze historical data to understand trends, examine the psychological impact on investor behavior, and consider how different sectors may be influenced. By understanding these dynamics, we can better navigate the changes that elections bring and focus on building a better financial future.

Concerns about President Biden's recent debate and an ABC Interview bad performances have been raised, adding to an already complex situation that has divided the United States. Some critics suggest that cognitive impairment may affect his ability to govern effectively. Dr. Sanjay Gupta pointed out that President Biden did not take a cognitive test during his annual physical, which has fueled speculation. Figures like former Trump White House adviser Stephen Miller have publicly called for Biden to be replaced, citing concerns over his cognitive abilities. These concerns have fueled debates about whether he should be replaced, adding another layer of uncertainty that could further impact market stability and investor confidence.

Questions have also been raised citing former President Trump's recent speeches and public appearances, adding to an already complex situation that has divided the United States. Some critics suggest that his erratic behavior and inflammatory rhetoric may affect his ability to govern effectively. Dr. Bandy Lee, a forensic psychiatrist, has highlighted issues regarding Trump's mental health, citing his tendency for impulsive decision-making and the potential danger it poses. Additionally, Trump's penchant for alternate facts and recent criminal convictions have exacerbated worries about his integrity and ability to lead. These issues have fueled debates about whether Trump's temperament, honesty, and judgment are suitable for leadership, adding another layer of uncertainty that could further impact market stability and investor confidence.

Are you curious about how the presidential election might impact your investments?

Every four years, anticipating a new president and their potential policies creates uncertainty for advisors and their clients. The 2024 election is no exception, particularly with the possibility of a rematch between the previous two presidents.

We've developed this guide to help navigate this period of uncertainty. It aims to address investors' most frequently asked questions during an election year. The insights provided in this guide are strictly data-driven and should not be interpreted as investment advice.

How did different asset classes fare under the last two presidents?

Equities performed strongly under both administrations, though Emerging Markets (EM) were an exception. EM surged by 72.1% during Trump's tenure but declined by 18.3% through the first quarter of 2024 under Biden.

Bond indices also saw gains during Trump's presidency but have experienced a downturn during Biden's term so far. Commodities, which were the poorest-performing and only negative asset class under Trump, have turned around to become the top-performing asset class under Biden.

Trump 1/20/2017 - 1/19/2021		
Asset Class	Cumulative Total Return	Annualized Total Return
US Growth	135.8%	23.9%
S&P 500	80.8%	16.0%
Emerging Markets	72.1%	14.6%
US Small	68.0%	13.9%
World exUSA	43.5%	9.5%
US Value	39.3%	8.6%
US Real Estate	25.8%	5.9%
Muni Bonds	20.2%	4.7%
Aggregate Bonds	20.2%	4.7%
US Treasuries	17.8%	4.2%
Commodities	-13.4%	-3.5%

Biden 1/20/2021-3/31/2024		
Asset Class	Cumulative Total Return	Annualized Total Return
Commodities	76.9%	19.5%
S&P 500	43.4%	11.9%
US Growth	40.7%	11.3%
US Value	35.4%	10.0%
World exUSA	19.2%	5.6%
US Real Estate	14.8%	4.4%
US Small	2.7%	0.8%
Muni Bonds	-1.7%	-0.5%
Aggregate Bonds	-9.7%	-3.2%
US Treasuries	-11.0%	-3.6%
Emerging Markets	-18.3%	-6.1%

How did the market react to Trump's election vs. Biden's election?

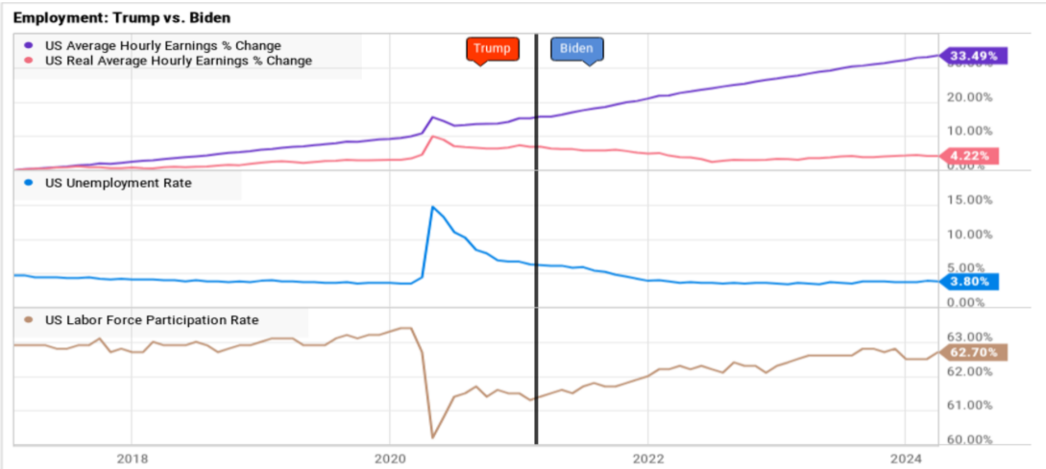
The market responded more enthusiastically to Biden's election in 2020 compared to Trump's victory in 2016.

Nevertheless, the post-election period for both presidents was positive for equities, as the S&P 500 showed gains from Election Day to inauguration day.

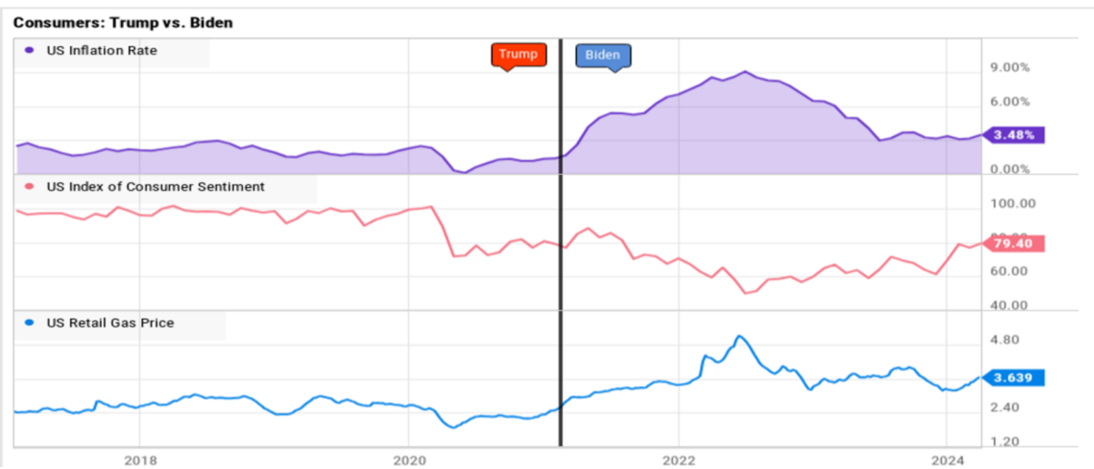
BIRLING CAPITAL ADVISORS, LLC	Trump	Biden
S&P 500 Performance:		
Day after Election Day	**1.11%** 11/09/2016	**2.20%** 11/04/2020
~2 Months After Election Day (Day after Election through Inauguration Day)	**6.16%** 11/09/2016 - 1/20/2017	**14.33%** 11/04/2020 - 1/20/2021

How did the market and economy do under Trump vs. under Biden?

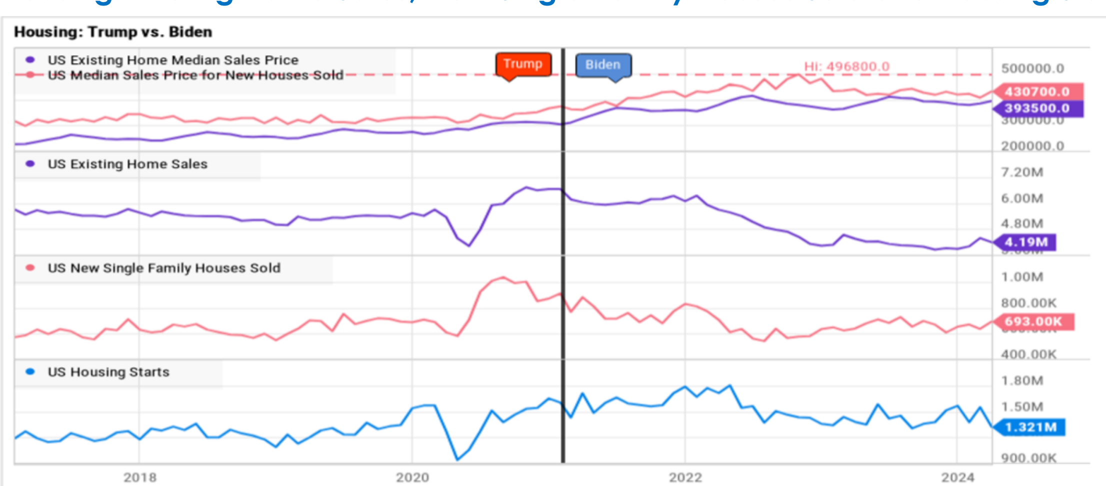
Employment: Avg. Hourly Earnings, Unemployment Rate & Participation Rate



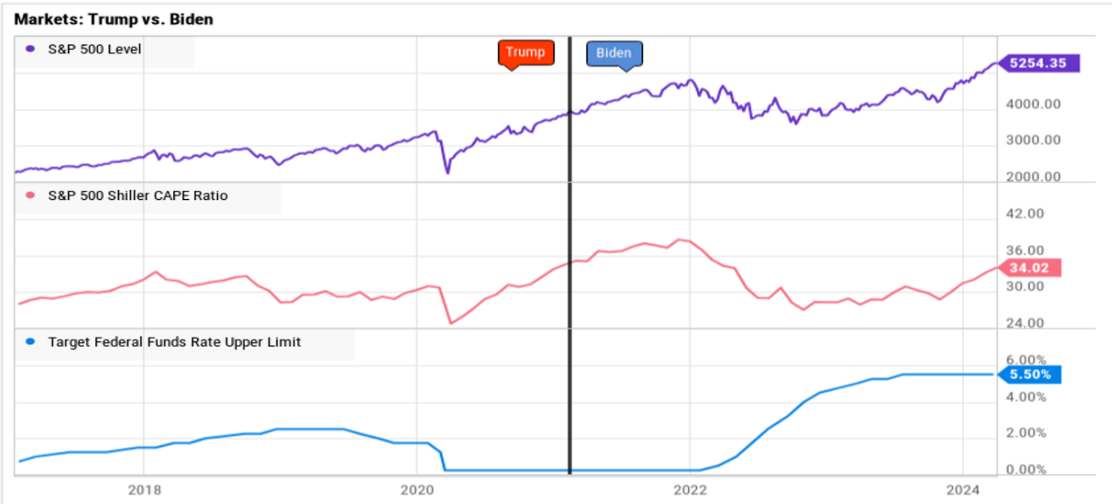
Consumers: Inflation, Sentiment & Price of Gasoline



Housing: Existing Home Sales, New Single-Family Houses Sold and Housing Starts



Markets: S&P 500 Level, S&P 500 Shiller CAPE Ratio and Target Fed Funds Rate



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: those of Richard Nixon and George W. Bush.

John F. Kennedy (1961-1963)

- **Term**: January 20, 1961 to November 22, 1963
- **S&P 500 Performance**: +26.1%
- **Key Events**: Bay of Pigs Invasion, Cuban Missile Crisis, Tax cuts, Economic expansion.

Lyndon B. Johnson (1963-1969)

- **Term**: November 22, 1963 to January 20, 1969
- **S&P 500 Performance**: +43.7%
- **Key Events**: Great Society programs, Vietnam War escalation, Civil Rights Act.

Richard Nixon (1969-1974)

- **Term**: January 20, 1969 to August 9, 1974
- **S&P 500 Performance**: -23.0%
- **Key Events**: Vietnam War, Watergate scandal, End of Bretton Woods system.

Gerald Ford (1974-1977)

- **Term**: August 9, 1974 to January 20, 1977
- **S&P 500 Performance**: +29.2%
- **Key Events**: Post-Watergate recovery, Stagflation, Energy crisis.

Jimmy Carter (1977-1981)

- **Term**: January 20, 1977 to January 20, 1981
- **S&P 500 Performance**: +24.0%
- **Key Events**: Stagflation, Energy Crisis, Iran Hostage Crisis.

Ronald Reagan (1981-1989)

- **Term**: January 20, 1981 to January 20, 1989
- **S&P 500 Performance**: +117.5%
- **Key Events**: Reaganomics, Tax cuts, End of Cold War, Market crash of 1987.

George H.W. Bush (1989-1993)

- **Term**: January 20, 1989 to January 20, 1993
- **S&P 500 Performance**: +51.4%
- **Key Events**: Gulf War, Recession, Tax Increases.

Bill Clinton (1993-2001)

- **Term**: January 20, 1993 to January 20, 2001
- **S&P 500 Performance**: +210.9%
- **Key Events**: Tech boom, Balanced budget, Welfare reform.

George W. Bush (2001-2009)

- **Term**: January 20, 2001 to January 20, 2009
- **S&P 500 Performance**: -39.0%
- **Key Events**: 9/11 attacks, Iraq War, Financial crisis of 2008.

Barack Obama (2009-2017)

- **Term**: January 20, 2009 to January 20, 2017
- **S&P 500 Performance**: +182.9%
- **Key Events**: Recovery from the Great Recession, Affordable Care Act, End of Iraq War.

Donald Trump (2017-2021)

- **Term**: January 20, 2017 to January 20, 2021
- **S&P 500 Performance**: +67.8%
- **Key Events**: Tax cuts, Deregulation, Trade wars, COVID-19 pandemic.

Joe Biden (2021-Present)

- **Term**: January 20, 2021 to Present
- **S&P 500 Performance**: 44.53% Data as of July 5, 2024
- **Key Events**: COVID-19 recovery, Infrastructure bill, Inflation concerns, Russia-Ukraine conflict.

In Summary

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.

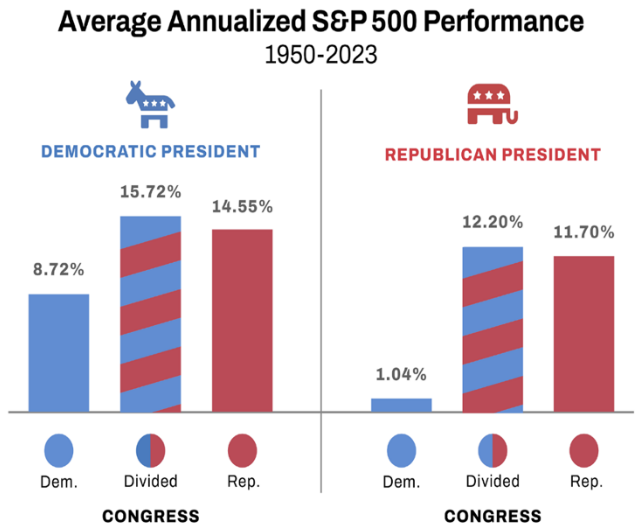
How does the market react when an incumbent president is re-elected? What about when the challenger wins? Three Points to Consider

1. Typically, the S&P 500 posts positive returns between Election Day and Inauguration Day, regardless of who wins the presidency.
2. However, since 1952, the most substantial gains in the S&P 500 during this period have occurred when Democratic presidents were re-elected.
3. In contrast, the returns tend to be lower when the election replaces a termed-out president with neither an incumbent nor a direct challenger.

How does one-party control or a divided Congress impact market returns?

Historically, higher average annualized returns have occurred during a divided Congress, with one party controlling each chamber. Lower returns have been seen under Democratic majorities in both the House and Senate, while Republican control of both chambers has led to higher returns. Despite this, the market has generally been buoyant under all government compositions.

Currently, under a Democratic president and a divided Congress, the S&P 500 has advanced 36.85% (28.69% annualized) from January 3, 2023, to March 31, 2024, outperforming the 15.72% annualized return seen in other periods.



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

While significant, the political landscape is just one of many factors influencing investments. Historical events such as the 2008 Financial Crisis and the 2020 global pandemic demonstrate that external events can often overshadow political leadership. These crises posed significant challenges for Presidents Bush and Obama and Presidents Trump and Biden, proving that markets respond to various influences beyond just political control.

The critical takeaway for investors is to focus on your specific long-term goals. While elections can introduce short-term volatility, maintaining a long-term perspective is essential for sound investment decision-making. Economic cycles, technological advancements, and global events all play pivotal roles in shaping market dynamics. Therefore, a disciplined approach is paramount, grounded in thorough research and a clear investment strategy. That focuses on your specific financial goals, maintaining a well-diversified portfolio that includes stock, bonds, and other financial instruments, and keeping some dry powder for opportunities.

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