Chart of the Week

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What Does an Election Year Mean for Equity Investors?

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No matter the candidate or policy, markets prefer clarity over uncertainty

	All Periods	Year 1	Year 2 (Midterm Elections)	Year 3	Year 4 (Presidential Elections)
Average Return	12.7%	9.9%	10.6%	19.9%	10.1%
Variation	17.0%	17.7%	21.4%	11.6%	15.3%
% of Years Positive	79.1%	58.8%	70.6%	100.0%	87.5%

Source: Bloomberg; data since 1848

Prior to each presidential election, there is inevitable talk about market reactions to candidates and how policy changes could impact investors. As shown in the table, election years tend to exhibit more muted returns (as measured by the S&P 500 index) and greater volatility compared to the years leading into the presidential election. Year-to-date, 2019 has continued the Year 3 trend of strong performance, but if history is any indication, the 2020 outlook is less optimistic.

When it comes to Republicans vs. Democrats, political pundits often try to show one is better than the other for equity market returns. The reality, however, is that there isn't enough of a sample size to draw any meaningful conclusions about parties, given the number of combinations of who controls the Presidency, Senate, and House of Representatives. Even in the case of 2016 with Trump's unexpected win, markets initially sold off but quickly rebounded to their previous levels. No matter the candidate or the policy, markets care most about clarity and dislike uncertainty. As a result, we are expecting greater volatility over the next 12 months as we head into the 2020 presidential election. While the election will certainly not be the sole driver of market volatility, it will undoubtedly contribute to further uncertainty over the coming months.

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