



# Will Hillary Clinton or Donald Trump Be Best For Investors?

*How political parties affect the markets and the economy*

Now that the election is only hours away, many investors are wondering what the outcome may mean for the stock market and overall economy. Namely, does the party occupying the White House affect the U.S. stock market, gross domestic product (GDP), and other economic measurements? And how about whether the party controlling Congress affects the economy?

**Comparing the Presidents by Party** Princeton economists Alan Binder and Mark Watson made a detailed study, “Presidents and the Economy: A Forensic Investigation,” analyzing the economy’s performance under presidents of the different parties. Measuring economic data from 1947 through 2<sup>nd</sup> quarter, 2013, they concluded the following:

- Democrats outperformed Republican presidents in terms of real GDP growth (4.35% to 2.54%)
- Democrats outperformed Republican presidents in unemployment (5.6% under Dems vs. 6% under Reps),
- Democrats outperformed Republicans in the stock market (8.1% for Dems vs. 2.7% for the GOP).

Despite this data, a prominent liberal economist, Blinder concluded that the differential between Democratic and Republican performance is due mostly to “good luck.” “Democratic presidents have experienced, on average, better oil shocks than Republicans, a better legacy of (utilization-adjusted) productivity shocks, and more optimistic consumer expectations.”

## **Other Comparative Studies**

*First term or second term of presidency* – According to MarketWatch, from 1940-2008, the stock market rose 7.8% (before dividends) in a president’s first term and just 6.4% in the second term. However, only 5 of the 12 presidents had full/near full second terms in this time period. An interesting, additional finding is that stock markets rise, for whatever reason, in Year 3 of both the first and second presidential terms.

*Lag in policy effects* - If we assume a two-year lag before a president’s policies affect growth, there is virtually no difference between Republican and Democratic administrations, according to the Wall Street Journal. In the 1948-2008 period, applying this lag leads to 3.4% GDP growth under Republican presidents and 3.5% under Democrats.

## Congress

What effect does the party controlling Congress have on the economy?

According to the Wall Street Journal, from 1948-2008, Republican-controlled Congresses averaged stock returns 7.1% higher than Democratic-controlled Congresses. Real GDP grew 3.7% during Republican congresses and 3.2% during Democratic ones.

*Democrat president and Republican Congress:* The stock market has done best when we have a Democratic president, with Republicans controlling both the House and the Senate. On the other hand, it has done poorly with a Republican president is paired with Democrat control of both houses of Congress.

*Gridlock:* Stocks rally after mid-term elections, perhaps because the economy works better with gridlock. The party controlling the White House usually loses Congressional seats during mid-term elections.

## Summary

The statistical evidence shows that the stock market performs better under Democratic presidents.

Assuming a two-year lag before a president's policies affect the economy, Republicans and Democrats are virtually even.

Regardless of the party, the market performs better in the president's first term and in the third years of both the first and second terms.

The stock market performs better under Republican congresses. In addition, stock values tend to increase after mid-term elections.

We might be sitting in a sweet spot at the moment. The stock market typically does best when we have a Democrat in the White House, along with Republicans controlling both House and Senate. Until January, 2017, we are led by a Democratic president and a Republican-controlled congress.

## Caveats

A president's influence is large but still limited. Congress, world economies, foreign governments, military affairs, the Federal Reserve, and many other factors outside of a president's control influence the stock market and the economy.

Each party trumpets not only its candidates' wisdom and skill, but also the party's platform, policies, and goals. Nevertheless, Democrats and Republicans do not always behave as their parties wish: Presidents from both parties have raised or reduced taxes, supported or opposed free trade, increased or reduced regulatory burdens, etc. Some have argued that the economy prospers when a president adapts his policies to the needs of the country at that time, rather than staunchly sticking to party platform or economic theory.

So what does all this mean? Not much actually other than it sure is interesting stuff. But before you adjust your portfolio holdings this November, please be sure to consult your team of qualified tax, legal, and financial professionals for specific guidance.