CAMMACK RETIREMENT

Presidential Elections: The Impact on Retirement Plan Investors

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Every four years, politics and finance overlap as Americans head to the polls. With the 2020 presidential election nearing, investors of all types are increasingly wondering what impact the results will have on their holdings. History shows that presidential election cycles do, in fact, correlate with stock market performance, however, the outcomes are not always the same. The political and economic backdrop of the election cycles are unique and can play a larger part in the impact on the market than the election itself. Retirement plan sponsors should be mindful of the potential for emotional investment choices and ensure their participants understand the importance of a long-term focus.

A HISTORICAL LOOK

Since the early 1800s, the stock market has fluctuated with the four-year election cycle. Recessions and wars tend to begin in the first two years of a presidential term, while bull markets and economic growth accompany the second half. The Dow Jones Industrial Average has returned an average price return (ex-dividends) of 10.4% in the calendar year preceding a presidential election since 1833. However, over that same time, an election year has yielded an average price return of about 6%. A glaring exception to rosy election-year returns is, of course, 2008, which saw the Dow suffer a negative price return of about 34% (Kiplinger's). There have also been short-term fluctuations in stock market levels due to election outcomes. For example, the S&P 500 Index dropped nearly 5% in overnight trading as the 2016 election results came in. However, these losses were mostly recouped the following day during normal market hours.

MARKET PREFERENCE FOR POLITICAL PARTIES?

While looking at stock market performance under the two main American political parties, it may appear that Democratic presidents yielded higher returns than Republican. However, it is important to consider the other factors at play during the presidential terms. For example, the negative returns in George W. Bush's presidency (2001 and 2008) and strong positive returns early in Barack Obama's presidency (2009) skew the averages in favor of the Democrats. In this example, it is important to consider the context of both presidencies to fully understand the market response. Ultimately, neither party should take full blame or credit for stock market performance, as there are many factors that influence returns.

STOCK MARKET PERFORMANCE BY PRESIDENTIAL TERM

PRESIDENT	PARTY	TERM START	TERM END	TOTAL 4-YEAR TERM (%)	ANNUALIZED RETURN (%)
Hoover	Republican	3/4/1929	3/3/1933	**-77.09**	**-30.82**
FDR	Democrat	3/4/1933	1/19/1937	**205.48**	**33.28**
FDR	Democrat	1/20/1937	1/19/1941	**-40.58**	**-12.19**
FDR	Democrat	1/20/1941	1/19/1945	**28.37**	**6.44**
FDR/Truman	Democrat	1/20/1945	1/19/1949	**15.33**	**3.62**
Truman	Democrat	1/20/1949	1/19/1953	**69.30**	**14.05**
Eisenhower	Republican	1/20/1953	1/20/1957	**71.63**	**14.46**
Eisenhower	Republican	1/21/1957	1/19/1961	**34.32**	**7.64**
JFK/LBJ	Democrat	1/20/1961	1/19/1965	**44.89**	**9.70**
LBJ	Democrat	1/20/1965	1/19/1969	**17.38**	**4.08**
Nixon	Republican	1/20/1969	1/19/1973	**16.42**	**3.87**
Nixon/Ford	Republican	1/20/1973	1/19/1977	**-13.31**	**-3.50**
Carter	Democrat	1/20/1977	1/19/1981	**26.77**	**6.10**
Reagan	Republican	1/20/1981	1/20/1985	**27.50**	**6.26**
Reagan	Republican	1/21/1985	1/19/1989	**67.31**	**13.70**
George H.W. Bush	Republican	1/20/1989	1/19/1993	**72.27**	**14.54**
Clinton	Democrat	1/20/1993	1/19/1997	**97.85**	**18.57**
Clinton	Democrat	1/20/1997	1/19/2001	**82.98**	**16.27**
George W. Bush	Republican	1/20/2001	1/19/2005	**-6.62**	**-1.69**
George W. Bush	Republican	1/20/2005	1/19/2009	**-26.30**	**-7.34**
Obama	Democrat	1/20/2009	1/20/2013	**90.70**	**17.47**
Obama	Democrat	1/21/2013	1/19/2017	**65.80**	**13.48**
Trump	Republican	1/20/2017	*10/12/2020*	***68.03** as of **10/12/2020***	***14.93** as of **10/12/2020***

Source: Morningstar

THE IMPACT OF THE 2020 ELECTION ON RETIREMENT PLAN PARTICIPANTS

With the unprecedented global pandemic and the current state of the country, it is unsurprising that there is investor concern over the outcome of the 2020 election. In addition to the contentious 2020 presidential race, there are also many key congressional seats up for grabs. The outcome of both contests will be closely watched by investors.

One of the most pressing issues, in terms of market impact, is the potential for a second stimulus package. While there are currently talks between the White House and Congress for additional stimulus, it is possible a package will not be agreed upon until after the election. The nature of the second stimulus package, along with other factors - such as Wall Street regulation and corporate/individual taxation - will influence markets and investor sentiment.

Should Republicans win the White House and control of the Senate, an additional stimulus package will likely be passed, which could prove positive for equities in the short-term. A Democratic sweep of the election may be somewhat negative in the short-term, due to questions around taxation and regulation. However, short-term differences in market performance will likely be erased over time, as additional stimulus is approved and the market focuses on less political issues, such as the business environment and consumer consumption. Of course, these potential outcomes could easily be derailed by other developments around COVID-19 or other economic factors.

If the election leaves the country with divided leadership (Biden in the White House and a Republican Senate, or vice versa), it could present some short-term challenges for the market. Even if fiscal stimulus is eventually passed, delays and disagreements would likely cause damage to the economy, and that pain would be felt in financial markets. Under divided leadership, the market may be sensitive to Washington's tone and degree of cooperation regarding the additional fiscal stimulus. However, it is likely that ultimately the two parties would agree on a deal.

A contested election, where it takes weeks or months to arrive at a decision, is unlikely to be well-received by financial markets, as it raises uncertainty. While this scenario has been deemed unlikely, it is widely agreed upon that the market reaction will be negative. As a retirement plan investor, it is important to remember that these different scenarios are all hypothetical. It is impossible to predict election outcomes and, similarly, the performance of financial markets. The focus needs to be long-term for retirement savers. Getting caught up in short-term market noise caused by political rhetoric may lead to bad decisions.

THINK LONG-TERM, NOT PRESIDENTIAL-TERM

While some individuals may feel compelled to invest more aggressively when their political party holds the White House – or vice versa – attempting to invest based on the political party or individual holding office has mostly proven to be unsuccessful. In this and all election cycles, retirement plan investors must remain disciplined, ensure investments align with goals, and keep a long-term focus. Savvy retirement plan sponsors may wish to reiterate this message as part of retirement plan communications.

ABOUT CAMMACK RETIREMENT GROUP

Cammack Retirement Group has been helping retirement plan sponsors meet their goals for half a century. Solely focused on serving retirement plan sponsors, we provide a tailored approach to investment advisory and consulting services. We work with some of the nation's leading academic and research institutions, healthcare providers, corporations, non-profit organizations and public sector employers to help them manage fiduciary risk.

For more information on our services, please contact **Mike Volo,** Senior Partner, at **781.997.1426** or **mvolo@cammackretirement.com**.