



## Does it matter which Party is running the U.S. Government?

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September 2018

We often receive questions about how the political scene impacts the stock market. On a day-to-day basis, it can have a big impact on market psychology. As a firm, we don't take sides politically. Our job is to protect and increase our clients' wealth in the most risk-appropriate manner. We do thus try to assess whether any impending political policies will have a tangible impact on the economy. Generally speaking, our view has been that these policies rarely do. With the mid-term elections less than six weeks away though, we thought it would be interesting to provide an historical analysis of how the stock market has performed under various political regimes.

I will present this data plainly and without judgement. There are certainly many qualitative reasons why some would suspect one party or the other would aid in stock market performance. Clearly, every year has its own non-political factors that influence results as well.

**The Data:** I compiled stock market performance and political data from 1926 to 2018. The data was segregated into eight separate buckets – which Political Party (Democrat or Republican) controlled the Presidency and then by each of the four possible Congressional outcomes (e.g. Republican Senate (RS) and Republican House (RH), Democratic Senate (DS) and Republican House (RH), and so on). I have attached all of the data in the Appendix, but will provide some of it here.

Figure #1		Presidency - Democrat				Presidency - Republican			
		RS-RH	DS-RH	RS-DH	DS-DH	RS-RH	DS-RH	RS-DH	DS-DH
1926-2018									
Frequency	# of years	10	4	-	34	13	2	8	22
S&P 500 Returns (%)	Median	16.50	14.85		12.37	11.62	(17.00)	8.01	6.56
	Average	14.71	16.05		9.67	14.06	(17.00)	0.35	5.76
	Min	(9.10)	2.11		(38.59)	(28.48)	(22.10)	(47.07)	(37.00)
	Max	37.58	32.39		44.08	45.02	(11.89)	26.33	38.06

Figure #2		Presidency (1926-2018)	
		Democrat	Republican
Frequency	# of years	48	45
S&P 500 Returns (%)	Median	12.70	8.48
	Average	11.25	6.18
	Min	(38.59)	(47.07)
	Max	44.08	45.02

Figure #3			
Political Control (1926-2018)		Sweep	Divided
Frequency	# of years	47	46
S&P 500 Returns (%)	Median	12.31	8.05
	Average	10.88	6.67
	Min	(38.59)	(47.07)
	Max	45.02	38.06

Figure #1 presents somewhat of a summary table of the last 93 years in American politics. It shows the average, median, minimum and maximum returns of the S&P500 under the eight different possible political regimes. Conversely, Figure #2 is more focused – showing the S&P500 returns during the 48 years our country had a Democrat as President and the 45 years a Republican was President. Lastly, Figure #3 shows how the S&P500 returns compare when one party controls the Presidency and all of Congress compared to a divided political regime.

**Observations:** There are several factual outcomes that can be seen in the historical results.

- Democratic Presidents have resided over better returns
- Government control by one party has had better returns than otherwise
- If control of the government is divided, the best returns have been with a Democrat as President and Congress controlled by the Republicans
  - The worst returns actually seem to be the opposite, a Republican Presidency with a Democratic controlled Congress
- The market has never had a negative year when there is a Democrat as President, a Democrat-controlled Senate and a Republican-controlled House – albeit this has only happened four times
- Surprising fact, we have never had a Democrat as President along with a Democratic House and a Republican Senate.

**Can you draw a conclusion?** Although the sample size seems rather large when considering the last 93 years of American politics, the results are far too messy to draw any concrete conclusions. In statistical geek-speak, the standard deviation of returns (19.3%) makes it very difficult to claim that a certain political regime is better than another. So, while the historical results above are factual representations of the past, the statistician would not conclude any causality or assume that the future will create similar outcomes.

**Our Thoughts:** The simple conclusion from this data set would appear to be that having the Democrats in charge is better for the stock market. This may be the case, but is statistically unproven. I would argue that oversimplifying the question of which political party is better for the stock market would lead an investor down the wrong path. Instead, I would monitor the political scene for meaningful deviations from sound economic policy and generally try to ignore the noise. The economy and the stock market can and have performed well under either Party. Clearly, extremist policies such as those seen in Venezuela or Greece can dramatically move the needle, but small changes in regulations, tax rates, or other laws often have less impact than the media would have you believe. Over the long-run, the stock market is driven by corporate profits and the impact from politics is frequently subtle and gradual. With companies' innate ability to adapt, most political policy changes have far less of an impact than expected.

So, should we even care about the upcoming mid-term elections? The answer is yes and no. The mid-term elections do in fact have an opportunity to cause some short-term market volatility. If the Democrats sweep as some have predicted, the market may become concerned about an unwind of the corporate tax cuts or Trump impeachment. Yet, the reality is that neither concern is warranted. As long as the Republicans maintain the Presidency, Corporate Tax Reform will remain untouched. Similarly, we have to wonder whether a Trump impeachment actually moves the needle on the economy or policy anyway given the Republican Party would still control the White House. Thus, while we will watch the mid-term elections with great fascination, it is unlikely to have a dramatic impact on how we manage our portfolios for the long-term.

## Appendix #1:

Year	S&P Return	President	Senate	House	Presidency - Democrat				Presidency - Republican				
					RS-RH	DS-RH	RS-DH	DS-DH	RS-RH	DS-RH	RS-DH	DS-DH	
1926	11.62	GOP	GOP	GOP						11.62			
1927	37.49	GOP	GOP	GOP						37.49			
1928	43.61	GOP	GOP	GOP						43.61			
1929	-11.91	GOP	GOP	GOP						-11.91			
1930	-28.48	GOP	GOP	GOP						-28.48			
1931	-47.07	GOP	GOP	Democrat								-47.07	
1932	-14.78	GOP	GOP	Democrat								-14.78	
1933	44.08	Democrat	Democrat	Democrat					44.08				
1934	-4.71	Democrat	Democrat	Democrat					-4.71				
1935	41.37	Democrat	Democrat	Democrat					41.37				
1936	27.92	Democrat	Democrat	Democrat					27.92				
1937	-38.59	Democrat	Democrat	Democrat					-38.59				
1938	24.55	Democrat	Democrat	Democrat					24.55				
1939	-5.18	Democrat	Democrat	Democrat					-5.18				
1940	-15.09	Democrat	Democrat	Democrat					-15.09				
1941	-17.86	Democrat	Democrat	Democrat					-17.86				
1942	12.43	Democrat	Democrat	Democrat					12.43				
1943	19.45	Democrat	Democrat	Democrat					19.45				
1944	13.8	Democrat	Democrat	Democrat					13.8				
1945	30.72	Democrat	Democrat	Democrat					30.72				
1946	-11.87	Democrat	Democrat	Democrat					-11.87				
1947	0.00	Democrat	GOP	GOP	0.000								
1948	-0.65	Democrat	GOP	GOP	-0.65								
1949	10.46	Democrat	Democrat	Democrat					10.46				
1950	21.68	Democrat	Democrat	Democrat					21.68				
1951	16.35	Democrat	Democrat	Democrat					16.35				
1952	11.78	Democrat	Democrat	Democrat					11.78				
1953	-6.62	GOP	GOP	GOP					-6.62				
1954	45.02	GOP	GOP	GOP					45.02				
1955	26.4	GOP	Democrat	Democrat									26.4
1956	2.62	GOP	Democrat	Democrat									2.62
1957	-14.31	GOP	Democrat	Democrat									-14.31
1958	38.06	GOP	Democrat	Democrat									38.06
1959	8.48	GOP	Democrat	Democrat									8.48
1960	-2.97	GOP	Democrat	Democrat									-2.97
1961	23.13	Democrat	Democrat	Democrat					23.13				
1962	-11.81	Democrat	Democrat	Democrat					-11.81				
1963	18.89	Democrat	Democrat	Democrat					18.89				
1964	12.97	Democrat	Democrat	Democrat					12.97				
1965	9.06	Democrat	Democrat	Democrat					9.06				
1966	-13.09	Democrat	Democrat	Democrat					-13.09				
1967	20.09	Democrat	Democrat	Democrat					20.09				

Appendix #1 (con't):

Year	S&P Return	President	Senate	House	Presidency - Democrat				Presidency - Republican			
					RS-RH	DS-RH	RS-DH	DS-DH	RS-RH	DS-RH	RS-DH	DS-DH
1967	20.09	Democrat	Democrat	Democrat				20.09				
1968	7.66	Democrat	Democrat	Democrat				7.66				
1969	-11.36	GOP	Democrat	Democrat								-11.36
1970	-0.07	GOP	Democrat	Democrat								-0.07
1971	10.82	GOP	Democrat	Democrat								10.82
1972	15.79	GOP	Democrat	Democrat								15.79
1973	-17.37	GOP	Democrat	Democrat								-17.37
1974	-29.72	GOP	Democrat	Democrat								-29.72
1975	31.55	GOP	Democrat	Democrat								31.55
1976	19.15	GOP	Democrat	Democrat								19.15
1977	-11.5	Democrat	Democrat	Democrat				-11.5				
1978	1.06	Democrat	Democrat	Democrat				1.06				
1979	12.31	Democrat	Democrat	Democrat				12.31				
1980	25.77	Democrat	Democrat	Democrat				25.77				
1981	-9.73	GOP	GOP	Democrat							-9.73	
1982	14.76	GOP	GOP	Democrat							14.76	
1983	17.27	GOP	GOP	Democrat							17.27	
1984	1.4	GOP	GOP	Democrat							1.4	
1985	26.33	GOP	GOP	Democrat							26.33	
1986	14.62	GOP	GOP	Democrat							14.62	
1987	2.03	GOP	Democrat	Democrat								2.03
1988	12.4	GOP	Democrat	Democrat								12.4
1989	31.69	GOP	Democrat	Democrat								31.69
1990	-3.1	GOP	Democrat	Democrat								-3.1
1991	30.47	GOP	Democrat	Democrat								30.47
1992	7.62	GOP	Democrat	Democrat								7.62
1993	10.08	Democrat	Democrat	Democrat				10.08				
1994	1.32	Democrat	Democrat	Democrat				1.32				
1995	37.58	Democrat	GOP	GOP	37.58							
1996	22.96	Democrat	GOP	GOP	22.96							
1997	33.36	Democrat	GOP	GOP	33.36							
1998	28.58	Democrat	GOP	GOP	28.58							
1999	21.04	Democrat	GOP	GOP	21.04							
2000	-9.1	Democrat	GOP	GOP	-9.1							
2001	-11.89	GOP	tie	GOP							-11.89	
2002	-22.1	GOP	tie	GOP							-22.1	
2003	28.68	GOP	GOP	GOP					28.68			
2004	10.88	GOP	GOP	GOP					10.88			
2005	4.91	GOP	GOP	GOP					4.91			
2006	15.79	GOP	GOP	GOP					15.79			
2007	5.49	GOP	Democrat	Democrat								5.49
2008	-37	GOP	Democrat	Democrat								-37
2009	26.46	Democrat	Democrat	Democrat				26.46				
2010	15.06	Democrat	Democrat	Democrat				15.06				
2011	2.11	Democrat	Democrat	GOP			2.11					
2012	16	Democrat	Democrat	GOP			16					
2013	32.39	Democrat	Democrat	GOP			32.39					
2014	13.69	Democrat	Democrat	GOP			13.69					
2015	1.38	Democrat	GOP	GOP	1.38							
2016	11.96	Democrat	GOP	GOP	11.96							
2017	21.83	GOP	GOP	GOP					21.83			
2018	9.94	GOP	GOP	GOP					9.94			
				Frequency #	10	4	0	34	13	2	8	22