

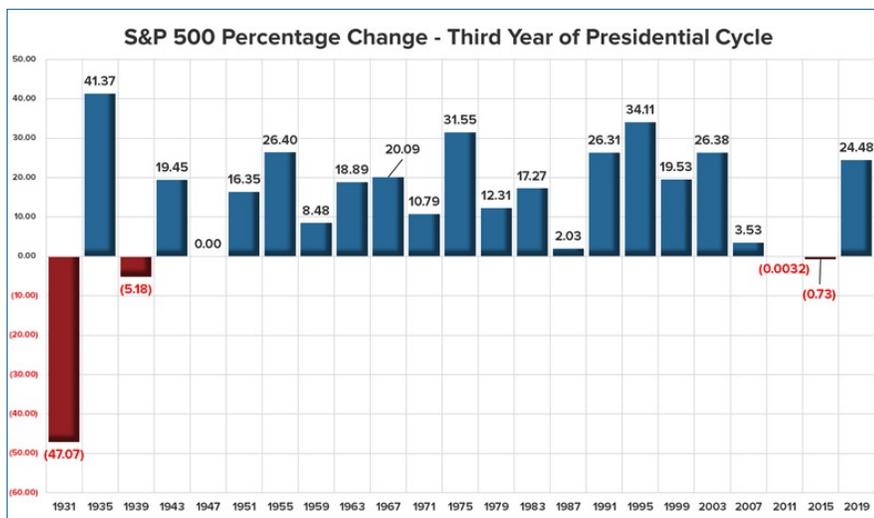
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## MARKETS AND ELECTIONS: COULD THREE BE CHARMING AGAIN?

The 2020 presidential election is behind us as is the midterm election, but election influence could be a key element of the stock market again this year.

Each year of the presidential election cycle has unique aspects that set it apart from the other years, but historically the third year of the cycle is the most beneficial for investors.



(Source: Janney Investment Strategy Group)

Since 1930, in the 23 years of the election cycle, the third has had an encouraging record of producing positive results as the S&P 500 has been down in a third year only four times with an average gain for all 23 years of 13.51% and a median gain of 17.27%.

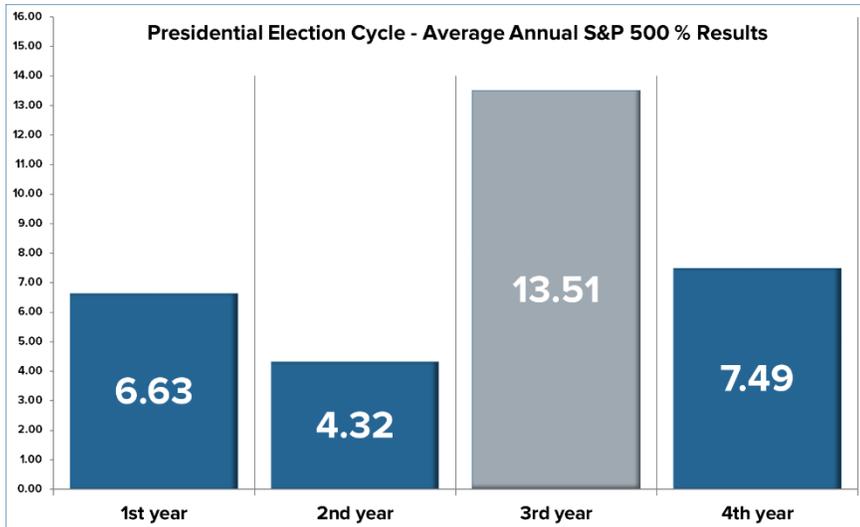
Eliminating Depression-impacted 1931 raises the average gain to 16.06%.

Rumblings of a possible second world war reached a crescendo in 1939 when German divisions moved into Poland, which contributed to the 1939 loss of 5.18%.

Seventy-two years would pass before the S&P 500 next suffered a post-midterm loss, but one so small that most calculations rounded it off to a breakeven. Four years later, however, significant losses in the Chinese market, devaluation of the yuan, a fall in petroleum prices, the Greek debt default, Federal Reserve actions, and two flash crashes conspired to produce the most recent loss in the third year of the presidential cycle. Even with all this, however, the loss was only 0.73%.

Of the 11 years of the cycle that the S&P 500 posted a gain in excess of the median, 1935 stands out as the equity market shook off the ravages of the Depression. The second-best third-year gain of 34.11% in 1995 came after a year earlier the Federal Reserve, under the leadership of Alan Greenspan, raised interest rates six times in an attempt to quell what some people claimed were phantom inflation fears. The 1994 midterm election created a split government, which tends to be the most market-friendly political environment.

The early to mid-1950s might have appropriately been called a Goldilocks period as a combination of low taxes, balanced budgets, and public spending allowed the economy and the stock market to prosper as the economy overall grew by 37% during the 1950s and unemployment remained low at about 4.5%. This contributed significantly to one of the best post-midterm-election-period gains.



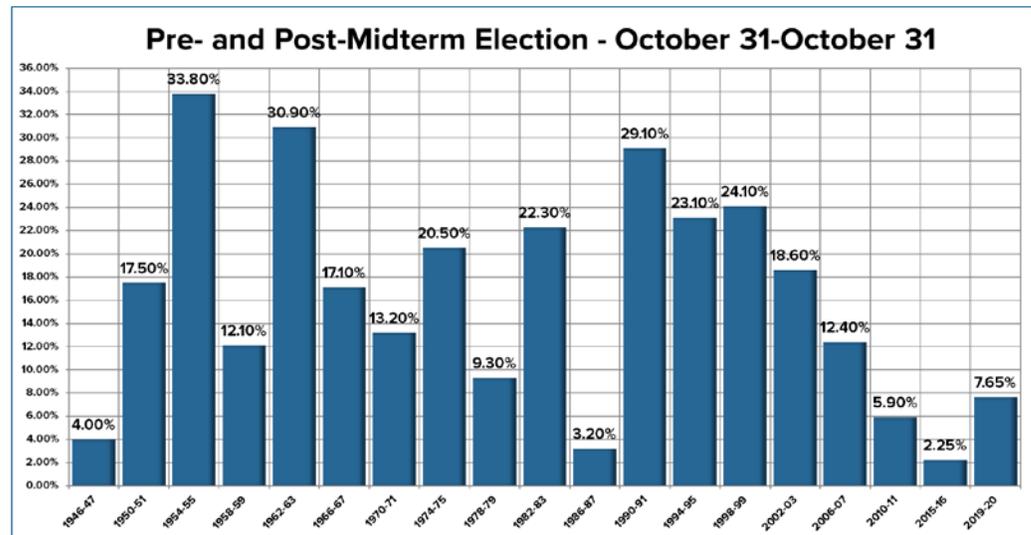
(Source: Janney Investment Strategy Group)

Within all of these election-related periods, there were up-and-down market movements, but over time, they eventually overcame interim problems and ended by adding to the pattern of gains.

Perhaps the most interesting part of the market's success in the third year of the cycle is the margin of gains it has over the other years. Most notable is the second year, when the average third-year gain is more than three times greater than the second-year increase.

Slightly adjusting the start and ending dates surrounding the third year of the cycle to include some of the pre-election market movement around midterm elections produces slightly different results.

Year	President
1946-47	Truman
1950-51	Truman
1954-55	Eisenhower
1958-59	Eisenhower
1962-63	Kennedy
1966-67	Johnson
1970-71	Nixon
1974-75	Ford
1978-79	Carter
1982-83	Reagan
1986-87	Reagan
1990-91	H.W.Bush
1994-95	Clinton
1998-99	Clinton
2002-03	G.W.Bush
2006-07	G.W.Bush
2010-11	Obama
2015-16	Obama
2019-20	Trump



(Source for table and chart: Janney Investment Strategy Group)

Starting with 1946, in every 12-month period from the last trading day of October before a midterm election through October 31 of the next year has had a gain ranging from as little as 2.25% in the 2015-2016 period to as much as 33.8% in the 1954-1955 period. Considering all of these periods, the S&P 500 averaged a gain of 16.16% and a median gain of 17.10%.

The second-lowest gain in the 1986-87 period was victimized by the disastrous event in late 1987 that included the largest single-day percentage declines for the S&P 500 and Dow Jones Industrial Average that occurred on October 19, 1987, with the S&P 500 falling by 20.5% and the Dow down 22.6%.

Admittedly, the relatively small sampling of available election-related data lessens its statistical reliability, but there is no doubt that the administration or party that is in power tends to do whatever it can in the pre-election year to boost chances of retaining power.

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2023 certainly has issues like inflation, rising interest rates, and the path of corporate earnings to overcome another entry in the positive patterns described here. Although the market's path this year is likely to be bumpy, we continue to think that the third year of the current presidential cycle could produce another positive entry in the history of the election and stocks.

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