ELECTION 2020

TO ELECTION DAY AND BEYOND

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With Election Day fast approaching, the guessing game du jour attempts to match the possible election result with a potential stock market reaction, as analysts apply various mathematical divining rods to foretell who will reside in the White House on Inauguration Day. One of these contends that what the S&P 500 does between July 31 and Oct. 31 has a high probability of correctly forecasting the election outcome.

S&P 500 Performance from July 31 through October 31 for Election Years 1944 to 2016

	S&P 500 %	Election Outcome		S&P 500 %	Election Outcome
1944	0.60	F.D. Roosevelt defeated Dewey	1984	10.20	Reagan defeated Mondale
1948	4.40	Truman defeated Dewey	1988	2.60	G. H.W. Bush defeated Dukakis
1952	(3.50)	Eisenhower defeated Stevenson	1992	(1.30)	W. Clinton defeated G. H.W. Bush
1956	(7.70)	Eisenhower defeated Stevenson	1996	10.20	W. Clinton defeated Dole
1960	(3.80)	Kennedy defeated Nixon	2000	(0.10)	G.W. Bush defeated Gore
1964	2.00	Johnson defeated Goldwater	2004	2.60	G.W. Bush defeated Kerry
1968	5.80	Nixon defeated Humphrey	2008	(23.60)	Obama defeated McCain
1972	3.90	Nixon defeated McGovern	2012	2.40	Obama defeated Romney
1976	(0.50)	Carter defeated Ford	2016	(2.18)	Trump defeated H. Clinton
1980	4.80	Reagan defeated Carter			
Names in RED designate Republicans - Blue signifies Democrats					

(Source: Janney Investment Strategy Group)

If the S&P 500 has a gain of any magnitude in the period between July 31 and Oct. 31, the incumbent, or his political party, will retain the White House. Conversely, an S&P 500 loss means the sitting president should reserve a moving van for January 20. The 2016 election was the latest example of this theory's accuracy. The S&P 500 fell to 2,126.15 at the end of October from the July close at 2,173.60. The drop in the S&P 500 coincided with President Trump's election that wrenched executive branch control from the Democrats. As of the date of this report, President Donald Trump might be somewhat comforted by the fact that the S&P 500 has a 4.3% gain since July 31, 2020. Of course, there still are 28 days until Election Day, and there have been several exceptions to this generally reliable stock market election predictor.

Once the election has passed, attention will turn to what policies the White House occupant will pursue. This is particularly relevant for investors when White House occupancy changes.

IMPORTANCE OF FIRST 100 DAYS

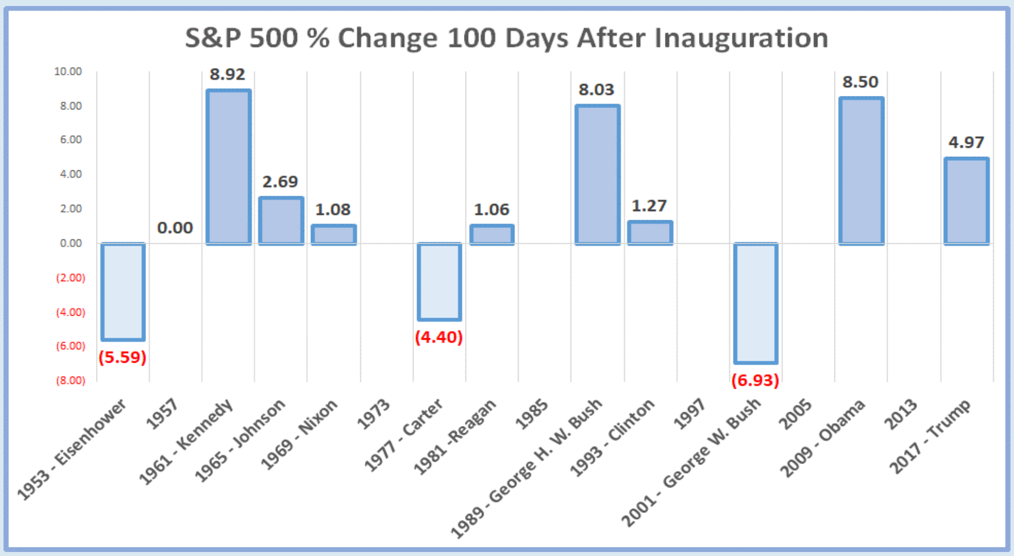
Beginning with President Franklin D. Roosevelt, a general belief developed that a newly elected president can get Congress to enact almost anything in the first 100 days in the Oval office. Much of Roosevelt's agenda received swift Congressional approval when the legislative body enacted 15 major laws in his first 100 days in office. Undoubtedly, the Great Depression hastened Congressional urgency to ease the economic pain.

In only slightly more than a month, Roosevelt and Congress established the Federal Emergency Relief Administration, the Civil Works Administration to create jobs during the first winter of his administration, and the Works Progress Administration, which pumped money into circulation and concentrated on longer-term projects. The Public Works Administration focused on creating jobs through heavy construction in such areas as water systems, power plants, and hospitals. The Federal Deposit Insurance Corp. protected bank accounts. The Civilian Conservation Corps provided jobs for unemployed young men. The Tennessee Valley Authority boosted regional development. The Emergency Banking Act, the Farm Credit Act, and the National Industrial Recovery Act all were part of Roosevelt's initial legislative agenda that was eventually known as the "New Deal." Although it came more than two years into his first term, The Social Security Act of 1935 was the most enduring effort of Roosevelt's administration.

HOW STOCKS PERFORMED

The stock market reacted to the rapid actions taken by the government with an 86.5% gain within Roosevelt's first 100 days in office. No president since then has seen a stock market reaction even remotely close to what happen early in 1933. The next best first-100-day market reaction for any president came in 1961 when the S&P 500 gained 8.92% during President John F Kennedy's first 100 days in office. An 8.50% gain during President Barack Obama's first 100 days was next.

The stock market did not always fare well during the initial days of a new administration. Following the contested election in 2000, the S&P 500 fell 6.93% during President George W. Bush's initial 100 days in the White House.

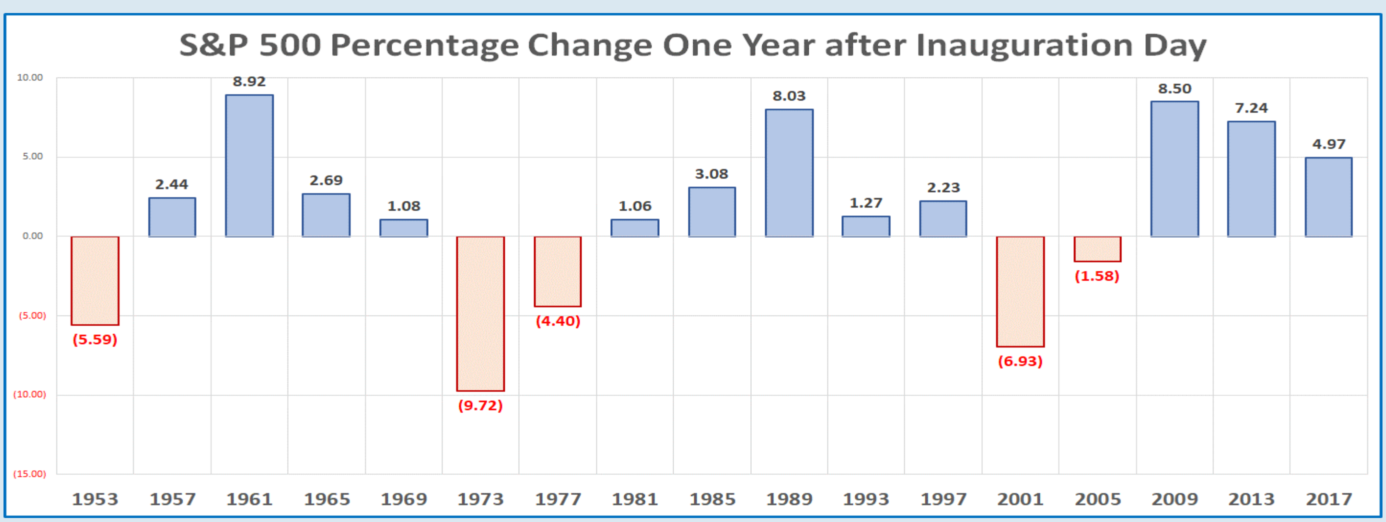


(Source: Janney Investment Strategy Group)

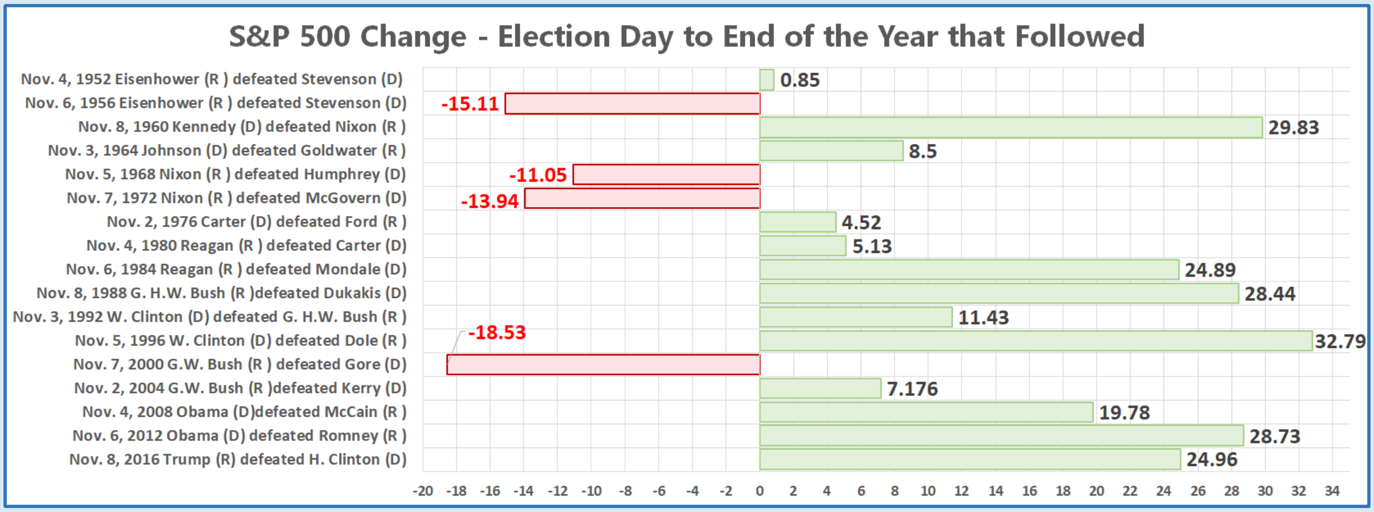
One year after the presidential inaugurals from 1953 through 2017, the S&P 500 was higher 11 of 17 times. Weaker economic conditions were the common element when the S&P 500 was down a year after the inaugural. The chart on the left illustrates the S&P 500 percentage change after the first 100 days of each president beginning with Eisenhower. The concept of a president being about to move a legislative agenda through Congress in their first 100 days only applies to the first 100 days of their first term. This is reflected in the chart by not showing data for second terms of presidents after elections in 1956, 1973, 1985, 1997, 2004, and 2012.

Intrigue surrounding a presidential election is likely to continue to be a normal quadrennial phenomenon, but from an investment standpoint, 100 days is inconsequential. A year or longer is a much more reasonable period to assess how the market reacts to an election and underlying economic conditions.

The next chart looks out one year after inauguration day with the third chart showing S&P 500 percentage results from Election Day to the end of the next calendar year.



(Source: Janney Investment Strategy Group)



(Source: Janney Investment Strategy Group)

The ability for any president to achieve legislative successes depends upon the makeup of Congress. As a result of the 2018 midterm elections, the Democratic Party won a majority in the House of Representatives (232 to 197), while the Republican Party increased its majority in the Senate to 53-47. This is the first split Congress since 2013–2015, and the first Republican Senate-Democratic House split since 1985–1987. Closing the Democrat majority in the House probably would be difficult, but the relative narrowness of the Republican majority in the Senate puts added focus on the current Senate races.

Sector selection can exert significant influence over the results of an equity portfolio. This is even important around presidential elections. As we approach Election Day, sector selection is likely to play increasingly important role in short-term portfolio results as volatility between sectors typically rises in November of election years, which suggests it would be wise to be watchful for tactical opportunities that might arise among the 11 S&P 500 sectors.

It also is worth remembering that on average since 1949, November produces the second-best monthly result for the S&P 500.

January	February	March	April	May	June	July	August	September	October	November	December
1.06%	-0.09%	0.80%	1.59%	0.23%	0.11%	1.09%	-0.02%	-1.08%	0.83%	1.52%	1.44%