

2020 U.S. presidential election



Wealth Management
Dominion Securities

Distractions abound, stay the course

As the noisy U.S. presidential election plays out, we look at why investors shouldn't let the political drama distort their investment strategy.

Heading into an election year in the U.S., the prospect of the Democrats recapturing the White House has the potential to become a meaningful source of volatility. With election-related headline noise and partisan campaign rhetoric set to materially ramp up over the next year, we believe investors should (1) resist the impulse to make major portfolio adjustments based solely on U.S. political developments; and (2) keep their attention squarely focused on economic and corporate profit fundamentals, which are more crucial drivers of equities than who's in the White House.

A toss-up between Democrats and Republicans

It's still too early to say who might emerge from the Democratic primaries or how the 2020 presidential election will go, but trading patterns from PredictIt, an online, real-time political prediction market, can shed



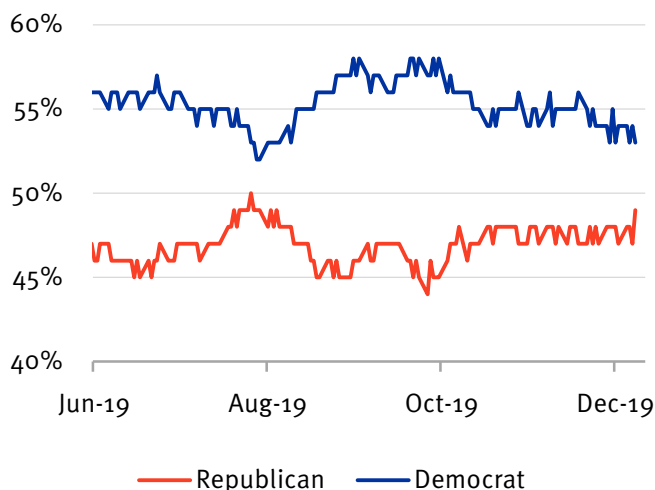
light on the kinds of odds that traders are discounting with regards to certain political outcomes.

Which party will win the 2020 presidential election?

The current odds, as informed by traders on PredictIt, slightly favour a Democrat victory next year, at 53% versus 49% for Republicans, but it is worth noting that the probability of a Democrat win has come off its peak from early October (see chart).

Bottom line: These numbers suggest PredictIt users currently see the presidential race as essentially a coin flip.

Which party will win the 2020 presidential election?



Source - Bloomberg, PredictIt; data through 12/12/19

Who will win the 2020 Democratic presidential nomination?

Previously the frontrunner, Senator Elizabeth Warren has seen her star fade in recent months, with her odds of securing the nomination tumbling from a high of just over 50% in early October to less than 20% today (see chart on following page). This may explain why fears about some of her progressive policy proposals seem to have diminished of late. Among the other top-tier candidates, former Vice President Joe Biden and Senator Bernie Sanders have held fairly steady in recent months, while South Bend, Indiana, Mayor Pete Buttigieg has been garnering momentum.

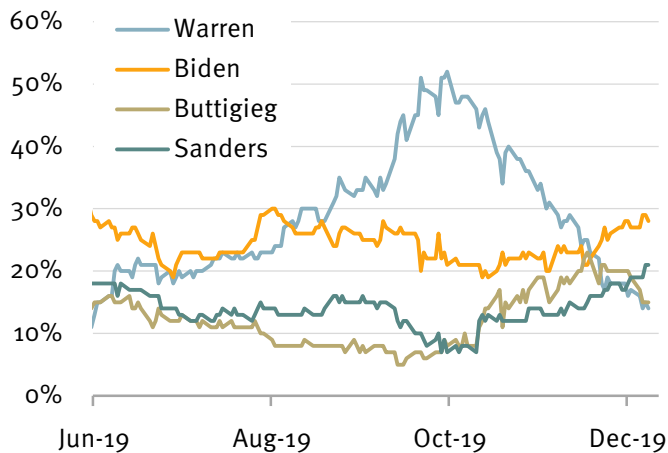
Bottom line: Warren's status as the frontrunner has wilted and PredictIt users presently see reasonable odds for all top four contestants in the Democratic primary.

All values in Canadian dollars and priced as of December 12, 2019 market close, unless otherwise noted.

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Who will win the 2020 Democratic presidential nomination?



Source - Bloomberg, PredictIt; data through 12/12/19

So what if a Democrat wins?

“If candidate or party X wins the White House, stocks will fall by Y percent” is a classic refrain that will inevitably be featured with regularity in the lead-up to the election in November. These types of claims should be heavily discounted in most cases, but for investors who harbour concerns that a Democratic president would not be as “friendly” to equities as a Republican, the table below, which shows S&P 500 returns during every presidency since 1929, should assuage those fears.

The upshot is that U.S. stock returns have, on average, been stronger when a Democrat was in the White House. Aside from showing that Democratic presidencies have historically not been negative for equities, we advise taking this data set with a grain of salt for two reasons. First, there is no evidence

S&P 500 performance under U.S. presidents since 1929

President	Office control	Term start date	Term end date	Price return during term	Annualized return
Herbert Hoover	Republican	03/04/1929	03/03/1933	-77.1%	-30.8%
Franklin Roosevelt	Democrat	03/04/1933	01/19/1937	201.7%	31.8%
Franklin Roosevelt	Democrat	01/20/1937	01/20/1941	-41.3%	-12.5%
Franklin Roosevelt	Democrat	01/20/1941	01/19/1945	28.4%	6.4%
Franklin Roosevelt / Harry Truman	Democrat	01/20/1945	01/19/1949	15.3%	3.6%
Harry Truman	Democrat	01/20/1949	01/19/1953	68.6%	14.0%
Dwight Eisenhower	Republican	01/20/1953	01/20/1957	70.8%	14.3%
Dwight Eisenhower	Republican	01/21/1957	01/19/1961	35.0%	7.8%
John Kennedy / Lyndon Johnson	Democrat	01/20/1961	01/19/1965	44.4%	9.6%
Lyndon Johnson	Democrat	01/20/1965	01/19/1969	17.4%	4.1%
Richard Nixon	Republican	01/20/1969	01/19/1973	16.8%	4.0%
Richard Nixon / Gerald Ford	Republican	01/20/1973	01/19/1977	-13.3%	-3.5%
Jimmy Carter	Democrat	01/20/1977	01/19/1981	27.9%	6.3%
Ronald Reagan	Republican	01/20/1981	01/20/1985	30.1%	6.8%
Ronald Reagan	Republican	01/21/1985	01/19/1989	63.6%	13.1%
George H.W. Bush	Republican	01/20/1989	01/19/1993	51.2%	10.9%
Bill Clinton	Democrat	01/20/1993	01/19/1997	79.2%	15.7%
Bill Clinton	Democrat	01/20/1997	01/19/2001	72.9%	14.7%
George W. Bush	Republican	01/20/2001	01/19/2005	-12.4%	-3.3%
George W. Bush	Republican	01/20/2005	01/19/2009	-31.5%	-9.0%
Barack Obama	Democrat	01/20/2009	01/20/2013	84.5%	16.6%
Barack Obama	Democrat	01/21/2013	01/19/2017	52.8%	11.2%
Donald Trump*	Republican	01/20/2017	-	39.5%	12.5%
Average Republican return				15.7%	2.1%
Average Democrat return				54.3%	10.1%

*12/12/19 used as term end date for Donald Trump
Source - Bloomberg

suggesting the relationship between the U.S. president's party affiliation and stock market returns is statistically significant. Second, stock market returns over the medium and long term are influenced by numerous factors, including economic growth, corporate profit trends, business cycle stage, financial and monetary conditions, and valuations. In aggregate, these factors matter a whole lot more to the outlook for equities than who presides over the executive branch of the U.S. government.

All comes back to fundamentals

The above analysis, while crude, refutes the common narrative that the stock market prefers a Republican president, a tale that is often fed by ideological views that the GOP tends to espouse business-friendly policies, lower taxes, and less regulation. In reality, this is a case of: what one thinks *should* matter to equities and what *actually* matters are not the same things.

Amplified by the 24-hour news cycle, the next 12 months will almost surely feature heightened election-related uncertainty amid lingering worries about some progressive policies pitched by several candidates vying for the Democratic presidential nomination, including the wealth tax and universal health care. While this barrage of headline noise will likely provoke short-term

price swings, particularly at the sector level, we believe investors should keep political distractions out of their portfolios.

Stock markets care much more about economic and corporate earnings dynamics than politics or who's occupying the White House. As the election drama plays out (see table for key dates), fundamentals will ultimately reassert themselves as the primary driver of equities over the medium and long term, in our view.

2020 U.S. presidential election calendar

Date	Key events
December 19, 2019	Sixth Democratic debate
February 3, 2020	Iowa Caucus
February 11, 2020	New Hampshire Primary
March 3, 2020	Super Tuesday (35% pledged delegates decided)
July 13-16, 2020	Democratic National Convention
August 24-27, 2020	Republican National Convention
September 29, 2020	First Presidential debate
October 15, 2020	Second Presidential debate
October 22, 2020	Third Presidential debate
November 3, 2020	Election Day

Source - RBC Wealth Management

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			Count	Percent
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Hold [Sector Perform]	618	42.74	126	20.39
Sell [Underperform]	80	5.53	3	3.75

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