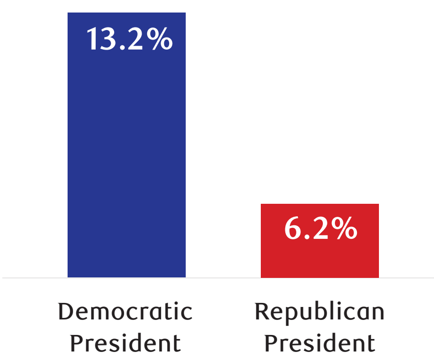
Political interference

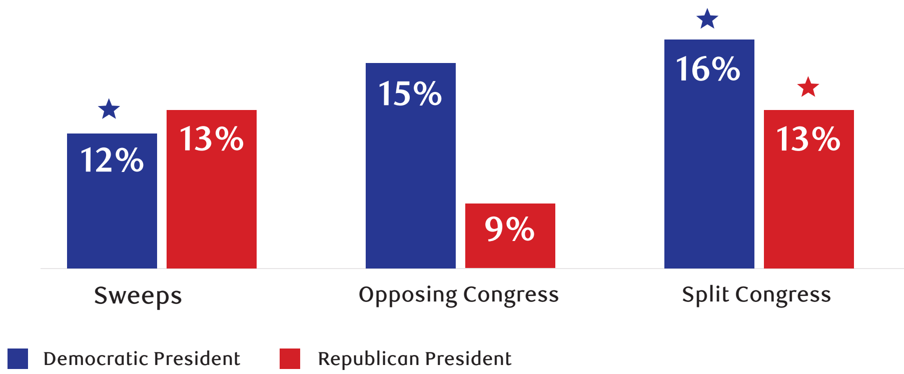
Do U.S. presidential elections matter to markets, and therefore to investors? What is the likely impact on both of a win by a Democrat versus a Republican? Historically, presidential election outcomes have delivered surprising results when it comes to equity market performance, defying the "common wisdom" that they perform better under Republicans due to policies such as lower corporate taxes and less regulation.

Annual equity returns by presidential party



Source: RBC GAM, Bloomberg. S&P 500 Index (USD) data as of January 1, 1928 to September 28, 2020. Returns of president term based on election dates.

Return based on government control
S&P 500 median returns



Source: RBC GAM, Bloomberg. S&P 500 return (USD) November 6, 1928 to October 6, 2020. Returns attributed to governments immediately after election and accounts for changes in government control following mid-term elections. Sweep accounts for period where president's party controls congress. Opposing Congress accounts for period where the opposing party of the president controls congress. Split congress accounts for periods where Democrats and Republicans each have control of one of the House of Representatives or the Senate.

With the recent U.S. presidential election, it is understandable that investors may be wondering what impact, if any, the election of one party and/or presidential candidate might have on investment markets and their portfolios.

The 2020 candidates have positions on key policies that investors do, on the whole, care about: taxes – both personal and business – and regulation. In this election, those positions have been clearly laid out, with the incumbent's record making clear where he stands – lower taxes, fewer regulations – and how his challenger offers the opposite: higher and more.

But beyond this, and recognizing that a president can't really do much without control over or the support of Congress to pass legislation, the more important factor over the longer term is who controls the House and Senate.

Playing in the Congressional sandbox

There is a famous final scene in the 1972 Academy Award-winning film *The Candidate*, starring Robert Redford. After pulling off an upset against his incumbent and well-entrenched senatorial opponent, Redford's character, stunned by the turn of events, turns to his campaign manager and says "What do we do now?" While the question is left unanswered, it is the crux of the outcome of a presidential election and its impact on markets: what happens next.

Indeed, for markets and investors, the answer is often determined by the policy positions of the new president and the composition of the Congress they must work with. Importantly, does the president's party hold power across Congress (a sweep), the House or Senate only (a split), or neither (opposing)? Looking at the chart above, it appears that, historically, a Democratic president who can play well with their political opponents in the Congressional sandbox has historically provided the best returns for investors – and once again, not so much the other way around.

A ballot for balance

Regardless of the outcome of this election, trying to anticipate how it will affect markets and your portfolio is next to impossible. Consequently, tuning out the election noise and "casting your vote" for a properly balanced portfolio designed to achieve your long-term goals remains the best strategy.