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Stock Market Returns and Political Control Since World War II

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Overview:

As the political environment in the United States has become much more contentious over the last 10 years, investors frequently ask whether Democratic or Republican control of government is more constructive for stock market performance. In an attempt to answer this question, we did a comprehensive analysis on the historical relationship of the political party control in Washington to equity market returns[1].

The question at hand is: *are market returns materially different based on the political party in control of the key elected governmental bodies (presidency, Senate, House of Representatives)?*

This paper reviews the political party of the President and its possible relationship with stock market returns. It covers the post-Depression, post World War II period of 1946 to 2022, which comprise 77 annual observations[2].

The analysis only considers the following key variables, although other factors not studied likely also impacted market returns:

- Total stock market returns including dividends
- The political party of the president of the United States
- Control of the US Houses of Congress (Republican, Democratic, or split)
- Unified control of these three institutions under a single party or split control

Raw Data:

Overall Stock Market Returns – The S&P 500® has returned on average 12.14% from 1946 to 2022. The median annual return during the study period was 14.22%.

A. President's Party – Over the 77 years of observations, it appears that the stock market has had favorable returns regardless of the party in the White House, with market returns in Democratic presidencies (37 years) having an average return of +13.64%, and 10.76% for the 40 years of Republican presidents.

[1] The 'stock market' is represented by the S&P 500®. Returns data is sourced from the NUY/Damodaran and Standard & Poor's websites

[2] 2022 data is for the 9 months through September 30, treated as another annual data point.

	President's Party	
	Republican	Democratic
# of years	40	37
Average	10.76%	13.64%
Median	11.40%	16.00%

B. Overall Political Control – While the difference is modest on the margin, a split government (each party has control of at least one body) has resulted in slightly better returns than a unified government (one party controls all of the presidency, the Senate, and the House of Representatives).

	Type of Control	
	Unified	Split
# of years	33	44
Average	11.55%	12.59%
Median	14.82%	13.96%

C. Returns have been favorable under a Democratic president whether Democrats controlled Congress or when power was split.

Under a Democratic president, however, market returns have been meaningfully better when at least one house of Congress is controlled by Republicans (split control). But it is important to note that there are fewer observations in the split group, which may mean that a handful of outlying data points could skew the results.

Under a Republican presidency, market returns have been similar whether Congressional leadership is split or unified. Returns have also been favorable under a Republican president, regardless of whether Republicans controlled Congress or when power there was split.

	Democratic President	
Type of Control	Unified	Split
# of years	23	14
average	11.60%	16.99%
median	14.82%	17.15%

	Republican President	
Type of Control	Unified	Split
# of years	10	30
average	11.41%	10.54%
median	13.18%	9.78%

Observations:

Over time, the stock market has generated favorable returns. During the post-war period of 1946 to 2022, the average of the annual total returns was +12.14%.

Regardless of the party in the White House, market returns have been favorable, with a modest edge for returns during Democratic presidents (about 1½ percentage points above the long-term average) and a similar modest disadvantage under Republican administrations.

There is a slight advantage in returns during periods of a split government vs. a unified government (about 0.45% vs. the overall average). Under Republican presidencies, the returns are about the same regardless of whether Congress is controlled by the Republican or Democratic parties. Under Democratic presidencies, however, split control where the Republicans have controlled at least one house of Congress has coincided with more favorable returns vs. full Democratic control of the Presidency and Congress. Of the four possible combinations (party of the president vs. split/unified control), the split in government that take effect in January 2023 (Democratic president with split control) has had the most favorable returns.

Very importantly and while interesting, these results are imperfect and can be materially impacted by returns and valuations in the year preceding a candidate or party being in office. The Obama presidency started after the worst bear market in 30 years caused by the 2008/2009 Global Financial Crisis and valuations were at multi-decade lows. Returns can also be impacted by one-off geopolitical events like the 9/11 attack during the G.W. Bush presidency. In addition, stocks can move in anticipation of a candidate taking office (November/December following an election), which can positively or negatively influence the returns for a party that is about to leave office. We cite these factors to point out that market returns ascribed to the political party in office can be largely driven by issues that are outside of either party's policies but can make either parties' numbers look better or worse. So, while very interesting and important to study, the results may be spurious.

Conclusions:

Markets generally go up over time, and on average have produced average annual returns for the S&P 500 of over 12% since 1946. Positive returns have occurred under both parties in the White House and regardless of the combination of the underlying control of Congress.

We do not believe that the results lead to any investable conclusions and do not believe the political party of the president or of the Houses of Congress should be an overriding consideration in driving the investment decisions around stock market exposure and asset allocation.

Rather, we think that returns in any period is driven by many other more important economic and stock market considerations: state of the economy (growth vs. recession), interest rates/Fed policy, inflation, stock market valuation level, attractiveness of investment alternatives, tax policy, global trade, wars, international tensions and geopolitical events, commodity prices, and world heath to name a few.

In addition, governmental initiatives may not ultimately have the effect investors expect. For example, health care stocks sold off on fears of the Affordable Care Act (Obamacare) but subsequently were a top performing sector, as the changes in health care helped rather than hurt their prospects. Currently, expectations for gridlock in Washington, due to a divided government, suggest that not much new impactful legislative initiatives will be enacted into law. While not a certainty, unforeseen events almost always arise, and unlikely political bedfellows can develop to implement surprise compromise legislation.

We will continue to analyze the business implications of the potential programs and policies that either party might want to implement as a new government is sworn-in, and factor that into our business and stock analysis as important variables. But a change in the party of control in Washington resulting from the recent national elections should not be the driver in making calls on asset allocations or specific investments.

JFP [3]

[3] The author acknowledges the contributions to previous versions of this analysis by Steve Roukis and summer intern Jacqueline Alman.

Year	S&P 500 (includes dividends)	President	Senate	House of Representatives	Political Control
1946	-8.43%	D	D	D	Democrat
1947	5.20%	D	D	R	SPLIT
1948	5.70%	D	R	R	SPLIT
1949	18.30%	D	R	D	SPLIT
1950	30.81%	D	D	D	Democrat
1951	23.68%	D	D	D	Democrat
1952	18.15%	D	D	D	Democrat
1953	-1.21%	R	D	R	SPLIT
1954	52.56%	R	R	R	Republican
1955	32.60%	R	R	D	SPLIT
1956	7.44%	R	D	D	SPLIT
1957	-10.46%	R	D	D	SPLIT
1958	43.72%	R	D	D	SPLIT
1959	12.06%	R	D	D	SPLIT
1960	0.34%	R	D	D	SPLIT
1961	26.64%	D	D	D	Democrat
1962	-8.81%	D	D	D	Democrat
1963	22.61%	D	D	D	Democrat
1964	16.42%	D	D	D	Democrat
1965	12.40%	D	D	D	Democrat
1966	-9.97%	D	D	D	Democrat
1967	23.80%	D	D	D	Democrat
1968	10.81%	D	D	D	Democrat
1969	-8.24%	R	D	D	SPLIT
1970	3.56%	R	D	D	SPLIT
1971	14.22%	R	D	D	SPLIT
1972	18.76%	R	D	D	SPLIT
1973	-14.31%	R	D	D	SPLIT
1974	-25.90%	R	D	D	SPLIT
1975	37.00%	R	D	D	SPLIT
1976	23.83%	R	D	D	SPLIT
1977	-6.98%	D	D	D	Democrat
1978	6.51%	D	D	D	Democrat
1979	18.52%	D	D	D	Democrat
1980	31.74%	D	D	D	Democrat
1981	-4.70%	R	R	D	SPLIT
1982	20.42%	R	R	D	SPLIT
1983	22.34%	R	R	D	SPLIT
1984	6.15%	R	R	D	SPLIT

Year	S&P 500 (includes dividends)	President	Senate	House of Representatives	Political Control
1985	31.24%	R	R	D	SPLIT
1986	18.49%	R	R	D	SPLIT
1987	5.81%	R	R	D	SPLIT
1988	16.54%	R	R	D	SPLIT
1989	31.48%	R	D	D	SPLIT
1990	-3.06%	R	D	D	SPLIT
1991	30.23%	R	D	D	SPLIT
1992	7.49%	R	D	D	SPLIT
1993	9.97%	D	D	D	Democrat
1994	1.33%	D	D	D	Democrat
1995	37.20%	D	D	R	SPLIT
1996	22.68%	D	R	R	SPLIT
1997	33.10%	D	R	R	SPLIT
1998	28.34%	D	R	R	SPLIT
1999	20.89%	D	R	R	SPLIT
2000	-9.03%	D	R	R	SPLIT
2001	-11.85%	R	R	R	Republican
2002	-21.97%	R	R	R	Republican
2003	28.36%	R	R	R	Republican
2004	10.74%	R	R	R	Republican
2005	4.83%	R	R	R	Republican
2006	15.61%	R	R	R	Republican
2007	5.48%	R	D	D	SPLIT
2008	-36.55%	R	D	D	SPLIT
2009	25.94%	D	D	D	Democrat
2010	14.82%	D	D	D	Democrat
2011	2.10%	D	D	D	Democrat
2012	16.00%	D	D	R	SPLIT
2013	32.39%	D	D	R	SPLIT
2014	13.69%	D	D	R	SPLIT
2015	1.38%	D	R	R	SPLIT
2016	11.96%	D	R	R	SPLIT
2017	21.83%	R	R	R	Republican
2018	-4.38%	R	R	R	Republican
2019	31.49%	R	R	D	SPLIT
2020	18.40%	R	R	R	Republican
2021	28.71%	D	D	D	Democrat
2022 9mos	-23.88%	D	D	D	Democrat

DISCLOSURE

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