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Stock Market Returns and Political Control Since World War II

A *Matrix Asset Advisors* Whitepaper – April 2024¹

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 returns².

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 2023, which comprise 78 annual observations.

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 generated a simple average annual return of 12.38% (not compounded) from 1946 to 2023. The median annual return during the study period was 14.52%.

¹ Matrix acknowledges and appreciates the contributions to this whitepaper by intern Justin Moskowitz. Contributions to previous versions of this analysis were also made by summer intern Jacqueline Alman.

² The 'stock market' is represented by the S&P 500[®]. Returns data is sourced from the NYU/Damodaran and Standard & Poor's websites.

- A. President’s Party – Over the 78 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 (38 years) having an average return of +14.10%, and 10.74% for the 40 years of Republican presidents.

	President’s Party	
	Republican	Democratic
# of years	40	38
Average	10.74%	14.10%
Median	11.40%	16.16%

- 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	32	46
Average	11.50%	12.98%
Median	13.61%	15.06%

- 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.

Type of Control	Democratic President	
	<u>Unified</u>	<u>Split</u>
# of years	23	15
average	11.85%	17.54%
median	14.82%	18.30%

Type of Control	Republican President	
	<u>Unified</u>	<u>Split</u>
# of years	9	31
average	10.63%	10.77%
median	10.74%	12.06%

Observations:

Over time, the stock market has generated favorable returns. During the post-war period of 1946 to 2023, the average of the annual total returns was +12.38%.

Regardless of the party in the White House, market returns have been favorable, with a modest edge for returns during Democratic presidents (about 1¾ 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 0.60% 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), Democratic president with split control (the current power structure in government as of April 2024) 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 health 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. Current gridlock in Washington due to a divided government and the coming presidential election cycle suggests that not much new impactful legislation 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 upcoming national elections should not be the driver in making calls on asset allocations or specific investments.

<u>Year</u>	<u>S&P 500® Annual Return</u> (includes dividends)	<u>President</u>	<u>Senate</u>	<u>House of Representatives</u>	<u>Political Control</u>
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

<u>Year</u>	<u>S&P 500® Annual Return</u> (includes dividends)	<u>President</u>	<u>Senate</u>	<u>House of Representatives</u>	<u>Political Control</u>
1984	6.15%	R	R	D	SPLIT
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	15.89%	D	D	R	SPLIT
2013	32.15%	D	D	R	SPLIT
2014	13.52%	D	D	R	SPLIT
2015	1.38%	D	R	R	SPLIT
2016	11.77%	D	R	R	SPLIT
2017	21.61%	R	R	R	Republican
2018	-4.23%	R	R	R	Republican
2019	31.21%	R	R	D	SPLIT
2020	18.02%	R	R	D	Republican
2021	28.47%	D	D	D	Democrat

<u>Year</u>	<u>S&P 500® Annual Return</u> (includes dividends)	<u>President</u>	<u>Senate</u>	<u>House of Representatives</u>	<u>Political Control</u>
2022	-18.04%	D	D	D	Democrat
2023	26.06%	D	D	R	SPLIT

DISCLOSURE

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DEFINITIONS:

The S&P500® Index is a broad-based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. You cannot invest directly in an index.

Dividends a sum of money paid regularly (typically quarterly) by a company to its shareholders out of its profits (or reserves).

Median Annual Return the middle number in a sorted ascending or descending list of numbers and can be more descriptive of that data set than the average. It is the point above and below which half (50%) of the observed data falls, and so represents the midpoint of the data.

Compound Annual Returns a measure of how well an investment's performance is doing over time. It's typically expressed as a percentage that applies annually.

Average Annual Returns a percentage that represents a mutual fund's historical average return, usually stated over three-, five-, and 10 years.

Compound Annual Rate of Return (CARG) is the mean annual growth rate of an investment over a specified period longer than one year.

Total Return considers not only the capital appreciation on the portfolio, but also the income received on the portfolio. The income typically consists of interest, dividends, and securities lending fees.

Recession a significant, widespread, and prolonged downturn in economic activity.

Interest rates are the amount a lender charges a borrower and is a percentage of the principal—the amount loaned.

Fed Policy is the policy adopted by the monetary authority of a nation to affect monetary and other financial conditions to accomplish broader objectives like high employment and price stability.

Inflation a sustained increase in the general level of prices for goods and services.

Asset Allocation the implementation of an investment strategy that attempts to balance risk versus reward by adjusting the percentage of each asset in an investment portfolio according to the investor's risk tolerance, goals, and investment time frame. The focus is on the characteristics of the overall portfolio.

Stock Market Valuation Level the method of calculating theoretical values of companies and their stocks.

Tax Policy the guidelines and principles established by a government for the imposition and collection of taxes.

Global Trade War a conflict between two countries marked by rising tariffs and other similar protectionist actions.

Affordable HealthCare Act (Obama Care) the comprehensive health care reform law enacted in the United States in March 2010.