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Bulls, Bears, and Ballots: What Past Elections Teach Us About the Economy

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Key takeaways

→ The health of the economy has historically had a high correlation to the outcome of the election.

→ Returns of the stock market in the three-month period before the election were also correlated with the election results.

→ Election years have not historically been associated with increased equity market volatility despite that common assumption.

→ The stock market has tended to perform the best when the political party in charge of Congress and the presidency were different (i.e., divided government).

Introduction

Prior to the 2020 US presidential election, we published a newsletter that explored the historical relationships between elections, financial markets, and the economy.[1] In this paper, we revisit our prior analysis, examining the current state of the economy and markets and how they might influence election results based on history. We address the following questions:

- → How does the economic environment of election 2024 compare to election 2020?
- → Does financial market performance influence Presidential election results?
- → Are Presidential elections associated with heightened market volatility?
- → Do markets behave differently depending on the political composition of the federal government?
- → Why might the 2024 election deviate from historical precedents?

Election 2024

It appears that the 2024 presidential election will be a rematch of the 2020 election between former president Donald Trump and the incumbent Joe Biden. While the individuals remain the same, the economic environment in 2024 is vastly different from that of four years ago. During the election of 2020, the world was dealing with the pandemic that forced many to stay at home, disrupted global supply chains, and significantly weighed on economic growth. At one point, unemployment in the US reached levels not seen since the Great Depression.[2] The economic turmoil was met with massive fiscal and monetary responses.[3] When voters went to the polls in November of 2020, there were no approved vaccines for the COVID-19 virus yet available.

The economic and market environment surrounding the election of 2024 is starkly different compared to that of the 2020 election (see Figure 1). Unemployment and GDP growth have returned to their pre-pandemic levels. However, inflation is much higher now and polls indicate it is a primary concern among voters.[4] The Federal Reserve dramatically increased interest rates to combat inflation, resulting in substantially higher short-term and long-term rates than four years ago.[5] While the bond market has struggled due to rising rates, the stock market has proved resilient with a double-digit rally thus far in 2024.[6]

1 https://meketa.com/leadership/the-2020-us-elections-and-the-markets-what-can-history-tell-us/

2 Source: Brookings, L. Bauer et al., "Ten Facts About COVID and the US Economy," September 17, 2020.

3 Source: Wall Street Journal, N. Timiraos, "March 2020: How the Fed Averted Economic Disaster," February 18, 2022. https://www.wsj.com/articles/march-2020-how-the-fed-averted-economic-disaster-11645199788

4 Source: Pew Research Center, "Public's Positive Economic Ratings Slip; Inflation Still Widely Viewed as Major Problem," May 23, 2024. 23% of adults say economy is in excellent or good shape. 62% say inflation is a very big problem.

5 Source: Federal Reserve as of June 13, 2024.

6 Source: Bloomberg Intermediate Bond Index as of March 2024.

	Eve of 2020 Election		2024 Election	
Unemployment	9/30/2020	7.8%	5/31/2024	4.0%
Annual Real GDP	9/30/2020	-1.5%	5/31/2024	2.9%
Headline Annual Inflation	9/30/2020	1.4%	5/31/2024	3.3%
Federal Funds	11/2/2020	0.1%	5/31/2024	5.3%
10-Year Treasury	11/2/2020	0.9%	5/31/2024	4.5%
S&P 500 (YTD)	11/2/2020	4.0%	5/31/2024	11.3%
Bloomberg Aggregate (YTD)	11/2/2020	6.4%	3/31/2024	-1.6%

FIGURE 1
The Financial Backdrop in 2020 versus 2024

Source: Bloomberg, March 2024. Source for unemployment, real GDP and inflation metrics is FRED, as of September 30, 2020. Source for the Federal Funds rate, 10-year Treasury rates, and the index returns is Bloomberg, as of November 2, 2020. Source for 2024 Election is FRED and Bloomberg as of May 31, 2024.

The strength of the economy and equity market performance have been key historical predictors of election results. We will have to wait and see how markets track leading up to the election later this year, but as of now the economy remains relatively strong and most economists are forecasting the US will avoid a recession. If history is any guide, this environment should support the incumbent president. The one notable variable this time around though is that interest rates and, relatedly, inflation remain higher than they have been for some time. We will have to see if voters focus on the strength of the economy or high interest rates and inflation.

What is the relationship between the state of the economy and election outcomes?

While voters will consider myriad issues when they go to the polls this November, there is a popular conception that the state of the real economy has been a reliable predictor of election outcomes.[7] James Carville, presidential adviser to Bill Clinton, famously said "it's the economy, stupid," in 1992 when discussing what drives voters' decisions on election day.[8] Given the economic pain and suffering that often accompanies recessions, or the benefits of being in a strong economy, it is understandable why this may be a key driver in how people vote.

We analyzed data from the last 100 years to assess whether recessions are associated with the electoral defeat of the incumbent. There have been 25 presidential elections since 1924. The sitting president was a candidate for the presidency in 17 of those elections.[9] According to data from the Business Cycle Dating Committee at the National Bureau of Economic Research, there were six instances in which the economy was in recession for at least three months during the 24-month span leading up to those elections. The incumbent president was defeated in all but one of those elections (see Figure 2). In the other 11 elections involving an incumbent in which no recession occurred in the leadup to the election, the incumbent president won the election (where the economy was in recession for at least three months during the 24-month span leading up to those elections). The data thus suggests that the occurrence of a recession in the leadup to the election bodes poorly for an incumbent president seeking another term.

[7] Source: Pew Research Center, "Public's Positive Economic Ratings Slip; Inflation Still Widely Viewed as Major Problem," May 23, 2024.

[8] Source: Financial Times, F. Foroohar, "Its Not Just the Economy, Stupid," February 10, 2022. ABCNews, G. Druke, "Is it Still The Economy, Stupid?" May 8, 2024.

[9] Source: FRED as of November 2020.

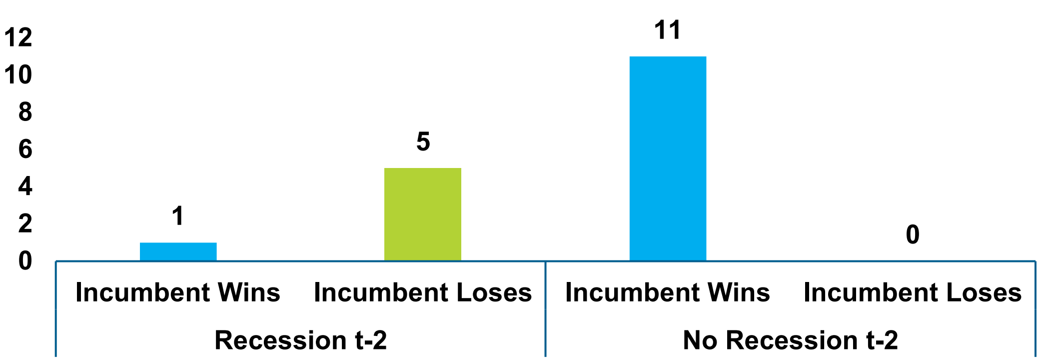

FIGURE 2
Presidential Election Outcomes & Recession (1924 – 2020)

Source: FRED as of November 2020 and Meketa sensitivity analysis.

Does inflation influence presidential elections?

Inflation and high borrowing costs can make life difficult for many consumers (i.e., voters).[10] Given the current inflation dynamics in the US, we analyzed whether inflation is correlated with election outcomes. Inflation, as measured by CPI in the one-year period leading up to presidential elections in which the incumbent won was nearly identical, on average, to those elections in which the incumbent lost (~2.4%). However, it is possible that inflation may matter more to voters when it is historically high, or at least higher than expectations. During the most recent high inflationary periods, which occurred in the 1970s, inflation was measured at 5.5% and 12.5% in the leadup to the 1976 and 1980 presidential elections, respectively.[11] The incumbent president was defeated in each of those elections. In the 12 elections won by the incumbent president vying for reelection since 1924, inflation measured above 5% only once in the year leading up to the election (see Figure 3).[12] This exception was the 1948 election won by Harry Truman, in which inflation was measured at 6.1% in the aftermath of World War II.[13]

[10] Source: Pew Research Center, "Public's Positive Economic Ratings Slip; Inflation Still Widely Viewed as Major Problem," May 23, 2024.

[11] Source: FRED as of November 2020 and Meketa sensitivity analysis.

[12] Ibid.

[13] Ibid.

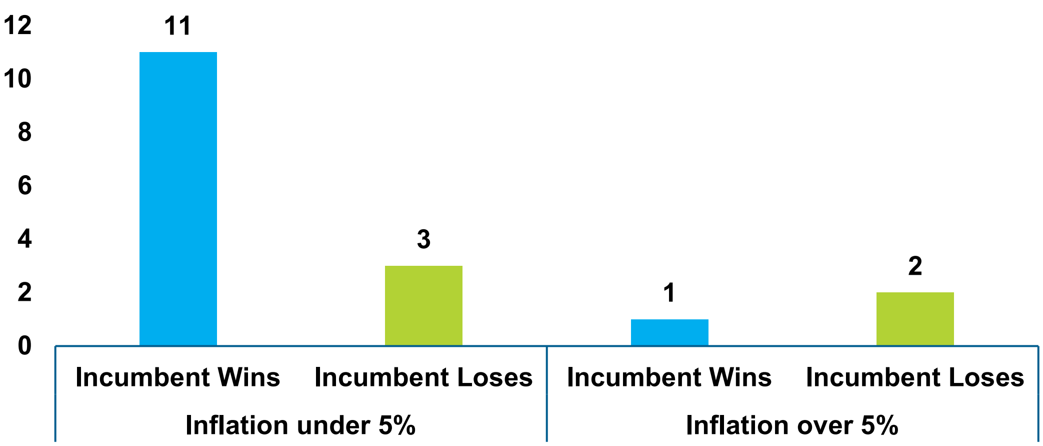

FIGURE 3

Election Results & Trailing One-Year Inflation (1980 -2024)

Source: FRED as of November 2020 and Meketa sensitivity analysis.

Despite inflation's decline from its peak of nearly 9% in 2022, it has remained above 3% for more than three years, and voters have experienced a higher cumulative amount of inflation during that period than has occurred in the last 40 years.[14] At the same time, the higher level of interest rates has increased borrowing costs.[15] The combination of higher rates and higher inflation may be why perceptions of economic data based on surveys show that many voters believe the economic situation is worse than it actually is today.[16]

[14] Source: FRED as of December 2022.

[15] Ibid.

[16] Source: Gallup, L. Saad, "Inflation, Immigration Rank Among Top US Issue Concerns," March 29, 2024. Pew Research Center, "Public's Positive Economic Ratings Slip; Inflation Still Widely Viewed as Major Problem," May 23, 2024.

Why might the drivers of this election differ from historical precedent?

The strength of the economy and the stock market, along with the absence of a recession, suggest that President Biden is in a strong position heading into the election.[17] However, consumer sentiment remains below where it had been when President Biden took office, and far below where it had been for Donald Trump's presidency prior to the pandemic.[18] Further, according to a recent Harris poll published by the Guardian, three in five Americans believe that the economy is

[17] Source: Bloomberg, C. Condon at al., "Inflation Overshadows US Economic Resilience, Hurting Biden," April 25, 2024.

[18] Source: FRED as of April 2024. According to the University of Michigan Consumer sentiment has fallen from 99.8 in January of 2020 to a record low of 50 in June 2022. Since then, consumer sentiment has recovered somewhat to 65.6 in June 2024. Consumer sentiment was higher under President Trump than on President Biden thus far.

in recession, nearly half believe that unemployment is at an all-time high, and nearly half believe that the stock market index is down for the year.[19] In reality, the economy is not in recession, the unemployment rate is near all-time lows, and the S&P 500 index is comfortably above its year-end 2023 level.[20] Despite reasonably strong economic data, voter experiences and perceptions of the economy may influence their decisions on election day.

There are several other reasons why this election is unique from a historical perspective. Donald Trump, having lost the 2020 election to Joe Biden, will be challenging the incumbent who unseated him. The only other time that this scenario occurred in US history was in 1892, when Grover Cleveland challenged and defeated the incumbent Benjamin Harrison, who had defeated Cleveland in the 1888 election.[21] In addition, former President Trump is currently defending himself against several criminal indictments.[22] Lastly, like the 2020 election with the two previous oldest candidates, Joe Biden is the oldest President and presidential candidate in US history at 81 years; Donald Trump is the second oldest presidential candidate at 78 years. It is important to not ignore historical precedents, but there are many unique aspects to the 2024 election that could cause the outcome to differ from that implied by economic data.

[19] Source: The Guardian, L. Aratani, "Majority of Americans Wrongly Believe US in Recession – and Most Blame Bident," May 22, 2024.

[20] Source: Bloomberg as of June 2024.

[21] Source: The White House, "Grover Cleveland the 22nd and 24th President of the US."

[22] Source: Bloomberg, "Keeping Up with Trump Trials," May 31, 2024.

Does the performance of the stock market influence the election results?

The stock market is forward-looking and is often seen as a proxy for expectations on the health of the economy. It is therefore worthwhile to investigate whether the performance of the stock market prior to the election is correlated to the election outcome. According to data from T. Rowe Price, stock market returns tended to be lower in the runup to the election when the incumbent party was defeated. For example, the average annual return of the S&P 500 index was just 1.1% in the one-year period prior to election day in cases in which the incumbent party was defeated (see Figure 4). In cases in which the incumbent party won the election, the average annual return of the S&P 500 index was 12.1% in the one-year period prior to election day.[23] This pattern held true for the six-month, three-month, and one-month prior periods, as well. A healthy stock market may be linked to the current president's policies and may signal potential for reelection.

[23] Source: T. Rowe Price, T. Poullaouec et al., "How Do US Elections Affect Stock Market Performance," April 30, 2024.

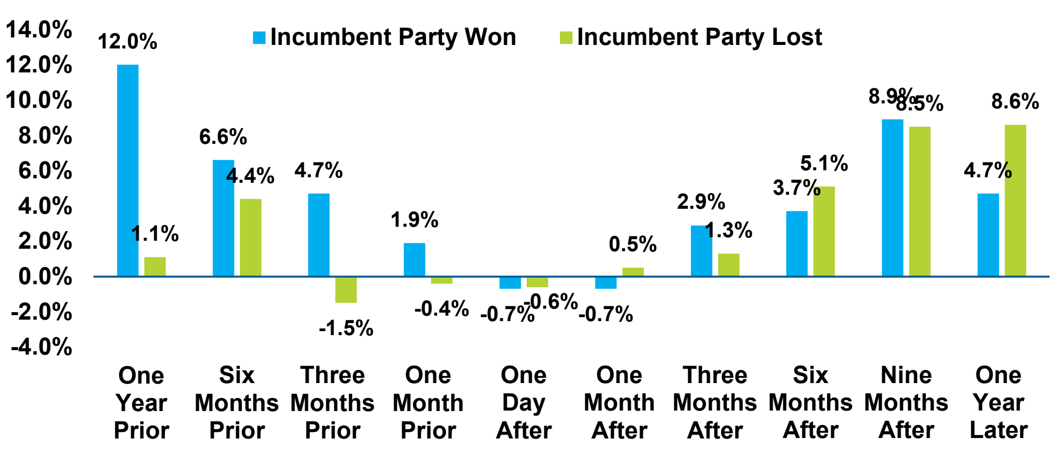

FIGURE 4
Incumbent Electoral Performance & Stock Market Returns (1927-2020)

Source: T. Rowe Price, T. Poullaouec et al., "How Do US Elections Affect Stock Market Performance," April 30, 2024. Total returns include gross dividends and are cumulative for the specified period before and after the election. T. Roe Price used the first Tuesday of November (election day in the US) as the cutoff date in all other years to account for seasonality. The one year return prior to the 1928 election was excluded from the sample because of a lack of available data.

Do election years lead to higher stock market volatility and lower returns?

Often the assumption is that elections and the related uncertainty weigh on stock market returns and increase market volatility.[24] The data does not bear this out though. We analyzed stock market performance in election and non-election years and found that there was not a dramatic difference in volatility (see Figure 5). The S&P 500 index returned 9.9% during election years and 8.7% during non-election years, with the 18.4% return of the index in 2020 bringing up the election year average.[25] The average monthly volatility of the stock market during election years was nearly indistinguishable from that of non-election years (see Figure 5). The election year of 2020 was more volatile than the average (at 24.8%), but this was more likely due to the impact of the pandemic and economic turmoil it caused. Overall, this data suggests that elections themselves are not as impactful to the short-term behavior of the equity markets as many voters and investors might assume.

[24] Source: CME, S. Bauer, "The Relationship Between Elections & Volatility," May 8, 2024.

[25] Source: Bloomberg as of December 2023. S&P 500 data is from 1927 through December 2023. Prior to formal S&P 500 index inception in 1957, data is sourced from Robert J. Shiller. Thereafter, data is from Bloomberg.

	Election Years	Other Years	All Years
Count	24	73	97
Mean Return	9.9%	8.7%	9.0%
Median Return	12.2%	8.4%	10.5%
Volatility	15.3%	15.2%	15.3%

FIGURE 5

Calendar Year Returns for the S&P 500 Index

Source: Bloomberg as of December 2023. S&P 500 data is from 1927 through December 2023. Prior to formal S&P 500 index inception in 1957, data is sourced from Robert J. Shiller. Thereafter, data is from Bloomberg.

Election impact on the stock market

We again reiterate that the data set for US presidential elections is extremely limited and that many things outside the control of the president and Congress can influence markets. On balance, according to the data set from 1926 to 2023, there have been 51 years with a Democratic president in office, while a Republican president has led for 47 years. When a Democrat sat in the White House, the S&P 500 index returned an annual average of 10.3% compared to 7.5% when a Republican was in the White House, which is an annual difference of 2.8% (see Figure 6).[26]

[26] Source for S&P 500 is Bloomberg, as of December 2023. Source for list of Presidents is the Library of Congress – Senate.gov, Party Divisions of the House of Representatives, 1789 to Present – History, Art & Archives of the United States House of Representatives.

While considering which party controls the presidency is important, it would be a mistake to not also consider who oversees Congress as they can check or support the President's agenda. From 1926 to 2023, there were an equal number of years of unified government during which the same party controlled the presidency and both houses of Congress, and divided government during which at least one house of Congress was held by the opposition party of the president.[27] During periods of divided government, the S&P 500 returned an average of 10.2% per year. During periods of a unified government, the annual average return was 7.7%.[28] The popular notion that markets prefer a divided government holds true in this case.[29]

[27] Ibid.

[28] Ibid.

[29] Ibid.

Looking deeper into the data set provides a more nuanced perspective. According to the data, the composition that experienced the highest average annual stock market return is a divided government with a Democrat president (+13.6%). A unified Republican composition experienced the lowest average annual return (+5.3%).[30]

[30] Ibid.

Political Composition	Number of Years	S&P 500 Average Annual Return
Unified Republican	15	5.3%
Unified Democrat	34	8.7%
Divided, Republican President	32	8.4%
Divided, Democrat President	17	13.6%
Unified	49	7.7%
Divided	49	10.2%

FIGURE 6

Congress, the Presidency & the S&P 500 (1927-2024)

Source for S&P 500 is Bloomberg, as of December 2023. Source for list of Presidents is the Library of Congress – Senate.gov, Party Divisions of the House of Representatives, 1789 to Present – History, Art & Archives of the United States House of Representatives.

Note: Unified means that the Presidency, the Senate, and the House of Representatives are all controlled by a single party. A divided government means that either the Senate or the House of Representatives is controlled by the opposition party of the Presidency.

Election impact on the economy

Real GDP growth is a key measure of economic success.[31] Real GDP measures broad economic activity and is not influenced by the whims of investor sentiment as is the stock market.

[31] Source: IMF, T. Cullen, "Back to Basics: Gross Domestic Product: An Economy's All."

We analyzed real GDP growth in the same manner that we analyzed the stock market in terms of historical political composition of the presidency and Congress. Again, we found that the composition that has experienced the highest real GDP growth was a divided Congress with a Democrat president, though the magnitude of the outperformance was not as great as that found in the stock market. A unified Republican government again experienced the lowest real GDP growth rate among the political composition possibilities. Importantly, the unified Republican metric is heavily influenced by three years during the Great Depression of the early 1930s. Excluding these years, real GDP growth during unified Republican political compositions averaged 2.8% (see Figure 7).

Political Composition	Number of Years	Average Real Gross Domestic Product	Average Unemployment	Average Inflation
Unified Republican	11	-0.5%	6.7%	-0.5%
Unified Democrat	34	5.3%	8.4%	3.2%
Divided, Republican President	32	2.6%	6.1%	4.0%
Divided, Democrat President	17	5.4%	5.3%	3.8%

FIGURE 7

Congress, the Presidency and the Economy (1930-2024)

Source for list of Presidents is the Library of Congress – Senate.gov, Party Divisions of the House of Representatives, 1789 to Present – History, Art & Archives of the United States House of Representatives. Source for Real Gross Domestic Product, Unemployment, and Inflation is FRED. that either the Senate or the House of Representatives is controlled by the opposition party of the Presidency.

Conclusion

Presidential elections are important events that can have implications for the economy and the financial markets. While the political environment remains tense in the US, the historical record indicates that elections are not typically associated with major disruptions to the economy or the financial markets. Over the last 100+ years, the US economy has experienced periods of tremendous growth along with periods of dire hardship. It is important for investors to consider that the US economy has managed to generally prosper over that span despite wars, pandemics, political scandals, and financial crises.

While the stock market has also had its ups and downs, it too has marched higher over the long term under a variety of political administrations. As Figure 8 shows below, investors who have taken a long-term view have often been rewarded over time. The entrepreneurial spirit and dynamism of the American people have been helpful with facilitating the long-term success of the US economy.

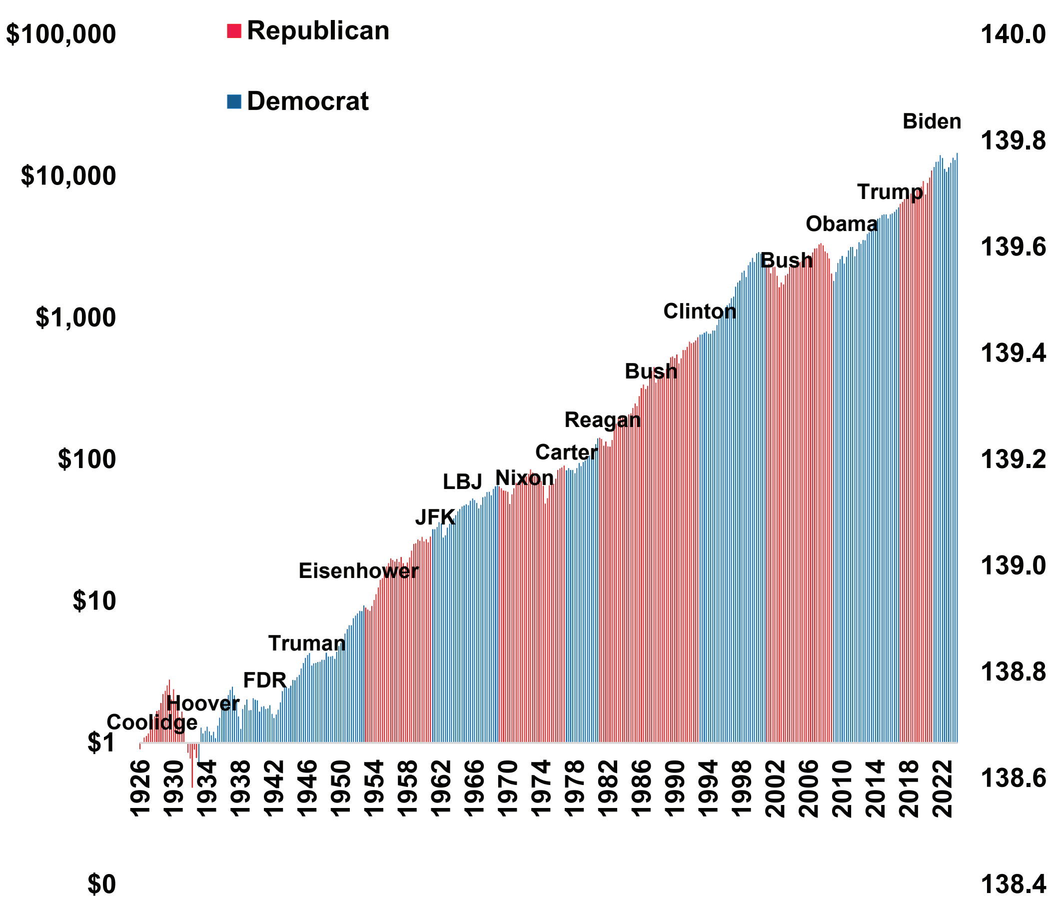

FIGURE 8

Growth of a Dollar Invested in the S&P 500

Source: Data source for S&P 500 Index is Bloomberg, as of March 2024. Data source for federal debt and recession indicators is FRED, as of March 2024. Source for list of Presidents is the Library of Congress – Senate.gov, Party Divisions of the House of Representatives, 1789 to Present – History, Art & Archives of the United States House of Representatives.

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