Chart of the Month

January 2020

As the title of our Chart of the Month states, “stocks have performed well historically when the president is up for re-election.” While politics can stir emotions, this statement is a matter of fact rather than an opinion. It is neither an endorsement of the current president nor a guarantee that past results will be repeated in the future.

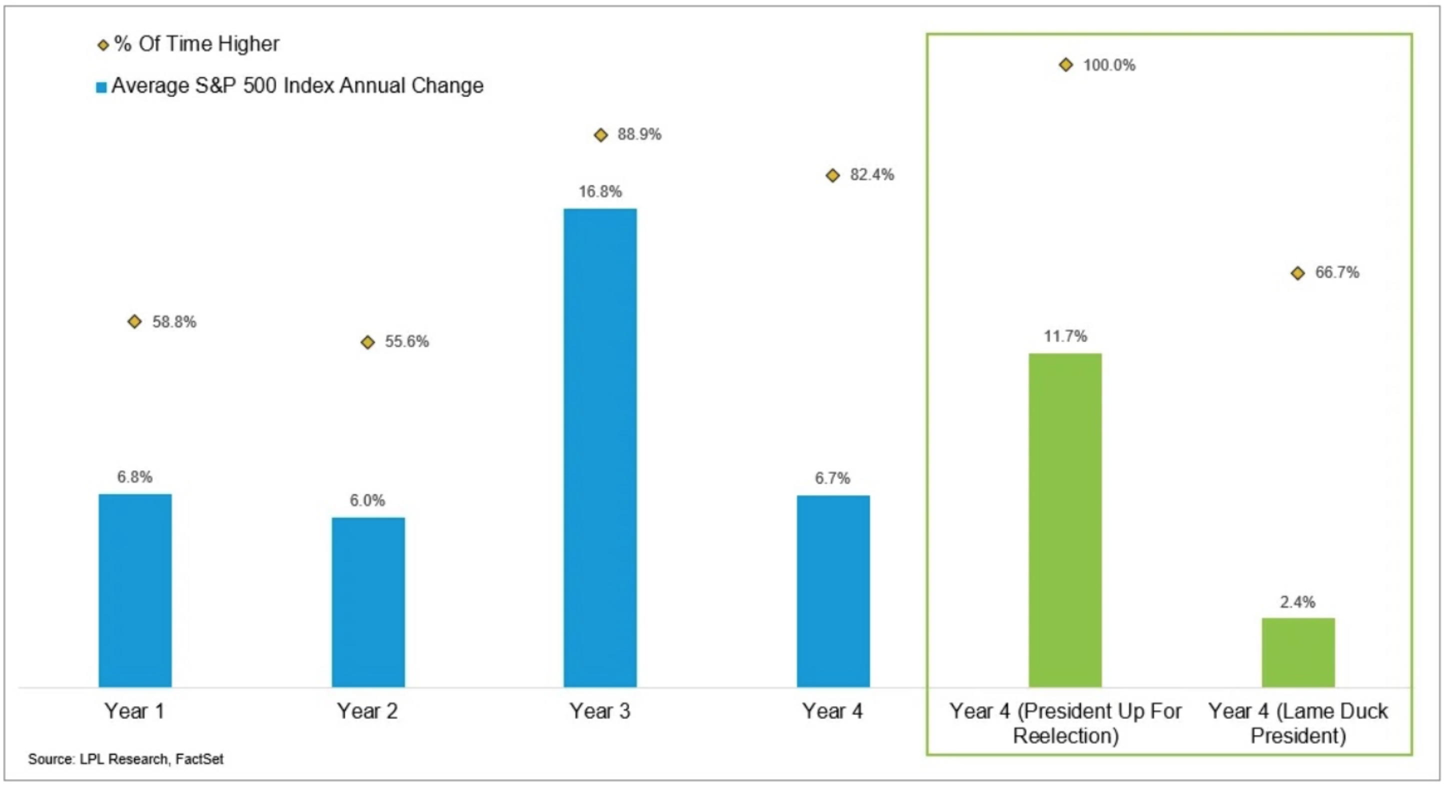
While the S&P 500 has averaged 6.7% in a presidential election year since 1950, the mean return has been 11.7% when the president has been up for re-election and only 2.4% in a “lame duck” year (meaning the sitting president was not running for re-election). Of note, the market has produced positive performance every time when the president has sought a second term during this period.

The S&P 500 has not declined during an election year with an incumbent up for re-election since 1940 when FDR won an unprecedented third term (on his way to a fourth in 1944). Yes, it has been eight decades and ten such elections since the market fell in a year like the present. On the other hand, stocks have generated mixed results when there was a lame duck in office (with 2016, 1988, 1968, and 1952 positive, and 2008, 2000, and 1960 negative).

As shown in the chart below, the third year of the presidential cycle has historically been the strongest (with an average return of 16.8% since 1950). Last year proved to be no exception as the S&P 500 increased 31% (including dividends).

Six of the past eight presidents who ran for re-election won a second term. The market was up in those six years as well as in the two years when the incumbent lost (Carter in 1980 and George H. Bush in 1992). Based on the outcomes of the past 70 years (and nothing more, nothing less), there is a 75% chance that Trump will win re-election and 100% probability of the S&P 500 producing positive returns in 2020.

STOCKS HAVE PERFORMED WELL HISTORICALLY WHEN THE PRESIDENT IS UP FOR RE-ELECTION
S&P 500 Performance Based on Presidential Cycle (1950-Current)



Lederer & Associates
Investment Counsel
5305 East 2nd Street, Suite 201, Long Beach, California 90803
Tel: (562) 434-5305 ▲ Fax: (562) 434-5306
www.lederer-associates.com