



Nationwide Market Insights<sup>SM</sup>

# Markets await political change

The uncertainty around presidential elections generally does not influence financial markets, but market and economic conditions can foretell election outcomes



**Stock returns during presidential election years have been on par with long-term averages**



**Positive conditions prior to elections have been good news to incumbent political parties**



**Expect volatility to increase in the months leading up to the election**



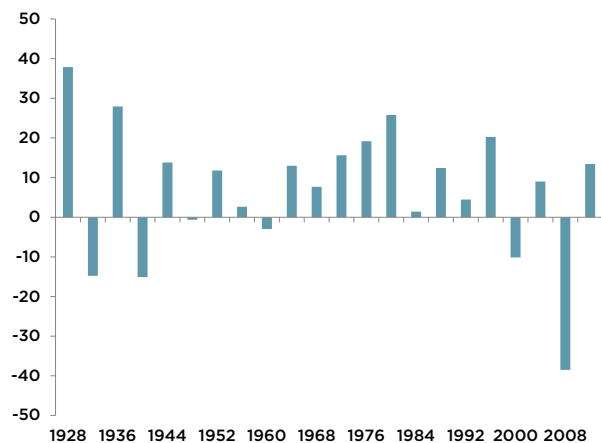
Stock returns during presidential election years have been on par with long-term averages

- There is no obvious historical trend of higher or lower stock market performance during presidential election years, despite the uncertainty of a potential transition of political power (see left chart below)
- The S&P 500 posted gains in 76% of presidential election years versus 71% in all years dating back to 1946 (source: S&P Capital IQ, 12/31/45-12/4/15)
- When the presidential election has been decided by a wide margin of victory (a sign of lower uncertainty), stock performance for that calendar year has been generally strong (see right chart below)

### Nothing unusual in election year performance

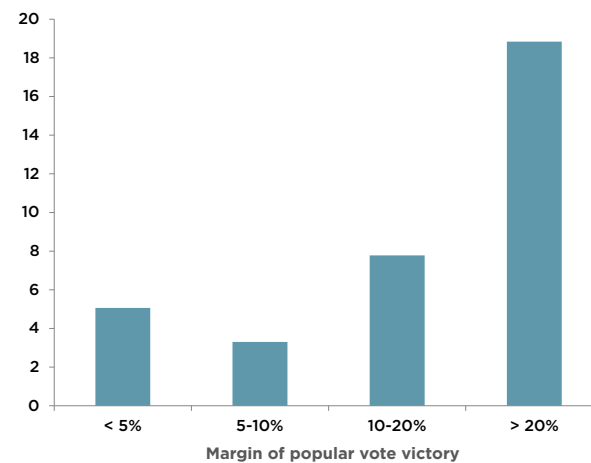
Changes in the S&P 500 during presidential election years

Percent



Yearly changes in the S&P 500 by margin of victory in the presidential election

Percent



Source: Bloomberg, data as of March 31, 2016



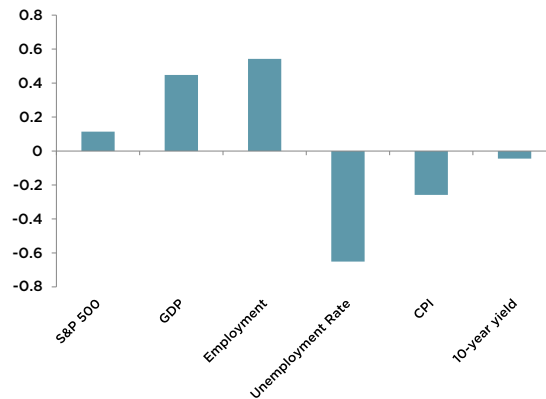
Positive conditions prior to elections have been good news to incumbent political parties

- The incumbent party has been more likely to keep the White House in times of economic expansion, strong job markets and low inflation (See left chart below)
- The stage of business cycle is often a reliable indicator of election results. Dating back to 1856, the incumbent party has won 70% of elections that have taken place during expansions — including more than 90% of those that have taken place in the middle stage of a recovery (see right chart below)
- On all but three occasions since 1928, the incumbent party has won the presidential election when the stock market was up in the three months prior to the election (source: Strategas, as of 4/4/16)

### Stage of business cycle is most crucial in determining election results

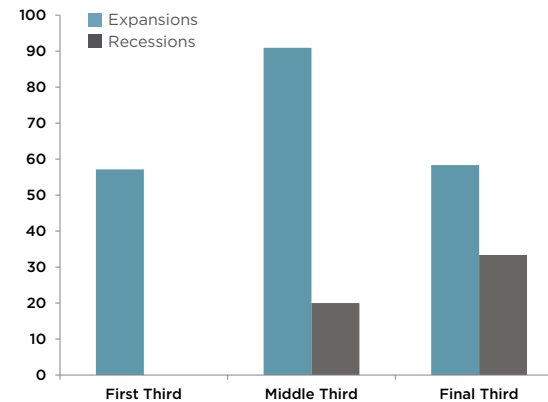
**Correlations with incumbent party electoral vote in presidential elections**

Correlation



**Incumbent party winning percentage in presidential elections by stage of business cycle**

Percent





Source: Bloomberg, Federal Election Commission, data as of March 31, 2016



Expect volatility to increase in the months leading up to the election

- Returns for the S&P 500 in the three months before past presidential elections have been almost 1% lower than all other months (source: Strategas, as of 4/4/16)
- Stock market volatility in the three months leading up to past presidential elections has been about 45% higher than all other months (source: Factset, as of 1/31/16)
- There's potential for the market to surprise as the upcoming election nears, given the recent trend of continuous turnover in party control over different branches of government (see chart below) and the prevalent anti-establishment sentiment among investors, evident in the rise of Donald Trump and Bernie Sanders in this year's party primaries

### Voters have removed the party in power in 4 of the past 5 elections

	2004	2006	2008	2010	2012	2014
 WHITE HOUSE	R	R	D	D	D	D
SENATE 	R	D	D	D	D	R
HOUSE	R	D	D	R	R	R

Source: Strategas; data as of April 4, 2016

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## Key takeaways

The onset of the presidential election adds another layer of uncertainty to a market that's already susceptible to volatility. However, past presidential elections have not had as great an impact on the financial markets as you may believe. If anything, the opposite is true: market and economic conditions leading up to the election have proven to be good indicators of which party wins the White House.

### As the election campaign continues, consider these steps:

- Prepare for a potential increase in volatility in the months leading up to this year's election
- Maintain a long-term focus and tune out the noise from news headlines
- Remain confident in the investment plan you established with your financial advisor



For more help or information, contact your financial advisor.



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