Lord Abbett reviewed historical federal government election outcomes and inflation-adjusted S&P 500 price returns to determine how such events potentially impact markets. While past performance does not guarantee future results, we made several key observations while looking at the months leading up to and following a total of 50 events between 1948 and 2017.

**Do Political Elections Impact Investment Returns?**

Market Performance

Across the board, our historical analysis indicates that the U.S. stock market has tended to outperform after elections. Specifically, the post-election outperformance tended to follow off-year elections, while the market generally underperformed after presidential elections. It’s important to add here that five out of 17 cases of underperformance were associated with recessionary periods (1948, 1952, 1980, 2000 and 2008) and that three out of 17 presidential elections studied had recessions in the preceding year (1960, 1980 and 2008).
Party in Power

Elections that resulted in divided government—at least one out of three of the president, Senate, and House are in the hands of one party and the other two are in the hands of the other—had the best returns both before and after the election. Elections that resulted in a change in composition by party, undivided Republican, or undivided Democratic control tended to be preceded by underperformance. Elections that resulted in undivided Republican control were generally followed by underperformance in the three- and six-month periods immediately afterwards but delivered the best average returns in the subsequent 12 months.

Bottom Line

It’s often remarked that the market likes divided government and, based on our analysis, that’s been true. But this doesn’t mean that the market has outperformed after such elections because it welcomes a stalemate (which is sometimes the result) or relative inaction on the part of elected officials. Divided government more often results in compromise—which can be a good thing—on issues such as taxes, federal spending, and infrastructure. As these and other problems seem to be getting larger, we believe the incentive to compromise might be stronger when both sides have a say in how they are resolved.

Talk to your financial advisor about your long-term financial goals and how to best navigate market ups and downs during and after Election season.

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