Key Insights

» Presidential election years generally have shown positive results for U.S. equity markets—and the health of the U.S. economy can be a useful gauge of whether the party in the White House is likely to hold on.

» History has shown that early polling and campaign rhetoric often do not predict elections or policy.

» Rather than dwell on the candidates’ positions and promises a year before the presidential election, in this report we discuss equity performance in presidential election years, how the landscape can change in the 12 months before the election, and six key issues that are central to the 2020 elections.

Every presidential election season has unique traits and trends, but history may provide useful guidance for investors during the campaign’s final year. Economic conditions can be core to the election outcome, for example—and equity markets have demonstrated some clear patterns in presidential election years. Other important lessons are that polling results and candidate rhetoric early on do not necessarily predict either a party’s presidential nominee or the post-convention promises. In this report, we present the historical evidence on these tendencies, and sketch six key issues and their potential market implications.
Presidential election years have tended to coincide with positive equity markets.

Presidential election years often have coincided with positive equity returns. Since 1928, only 4 of the 23 presidential election years have coincided with negative S&P 500 Index returns (Table 1). Two of those four years occurred during U.S. economic depression (1932) or recession (2008). A third occurred in 1940, while the U.S. was still recovering from the Great Depression and as fascist armies were overtaking Europe. This suggests as long as the U.S. economy is expanding and international events do not interfere, equity markets can rise during presidential election years.

<table>
<thead>
<tr>
<th>Year</th>
<th>S&amp;P 500 Index</th>
<th>Candidates</th>
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</thead>
<tbody>
<tr>
<td>1928</td>
<td>43.6%</td>
<td>Hoover versus Smith</td>
</tr>
<tr>
<td>1932</td>
<td>-8.2%</td>
<td>Roosevelt versus Hoover</td>
</tr>
<tr>
<td>1936</td>
<td>33.9%</td>
<td>Roosevelt versus Landon</td>
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<tr>
<td>1940</td>
<td>-9.8%</td>
<td>Roosevelt versus Willkie</td>
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<tr>
<td>1944</td>
<td>19.8%</td>
<td>Roosevelt versus Dewey</td>
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<tr>
<td>1948</td>
<td>5.5%</td>
<td>Truman versus Dewey</td>
</tr>
<tr>
<td>1952</td>
<td>18.4%</td>
<td>Eisenhower versus Stevenson</td>
</tr>
<tr>
<td>1956</td>
<td>6.6%</td>
<td>Eisenhower versus Stevenson</td>
</tr>
<tr>
<td>1960</td>
<td>0.5%</td>
<td>Kennedy versus Nixon</td>
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<tr>
<td>1964</td>
<td>16.5%</td>
<td>Johnson versus Goldwater</td>
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<tr>
<td>1968</td>
<td>11.1%</td>
<td>Nixon versus Humphrey</td>
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<tr>
<td>1972</td>
<td>19.0%</td>
<td>Nixon versus McGovern</td>
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<tr>
<td>1976</td>
<td>23.9%</td>
<td>Carter versus Ford</td>
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<tr>
<td>1980</td>
<td>32.5%</td>
<td>Reagan versus Carter</td>
</tr>
<tr>
<td>1984</td>
<td>6.3%</td>
<td>Reagan versus Mondale</td>
</tr>
<tr>
<td>1988</td>
<td>16.6%</td>
<td>Bush versus Dukakis</td>
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<tr>
<td>1992</td>
<td>7.6%</td>
<td>Clinton versus Bush</td>
</tr>
<tr>
<td>1996</td>
<td>23.0%</td>
<td>Clinton versus Dole</td>
</tr>
<tr>
<td>2000</td>
<td>-9.1%</td>
<td>Bush versus Gore</td>
</tr>
<tr>
<td>2004</td>
<td>10.9%</td>
<td>Bush versus Kerry</td>
</tr>
<tr>
<td>2008</td>
<td>-37.0%</td>
<td>Obama versus McCain</td>
</tr>
<tr>
<td>2012</td>
<td>16.0%</td>
<td>Obama versus Romney</td>
</tr>
<tr>
<td>2016</td>
<td>12.0%</td>
<td>Trump versus Clinton</td>
</tr>
</tbody>
</table>

Table 1. S&P 500 Index total returns during presidential election years

Sources: Morningstar and Wells Fargo Investment Institute, November 5, 2019. For illustrative purposes only. Past performance is no guarantee of future results. An index is not managed and not available for direct investment.
Equity market patterns typically change during the year of a presidential election

It turns out that the average pattern of equity prices has been different between the January to July and July to November periods in presidential election years. Since 1900, the first part of the year has tended to be flat for U.S. equity prices (on average), but equities have tended to rally in the latter part of election years (Chart 1). This could reflect the uncertainty about the race during the first half of the year. By midyear, however, additional clarity on the likely winner has been positive (on average) for equity prices.

The difference has tended to be stark, depending upon whether the incumbent party seems likely to “keep” the White House. In years when the incumbent party wins the presidential election, the equity market rally has been stronger than for the average of all U.S. election years, but stock prices tended to stumble in the year’s second half when the incumbent party lost the presidential election.

Chart 1. Stock market performance during presidential election years

![Chart showing stock market performance during presidential election years](chart)

Sources: Bloomberg, Wells Fargo Investment Institute, November 12, 2019. Stock are represented by the Dow Jones Industrial Average, which is indexed to 100 as of January 1 of each election year since 1900. Lines indicate average performance. All cases represents the combined results of incumbent party wins and incumbent party losses. An index is unmanaged and not available for direct investment.

Past performance is no guarantee of future results.
Early polling and campaign rhetoric historically have been unreliable predictors of presidential election results or final policy.

Candidate proposals deserve to be vetted, but it is risky to speculate that a particular candidate will be elected, or that a particular policy idea will become law.

**Early polls can make poor guides**

Current presidential Democratic polling results put Senators Elizabeth Warren and Bernie Sanders in a “front-runner” race with former Vice President Joe Biden—inviting speculation about how each might govern. Yet, history shows that early presidential election polls have not correlated well with the party nomination or winning on Election Day. In fact, since 1972, the start of the modern nominating process, no Democratic candidate that was a front-runner a year before the election has won the presidency. In the first six months of the year prior to the presidential election, Jimmy Carter ranked 12th (1976), Bill Clinton ranked 15th (1992), and Barack Obama ranked 2nd (2008) but trailed Hillary Clinton by 15 points in most well-regarded polls.¹ Many factors may change for candidates up until Election Day: for example, fundraising could dry up, there may be a poor debate performance, new issues might move to the top of voters’ minds, and the landscape could shift as the presidential primaries kick off. The bottom line is that there is a lot of ground to cover over the full year preceding a presidential election—so extrapolating current polls or leads often has proven to be a faulty approach.

**Candidate positioning can change**

A main reason why early polls may fail to predict the presidential election outcome is that candidates often followed a pattern. They frequently appealed to their party’s base early in the campaign. However, as the primaries neared and momentum built, they sought to attract a greater percentage of voters, often forcing the candidates toward a more “centrist” positioning. Ultimately, we view the goal of a presidential candidate is to unite the party at the convention and attract the rest of the unaffiliated voters in the run-up to the election. The more a candidate’s views differ from those of the voters that he or she is trying to attract, the more that candidate may have to moderate to broaden appeal. Without tempering his or her positions, the candidate may risk a narrow appeal and may end up mobilizing the opponent’s base.²

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Which issues have staying power?

Election seasons tend to build around a handful of main issues that may evolve in substance or relative importance during the presidential election campaign. This presidential election season now features 18 Democrats running for president, and history suggests that the polling results also evolve—today’s front-runners may not be in front in a few months. So, instead of detailing any given candidate’s policy prescriptions, the next report section addresses the breadth of positions across the parties, along with potential market implications. This approach allows us to outline the basic party differences in this initial report of our election series, and sets the stage for us to analyze specific differences in more detail in subsequent reports.

Six key campaign issues

1. Tax and regulatory policy

**Republicans:** The GOP charted its tax policy with the Tax Cuts and Jobs Act of 2017 as it worked to diligently roll back Obama-era Affordable Care Act (ACA) regulation. We believe the Republican Party continues in this direction.

**Democrats:** The Democratic base is united in a desire to repeal 2017 federal tax reform and to raise corporate tax rates. Democrats have proposed new or enhanced revenue sources, especially to support their health care and climate-oriented priorities. Notably, a number of Democrats want to increase the capital gains tax rate, and raise the top personal tax rates—while adding a surtax on the top bracket. Some would add a tax on Wall Street trading activity. Most candidates also plan to reinstate much of the Obama-era regulation lifted via executive order by President Trump.

2. Trade

**Republicans:** If President Trump wins his second presidential election, we believe that it will be primarily because the electorate backed his administration’s approach to trade. The issues are unlikely to be fully resolved by Election Day. We find it difficult to envision how President Trump would reverse a tough stance on trade during a second term.

**Democrats:** The Democrats traditionally have been more reserved about globalization and trade policy than Republicans have been—largely in the interest of labor unions. A small minority of Democratic candidates appear open to renegotiating the multilateral Trans-Pacific Partnership that was proposed by President Obama. We believe a majority would likely continue to apply pressure on China regarding trade. We think tariff-related risks appear lower under the Democrats than they likely would be under President Trump, but a majority of candidates favors confronting other countries about trade practices that both Democrats and Republicans consider unfair.

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4 Ibid.
Of bipartisan interest: Both parties want to ratify a U.S.-Mexico-Canada Agreement on trade, although Democrats are demanding additional protections for U.S. workers.

Market implications: A tougher U.S. stance on trade is part of our outlook for the next several years. Thus, trade policy is likely to force U.S. companies to adjust—if not completely redesign—their supply chains. These changes should raise the costs of doing business and reduce earnings, especially for large- and mid-sized companies engaged in global supply chains. U.S. small-cap companies may prove resilient under tariffs, while the U.S. dollar is likely to depreciate under tariffs in the long term.

3. Energy, environment, and climate change
A CBS poll shows that two-thirds of Americans see climate change as a crisis or serious problem. This year is going to be among the top five warmest years in history, likely coming in second behind 2016, according to federal scientists.

Republicans: The Trump administration has continued its efforts to expand fossil-fuel exploration and production and to loosen environmental regulations.

Democrats: Democratic candidates are making the environment a central issue. Nearly all of the 18 candidates have suggested they may ban or restrict hydraulic fracturing (fracking)—and would pursue the Paris Accord climate agreement. Almost all the candidates favor targeting net-zero emissions and generally take a more proactive stance on climate change. Finally, nearly all Democratic candidates have indicated they may tax greenhouse gas emissions.

Market implications: Climate change has led to divisive political debate. The split over these issues in Congress today would make it difficult to pass complex legislation. Tougher policy restrictions on fracking likely would add new stress to the Energy industry, which is already facing stiff competition, depleting resources, and financial stress.

4. Fiscal policy
Republicans: In 2016, President Trump ran, in part, on investing in infrastructure. Yet, little progress has been made since the election, and the initiative seems to have fallen in priority. The topic is likely to re-emerge during the presidential campaign, and Republicans prefer public-private partnerships. Federal deficits have continued to expand under the Trump administration, due to the costs of tax reform, along with priorities related to defense and securing borders.

Democrats: Democrats also want extensive infrastructure upgrades, but they differ widely on priorities and funding (having proposed $2 trillion or more of public infrastructure funding). The candidates’ platforms have focused on narrowing income inequality, broadening health care coverage, and environmental protection.

Of bipartisan interest: The two sides agree on infrastructure rebuilding, but they cannot seem to agree on how to define it, fund it, or fix it. On spending policy, there do not appear to be many fiscal hawks left on Capitol Hill as fiscal deficits keep widening.

Market implications: We believe large, new infrastructure spending initiatives likely would offset some of the fiscal contraction if the 2017 tax cuts were reversed. Increasing infrastructure spending also could raise economic growth, and we believe that it could bode well for the Industrial and Materials sectors. The ballooning public debt may not threaten the economy in the next several years—but, over the longer term, it could raise borrowing costs and weaken the dollar.

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5. Health care

**Republicans:** President Trump campaigned on repealing the ACA, but he—and congressional Republicans—have not repealed the law so far. Repeal now looks unlikely even if President Trump is re-elected.

**Democrats:** Democratic candidates want to expand access to health care; some propose health care coverage for all, which would include the approximately 30 million Americans without coverage today. Some progressive candidates want single-payer systems in which insurance would be offered by the federal government (rather than private companies), through the “Medicare for All” proposal. Some moderates are pushing for an expansion of the ACA with a government option, while others support more modest measures to expand health insurance coverage. Most of the candidates are struggling with how to fund an expanded option without burdening middle-class taxpayers with higher taxes.

**Of bipartisan interest:** Prescription drug prices and more regulation in the health care industry will be a focus for both parties. Other topics include more spending on mental health issues, preserving health care in rural areas, and tackling the opioid crisis.

**Market implications:** Moves toward single-payer health care likely would force a major reorganization in managed care, as well as limitations on medical device pricing. Prescription drug price controls would be negative for pharmaceutical industry revenues.

6. Immigration

**Republicans:** Border security has been a signature issue for President Trump. He has prioritized building a wall between the U.S. and Mexico, and he has rolled out a comprehensive list of policies aimed at restricting and reforming immigration in the U.S.—some of which have been enacted. The president seems committed to these policies, and we expect that commitment likely would continue in a second term.

**Democrats:** The candidates generally seem to place a higher priority on supporting undocumented migrants than on border security, in our view. They would apparently focus broadly on young immigrants brought to the country illegally, and on creating a legal path to citizenship for undocumented immigrants. The Democrats are split over how to manage U.S. immigration enforcement and on how to handle people who are in the country without permission.

**Of bipartisan interest:** Little common ground exists between the two parties on immigration. It appears that whichever party carries the election plans to use available, broad executive controls to either restrict or liberalize immigration policy and enforcement. Therefore, we expect this policy to be in radically different places, depending upon who wins the election.

**Market implications:** Immigration primarily affects costs in labor-intensive industries, such as construction, manufacturing, agriculture, and hospitality. Most valuable for these sectors would be a clear and settled immigration policy that could foster additional legal hiring and productivity improvements.
Summary and investment implications

We firmly believe that it is too early to make portfolio adjustments based on presidential election scenarios a year away from Election Day, in accordance with the three points highlighted in this report:

1. Presidential election years have generally been positive (on average) for equity investors, unless there was a recession.
2. Presidential polling results and policy positions a year before the election have varied and moderated somewhat to accommodate a broader voter base.
3. Policy issues will evolve throughout the next year, but we believe that the six key issues profiled in this report will take priority in the 2020 presidential election.

This report is meant to be an early look at the presidential campaign landscape. We will continue to write on these subjects and provide additional guidance throughout the campaign season with our In Depth report election series, along with the 2020 campaign spotlight in our Policy, Politics & Portfolios reports.

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Sector investing can be more volatile than investments that are broadly diversified over numerous sectors of the economy and will increase a portfolio’s vulnerability to any single economic, political, or regulatory development affecting the sector. This can result in greater price volatility. The Energy sector may be adversely affected by changes in worldwide energy prices, exploration, production spending, government regulation, and changes in exchange rates, depletion of natural resources, and risks that arise from extreme weather conditions. Some of the risks associated with investment in the Health Care sector include competition on branded products, sales erosion due to cheaper alternatives, research and development risk, government regulations and government approval of products anticipated to enter the market. There is increased risk investing in the Industrials sector. The industries within the sector can be significantly affected by general market and economic conditions, competition, technological innovation, legislation and government regulations, among other things, all of which can significantly affect a portfolio’s performance. Materials industries can be significantly affected by the volatility of commodity prices, the exchange rate between foreign currency and the dollar, export/import concerns, worldwide competition, procurement and manufacturing and cost containment issues. Risks associated with the Technology sector include increased competition from domestic and international companies, unexpected changes in demand, regulatory actions, technical problems with key products, and the departure of key members of management. Technology and Internet-related stocks smaller, less-seasoned companies, tend to be more volatile than the overall market.

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