
MVF Research Special Comment

Presidents, Politics and the Market

Less Than Meets the Eye

August 11, 2016

“Craziest Election Ever!” “The Old Rules No Longer Apply.” “Presidency or Reality TV?”

The breathless headlines come out on a daily basis, and so do questions from our clients about what this very strange election season may mean for their portfolios. We have not written much in the way of specifics about the upcoming election in our weekly market commentaries, mostly because we do not deem it a factor of much lasting impact to long term portfolio performance. We will take the opportunity of this Special Comment to explain why. As much as we do concur that these are unusual times for US politics, we rely more on data than on headlines when it comes to assessing the relative impacts of different forces on asset markets. Headlines move emotions, and emotions can move markets in the short term. But in the long run it is data – information about the future earnings prospects of companies – that move stock prices.

That Fateful Day in Dallas

November 22, 1963 was a day that would long remained etched in the emotional sensibilities of those whose radios and televisions informed them of the unimaginable: their president, John F. Kennedy, had been assassinated early that afternoon in Dallas, Texas. How did this tragedy play out in the markets? The stock market did close shortly after the news broke, with the S&P 500 immediately dropping 2.8 percent. Markets remained closed the Monday following the Friday event. When they reopened on Tuesday, November 26 the S&P 500 soared and gained 3.9 percent on the day. The index would finish out the week about 2.2 percent higher than where it had closed on November 21, the day before the assassination. In effect, the most tragic event in modern American political history, which removed a popular sitting president, wound up having next to no lasting impact on financial markets.

Turns Out, He Was a Crook

On July 24, 1974, the U.S. Supreme Court issued an order to the administration of president Richard Nixon to hand over White House tapes to the special prosecutor investigating the Watergate scandal. That decision made it very likely that Nixon would either be impeached or forced to resign from office. He opted for the latter, famously leaving the White House by helicopter with an ironic victory wave on August 8. Again, a sitting president – one who had won a landslide election less than two years earlier – was removed from office.

The stock market did indeed fall over the summer and early fall of 1974, though this period fell in the middle of an extended stagnation in asset markets that had begun in the late 1960s and was attributable to a variety of economic factors – high inflation, soaring oil prices and the devaluation of the dollar among them – that had nothing to do with events in Washington, DC. As it turned out, stocks recovered after hitting a low on October 3, 1974. By March of the following year they had recouped all the ground they lost since Nixon handed over the tapes.

Nothing New Under the Sun

Fast forward to the present. Many of the questions we get asked have to do with what will happen in November when either Hillary R. Clinton or Donald J. Trump wins the vote to become the 45th president of the United States. As you might imagine, we get quite an earful of impassioned opinion one way or the other along with the questions. In a hyper-partisan age there are clearly many among us who see our beloved Republic as fatally threatened if the other side’s candidate ascends to the Oval Office come January 2017. But when we come to work

our job is to put aside our own personal views and take a dispassionate view of what the data are telling us. Right now they are telling us that there is nothing new under the sun. We believe that to be a correct assessment.

What the market is saying, in effect, is that we have been in a state of divided, gridlocked government for many years and will likely continue to be in a state of divided, gridlocked government for some time to come. Congress and the White House may snipe incessantly at each other and periodically scramble to avert a serious crisis – as they have done on several occasions with budget and debt ceiling gamesmanship, for example. But thus far, at least, Washington dysfunction has not brought about an economic recession or had any kind of distinctive negative impact on the earnings capabilities of U.S. companies. Maybe that will change one day – but the empirical evidence at this point does not support such a view. The data say: expect more of the same.

Janet Trumps Donald

In the absence of a looming economic recession, which we at this point do not see, the only entity in Washington, DC that keeps our attention focused day in and day out is the one housed in the Eccles Building – the Federal Reserve. The Fed, and its central banking counterparts elsewhere in the world, have taken on the burden of macroeconomic management through their creative interpretations of stimulative monetary policy. Experts disagree on most aspects of how successful these policies have been, but it would be exceedingly difficult to make the case that they have been abysmal failures. In the U.S., monthly job creation continues unabated for the longest consecutive time period since the Second World War. Europe remains plagued by stagnation and a fragile currency union, but it has managed to avoid both recession and the specter of deflation that threatened to break out in 2011. Even the most troubled of emerging market economies – Russia, Brazil and Turkey to name three – are for the most part muddling through.

The overarching economic narrative, in fact, has changed very little since 2011. That sameness sometimes poses a challenge for us in our Weekly Market Flash commentaries as we try not to repeat ourselves *ad nauseum* from one week to the next. For better or for worse, though, we think it likely that we will be stuck with this boring sameness for some time to come. Even the arguably craziest election season in modern times will, in our opinion, do little to shake up this sameness.

What will shake things up – if and when it happens – will be the perception by markets that central banks have run out of policy tools and are no longer able to deliver the goods. That story may yet come; however, it is one for a different day.

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