Voting and Volatility

How presidential elections affect market volatility

Wondering how the presidential election may affect your portfolio? Here are some insights on how markets have performed in past elections.

Historical data clearly indicates that markets and investors react to presidential elections. When investors are unsure of what the new president's policies are going to be, and whether there will be new taxes or programs, they get nervous. Previous election cycles show some interesting patterns in market performance. Although past performance is generally not indicative of future results, here's what previous elections have meant to the markets:

THEORY	TAKEAWAY
The presidential election cycle theory states that U.S. stocks are weakest in the year following the election of a new U.S. president, growing stronger later in the term, and peaking in year three of the president's term.	**Investing in global developed markets and in emerging markets with strong economic growth may help offset short-term volatility in the U.S. around elections.**
Research suggests that the three-month S&P 500 returns preceding an election can actually indicate election results: If the index rises between July and October leading up to the election, the incumbent candidate or party typically wins, while a decline has led to a new party in the White House.[1]	**Market volatility is higher in years where a non-incumbent president is elected, making it more important to remain invested to avoid missing potential gains.**
Bear markets and recessions tend to start during the first two years of a presidential term, with bull markets often marking the latter half.[2]	**Be mindful of early term volatility by considering investments with defensive positioning.**

[1] Source: "How Presidential Elections Affect the Stock Markets," Trevir Nash, March 2016. http://www.nasdaq.com/article/how- presidential-elections-affect-the-stock-markets-cm586601

[2] Source: "How the Presidential Election Will Affect the Stock Market" Anne Kates Smith, Feb 2016. http://www.kiplinger.com/article/investing/T043-C008-S003-how-presidential-elections-affect-the-stock-market.html

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