Fidelity INTERNATIONAL

10.2016

Investment Insights

Terrence Kan
Director, Client Portfolio Strategist
Regional Institutional Business,
Asia ex Japan, Fidelity International

How US presidential election affects the markets?

In November, the US goes to the polls to choose who will become its next president. The election this year is particularly interesting because it is different in a number of ways to the last few US elections, mainly because of the arrival of Republican candidate Donald Trump on the scene. He will face off against the Democratic candidate Hillary Clinton.

Q1: What does the build up to election day mean for markets?

Equity markets dislike uncertainty, and elections always bring some uncertainty with them. This year looks set to bring more than usual. Firstly, this is one of the few times that there is no presidential incumbent running for re-election and the current vice president is not a candidate, so whoever wins will be new to the office. Secondly, if Donald Trump were to be elected, he would be the first president in 60 years to have not served as a governor or member of Congress. Thirdly, Trump has been offering some different views on how the US should trade with the world and deal with geopolitical issues – some of which could have implications for investors.

Q2: Democrats or Republicans: who does the US stock market prefer?

By looking back at history, we can see that there does appear to be some correlation between US elections and stock market performance, but these are certainly not hard and fast rules and history does not always repeat itself.

There is a common perception that the Republican Party is more pro-business as they tend to support lower taxes and less regulation. The Democratic Party, on the other hand, is seen as more willing to regulate business and support higher taxes. However, these preconceptions seem to be misleading as US equity markets since 1964 tend to have performed better during times when Democrats have been in power.

There may be many reasons for this, including the prevailing domestic and global environment at the time, so we can't put the performance down entirely to the party.

Studying the 13 elections that took place between 1964 and 2012 reveals that when the incumbent party won, US equities rallied on average 14.9% during the first year of the new election term. On the other hand, when the incumbent party lost, US equities declined 2.4% on average during the first year.

Q3: What does this mean for investors?

This year has been marked by periods of increased volatility and uncertainty and it is likely that the rhetoric around the election campaign in the US will add to this. While we can look back at history to get some indications of where markets might go in the year ahead, there is no way of knowing for sure how markets will react.

Uncertainty makes a strong case for diversification across geographies and asset classes. A balanced portfolio will help smooth the journey as the US election campaign picks up steam and things begin to resolve themselves in the UK and Europe.

As an investor, it is important to keep an open mind-set. Maintaining a longer term investment perspective that accepts short-term changes, uncertainty and volatility, will help you take a more dispassionate view. Not only does this help with the job of staying focused on your long-term investment goals, it also allows us to begin to tap into the bargains that may be offered in times of uncertainty.