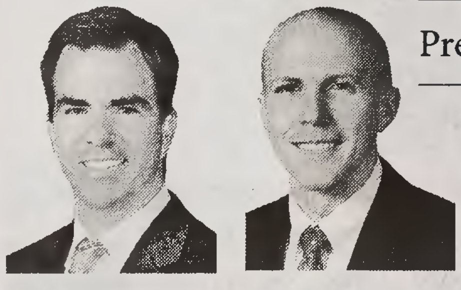
Does the Presidential Election Spell Risk for the Markets?



Presented by Greg Patterson and James Allen Canady

As the U.S. presidential election draws closer, there are growing questions (from both sides) on whether the outcome will negatively affect the markets. Of course, this is not unusual. As you may remember from the last election cycle, many predicted doom if Trump were to win. In the election before that, we saw similar worries concerning Obama. In both cases, despite the fears, the markets ended up doing quite well. Given this, what risks, if any, does the upcoming election pose for the markets? Let's take a closer look.

Are election fears overstated? Politics has less of an effect on the economy, and therefore the markets, than we think. Since 1900, according to Bespoke Research, the average gain for the Dow Jones Industrial Average has been 4.8 percent per year, reflecting the economy as a whole. Decade after decade, markets have moved ahead as the economy grew, regardless of the party in power.

When we do see a political influence, it is not what might be expected. The average Republican administration over that time period saw gains of 3.5 percent per year, while the Democrats saw gains of almost twice as much, at 6.7 percent per year. Recent decades have seen the same pattern, with annual gains under Clinton and Obama exceeding those of both Bushes and Trump (so far).

Put in that context, fears about the election look to be overstated. Trump is a known quantity, so if he is reelected, the effect should be minor. If Democrat Biden is elected, history shows that there is a good chance that, over time, the markets will do at least as well.

Will things be different this time? They could be. Biden plans to raise taxes significantly if elected, which would hit corporate profit margins. If margins decline, so do earnings—and so does the stock market. Higher taxes on the rich would also presumably hit their spending, which would be a drag on growth. These are real concerns.

They are not, however, any different from the concerns that normally accompany a Democratic administration. And, as noted, the Democrats have historically generated higher market returns. Why? Higher taxes are accompanied by higher spending, which also acts to stimulate the economy and the market. We have seen the same effect in recent months, when increased spending by the Trump administration has kept the economy afloat, and a Biden administration would likely expand that support.

Have we been here before? Indeed, this is a normal political cycle. The Republicans take office and cut taxes and spending, and the Democrats then take office and do the reverse. We have seen this pattern many times before, most recently with Obama to Trump.

It is also normal, however, for both sides to make the change look as apocalyptic as possible in hopes of motivating their donors and voters—and that is exactly what we are seeing at the moment. The headlines that point out these likely changes are designed to get maximum attention by maximizing the potential consequences. Hence, the questions and concerns.

The reality, however, is likely to be much less scary. The next president will likely have to deal with a divided government, limiting the administration's ability to pass any significant changes. Even if the Democrats were to take the Senate, a Biden administration would not have a filibuster-proof majority and likely could not rely on all the Democrats to vote for anything radical. The American political system is designed to be hard to change. Nothing in this election will change that, no matter who wins.

The real risks. As investors trying to analyze the election, we should take note that there are certainly risks, but also opportunities. No matter who wins, there will be policy changes, but almost certainly nothing too radical. The real risks will come from reactions to the headlines, rather than to the underlying data. In other words, we should treat this like any other event and act on what actually happens, rather than on whatever disaster the headlines are peddling today.

What should you do? If you have a plan in place, then you should continue to monitor or possibly review that plan with a financial professional to ensure you are on track to meet your goals. If you do not have a plan in place, we would suggest seeking out a financial professional to have that discussion about your goals and how to position yourself for success.

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PKS Commissioners Meeting

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passed in March. He and Commissioner Edwards were concerned with the interpretation and application of the ordinance as it might work more in favor of bigger lots. The other commissioners noted that it applies to all lots equally and that they have received no complaints on the issue. After Assistant Town Manager Anderson provided clarification on the ordinance, a vote to send the ordinance back to the planning board failed on a 3-2 vote.

- Town Manager Kramer requested permission to submit an application for the Resilient Coastal Communities Program, a five-phase program including 20 NC coastal municipalities. The program fits well into the goals of the Pine Knoll Shores Strategic Planning Committee to address vulnerabilities from environmental threats such as sea level rise and stormwater. A motion was made to allow him to proceed and passed unanimously.

No comments were read during the second public comment session.

The next regular Board of Commissioners meeting will be on October 14 at 6 p.m. at town hall.

The full minutes of Board of Commissioners meetings are included in the agenda packets that are publicly available through the calendar on the town website (townofpks.com) and are sent out via email prior to the next month's regular board meeting. If you have questions about access to the minutes, contact Town Clerk Charles Rocci at 247-4353, ext. 13.