

BCA Market Perspective © Stock Direction Post Election

Mitchel Brennan
October 2018

It's October, which means midterm races are heating up, but that's not the only thing. Volatility introduced itself back into the market to start the fourth quarter of the year, down over -6% through the first two weeks. Big daily drops in the S&P 500 of -3.3% and -2.1% followed one of the index's calmest quarters since 1963, having not closed up or down more than 1% since June 25 and generating positive returns for the each of the past six months.

It's not uncommon for volatility or a market correction to occur quickly and unexpectedly. It's par for the course in a maturing bull market. This rationalization of current market movements however should not instill confident complacency among investors. There are potential headwinds facing the market. Tough tariff rhetoric between the U.S. and China threatens global GDP growth. The cost of US debt is rising as the Fed tightens, hiking up rates on the shorter end of the yield curve. The U.S. 10-Year Treasury has climbed from 2.4% to end 2017 to most recently closing over 3.2%.

Many have speculated that the recent volatility may be due to the upcoming mid-term elections. If history is our guide, what does it say about midterm elections and their impact on the U.S. stock market? Looking at the past 18 midterms (back to 1946), the S&P 500 has generated positive returns 100% of the twelve-month periods after polls closed, ending higher a year later every single time. This could be an indication that the midterm elections may in fact be a tailwind for investors, providing better clarity to what the political landscape will look like for at least the next two years. As the chart above displays, the S&P 500 gained on average +14.5% the year following midterm elections since 1946 and +5.0% after the three most recent elections, where the House, Senate, or both changed party control.

STOCKS ARE USUALLY STRONG AFTER A MIDTERM ELECTION					
Date of Midterm Election	President	Result of Midterm Election			S&P 500 Return 1 Year Later
		Senate	House	Congress Makeup	
11/05/46	Harry Truman	Democratic	Democratic	Democratic	0.1%
11/07/50	Harry Truman	Democratic	Democratic	Democratic	16.2%
11/02/54	Dwight D. Eisenhower	Republican	Republican	Republican	33.2%
11/04/58	Dwight D. Eisenhower	Democratic	Democratic	Democratic	11.1%
11/06/62	John F. Kennedy	Democratic	Democratic	Democratic	24.8%
11/08/66	Lyndon B. Johnson	Democratic	Democratic	Democratic	12.9%
11/03/70	Richard Nixon	Democratic	Democratic	Democratic	12.7%
11/05/74	Gerald Ford	Democratic	Democratic	Democratic	18.7%
11/07/78	Jimmy Carter	Democratic	Democratic	Democratic	6.4%
11/02/82	Ronald Reagan	Republican	Democratic	Split	19.9%
11/04/86	Ronald Reagan	Democratic	Democratic	Democratic	1.1%
11/06/90	George H.W. Bush	Democratic	Democratic	Democratic	25.1%
11/08/94	Bill Clinton	Republican	Republican	Republican	27.1%
11/03/98	Bill Clinton	Republican	Republican	Republican	22.0%
11/05/02	George W. Bush	Republican	Republican	Republican	14.9%
11/07/06	George W. Bush	Democratic	Democratic	Democratic	6.7%
11/02/10	Barak Obama	Democratic	Republican	Split	3.7%
11/04/14	Barak Obama	Republican	Republican	Republican	4.5%
11/06/18	Donald Trump	?	?	?	?
Average					14.5%
Median					13.9%
Count					18
% Higher					18

Source: LPL Research, FactSet 10/05/18

While there seems to be plenty of reason to invest with caution in the current market environment, history tells us that the upcoming elections should not be a reason to fear what equity assets will look like twelve months down the road.