



TRUMP VS. BIDEN: WHAT MATTERS TO INVESTORS

In my last blog I showed that Mr. Trump is not the stock market president, in that the U.S. stock market has had better returns under various presidents during their term and that since 1948, the U.S. stock market has done better under a Democratic president than a Republican. History also shows us that in all three presidential election years where there was a recession, the incumbent lost the election.

With the 2020 presidential election less than six weeks away, let's look at the election from two angles. First, who do the experts predict will be the next president? Second, what are the potential macroeconomic consequences of each candidate's policies?

Let us consider two experts that have a track record of correctly predicting presidential elections. First is Moody's Analytics, which created a Presidential Election Model that has correctly predicted every election since 1980, except for the 2016 election. Moody's predictions are based on examining political and economic variables under three models.

Moody's Presidential Election Models and Variables

<u>Political variables</u>	<u>Pocketbook</u>	<u>Stock Market</u>	<u>Unemployment</u>
Nonincumbent party turnout %	X	X	X
Previous share of the vote %	X	X	X
Incumbent Party Fatigue	X		X
Democratic incumbents	X	X	X
President's national approval rating 2 year % change	X	X	X
<u>Economic variables</u>			
U.S. gas prices 1 year % change	X		
Real Income per household 2 year % change	X	X	X
Nominal house prices 2 year % change	X		
S&P 500 stock market index 1 year % change		X	
Unemployment rate 2 quarter % change			X

Source: Moody's Analytics

Based on their models, Moody's expects Senator Biden to win, so long as there is typical or high Democratic voter turnout. If Democrat voter turnout is low, they predict a Trump win.

The second expert is American University Professor, Allan Lichtman, who has correctly predicted every presidential election since 1984 (including 2016). In 1980, Mr. Lichtman and Vladimir Keilis-Borok examined every presidential election from 1860 to 1980 and as a result they developed 13 true or false statements or "keys" to determining the election outcome. If the answer is true it favors the existing president, if false it favors the challenger. The winner is the one with seven or more in their favor. As shown, below using these statements, their model is currently predicting a Biden victory.

Statements	Answer	Favors
The White House Party gained seats in the US House of Representatives during the midterm election	FALSE	Biden
There is no primary contest for the incumbent President	TRUE	Trump
The incumbent party candidate is the sitting President	TRUE	Trump
There is no third-party challenger	TRUE	Trump
The economy is not in recession during the election campaign	FALSE	Biden
Real per capita economic growth during the term = or > mean growth during previous two terms	FALSE	Biden
Incumbent party has made major policy changes	TRUE	Trump
There is no sustained social unrest during the term	FALSE	Biden
The incumbent administration is untainted by major scandal	FALSE	Biden
The incumbent administration suffers no major failure in foreign or military affairs	TRUE	Trump
The incumbent administration achieves a major success in foreign or military affairs	FALSE	Biden
The incumbent party candidate is charismatic or a national hero	FALSE	Biden
The challenging party candidate is not charismatic or a national hero	TRUE	Trump

Source: Allan Lichtman, The Keys to the White House

Moody's recently published a study of the projected macroeconomic consequences of the policies proposed by the two candidates. They examined the candidates' proposed changes to tax codes, government spending, and other economic policies and the impact.

Below is a summary of the sweep scenarios, meaning if each party controls the presidency plus the Senate and the House of Representatives to get their economic and social policies passed into law. According to Moody's, a Biden Presidency would have a larger positive impact on the U.S. economy.

	Democratic	Republican
<u>During the 4 year term</u>	<u>Sweep</u>	<u>Sweep</u>
Average Annual Real GDP Growth	4.2%	3.1%
Job creation change	16.5%	9.3%
Unemployment Rate	5.4%	6.4%
Labor force participation rate	62.9%	62.0%
Increase in real after-tax household income	\$4,800	No change
Corporate profit growth	8.6%	7.1%
Homeownership rate	Increase	Increase
House Prices	Increase	Increase
Stock Prices	Increase	Increase

Source: Moody's Analytics

Bottom Line

Whether it's a Biden or Trump Presidency, the U.S. economy is expected to do well over the next four years. Recent U.S and global economic data point to a continued economic recovery despite

concerns about a second wave of COVID-19. With both the Canadian and the U.S. central banks committed to low interest rates for the next few years, we believe long term equity investors should benefit from attractive dividend yields and potential capital appreciation. If concerns about the outcome of the presidential election or transition of power cause global stock markets to pull back, we would view this as a buying opportunity for long term investors.

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