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Which Party Does the Market Perform Best Under?

By Chris Gay - 11/5/2012

If you're hoping for a GOP victory tomorrow because you think elephants mean stock-market booms while donkeys mean busts, be careful what you vote for.

In fact, the market--and the economy overall--has done way better under Democratic administrations than Republican. According to Doug Short, vice president of research for the Adviser Perspectives newsletter, since 1900 the Dow Jones Industrial Average has gained an average of 8.7 percent a year under Democrats and only 5.7 percent under Republicans. Short's figures exclude dividends and aren't adjusted for inflation.

Indeed, the Dow's two best years came under Democratic administrations (Wilson and Franklin Roosevelt) and the two worst under Republicans (Hoover and George W. Bush). The single best period for the Dow under a particular president was Bill Clinton's eight years (up an annualized 16.6 percent) and the single worst was Republican Herbert Hoover's four years (down an annualized 33 percent).

Since 1930, Short's data show, GDP growth has averaged 1.8 percent under Republican administrations and 4.8 percent under Democrats.

You can slice the data differently, but the Democrats still come out on top. *The New York Times* reported just before the 2008 election that a one-time investment in the S&P 500 under Democratic administrations alone since 1929 would have netted a 30-fold gain, compared with a total 17-percent gain under Republicans. That's 8.9 percent annualized growth under Democrats and 0.4 percent under Republicans, at a point when both had held the White House for equal periods over the previous eight decades.

Throwing out the disastrous Hoover years produces a five-fold increase, or a 4.7-percent annualized gain, for the GOP--still way behind the Democrats.

Obama has raised the Democratic average. As of Friday's close, the S&P was up 68 percent on Obama's watch, for an annualized gain of 14.9 percent.

Short's results reflect the annual change in the Dow measured by administration. A widely cited study by CMC Markets, a UK-based foreign-exchange trading company, averages the Dow's monthly changes to capture volatility within years. Like Short, CMC excludes dividends and does not account for inflation.

CMC's results also show markets under Democratic administrations well ahead since 1900, by an annualized 15.31 percent to 5.43 percent. If you average CMC's data by year instead of by month, you get an annualized 10.11 percent for Democratic eras and 7.64 percent for Republican periods. The Dow's gains under 61 years of Democratic administrations (through the end of August) come to a nominal 602 percent, versus 504 percent for 51 years of Republican administrations. What's more, market volatility has been lower during Democratic eras.

Other studies produce similar results. *The Economist* noted last month that the Barclays U.S. equity index gained an inflation-adjusted 300 percent under Democratic administrations between 1929 and 2011, versus slightly less than zero under Republican regimes.

To be sure, there's probably as much coincidence here as causation, and there are plenty of qualifications that bear mention. For starters, governance isn't entirely about who controls the White House. It also matters who controls Congress at any point, and there have been several periods marked by a divided government (the early Truman and late Clinton years, for example).

There's also the little matter of who runs the Federal Reserve, which was established in 1913. "It's fair to say that whoever chairs the Federal Reserve is almost as important as who's president, for the stock market," says Mark Calabria, director of financial-regulation studies for the libertarian CATO Institute. "How much of this is driven by inflation? In some years, like Kennedy and Nixon, those are probably negative real returns."

Based solely on White House control, the GOP market average also gets pulled down by the two biggest crashes on record. Even if you blame them on financial deregulation (and Democrat Clinton, as much as any Republican, comes to mind here) the crashes themselves could have come on anyone's watch. Conversely, Democrats--particularly Franklin Roosevelt and Obama--benefited from the rallies that naturally followed those two crashes.

If the implication is that party philosophy accounts for the Democratic advantage, it's worth noting that party comparisons over such a long period are a bit of a stretch. Markets were pretty weak under Republican Theodore Roosevelt, but in today's ideological terms he's better understood as a Democrat than a

Republican. He railed against powerful financial interests ("trusts," as they were called) while promoting food-and-drug regulation and labor rights. If you're trying to link traditional Republican ideology to weak market conditions, TR is not your man.

Conversely, the Dow's two biggest one-year rallies might be only partially attributable to Democratic policies. The first, in 1915, came after the market had been closed or trading severely curtailed for nine months amid the start of war in Europe, and it could reflect a flight of European capital into the safety of U.S. markets, suggests CATO's Calabria. The second, during 1933, surely owes something to confidence rekindled by the incoming Roosevelt administration, but could partly have been a particularly large dead-cat bounce, given that the markets were down by more than 90 percent at their Depression-era low point.

"If you held me to a pattern, the pattern I see is that when you have a new president that promised big departures in policy from the previous one, you get a positive market reaction," says Brian Gendreau, market strategist for Cetera Financial and a professor of finance at the University of Florida. Examples, he says: FDR, Reagan, and Obama.

The fact that the Democrats haven't been waving the numbers around may be one indication that there's more correlation than causation at play here. On the other hand, it could just be prudent gamesmanship, as Calabria notes: "You complain about inequality, then you're going to try to take credit for things that increase inequality?"