On the Minds of Investors

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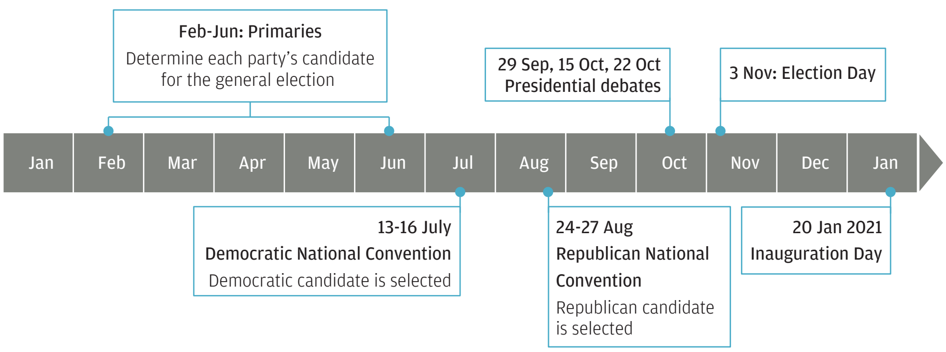
How will the 2020 US presidential election affect markets?

The political event of the year will be the presidential election on 3 November. While it seems highly likely that Donald Trump will have the Republican nomination, there is much less clarity over who will lead the Democrats. There are currently three frontrunners for the nomination: Joe Biden as the more centrist candidate, and Bernie Sanders and Elizabeth Warren from the left wing of the party. Warren and Sanders are advocating some radical policy changes, including an overhaul to the health care system, breaking up big banks and tech firms, banning fracking, and imposing wealth taxes and higher corporate taxes. Biden's proposed policies are comparatively moderate, but still include reversing the 2017 tax cuts. Michael Bloomberg and Pete Buttigieg are two other more centrist candidates that are currently less favoured, but worth watching. Support can swing wildly during the process – for example, Barack Obama overturned a significant lead in the polls from Hilary Clinton to win the Democratic nomination and ultimately the 2008 election.

We should have a clearer picture of who the Democratic nominee is likely to be by the end of March, when two-thirds of the primary results (by the number of delegates) are known. The primaries are followed by the respective party conventions, when the candidates are officially selected. Then it's to the presidential debates in September and October, before the US electorate finally casts its votes on 3 November (see **Exhibit 1** for a timeline of key events).

EXHIBIT 1: KEY EVENTS OF THE 2020 US PRESIDENTIAL ELECTION



Source: J.P. Morgan Asset Management. As of 31 December 2019.

Who is likely to win? History strongly favours the incumbent: nearly three-quarters of sitting presidents have been re-elected, looking at elections going back to 1932. Since then, an incumbent president has never failed to win re-election unless a recession has occurred during their time in office, which perhaps explains the president's more conciliatory recent tone on trade. But President Trump's approval rating is lower than what other incumbent presidents' ratings were when they won re-election.

AUTHOR

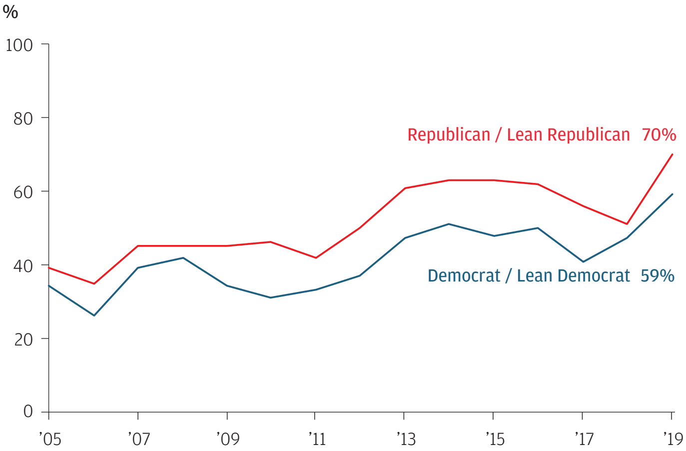
Maria Paola Toschi
Global Market Strategist

It is worth bearing in mind that the impact that any president can have on the economy and market depends on their ability to enact legislation. To be able to put in place more controversial policies, control of both the House of Representatives and the Senate is necessary. It is difficult to see President Trump regaining control of the House of Representatives, were he to win. Similarly, it is difficult to see the Senate shift to a Democrat majority. And so a divided Congress appears the most likely outcome. While political gridlock is not an ideal scenario, it may comfort investors to know that it could act as a considerable restraint on some of the more radical proposals on both sides. Regardless of the election outcome, it seems unlikely that the trade conflict with China will be fully resolved - surveys suggest that there remains widespread support among the US electorate to address unfair trade practices (**Exhibit 2**).

We expect that the Federal Reserve (Fed) will be wary of being perceived as political by affecting the election through its policy decisions. It therefore seems likely that interest rates will remain on hold in 2020 (after the three rate cuts taken in 2019) should the economic outlook not significantly change and force the Fed to act.

In terms of stock markets, it is hard to say anything concrete about the likely impact of the election. Historically, S&P 500 volatility has typically been higher in election years than in non-election years, as markets frequently reprice the probability of the future administration's policies. Markets have also tended to react more positively in the immediate aftermath of the election of a Republican president, as the party's policies are broadly thought of as more market friendly. But it is important to note that this is by no means a strong rule of thumb, and that other significant geopolitical and economic events may carry more influence over the market's direction.

EXHIBIT 2: US VOTERS WHO HAVE AN UNFAVOURABLE OPINION OF CHINA



Source: Pew Research Center (Spring 2019 Global Attitudes Survey), J.P. Morgan Asset Management. Data as of 31 December 2019.

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