

On the Minds of Investors

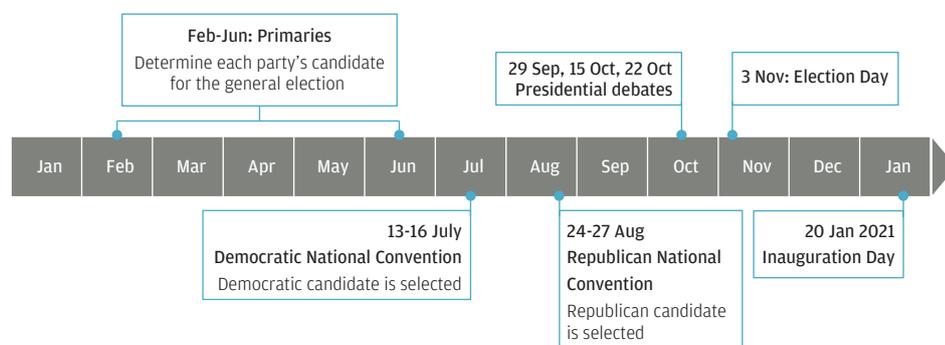
January 2020

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.

AUTHOR



Maria Paola Toschi
Global Market Strategist

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.

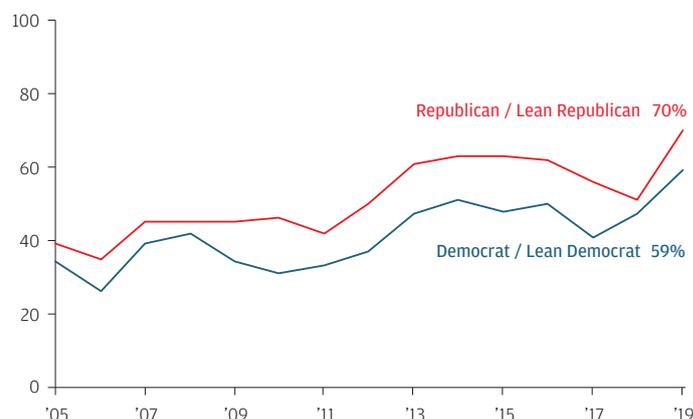
It is worth bearing in mind that the impact that any president can have on the economy and market depends on their ability to enact legislation. To be able to put in place more controversial policies, control of both the House of Representatives and the Senate is necessary. It is difficult to see President 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.

The Market Insights program provides comprehensive data and commentary on global markets without reference to products. Designed as a tool to help clients understand the markets and support investment decision-making, the program explores the implications of current economic data and changing market conditions. For the purposes of MiFID II, the JPM Market Insights and Portfolio Insights programs are marketing communications and are not in scope for any MiFID II / MiFIR requirements specifically related to investment research. Furthermore, the J.P. Morgan Asset Management Market Insights and Portfolio Insights programs, as non-independent research, have not been prepared in accordance with legal requirements designed to promote the independence of investment research, nor are they subject to any prohibition on dealing ahead of the dissemination of investment research.

This document is a general communication being provided for informational purposes only. It is educational in nature and not designed to be taken as advice or a recommendation for any specific investment product, strategy, plan feature or other purpose in any jurisdiction, nor is it a commitment from J.P. Morgan Asset Management or any of its subsidiaries to participate in any of the transactions mentioned herein. Any examples used are generic, hypothetical and for illustration purposes only. This material does not contain sufficient information to support an investment decision and it should not be relied upon by you in evaluating the merits of investing in any securities or products. In addition, users should make an independent assessment of the legal, regulatory, tax, credit, and accounting implications and determine, together with their own professional advisers, if any investment mentioned herein is believed to be suitable to their personal goals. Investors should ensure that they obtain all available relevant information before making any investment. Any forecasts, figures, opinions or investment techniques and strategies set out are for information purposes only, based on certain assumptions and current market conditions and are subject to change without prior notice. All information presented herein is considered to be accurate at the time of production, but no warranty of accuracy is given and no liability in respect of any error or omission is accepted. It should be noted that investment involves risks, the value of investments and the income from them may fluctuate in accordance with market conditions and taxation agreements and investors may not get back the full amount invested. Both past performance and yields are not a reliable indicator of current and future results. J.P. Morgan Asset Management is the brand for the asset management business of JPMorgan Chase & Co. and its affiliates worldwide. To the extent permitted by applicable law, we may record telephone calls and monitor electronic communications to comply with our legal and regulatory obligations and internal policies. Personal data will be collected, stored and processed by J.P. Morgan Asset Management in accordance with our privacy policies at <https://am.jpmorgan.com/global/privacy>. This communication is issued by the following entities: in the United Kingdom by JPMorgan Asset Management (UK) Limited, which is authorized and regulated by the Financial Conduct Authority; in other European jurisdictions by JPMorgan Asset Management (Europe) S.à r.l.; in Hong Kong by JPMorgan Asset Management (Asia Pacific) Limited, or JPMorgan Funds (Asia) Limited, or JPMorgan Asset Management Real Assets (Asia) Limited; in Singapore by JPMorgan Asset Management (Singapore) Limited (Co. Reg. No. 197601586K), this advertisement or publication has not been reviewed by the Monetary Authority of Singapore; in Taiwan by JPMorgan Asset Management (Taiwan) Limited; in Japan by JPMorgan Asset Management (Japan) Limited which is a member of the Investment Trusts Association, Japan, the Japan Investment Advisers Association, Type II Financial Instruments Firms Association and the Japan Securities Dealers Association and is regulated by the Financial Services Agency (registration number "Kanto Local Finance Bureau (Financial Instruments Firm) No. 330"); in Australia to wholesale clients only as defined in section 761A and 761G of the Corporations Act 2001 (Cth) by JPMorgan Asset Management (Australia) Limited (ABN 55143832080) (AFSL 376919); in Brazil by Banco J.P. Morgan S.A.; in Canada for institutional clients' use only by JPMorgan Asset Management (Canada) Inc., and in the United States by J.P. Morgan Institutional Investments, Inc., member of FINRA; J.P. Morgan Investment Management Inc. or J.P. Morgan Alternative Asset Management, Inc. In APAC, distribution is for Hong Kong, Taiwan, Japan and Singapore. For all other markets in APAC, to intended recipients only.

Copyright 2020 JPMorgan Chase & Co. All rights reserved.

LV-JPM52535 | 01/20 | 0903c02a827beefc