THE FUTURE IS YOU

KLEINWORT HAMBROS

CIO BLOG

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REMEMBER, REMEMBER, THE FOURTH OF NOVEMBER…IN 2025

With hyper-partisanship forming the central theme of our zeitgeist, the upcoming American pageant will be bombastic. Be prepared for incendiary personal attacks, instant social-media rage echo chambers and tragicomic spectacle – the first debate repeated nightly on your television, essentially. The cacophony may well cause market volatility, and the impulse to act on the searing hot stimuli of screaming heads and scarlet-lettered headlines will be almost irresistible.

Nonetheless, this election too shall pass. It was just four years ago when markets were agitated about the potential implications of a Donald Trump victory; apocalyptic visions were painted. Here we are, four years later, and fickle investors appear to be dreading the opposite. The common refrain is that Donald Trump – while certainly unconventional – is pro-business, with tax cuts in 2017 being one of his signature presidential achievements. The logic goes that if Joe Biden should come to power, taxes will rise, which in turn may upend global risk assets, along with increased regulation. Some of the president's recent musings even raise the spectre of his refusal to concede a loss or transfer power, should he be dissatisfied with the fairness of the balloting.

US PRESIDENTS SINCE 1877

Party	Name & Dates in Office	Annualised Performance of US Equities	Average Real GDP Growth (%)
Democratic			
	Barack Obama (20/01/2009 to 20/01/2017)	13.2%	0.8%
	Bill Clinton (20/01/1993 to 20/01/2001)	14.4%	2.7%
	Franklin D. Roosevelt (04/03/1933 to 12/04/1945)	9.8%	8.2%
	Grover Cleveland (04/03/1885 to 04/03/1889)	10.6%	3.2%
	Grover Cleveland (04/03/1893 to 04/03/1897)	3.6%	-2.3%
	Harry S. Truman (12/04/1945 to 20/01/1953)	8.7%	-0.4%
	Jimmy Carter (20/01/1977 to 20/01/1981)	1.3%	2.1%
Assassinated	John F. Kennedy (20/01/1961 to 22/11/1963)	9.3%	2.7%
Civil rights bill	Lyndon B. Johnson (22/11/1963 to 20/01/1969)	7.1%	4.1%
	Woodrow Wilson (04/03/1913 to 04/03/1921)	-4.4%	0.8%
Democratic Average		**7.3%**	**2.2%**
Republican			
Lost popular vote	Benjamin Harrison (04/03/1889 to 04/03/1893)	4.9%	2.5%
	Calvin Coolidge (08/02/1923 to 04/03/1929)	24.0%	2.9%
	Chester A. Arthur (19/09/1881 to 04/03/1885)	2.1%	-0.6%
Lost popular vote	Donald Trump (20/01/2017 to 31/08/2020)	11.2%	2.0%
	Dwight D. Eisenhower (20/01/1953 to 20/01/1961)	13.8%	1.2%
	George H. W. Bush (20/01/1989 to 20/01/1993)	10.2%	1.0%
Lost popular vote	George W. Bush (20/01/2001 to 20/01/2009)	-5.8%	1.2%
	Gerald Ford (09/08/1974 to 20/01/1977)	11.1%	1.6%
	Herbert Hoover (04/03/1929 to 04/03/1933)	-19.1%	-6.5%
Assassinated	James A. Garfield (04/03/1881 to 19/09/1881)	-8.2%	9.9%
Major scandal	Richard Nixon (20/01/1969 to 09/08/1974)	-7.7%	1.7%
	Ronald Reagan (20/01/1981 to 20/01/1989)	10.1%	2.5%
Lost popular vote	Rutherford B. Hayes (04/03/1877 to 04/03/1881)	27.0%	4.9%
	Theodore Roosevelt (14/09/1901 to 04/03/1909)	4.1%	-0.5%
Major scandal	Warren G. Harding (04/03/1921 to 08/02/1923)	30.1%	-0.1%
	William Howard Taft (04/03/1909 to 04/03/1913)	2.5%	2.2%
Assassinated	William McKinley (04/03/1897 to 14/09/1901)	15.1%	4.1%
Republican Average		**7.4%**	**1.8%**

FOOTNOTES AT END

In this piece, we are neither dismissing nor validating the various fears. Some have truth. Corporate taxes, for instance, are likely to increase: from 21% to 28%. One could argue that this is still well below the tax rate in several major advanced economies (e.g. Australia, France). We could also surmise that large US corporates would already have repatriated waves of foreign-held cash during the last few years of favourable tax treatment. *However, that is not the point of this piece.*

The point is much simpler: long-term investors such as ourselves should be more focused on where we expect risk-assets to be on 4th November 2025, rather than 4th November 2020. Why?

Firstly, no one knows who will win the election, if it will be controversial, or how markets will react to what no one can predict in the first place – conventional wisdom from experts is a poor guide. Look no further than four years ago. Markets were terrified of what would happen if Donald Trump were to win, and few expected such an outlandish thing could occur. Lindsay Graham – a deep-red establishment Senator from South Carolina, and one of President Trump's most loyal current supporters – said the following in 2016: *"I believe Donald Trump would be an* ***absolute, utter disaster for the Republican Party****, and destroy conservatism as we know it. We'd get wiped out, and* ***it would take generations to overcome a Trump candidacy.****"*

This seasoned political operator could not see a few months ahead of him; and it has taken far less than a generation for him to completely change his personal tune. Had Mr. Graham known the outcome of this election we know what he would have done with his politics, but what might he have done with his portfolio? Sold everything and gone to cash is a reasonable supposition given his fears. On this, he would have been wrong too, as markets warmed up to the election result far quicker than he did!

Secondly, history tells us that there is little to choose from between the two main US parties in terms of equity market performance over the long-term. In table 1, there is a list of all US presidents from Rutherford Hayes (19th) to the current incumbent (45th). [We began in President Hayes' tenure because we have a reliable source of US equity market returns from that period onwards.] Under Democratic regimes, the average, real (i.e. net of inflation) annual equity market return is +7.3%; under Republican administrations, it is +7.4%. **In plain words, there is no difference between the two at the headline level for investors over time.**

Of course, there are huge differences within the wider sample and each administration has its idiosyncrasies. The best performing Democrat was Bill Clinton, who presided over annualised US equity market performance of 14.4%: stable inflation and robust economic growth were hallmarks of his tenure. Woodrow Wilson, on the other hand, was the worst performing, even though he is considered one of the most competent US presidents – he created the modern Federal Reserve and broke up monopolies. (His views on race, however, were abhorrent). Some may point to his tenure coinciding with World War I, though this would not explain poor equity market performance. The conflict occurred during the first part of his tenure and was a boon to the initial returns during his administration, with the index falling by over a third from November 1919 to the end of his presidency two years later.

Republicans carry similar idiosyncrasies when one drills down. The best performing Republican was Warren G. Harding, with an annualised performance of over 30% during his presidency. However, today his truncated tenure is far more associated with deep corruption (i.e. Teapot Dome scandal). Herbert Hoover has the dubious distinction of experiencing the worst annualised equity returns for a president of either party, averaging -19%. Of course, he had little to do with it - his tenure just happened to begin in 1929, shortly before the Great Crash and the advent of the Great Depression.

There is a somewhat wider gap in relative economic growth statistics, where Democrats tend to deliver more robust performance, which is counterintuitive given Republicans have marketed themselves quite successfully as having a better handle on economic policy. However, this does not tell us anything definitive. As the above examples demonstrate, growth in any year often has little to do with the person in the White House and is uncorrelated with equity market returns in single, discrete years.

The reason why returns tend to average out over time, regardless of the party in power, is most likely that the US enjoys rule of law and established institutions that handle the basics of governance (e.g. enforcing contracts, ensuring peaceful transfers) relatively well. It's as simple as that.

Some might postulate that this time is different. Indeed, deep, rancorous division across the political spectrum is palpable and can be rather demoralising – but it is not new. **Race riots, not new.** The US was arguably far more divided – and racial tensions even more embittered – when Lyndon Baines Johnson pushed through landmark civil rights legislation in the 1960s. **Contested elections, not new.** Four US presidents in the last 150 years have lost the popular vote but gone on to occupy the White House via the electoral college. This happened most recently in 2000, when Al Gore was pipped by George W. Bush due to a few-hundred Floridian "hanging chads". **Major scandals, not new.** Teapot Dome, Watergate Gate, and the intelligence supporting wars in Vietnam and Iraq come to mind.

Bottom line

As we have noted in the run-up to myriad geopolitical risk events, **our investment process seeks to evaluate the long-term fundamentals rather than focus on short-term movements. It is deliberately long-term** to eschew the "noise" which inevitably surrounds such events, and look to what we consider indelible, longstanding drivers of asset returns: economic climate, valuation, momentum and sentiment. **To the degree that geopolitical events impact the fundamentals, we pay attention.** To the degree they do not, we remain positioned to take advantage of any excessively bearish sentiment by taking contrarian positions.

Footnotes

1. Analysis starts for the 19th President as US equity data was not accurately available before from data source
2. Annualised equity performance is Total Return, adjusted for inflation and dividends
3. GDP Data from Samuel H. Williamson, 'What Was the U.S. GDP Then?' MeasuringWorth, 2020.
4. Average Real GDP per year is a geometric average of annual figures. Each president is credited with GDP for entire year regardless of when sworn in
5. If President is in office for more than 6 months of a year he is given credit for the GDP Growth rate of that year
6. Multiple Expansion and US Equites are using Shiller Cape Data

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