SPECIAL MARKET COMMENTARY
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Presidential Election and Equity Markets

Much of the slow start to 2016 has been blamed on the uncertainty surrounding this year's presidential election, and we at Trustmark Investment Advisors, Inc. have fielded numerous questions about this presidential election cycle. Most of these questions are a variation of the following – How will this year's election impact equity markets?

Historically, politics has very little to do with equity market returns, and letting your political views tilt your investment outlook is typically not a winning strategy. Markets have done well over the years with both Republicans and Democrats occupying the White House.

Equity markets are discounting mechanisms – investors discount future expectations and adjust today's prices accordingly. Along with future dividends or earnings, markets will also discount the outcome of this year's presidential election. At the time of this writing, the presidential election is far from certain, and that uncertainty is worrisome to investors. As the results become clear, equity markets will begin to discount the clearer outcome and prices will adjust. More than the agenda or policy of any candidate, equity markets will want to know who the parties will nominate and which of those nominees take a lead in the polls ahead of November.

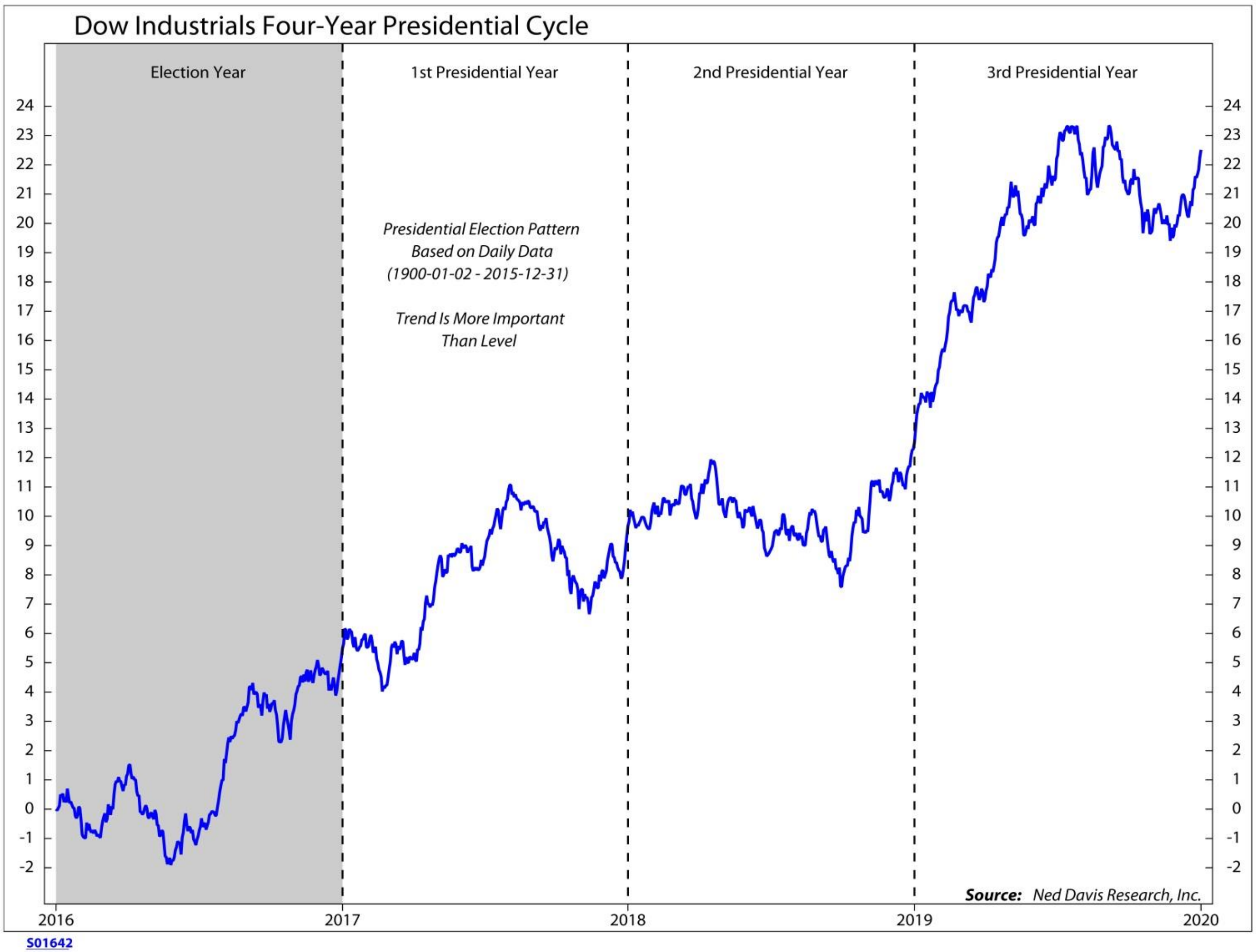
In a recent piece, Ned Davis Research makes note of this discounting and uncertainty phenomena. The firm wrote, "For example, in 1996, President Clinton's reelection bid was rarely in doubt, and the DJIA suffered only one correction over 5%. Conversely, in 2004, George W. Bush was in a tight battle with John Kerry for a second term, and the market didn't make its low for the year until 10/25."[1]

In a typical election year, markets begin in rough fashion and reach a low sometime in May. Years like 2004 when there was more uncertainty regarding the outcome, the bottoming process did not occur until the end of October. The 2004, bottom occurred much later and the decline less shallow than in 1996 when the outcome was a more known commodity. A chart of the election year cycle is included courtesy of Ned Davis Research, showing the Four Year Presidential Cycle as measured by the Dow Jones Industrial Average. The first panel depicts a composite of all election years, and the subsequent index performance.

[1] "What's Needed for a Sustainable Rally" Ned Davis Research, February 9, 2016

While politics has very little impact on equity market returns, what does matter in election years is having a clear picture of who each party will nominate, or having a candidate clearly ahead in the pre-election polls. So whichever side of the aisle you may reside on, we should all be rooting for both parties to get through their conventions and narrow this year's election down to two primary candidates.

However, if the current condition persists, and the parties enter their conventions with no clear frontrunner, history would suggest that markets will continue to languish. Conversely, once the parties have their nominees and we get closer to November, expect the markets to discount the likely winner and breathe a sigh of relief for the latter part of 2016.



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