



**Stuart Morrow**  
Vice President  
& Head of Investments  
RBC Phillips, Hager & North  
Investment Counsel Inc.



## Seeing past the U.S. election noise

Here we are, it's November 4, and we are still waiting for the results of the U.S. presidential election and U.S. Senate race. The delayed results were a definite possibility heading into the election given the significant number of mail-in and early-voting ballots. The various methodologies for counting these ballots across different U.S. states certainly meant that delayed election results were a real possibility, and there may not be a clear winner for days, or even weeks. As a result, there could be increased volatility in the near term. Despite the volatility, our outlook remains unchanged from prior to the election.

In this note, we will describe two other instances in the past where presidential results were disputed, and we will show how the S&P 500 Index typically trades into and around the U.S. presidential election date. We do not advocate investing with such short-term time horizons, however, we want to provide some perspective on what has happened in the past. We encourage you to read our in-depth article published prior to the election, "Elect to stay focused on your goals – and not the U.S. election noise", for additional perspective on market volatility around the election.

### Lead-up to the election

As we expected, over the last few weeks we have seen volatility in the equity markets pick up ahead of the election. At the lows of the month, the S&P 500 Index corrected about 9% due to a number of factors including a tightening of the polls which showed Biden's lead over Trump narrowing in certain key states. A contested/delayed election result was feared as a headwind for additional fiscal stimulus. At the same time, we have seen positive news from corporate earnings in October across different industries. This week the S&P 500 is almost 3.5% higher, recovering most of the losses from previous week as a Democratic sweep was priced in.

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## What happens when there is no clear winner?

Looking back through history there are two instances of a contested presidential election. There was a true constitutional crisis around the presidential election of 1876, when neither Samuel J. Tilden, a Democrat, nor Rutherford B. Hayes, a Republican, won a majority of the Electoral College. There was a ton of debate at the time, but a compromise was reached nonetheless.

The other, more relevant example of a contested election was the 2000 presidential election, which featured George W. Bush versus Al Gore. On

the evening of November 7, 2000, a clear winner had yet to emerge in that day's U.S. presidential election between Bush and Democratic candidate Al Gore. Ultimately, the contest focused on Florida. Over the next month the battle for recounting / not recounting the votes in Florida took place with some 50 individual suits filed concerning the various counts, recounts, and certification deadlines with the Florida Supreme Court. By December the case was in front of the U.S. Supreme Court, which on December 12, 2000 reversed a Florida

Supreme Court request for a selective manual recount of that state's U.S. presidential election ballots. The 5-4 decision effectively awarded Florida's 25 votes in the Electoral College – and thus the election itself – to Republican candidate George W. Bush. In the chart below we show the performance of the S&P 500 Index during the Bush/Gore contested election period. Over this period of time, the S&P 500 declined approximately 5%, with daily price swings between -3.3% and -3.9%. Yet the prior six-month return to the election in the S&P 500 Index was +8.0%.

Chart 1: S&amp;P500 Returns around Presidential Elections

S&P500 Index: Short-term Election Year Performance									
Year	President Elect	Party	Monday Prior Performance	Wednesday After Performance	November Performance	December Performance	January Performance	February Performance	March Performance
1928	Herbert Hoover	Republican	1.32%	-	11.99%	0.29%	5.71%	-0.58%	-0.23%
1932	Franklin D. Roosevelt	Democratic	5.23%	-4.42%	-5.89%	5.65%	0.29%	-18.44%	3.36%
1936	Franklin D. Roosevelt	Democratic	-0.35%	1.51%	0.29%	-0.58%	3.43%	1.63%	-0.78%
1940	Franklin D. Roosevelt	Democratic	0.72%	-3.32%	-4.60%	0.09%	-4.82%	-1.49%	0.40%
1944	Franklin D. Roosevelt	Democratic	0.54%	-0.15%	0.39%	3.51%	1.43%	6.16%	-4.83%
1948	Harry S. Truman	Democratic	1.21%	-4.61%	-10.61%	3.05%	0.13%	-3.94%	3.01%
1952	Dwight D. Eisenhower	Republican	0.33%	0.28%	4.65%	3.55%	-0.72%	-1.82%	-2.36%
1956	Dwight D. Eisenhower	Republican	1.32%	-1.03%	-1.10%	3.53%	-4.18%	-3.26%	1.96%
1960	John F. Kennedy	Democratic	0.38%	0.44%	4.03%	4.63%	6.32%	2.69%	2.55%
1964	Lyndon B. Johnson	Democratic	0.38%	-0.05%	-0.52%	0.39%	3.32%	-0.15%	-1.45%
1968	Richard Nixon	Republican	0.04%	0.16%	4.80%	-4.16%	-0.82%	-4.74%	3.44%
1972	Richard Nixon	Republican	-0.21%	-0.55%	4.56%	1.18%	-1.71%	-3.75%	-0.14%
1976	Jimmy Carter	Democratic	0.19%	-1.14%	-0.78%	5.25%	-5.05%	-2.17%	-1.40%
1980	Ronald Reagan	Republican	1.23%	1.77%	10.24%	-3.39%	-4.57%	1.33%	3.60%
1984	Ronald Reagan	Republican	0.69%	-0.73%	-1.51%	2.24%	7.41%	0.86%	-0.29%
1988	George H. W. Bush	Republican	-0.86%	-0.66%	-1.89%	1.47%	7.11%	-2.89%	2.08%
1992	Bill Clinton	Democratic	0.97%	-0.67%	3.03%	1.01%	0.70%	1.05%	1.87%
1996	Bill Clinton	Democratic	0.42%	1.46%	7.34%	-2.15%	6.13%	0.59%	-4.26%
2000	George W. Bush	Republican	0.39%	-1.58%	-8.01%	0.41%	3.46%	-9.23%	-6.42%
2004	George W. Bush	Republican	0.03%	1.12%	3.86%	3.25%	-2.53%	1.89%	-1.91%
2008	Barack Obama	Democratic	-0.25%	-5.27%	-7.48%	0.78%	-8.57%	-10.99%	8.54%
2012	Barack Obama	Democratic	0.22%	-2.37%	0.28%	0.71%	5.04%	1.11%	3.60%
2016	Donald Trump	Republican	2.22%	1.11%	3.42%	1.82%	1.79%	3.72%	-0.04%
2020	???	???	1.23%	???	???	???	???	???	???
<b>Mean</b>			<b>0.72%</b>	<b>-0.85%</b>	<b>0.72%</b>	<b>1.41%</b>	<b>0.84%</b>	<b>-1.84%</b>	<b>0.45%</b>
<b>Median</b>			<b>0.41%</b>	<b>-0.61%</b>	<b>0.29%</b>	<b>1.18%</b>	<b>0.70%</b>	<b>-0.58%</b>	<b>-0.04%</b>
<b>Odds up</b>			<b>83%</b>	<b>36%</b>	<b>57%</b>	<b>83%</b>	<b>61%</b>	<b>43%</b>	<b>48%</b>

Source: Cornerstone Macro LLC. An investment cannot be made directly into an index, all returns are time-weighted daily returns in U.S. dollars, price returns only, gross of fees, trading costs and fees. Past performance is not a guarantee of future results.

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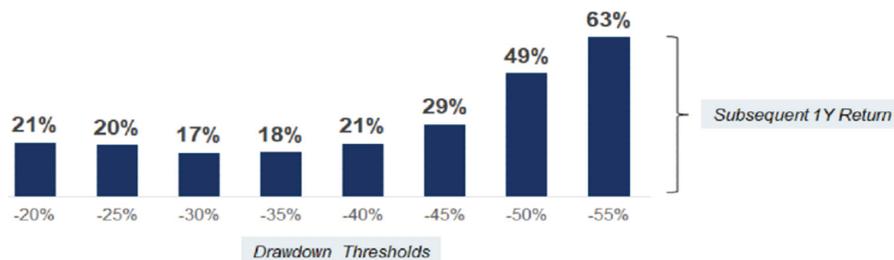
The subsequent one-, three- and five-year forward returns from this period were below the average for all other U.S. presidential cycles, mostly owing to the correction in Information Technology and other stocks, which is often referred to the “Dot-com bubble.” The resulting returns were more a result of that than the 2000 presidential election.

In Chart 1, we provide some short-term perspective around the past 23 U.S. presidential elections. You can see in the month of November during an election, there can certainly be quite negative monthly returns in the S&P 500 Index, as was the case in 1932, 1940, 1948, 2000 and 2008. Yet the odds of a positive performance for the month are still 57%, and slightly higher for December at 82%. These are very short-term returns, and of course past performance is no guarantee of future results. These are only provided to allow for some perspective on today’s market and what may still come ahead.

Now that we’ve explored the short-term impact of what could be, let’s remind ourselves that a proper investment time horizon and time in the market are what matters most to investors. In Chart 2, we provide some perspective on what returns typically follow larger drawdowns in the market, which indicates that volatility can be viewed as an opportunity, rather than a risk.

Here we show the various historical drawdowns in the S&P 500 Index, from -20% to -55%. Above each drawdown threshold, we show the median one-

**Chart 2. One-year median returns for S&P 500 Index following market drawdowns**



The above chart shows 1-year median returns for the S&P 500 Index following the date on which the above-indicated drawdown occurred. Source: RBC GAM, Bloomberg. As of March 16, 2020. An investment cannot be made directly into an index. The graph does not reflect transaction costs, investment management fees or taxes. If such costs and fees were reflected, returns would be lower. Past performance is not a guarantee of future results.

Time-weighted daily returns in U.S. dollars, price returns only, gross of fees, trading costs and fees.

year forward return in the S&P 500 following the drawdown. We cannot know for sure if today’s trading will lead to a subsequent correction or an official bear market (-20% or more), but there is some comfort here in terms of mean reversion for the index over a reasonable time period. Again, in the short term, the market returns are dominated by sentiment and emotion which can be influenced by political events like an election. Over the longer term, the fundamentals of businesses such as operational and capital decisions – along with innovation, customer satisfaction, company culture, values, market share and pricing power – matter more to equity returns. These are arguably less impacted by who is President of the United States.

Without trivializing the outcome of the election over the near term, there is always a wall of worry that the market seems to be facing. We showed in our

article, “Elect to stay focused on your goals – and not the U.S. election noise,” that trying to predict the outcome from short-term events, like the election, is not a viable investment strategy. Any timing decision in the market requires at least two predictions. First, when is it time to sell and second, when is it time to get back in? The odds are low that you can be consistently correct on both decisions. We prefer to remain invested despite the volatility ahead. With proper diversification across various asset classes, regions, and investment strategies we allow ourselves to remain invested and allow the magic of compound returns to work, unabated.

Please reach out to your Investment Counsellor if you have any questions or concerns.

Be well,  
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Wealth Management  
PH&N Investment Counsel

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S&P 500 Index: The S&P 500 Index includes 500 companies across many sectors of the U.S. economy. The index is weighted by market capitalization so bigger companies make up a larger proportion of the index than smaller companies. The index is designed to measure performance of the broad US economy through changes in the aggregate market value of the largest US companies.

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