



# Election night 2020: Sit back, relax and enjoy the show



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Market-watching is part of my job description. Like others for whom this special brand of navel-gazing is all in a day's work, I naturally have a few thoughts about how the market and the different sectors that comprise it might react on the morning of November 4. But rather than add my own semi-informed and inevitably biased guesses alongside the dozens of others choking your inbox, I thought it might be more useful to take a step back and instead address what really seems to be driving the curiosity behind all the election-year hand-wringing: What happens if one of the more dire predictions about the 2020 election cycle comes to pass?

The slate of potential outcomes from this year's election is truly dizzying (should we have expected anything different from 2020?), and one can imagine scenarios ranging from the fairly mundane, such as a one-term president unseated after an unsuccessful re-election bid, to the merely unusual — a "blue wave" that secures the White House and both chambers of Congress for Democrats to the unexpected but still plausible re-election of President Trump despite him trailing in the polls.

Of course, if 2020 has taught the world anything, it's that literally anything can happen. And frankly, it's anyone's guess how markets might react to events like a hotly contested election in which the incumbent refuses to accept the outcome, or an election hopelessly sullied by outside manipulation or widespread voter fraud. But it's

- The slate of potential outcomes for the 2020 election is unusually wide, ranging from the mundane (an unseated incumbent) to the highly unusual (a contested result).
- We found historical precedents for all but the most extreme potential outcomes.
- Markets can knee jerk for days, weeks or even months following an election, but in almost all cases examined, returns were positive by year three of the victor's first term.
- Because investing for retirement is a long-term prospect, we believe this should reassure even the most nervous investors.

nonetheless reassuring that we can identify historical precedents for at least some of the more easily imagined outcomes of the 2020 election. Even the one that has created possibly the most post-election angst among investors — that the outcome of the presidential election may not be known on election night — has at least one or two modern precedents.

Toward that end, we've provided a table showing outcomes during presidential election cycles since 1968 that we believe are similar to those scenarios we view as among most likely to occur this November, together with equity market returns in the days, weeks and months following election night. (In the case of two-term presidents, we provide returns five years out under the theory that the country's sitting chief executive still "owns" that track record.)



We invite you to draw your own conclusions, but we hope you find this analysis as reassuring as we do. Markets might knee jerk for a day, a week or even a few months after election night, but the more patient investors have been with their money, the better the outcome has tended to be. In fact, by the time you get to year three of a new president's term, results have typically been deep in the green. The only two exceptions — 1972's defeat of George McGovern by Richard Nixon and George W. Bush's win over Al Gore in 2000 — were followed by exceptional events that probably would have damaged market sentiment regardless of who occupied the White House.

So unless you expect another 9/11-type shock, a second and more violent bursting of a market bubble than the tech-wreck of 2000, or a reprise of the Watergate scandal during the next administration, you might be able to breathe a little easier during the run-up to election night 2020 because, while this election cycle may feel unusually uncertain (and even kind of scary), no matter what happens, there's a good chance we've been there before. So on November 3, relax, sit back and enjoy the show. And maybe pop some popcorn, too — one thing we can all be fairly certain of is that election night 2020 will probably make for good theater.

**S&P 500® post-election return**

	1 DAY	1 WEEK	3 MONTHS	1 YEAR	3 YEARS (ANN.)	5 YEARS (ANN.)
<b>Landslide</b>						
1972	-0.6%	0.9%	0.4%	-4.3%	-4.1%	
1980	1.8%	4.3%	0.8%	1.7%	13.6%	13.6%
1984	-0.7%	-2.6%	7.1%	18.1%	17.9%	
<b>Close election</b>						
1976	-1.1%	-3.7%	0.3%	-7.9%	5.4%	
2000	-1.6%	-3.4%	-6.1%	-21.1%	-8.3%	-1.5%
2004	1.1%	3.0%	6.0%	9.4%	12.2%	
2016	1.1%	2.0%	7.8%	23.7%	15.3%	

	1 DAY	1 WEEK	3 MONTHS	1 YEAR	3 YEARS (ANN.)	5 YEARS (ANN.)
<b>Incumbent unseated</b>						
1976	-1.1%	-3.7%	0.3%	-7.9%	5.4%	
1980	1.8%	4.3%	0.8%	1.7%	13.6%	13.6%
1992	-0.6%	-0.2%	7.2%	13.4%	15.2%	20.4%
<b>Incumbent wins second term</b>						
1972	-0.6%	0.9%	0.4%	-4.3%	-4.1%	
1984	-0.7%	-2.6%	7.1%	18.1%	17.9%	
1996	1.5%	2.2%	9.5%	34.5%	26.2%	
2004	1.1%	3.0%	6.0%	9.4%	12.2%	
2012	-2.3%	-3.6%	6.1%	26.8%	16.1%	
<b>Outcome unknown on election night</b>						
2000	-1.6%	-3.4%	-6.1%	-21.1%	-8.3%	-1.5%
2004	1.1%	3.0%	6.0%	9.4%	12.2%	
<b>Economy in recession</b>						
1980	1.8%	4.3%	0.8%	1.7%	13.6%	13.6%
2008	-5.2%	-15.1%	-16.6%	6.8%	10.0%	14.4%
<b>Popular vote ≠ Electoral vote</b>						
2000	-1.6%	-3.4%	-6.1%	-21.1%	-8.3%	-1.5%
2016	1.1%	2.0%	7.8%	23.7%	15.3%	
<b>Unified government</b>						
1976	-1.1%	-3.7%	0.3%	-7.9%	5.4%	9.3%
1992	-0.6%	-0.2%	7.2%	13.4%	15.2%	
2004	1.1%	3.0%	6.0%	9.4%	12.2%	
2008	-5.2%	-15.1%	-16.6%	6.8%	10.0%	14.4%
2016	1.1%	2.0%	7.8%	23.7%	15.3%	
<b>Blue wave</b>						
1976	-1.1%	-3.7%	0.3%	-7.9%	5.4%	
1992	-0.6%	-0.2%	7.2%	13.4%	15.2%	20.4%
2008	-5.2%	-15.1%	-16.6%	6.8%	10.0%	14.4%

  

	<-8%	<-4%	<-2%	<0	>0	>2%	>4%	>8%
1y/3y/5y								
1d	<-4%	<-2%	<-1%	<0	>0	>1%	>2%	>4%
1w	<-4%	<-2%	<-1%	<0	>0	>1%	>2%	>4%
3m	<-8%	<-4%	<-2%	<0	>0	>2%	>4%	>8%
3y (alt)	<-16%	<-8%	<-4%	<0	>0	>4%	>8%	>16%
5y (alt)	<-32%	<-16%	<-8%	<0	>0	>8%	>16%	>32%



**LANDSLIDE** — We’ve defined a landslide as an election in which the margin of victory is more than one standard deviation above the average for post-1968 presidential elections measured either by popular vote, electoral vote or both. Joe Biden’s current lead in the polls suggest a landslide victory is within reach.

**CLOSE ELECTION** — We’ve defined a close election as one in which the margin of victory, as measured by electoral votes, was narrow enough such that that flipping as few as two states could have changed the outcome. While polls suggest a Biden landslide is more likely than a close election in 2020, Donald Trump’s victory in 2016 is evidence that polling data can be completely unreliable when Trump is on the ballot, making a close election hard to rule out in 2020.

**INCUMBENT UNSEATED** — Since 1968, there have been surprisingly few examples of an incumbent president waging an unsuccessful re-election campaign. Examples include Gerald Ford’s loss to Jimmy Carter in 1976, Carter’s loss to Ronald Reagan in 1980 and George H. Bush’s loss to Bill Clinton in 1992. If Trump loses to Biden in 2020, that list will expand by one.

**INCUMBENT WINS SECOND TERM** — By contrast, if Trump defeats Biden, this already much longer list will grow. Again, the experience of 2016 means this outcome cannot be ruled out.

**UNIFIED GOVERNMENT** — While it feels less common than it actually is — likely because mid-term elections sometimes break the monopoly — there have been five examples of single-party control of the White House and both houses of Congress during the two years following presidential election cycles since 1968: three for Democrats (1976, 1992 and 2008) and two for Republicans (2004 and 2016). While a Republican sweep in 2020 seems highly unlikely, a Democratic sweep is plausible.

**“BLUE WAVE”** — As President Trump continues to slide in the polls, down-ballot Republican candidates are beginning to lose momentum as well. A Democratic sweep has even become some observers’ base case.

**ECONOMY IN RECESSION** — We define this as a recession during the 12 months prior to election night, which occurred in 1980 and again in 2008. According to the National Bureau of Economic Research, the U.S. economy entered a recession in February 2020. While a fairly robust recovery has already begun, the NBER’s business cycle dating committee has yet to declare the 2020 recession over.

**POPULAR VOTE ≠ ELECTORAL VOTE** — The electoral college, designed to place less populous states on a more equal footing with larger ones, has given rise to two recent elections in which the winning candidate actually had fewer popular votes than the eventual winner: George W. Bush’s victory over Al Gore in 2000 and Donald Trump’s win over Hillary Clinton in 2016. If Trump wins in 2020, it seems likely that it would be a repeat performance.

**OUTCOME UNKNOWN ON ELECTION NIGHT** — Of the scenarios contemplated here, this is probably the most unsettling. But it has already occurred twice, the most noteworthy being the “hanging chad” controversy of 2000 (ultimately decided by the U.S. Supreme Court in *Bush v. Gore* on December 12, 2000). A lesser-known example occurred four years later in 2004 during George W. Bush’s successful re-election campaign against John Kerry, who waited until the day after the election to concede following reports of voting irregularities in Ohio since that state’s electoral votes would have tipped the election to Kerry. In 2020, many observers think the Supreme Court may again be called upon to settle the issue in a close election.

Data: U.S. House of Representatives ([history.house.gov/congressional-overview](http://history.house.gov/congressional-overview)), U.S. Senate ([senate.gov/history/partydiv.htm](http://senate.gov/history/partydiv.htm)), 270toWin.com, Bloomberg, GWI calculations.

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