

Presidential Cycle Choppy into Mid-2020

Consolidation typically starts now and ends in May

November 4, 2019

Main Points

In the first half of 2020, the risk for a political overhang to the stock market is high.

Near-term risks continue to include earnings expectations and the trade war with China.

Once a presidential winner has been identified, the market has tended to move higher, regardless of political party.

The U.S. presidential election is top of mind for investors.

Typically, the pre-election year is the strongest in the four year cycle. In fact, since 1948, the average gain for the Dow Industrials has been 11.9%, while the S&P 500 has gained 16.1% during the pre-election year.

Historically, the government stimulates the economy in the pre-election year.

2019, a pre-election year, has been no different. The Fed has cut rates three times this year. The first half of 2019 had the strongest government spending since 1990. Both accommodative policies should help drive growth in the business and consumer sectors in future quarters.

The typical yearend rally in the pre-

election year has stalled out. The stock market has endured a trading range from early September of the pre-election year to mid-May of the election year (**chart below**).

According to Ned Davis Research, the 2020 S&P 500 Cycle Composite (which combines the one-year, four-year, and 10-year cycles) is stronger than the four-year cycle alone, but it still shows choppiness in the first half of the year.

Over the next few quarters, the capability for companies to achieve

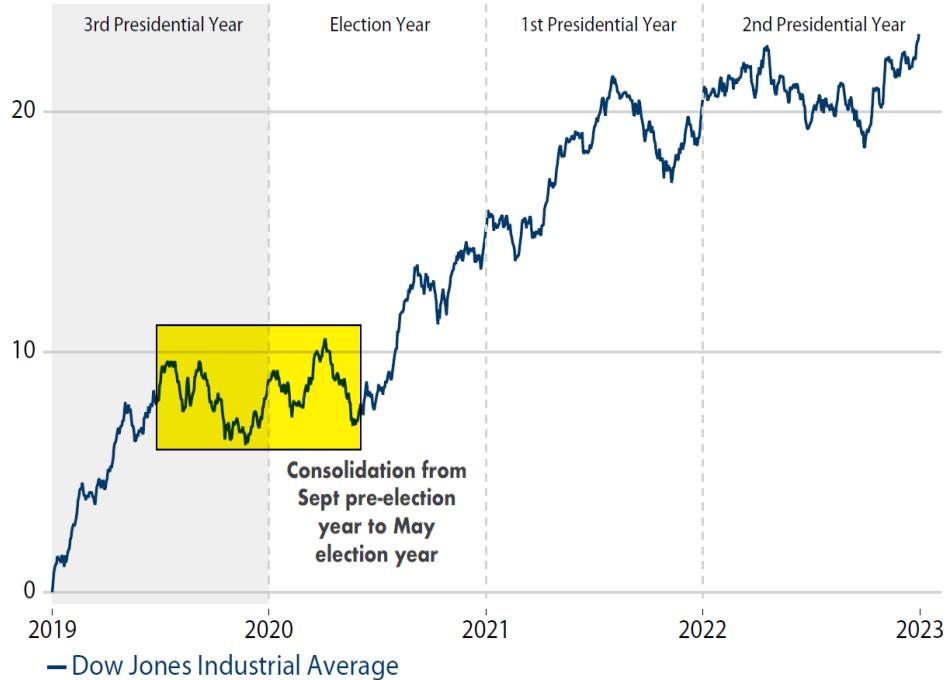
earnings expectations and clarity on the trade war with China will likely be important catalysts for the market.

If forward progress isn't made, the stock market remains vulnerable and the choppy phase of the typical election cycle is a likely scenario.

Looking to 2020, a common variable to an election year rally is when the market has identified the likely presidential winner.

Once the uncertainty has been lifted, the market has tended to move higher, regardless of political party.

Stock market entering choppy phase of election cycle



Presidential election pattern based on Dow Jones Industrial Average daily data from 01-02-1900 to 12-31-2018.
 Trend is more important than level.

Source: Dow Jones Indexes
 Ned Davis Research, Inc.