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## How the current economy impacts election outcomes

Does the current economic state impact the election outcome or provide a leading indicator?

It is commonly thought and accepted that a strong economy helps the incumbent and a weak one helps the challenger. When voters experience wage cuts, or see a spike in unemployment leading into an election, they want to see change and do something that brings new hope.

In a study done by John Nofsinger, "The Stock Market and Political Cycles," which was published in *The Journal of Socio-Economics* in 2007, Nofsinger proposed that the stock market can predict which candidate will be elected. He analyzed the relationship between the social mood of the country and the presidential election. He concluded that when the country is optimistic about the future, the stock market tends to be high, and voters are more likely to vote for those in power. When the social mood is pessimistic, the market is low, and people tend to vote out the incumbent and put a new party in power. According to Nofsinger's research, the stock market returns in the three years prior to the election are useful in predicting whether the incumbent party candidate will be elected or whether there will be a new party in power. https://econpapers.repec.org/article/eeesoceco/v_3a36_3ay_3a2007_3ai_3a5_3ap_3a734-744.htm

A cross-country analysis by Larry Bartels of Vanderbilt University, looking at 2007-11, found that each extra percentage point of GDP growth in the four quarters before an election was associated with a rise of 1% in the incumbent party's vote share. https://financialnewscompany.com/does-the-economy-affect-elections-any-more/

Analysist at Nordea concluded, in their 2019 study, that the economy is perhaps the most important factor in predicting an election outcome, at least if we use history as a guide. The so-called Misery Index, which includes the sum of unemployment and inflation (CPI % y/y) and indicates the state of the economy, has been a good "forecaster" of the U.S. presidential election outcome. The 12-month moving average of the Misery Index has predicted the outcome of a president's re-election six out of eight times. This is, for example, more precise than approval ratings at the beginning of election years. https://insights.nordea.com/en/insights/us-election-economy/ *By Nordea Analyst Morten Lund and Chief Analyst Anders Svendsen*

"In 82% of the election years in which markets have climbed in the period from August to October, the incumbent party has won. In 86% of the times the market has been down, the replacement party has won." Said Sam Stovall, managing director of U.S. equity strategy for S&P Capital IQ. https://www.forbes.com/sites/duncanrolph/2016/10/26/how-president-elections-affect-the-markets/#7bca7be6fb40

InvesTech Research of Montana says "the stock market is the most reliable indicator of who will win the presidency and has been for more than 100 years," according to "Stock Market Picks 90 Percent of Presidential Elections." In other words, "the election is a reaction to the stock market." "If you see strength in the market, consumer sentiment and confidence among the voters is higher. If you see volatility, you are going to see investors take that out on the incumbent. If the stock market gains in the two months leading up to the presidential election, the incumbent party wins. If the market falls, the incumbent party loses. Since 1900, the stock market has correctly forecast nearly 90 percent of presidential elections. In the 28 elections tracked, there have been only three exceptions: 1956, 1968, and 2004." says Eric Vermulm, an InvestTech Research senior portfolio manager.

The past provides insight and tells us what is typical, but not what is the rule going forward. Our world, economies, and life is much more dynamic. For example, social and environmental considerations are taking much more prominence than before. Voting to support ones stance on such things as pipeline expansion, minority rights, abortion rights, transgender recognition, immigration, the sense of insecurity that accompanies globalisation, or frustration about sky-high housing costs, may be the deciding factor now, shifting the weight from the state of our economy or how our investments are performing.

For example; Boris Johnson, Britain's Conservative prime minister, tried to make the general election a matter of identity by appealing to Brexit voters. He promised to get Brexit done. As Brexit was the major election issue, voters were not very focused on the country's recent brush with recession.

That being said, it is still the economy that impacts everyone. Not everyone is impacted or connected with all aspects of a candidate's platform. For example, education policy or foreign policy will not strike a personal cord for everyone. However, all citizens care about money, the stability of the financial markets in which they invest their money, and the security of their jobs. All of these aspects link directly to the economic state of the country.

In summary, the state of the economy matters and will impact a president's approval rating, but the old rules of thumb about the business cycle and voting patterns are not the only narrative.