

THIS YEAR'S ELECTION PLAYBOOK

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One of the most important factors for the markets this year is clearly the presidential election. We had a great discussion on our Behind the Markets podcast on this topic with Stonybrook University political science professor Helmut Norpoth and Ed Clissold, chief strategist at Ned Davis Research.

Not many election forecasters or modelers predicted Trump would win in 2016, nor again in 2020. But Norpoth has a model that gives Trump an approximate 91% probability of winning.

The model Norpoth utilizes is actually a fairly simple test: The party that nominates a candidate with better performance during the primary races goes on to win the election, according to his research. His model is based on more than 100 years of presidential primaries and is a fairly simple model.

What Makes the Primary Test Predictive?

The primaries offer a real election campaign and tell us how voters are sizing up the candidates. Norpoth looks at New Hampshire primaries as a bellwether, with voter turnouts akin to general elections. One does not have to be a member of the party to vote in these primaries, and incumbent presidents have historically been put to a harsh test in New Hampshire. George H. W. Bush faced a challenge from Pat Buchanan, a bad omen for him, and Jimmy Carter's race against Ted Kennedy in 1980 also was signaled in the New Hampshire primary race.

Whether this primary model can accurately predict a Trump victory in the year of the pandemic and much other social upheaval will be an interesting test of its efficacy.

Election Uncertainty

The market never likes uncertainty, and political uncertainty is clearly high today. Yet the markets have been quite robust, so it would not surprise Clissold to see a market downdraft ahead of the election given its really strong performance of late.

Tech Is Getting Ahead of Itself: Clissold sees the growth in the largest technology stocks as extended, and a reopening of the economy gives preference toward the cyclical segments of the market that have been beaten down.

Corporate Tax Hikes from Biden: Biden proposed reversing half of the corporate tax cut that Trump enacted in 2017, but while the headlining corporate profits tax went from 35% to 21% under Trump, the effective corporate tax rate companies paid fell a lot less, from 23% to only 17%. Ned Davis estimates the hit to earnings under Biden's corporate tax hike would be from about 4%–10%.

Fear vs. Reality in Election Years: Health Care tends to be a sector most feared during election years and tends to underperform for six months ahead of elections and then outperform six months afterward. In 2020, the Technology sector appears to be the favorite sector for both parties to attack and has historically been a weak sector after some prior elections. This will be an important one to watch given the sell-off that took place last week.

Why Has the U.S. Outperformed over the Last Decade? The U.S. has outperformed the global economy as [growth](#) and technology stocks have pushed markets higher while global economic growth has been slow. There isn't as much of this technology exposure around the world. Clissold sees the type of global growth we have been witnessing as a key part of the future leaders in performance.

This was a great conversation on a very timely and important issue for the markets. You can listen to the full conversation with Norpoth and Clissold below.

Behind the Markets on Wharton Business Radio · Behind The Markets Podcast: Helmut Norpoth, Ed Clissord, & Jeff Weniger

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

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