

ARE YOU SURE MARKETS LOVE WASHINGTON GRIDLOCK?

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When “everyone” on Wall Street is expecting “*Gridlock Good*,” brace for downside.

Exhibit 1 shows every notable S&P 500 decline since we launched the [WisdomTree U.S. LargeCap Dividend Fund \(DLN\)](#). While it sometimes did not beat the [S&P 500](#), DLN outperformed the [S&P 500 Value Index](#) in all 17 instances in which the S&P 500 declined 5% or more since we launched the Fund in 2006.

Exhibit 1: Performance During Market Declines

Start	End	S&P 500 Index	WisdomTree U.S. LargeCap Dividend Fund (DLN)	S&P 500 Value Index
2/19/2020	3/23/2020	-33.8%	-35.4%	-36.8%
7/26/2019	8/14/2019	-6.0%	-5.8%	-6.5%
4/30/2019	6/3/2019	-6.6%	-5.8%	-6.9%
9/20/2018	12/24/2018	-19.4%	-16.8%	-18.4%
1/26/2018	2/8/2018	-10.1%	-10.0%	-10.3%
11/3/2015	2/11/2016	-12.7%	-10.2%	-12.3%
5/21/2015	8/25/2015	-11.9%	-13.2%	-13.7%
9/18/2014	10/15/2014	-7.3%	-6.2%	-7.3%
4/2/2012	6/1/2012	-9.6%	-7.2%	-10.9%
10/28/2011	11/25/2011	-9.6%	-7.5%	-10.5%
4/29/2011	10/3/2011	-18.6%	-13.3%	-22.1%
4/23/2010	7/2/2010	-15.6%	-12.6%	-16.2%
1/6/2009	3/9/2009	-27.2%	-30.9%	-32.6%
11/4/2008	11/20/2008	-25.0%	-25.7%	-28.4%
5/19/2008	10/27/2008	-39.9%	-36.4%	-40.1%
10/9/2007	3/10/2008	-17.9%	-18.5%	-19.8%
7/19/2007	8/15/2007	-9.3%	-8.5%	-10.0%
Median		-12.3%	-12.6%	-13.7%

Source: WisdomTree DLN past performance is at NAV and is not indicative of future results. Performance may be lower or higher than quoted. Investment returns and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Timeframe is inception of DLN on 6/16/2006 – 11/19/2020.

Standardized fund and month-end performance can be found [here](#).

The election is going to be locked up in the courts for weeks. You knew that. The consensus has Joe Biden in the White House, Democrats with a narrow House majority and Republicans keeping the Senate.

Gridlock Good. Buy stocks, according to Wall Street—especially given the recent positive news around vaccines.

There are a few problems with *Gridlock Good*.

For one, has anyone on the Street been on social media lately? Yikes. Count me skeptical about this nation's "time for healing."

Meanwhile, in order for *Gridlock Good* to play out, you need...gridlock.

We still have the Georgia Senate run-off on January 5; that result will decide that body's balance of power. PredictIt, the event futures market, gives Democrats a 26% probability of taking a majority in that chamber. If they pull it off, that is the "Blue Wave," whereby Democrats control the White House, Senate and House of Representatives.

Some have harkened back to Bill Clinton's second term in the mid- to late-1990s. That was a gridlock sweet spot: A Democratic president working with Republican house speaker Newt Gingrich in a pro-business environment. The [bull market](#) raged.

But do you recall Bill and Newt battling a pandemic? Was China on the front page of The Wall Street Journal? Did [Federal Reserve \(Fed\)](#) Chair Alan Greenspan have policy rates at zero?

Stop comparing apples to oranges.

Also, consider the bull market's age. Bill Clinton's run-in with the Republicans started in November 1994, barely four years into the S&P 500's rally. It was five more years until the market sputtered, with the bull declared dead at the nine-and-a-half year mark. COVID-19 crash notwithstanding, our current bull market is on the precipice of a 12th birthday.

I do not understand the calculus that compares the current stock market to previous administrations, as if valuations are uniform—or as if either party's planks remotely resemble those of yesteryear.

Think about the last century: a Great Depression that lasted a generation, two presidents fighting a two-front world war, another president assassinated, another three on the clock during runaway [inflation](#), another that entered office on the eve of 9/11. Now, both Trump and Biden are on the scene for a pandemic.

How are we supposed to scan the annals of the Wilson or Coolidge administrations for guidance on whether or not to overweight Facebook?

You know the question: "How has the market performed in previous periods when the President's party was different from the party that controlled the Senate?"

If you still want an answer: Most of the time, it went up. In *any* four-year window of time, chances are that stocks go up. Except *that* time. Richard Nixon and Gerald Ford's eight years in the White House had Democrats opposition in the House and Senate throughout. *Gridlock Good*, right? The S&P 500 laid an egg (figure 1).

Figure 1: Washington Gridlock, S&P 500 Gridlock Too

Era	Congressional Inauguration Date	Term End	House Control	Senate Control	President	Party	Presidential Inauguration Date	Comment
91st Congress	1/3/1969	1/3/1971	Democrat	Democrat	Nixon	Republican	1/20/1969	Nixon Replacing Johnson (Dem)
92nd Congress	1/3/1971	1/3/1973	Democrat	Democrat	Nixon	Republican	N/A	Nixon Continuing
93rd Congress	1/3/1973	1/3/1975	Democrat	Democrat	Nixon/Ford	Republican	8/9/1974	Ford (Rep) Replacing Nixon After Watergate
94th Congress	1/3/1975	1/3/1977	Democrat	Democrat	Ford	Republican	1/20/1977	Carter (Dem) Replacing Ford
S&P 500 on 11/4/1968 (Day Before Election)			103.1	← Not a Typo. Unchanged Over 8 Years				
S&P 500 on 11/1/1976 (Day Before Election)			103.1					

Sources: WisdomTree, St. Louis Fed. Past performance is not indicative of future results. You cannot invest directly in an index.

Can the market rally from 2020–2024? Of course. If history is any guide, it probably will. Then again, no one has invented a cure for stock declines, not even the Fed.

For value investors, consider DLN's 17 out of 17 record versus the S&P 500 Value Index in market declines. *Gridlock Good*? Maybe. Then again, maybe not.

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DEFINITIONS

Bullish : a position that benefits when asset prices rise.

Federal Reserve : The Federal Reserve System is the central banking system of the United States.

Inflation : Characterized by rising price levels.