

CBR BRIEFING #68

Stocks perform worse when a Republican is in the White House

→ Though 2017 was a strong year for the US stock market, historically the market performs better under Democratic presidents than Republicans.

→ Chicago Booth's Lubos Pastor and Pietro Veronesi argue that Democrats tend to take power during economic crises, when stock valuations are low and voters want a stronger social safety net, while Republicans assume office during prosperous times, when valuations are high and voters favor the party's lower-tax policies.

→ The researchers create a model in which both stock returns and elections are determined by people's aversion to risk. People tend to be more risk averse during crises, leading to more Democratic votes and higher stock returns. But risk aversion falls as the economy gets stronger, resulting in more Republican votes and lower returns.

Lubos Pastor and Pietro Veronesi, "Political Cycles and Stock Returns," NBER working paper, February 2017.

