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2020 Presidential Election: Capitalism and the Distribution of Wealth

"Listening to and understanding our client's financial goals allows us to provide the highest level of investment planning advice and service."

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Which President is Better For the Economy:

It is always difficult to discuss politics and even more so this year with heightened awareness and sensitivity to issues, policies, and personalities. As planners and wealth managers, our focus is on how the next election, specifically the presidential election, will affect your investments due to changes in policy, laws, and regulations. A common straight forward view is that republicans will lower taxes and reduce regulation which is good for the economy and markets. The other side of that argument is that democrats will help the working class through higher minimum wage and increased safety nets that provide a stable environment where business can thrive.

The goal here isn't to say that President Trump getting re-elected is good for markets or that a President Biden is better long term. In our last two investment letters, we've looked at historical reaction of markets to the various republican and democratic presidents. Based on history, we conclude that it doesn't matter who became president. Many other institutions will say the same thing. Let's acknowledge that each election is different and 2020 may be a pivot point for the direction our country is headed.

There is little argument that at the start of President Trump's term, the country was polarized between right and left, D and R, conservative vs liberal. Nearly 4 years in, the polarization is even further magnified. Regardless, what does that mean for business and the economy. Emphasis on capitalism as associated with republicans, would mean that the disparity of the top 1% compared to the bottom 50% would increase even as the economic gains by the overall population rises. One downside to purer capitalism is envy and the unrest by the population for perceived or real unfairness. The unrest we saw in cities over the summer is an example of this, as was Occupy Wall Street in 2011 or even the Tea Party movement in 2009.

As the distribution of income gets wider and unrest increases, voters elect politicians who promise to fix the issue through some form of wealth distribution: higher taxes, higher minimum wage, paid healthcare, college, you name it. That often tips too far, and the counter movement elects the politicians who promise to fix that problem. Through it all our concern is movements at the extreme; where we can't recover and the impacts are so severe and long lasting that markets (and the country) bear the brunt.

As you read this you likely have a strong view on who should win the election. Historically, the data show that markets perform under either republican or democrat.

The real question is will either candidate move our country so far in one direction or another, where we can't recover. Our conclusion is that no matter who wins, our country will maintain our standing as the greatest country in the history of the world and our constitutional framework will hold and be stronger than ever.

We look at the probability of what will happen and consider worst case, but still possible scenarios. Prior to the coronavirus, markets responded well to President Trump: Higher stock market, low interest rates and inflation, as well as low unemployment. Even during the past year, markets have rebounded with expectations that the rebound will continue regardless of who is elected. Vice President Biden has basically communicated that he will reverse President Trump's policies as well as promote a cleaner environment and greater equality. To be less kind, he will increase taxes and increase regulations. On first pass, that may be bad for markets, but the impact will be muted from a historical perspective. Remember, tax rates under Eisenhower were well above 70 and even up to 90%. Roosevelt's pre-war and WWII regulations would be unheard of in today's politics. The women's and civil rights movements of the 1960s coincided with major rioting and necessary social upheaval.

Markets can absorb quite a lot. There will always be volatility and there may even be protracted down turns - the future is uncertain. Diversification in investments does matter. The news focuses on the negative and the tone from both sides can seem intolerable. Yet the American economy, and by extension the world economy, is still running on all cylinders: Low interest rates, clear regulations and the rule of law, strong infrastructure, labor mobility, entrepreneurial spirit, pride in country and on and on. These are the foundations of a strong economy and, really, a wonderful time and place to be alive. The outcome of the election is important but should not be the primary driver of our investment decisions.