



Are You Better Off Than You Were Four Years Ago?

George Mateyo, Chief Investment Officer

One final consideration as we await the outcome of the 2020 elections.

Many of us who are old enough remember Ronald Reagan's 1980 presidential victory over incumbent Jimmy Carter as a landslide: He won 489 electoral votes to Carter's 49, the third-most decisive outcome in our country's history (excluding George Washington's uncontested election). Yet few of us may recall how close the election actually was. And perhaps the outcome would have been different had it not been for one key question that Reagan posed during the final presidential debate.

Exactly one year prior to Election Day in 1979, 52 Americans were taken hostage by a group of Islamist militants in the US embassy in Tehran. While public sentiment would later turn against Carter due to a few miscalculations and horrible luck, his approval ratings initially soared due to a "rally around the flag" effect.

Carter was also viewed favorably following his decision to boycott the 1980 Summer Olympics in Moscow in response to the Soviet Union's invasion of Afghanistan. Furthermore, Carter's main opponent (Reagan) was feared by some to be "a right-wing extremist who would slash Medicare and Social Security."

As the campaign drew to a close, the candidates agreed to one final debate on October 28, 1980 in Cleveland, Ohio. Just prior to the debate, Carter led Reagan by eight percentage points. Immediately afterward, however, Reagan moved into a three-point lead.

Pundits point to a series of reasons for this swift reversal.

But one defining moment near the end of the debate was profoundly impactful: During his closing remarks, Reagan asked his now-famous question: "Are you better off than you were four years ago?"

That provocative question came on the heels of stagflation, rising unemployment, double-digit interest rates, a Middle East oil embargo and the aforementioned hostage crisis in Iran. It turned the tide and the rest, as they say, is history: Reagan handily defeated Carter. Moreover, Republicans won control of the US Senate for the first time in 25 years and with it, the biggest political realignment since FDR's New Deal in the 1930s was underway.

Given Reagan's success, numerous candidates adopted a similar refrain. In fact, Gallup, the prestigious polling organization, has asked that very question when an incumbent faced re-election. Interestingly, The Wall Street Journal recently noted that today, 56% of Americans answer that question in the affirmative – yes, they are better off. That's higher than Reagan (44%) when he ran for re-election in 1984, George W. Bush (47%) in 2004, or Barack Obama (45%) in 2012. They all won a second term.

Whether or not this will hold true for President Trump is anyone's guess. Notably, this survey was compiled at the end of the September and many developments have taken place since then.

Also completely unknowable is how a second Trump Administration or a Biden Administration will alter the economy, even though a few political strategists have recently made claims that a Democratic Party sweep

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could induce another significant political realignment on a par with the aforementioned “Reagan Revolution” 40 years earlier.

As we have attempted to articulate in this forum and elsewhere, handicapping election outcomes and the corresponding impact on financial markets in the short run is, in our opinion, a fool’s errand. One need not look any further than four years ago: Experts widely predicted that a Trump victory would lead to a double-digit sell-off in the S&P 500. Such calls appeared prescient for a few hours on election night, but stocks were higher by the next trading day’s close.

Similarly, nearly all political analysts agreed that a Trump presidency would lead to deregulation that would boost energy and financial stocks. Such forecasts proved accurate in the early months of 2017 only to subsequently change direction. Over the course of President Trump’s full term, energy stocks have seen their value fall by half (!) and financial shares have generated a meager 6.8% annualized return compared with a 13.6% return posted by the S&P 500 Index as a whole.

The bottom line is that we urge investors to refrain from overhauling their portfolios even when the outcome is ultimately known. Markets are impacted by economic forces far more than they are by political ones, and if we heed that advice, I suspect that we will be better off four years from now.

For more information, [please contact your Key Private Bank Advisor.](#)

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