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Political Cycles and the Stock Market*

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Political Cycles and the Stock Market

Abstract

We find that the average excess return in the stock market is higher under Democratic than Republican presidents— a difference of 9 percent per year for the value-weighted portfolio and 16 percent for the equal-weighted portfolio. The difference is economically and statistically significant, does not seem to be due to small sample biases, and is robust in different subsamples. There is a remarkable monotonicity in the difference of returns for size-decile portfolios, from 7 percent for large firms to about 22 percent for small firms. Presidential partisan cycles have a heterogeneous impact on industry returns: the tobacco, telecom, and chemical industries have performed better under Republican presidents, whereas the real estate, construction, and services industries have fared significantly better under Democrats. We test three plausible explanations for these findings. First, the relation might be due to political variables proxying for business-cycle factors. Second, the relation might be attributed to unexpected returns around elections, when information is revealed, rather than to expected returns varying with the political cycle. Lastly, differences in stock market riskiness across presidential regimes could account for the difference in average returns. We reject all three hypotheses. As it stands, the difference in excess returns during Republican and Democratic presidencies is a puzzle that cannot easily be explained. However, the cross-sectional evidence from size-sorted and industry portfolios suggests that the party in the presidency may affect the stock market through differences in fiscal and regulatory policies.

1 Introduction

In the run up to all presidential elections, the popular press is awash with reports about whether Republicans or Democrats are better for the stock market. Unfortunately, the popular interest has not been matched by academic research. This paper tries to fill the gap by conducting a careful empirical analysis of the relation between presidential elections and the stock market.

Using data since 1927, we find that the average excess return of the value-weighted CRSP index over the 3-month Treasury bill rate has been about 2 percent under Republican and 11 percent under Democratic presidents — a striking difference of 9 percent! This difference is economically and statistically significant, does not seem to be due to small-sample estimation biases, and is robust in different subsamples. The results are even more impressive for the equal-weighted portfolio, in which case the difference in excess returns between Republicans and Democrats reaches 16 percent. Moreover, we observe an absolute monotonicity in the difference between size-decile portfolios under the two political regimes: from 7 percent for the largest firms to about 22 percent for the smallest firms. It is perhaps less surprising to find that the effect of political variables varies from industry to industry. For some industries, such as real estate and construction, returns are about 10 percent higher under Democrats, whereas for others, such as the tobacco industry, returns are 10 percent higher under Republicans.

We examine three plausible explanations for these findings. First, the presidential-partisan cycle might merely be proxying for variations in expected returns due to business cycle fluctuations. Indeed, previous research has found that GDP growth is slower during Republican presidential mandates, and that Democratic administrations have been associated with significantly higher inflation rates.[1] There is also substantial evidence that macroeconomic variables related to the business cycle can forecast stock market returns.[2] Therefore, the effect of political variables on the stock market might only be proxying for variations in the business cycle. To test this "proxy" hypothesis, we examine the relation between stock market returns and political variables using macro variables known to forecast the stock market as controls for business cycle fluctuations. After controlling for the dividend-price ratio, the

[1] See Alesina and Rosenthal (1995) and Alesina et al. (1997) and references therein.

[2] See, for example, Chen, Roll and Ross (1986), Keim and Stambaugh (1986), Campbell and Shiller (1988), Fama and French (1988, 1989), Campbell (1991), and Fama (1991).

default and term spreads, the relative interest rate, and the NBER business cycle dates, our results remain unchanged. The difference between Democratic and Republican presidencies is still around 10 percent for value-weighted returns and 20 percent for equal-weighted returns, statistically significant, and stable over different sample periods. Presidential terms thus capture variations in returns that are orthogonal to what is explained by business cycle fluctuations.

Second, we examine whether the relation between excess returns and the presidential-partisan cycle is due to information revealed around election dates. To the extent that there are differences in economic policies across political parties, and these policies are thought to have an effect on the stock market and the real economy, it is natural to expect that the election results would affect stock valuations. However, we find no significant evidence of stock price changes immediately before, during, or immediately after elections. This finding is consistent with evidence that important news are seldom related to large stock market returns, and vice-versa.[3] It is difficult to rigorously test the market's response to election news because the timing of the information is hard to ascertain. In fact, the results of most elections are largely anticipated so that it is difficult to determine when exactly the winner is known. To get around this problem, we examine the reaction of the stock market to the result of the four most contested (and hence hardest to predict) presidential elections. We find no significant evidence of large returns immediately before or after Republican or Democratic victories. To the contrary, the difference in returns grows gradually over the term of the presidency. In sum, there is no evidence of unexpected returns around election dates.

A third possible explanation would be that risk is higher during Democratic than during Republican presidencies. This difference in riskiness might arise from differences in economic policies pursued by each party, or from varying levels of uncertainty among investors about these policies. If this were indeed the case, then the higher returns observed during Democratic terms could be explained as compensation demanded by investors for the greater risks incurred in those periods. However, we find that market volatility is actually higher under Republican presidents, contrary to the hypothesis.[4]

[3] For example, see Cutler et al. (1989).

[4] Although, after controlling for the state of the economy, the difference in risk under the two regimes becomes insignificant.

We conjecture that some of the variation in stock market returns under Republicans and Democrats is due to differences in their economic policies. For this explanation to hold, the economic policies must have a direct impact on the stock market beyond their indirect effect through the business cycle. For example, variations in capital gains taxes, health insurance coverage, environmental laws, and Social Security benefits can undoubtedly have an effect on consumption and saving rates, portfolio allocation, as well as on the cash flows of companies. The evidence from the cross-section of returns lends indirect support to this hypothesis. It is important to note that these differences in economic policy would have to be largely unanticipated by investors, so that the differences in returns are realized gradually during the presidential mandate instead of being concentrated around the election date. Testing for the direct effects of given fiscal and regulatory policies on stock returns necessitates richer and more disaggregated data, which we leave for future work.

Other authors have documented the difference in stock returns under Republican and Democratic presidents, notably Hensel and Ziemba (1995), Herbst and Slinkman (1984), Huang (1985), Johnson, Chittenden, and Jensen (1999), and Siegel (1998). Our paper is the first to formally test the relation between political cycles and the stock market, examine the robustness of this relationship, investigate cross-sectional returns, and use macroeconomic control variables. Also, there exists a rich empirical and theoretical literature about the effects of political cycles on the macroeconomy. For surveys in this area, see Alesina et al. (1997) and Drazen (2000). These books also offer convincing evidence that political variables have an impact on the state of the macroeconomy. Some of our tests are loosely motivated by hypotheses formulated in that literature.

The rest of the paper is structured as follows. Section two introduces the data and the notation used in the paper. Section three discusses the empirical methods and presents the main results: the significant and robust correlation between excess market returns and presidential-partisan variables. In section four, we test the three hypotheses for the differences in returns across political cycles. Section five offers cross-sectional evidence for size-decile and industry portfolio returns. Section six sets out the research agenda for future work and concludes.

2 Data

In this section we describe the variables used in the study. For clarity of exposition, the date are categorized into financial variables, political variables, and control variables. Tables 1 and 2 provide exact definitions and summary statistics for quick reference. All series are at monthly frequency. As a check of robustness, we perform the statistical analysis on four different sample periods:

- 1927:01-1998:12 — The entire sample period: 863 monthly observations, 18 elections, 10 Democratic and 8 Republican presidents.
- 1946:01-1998:12 — The period after WWII: 635 monthly observations, 13 elections, 6 Democratic and 7 Republican presidents.
- 1946:01-1993:12 — The period after WWII excluding the 1994:01-1998:12 market run-up: 575 monthly observations, 11 elections, 4 Democratic and 7 Republican presidents.
- 1960:01-1998:12 — The most recent period: 467 monthly observations, 10 elections, 5 Democratic and 5 Republican presidents.

The first period covers the entire sample, including the Great Depression, the subsequent recovery, and the years of WWII. To make sure that our results are not driven by the tumultuous years of 1927-1945, the second subsample excludes that unusual period. The third subsample covers the post WWII period but excludes the recent rise in stock valuations. Finally, the fourth period covers only the most recent years. Unfortunately, due to the lack of variability in the political variables, finer subsamples are impossible to study.[5]

Financial Variables: We use the log monthly returns of the value-weighted (VWR_t) and equal-weighted (EWR_t) portfolios from CRSP. The log interest rate (TBL_t) is computed from the 3-month Treasury Bill, obtained from Ibbotson Associates. INF_t is the log monthly inflation, from Ibbotson Associates. Additionally, we use cross-sectional returns from 10 size

[5]It would have been logical to divide the sample as 1927-1945, 1946-1960, 1961-1998. However, in that case, the first subsample would have contained only Democratic presidents, with the exception of the last 2 years of Hoover. Similarly, the 1946-1960 period would have contained only 4 changes in administrations, an insufficient sample for the identification of breaks. As discussed below, we had trouble running some of the regressions even for the 1960-1998 sub-sample.

decile portfolios ($DECj_t$, for j=1, 2, ..., 10) and from 48 industry portfolios, obtained from Kenneth French. The acronyms used for the log industry returns are self-explanatory and can be found in Table 11. For the exact SIC codes corresponding to the industries, refer to the appendix in Fama and French (1997). We conduct the statistical analysis in this paper with excess and real returns — for example, when studying the value-weighted portfolio, we compute VWR_t-TBL_t (log value-weighted return minus log interest rate) and VWR_t-INF_t (log value-weighted return minus log inflation).[6] We compute the monthly volatility of the value weighted portfolio return (VOL_t) from within-month daily return data, using the approach of French, Schwert, and Stambaugh (1987). The daily return data is from Schwert (1990).

Although there are (limited) return and interest rate series going further back in time,[7] two main reasons lead us to restrict the analysis to the post 1927 period. First, there is evidence that the ideologies of the Democratic and Republican parties before WWI were not clearly delineated. Second, returns of size decile and industry portfolios and data for most of the control variables are not available before 1927.

Political Variables: We define the following presidential cycle variables:[8]

- $RD_t = 1$, if a Republican is in office at time t, $RD_t = 0$, otherwise.
- $DD_t = 1$, if a Democrat is in office at time t, $DD_t = 0$, otherwise.

Similarly, we define variables for Congress and the Senate:

- $RSD_t = 1$, if there is a Republican majority in the Senate at time t, $RSD_t = 0$, otherwise.
- $DSD_t = 1$, if there is a Democratic majority in the Senate at time t, $DSD_t = 0$, otherwise.

[6] This is the most convenient way to abstract from the effect of inflation. Political macroeconomists have widely agreed that inflation is higher during Democratic terms. Fama (1981), Geske and Roll (1983), Kaul (1987), and Goto and Valkanov (2000) provide evidence of the effect of monetary policy on returns and inflation.

[7] See Schwert (1990).

[8] When the acronym of the variable ends with a letter "*D*", it is a dummy variable.

- $\text{RHD}_t = 1$, if there is a Republican majority in Congress at time t, $\text{RHD}_t = 0$, otherwise.
- $\text{DHD}_t = 1$, if there is a Democratic majority in Congress at time t, $\text{DHD}_t = 0$, otherwise.

We also define a set of variables related to the timing of elections:

- $\text{MD(j)}_t = 1$, if time t is within j months before a presidential election at time t, $\text{MD(j)}_t = 0$, otherwise.
- $\text{RBD(j)}_t = 1$, if time t is within j months before a presidential election that is won by a Republican, at time t, $\text{RBD(j)}_t = 0$, otherwise.
- $\text{DBD(j)}_t = 1$, if j months before a presidential election that is won by a Democrat, at time t, $\text{DBD(j)}_t = 0$, otherwise.
- $\text{RAD(j)}_t = 1$, if j months after a presidential election that is won by a Republican, at time t, $\text{RAD(j)}_t = 0$, otherwise.
- $\text{DAD(j)}_t = 1$, if j months after a presidential election that is won by a Democrat, at time t, $\text{DAD(j)}_t = 0$, otherwise.

Notice that the above dummies represent a one time shock to the mean of the financial quantities, whereas the first set of index variables captures a permanent mean shift in the series.

The political variables that we use are either motivated by previous political macroeconomic studies or are chosen to test prior beliefs. The first set of variables captures differences in political parties in control of the White House, the House of Representatives, the Senate, and any combination of the three. Those variables are loosely motivated by a "partisan" view of political cycles,[9] which emphasizes the policymakers' differing motivations and political platforms. The second set of political variables allows us to test for unusual effects before, or at any time during the election period, irrespective of the political party in power. Such

[9] See Hibbs (1977) and Alesina (1987).

variables can be motivated by "opportunistic" models of political behavior, where policy-makers choose policies that maximize their chances of staying in office (Nordhaus (1975), Lindbeck (1976), Rogoff (1990), Persson and Tabellini (1990)).

Control Variables: The conditioning variables we use are the annualized log dividend price ratio (DP_t), the term spread (TSP_t) between the yield to maturity of a 10-year Treasury Note and the 3-month Treasury Bill, the default spread (DSP_t) between yields of BAA and AAA rated bonds, the relative interest rate (RR) computed as the deviation of the 3-month Treasury Bill rate from its one-year moving average, and an index variable ($NBERD_t$) that equals 1 if the economy is deemed in expansion by the NBER at time t.

We have tried to be as exhaustive in our list of conditioning variables as possible. Some of these variables might be correlated. However, if we had to err, we wanted to err on the side of including redundant information, rather than forgetting relevant information, which would lead to inconsistent estimates. The use of these variables is incontroversial, as they all have been used more than once in previous studies. Some of the most widely cited papers that take the dividend price ratio, the term spread or the default spread as predictors are Keim and Stambaugh (1986), Campbell and Shiller (1988), Fama and French (1988, 1989), and Fama (1991). The power of the relative interest rate to forecast expected returns was argued in Campbell (1991), and Hodrick (1992). We include the NBER index as another proxy for business cycle conditions.

3 Political Cycles and Stock Market Returns

In this section, we establish the empirical fact that presidential-partisan cycles have been associated with excess returns in the stock market as well as with differences in the real risk-free interest rate. Furthermore, we document that the difference in stock market returns under Republican and Democratic returns is robust in different subsamples, and cannot be attributed to statistical inference problems.

3.1 Major Findings

Figure 1 plots the average excess value-weighted annual returns during each presidency in the 1927-1998 period. Republican periods are shaded in a darker color, and the dash-dotted line denotes the unconditional mean of the series. Contrary to the widely-held popular belief, excess returns under Republican presidents were historically lower than under Democratic presidents. Only one (out of 10) Democratic presidency (Roosevelt, 1937-1941) has known significantly lower than average excess returns, and only one (out of 8) Republican presidency (Eisenhower, 1953-1957) has been associated with significantly higher than average returns.

To measure the correlation between (excess and real) returns and political variables, we run regressions:

$$r_{t+1} = \alpha + \beta\pi_t + u_{t+1} \tag{1}$$

where, returns are denoted by r_{t+1} and the political variable by π_t. Under the null hypothesis of political cycles having no effect on returns, we must have $\beta = 0$. Table 3A presents the results from regressing the excess and real returns of the value-weighted and equal-weighted portfolios and for the real interest rate on index variables for Republican and Democratic presidential mandates.[10] The coefficients are simply the means of returns during the Republican and Democratic presidencies. The probabilities of rejecting the null hypothesis, reported below the estimates, are computed using asymptotic (heteroskedasticity and serial-correlation corrected) standard errors (Newey-West (1987)) as well as using bootstrapped standard errors, by resampling the residuals of the regressions. The regressions are also estimated for various subsamples.

During the 1927-1998 period, the value-weighted excess return under a Democratic White House was 10.69 percent per year, whereas it was only 1.69 percent per year under a Republican president, amounting to a difference of 9.01 percentage points, which is economically and statistically significant. The difference between regimes of the equal-weighed excess returns are as high as 16.52 percent. It is interesting to notice that the difference in excess returns is due to both the risky rate being higher and the riskless rate being lower on average under

[10] We run a regression of market returns on Republican (RD) and Democratic (DD) presidential dummies, or $r_{t+1} = \alpha_1 RD_t + \alpha_2 DD_t + u_{t+1}$. The hypothesis of no difference between the coefficients, or $\alpha_1 - \alpha_2 = 0$ is equivalent to $\beta = 0$ in the regression $r_{t+1} = \alpha + \beta RD_t + u_{t+1}$.

Democrats than Republicans.[11] For the full sample, the 9.01 percent difference in excess return of the value-weighted index can be decomposed into a higher average stock market return of 5.31 percent under Democrats and the real T-bill rate being 3.70 percent higher on average under Republicans than Democrats. However, the statistical significance of the total difference is driven by the difference in stock market returns.

It is remarkable to find that the results are robust in all subsamples. The difference in excess returns persists and is always economically and statistically significant, even for the 1946-1993 period, which is the most favorable for Republicans. Indeed, the difference is never smaller than 5.4 percent (during 1946-1993). The economic magnitude of this finding is highly significant. If the return on capital is from 5.4 to 9 percent higher under Democratic presidents, then investigating and understanding the reasons behind this discrepancy in economic performance is definitely a worthwhile endeavor. Obtaining statistical significance in subsamples is surprising given the low power of our test, especially in periods during which only a few presidential elections were held. The lack of power also prevented us from testing more complex hypotheses, such as whether the difference has been decreasing over time.[12]

Similar regressions were conducted with Congressional variables, and a combination of those variables with Presidential terms. Since none of those variables seem to be correlated with returns, we relegate the results from those regressions to the appendix.

3.2 Robustness

The difference in returns is intriguing not only by its economic significance, but also because it is so stable across different subperiods. However, it may be argued that the findings are driven by a few outliers or that our statistical inference is plagued by small sample biases. In this subsection, we use a randomization-bootstrap procedure and quantile regressions to demonstrate that the observed difference in returns during Republican and Democratic administrations is a robust feature of the data.

[11] Previous studies have concentrated on stock returns rather than excess returns, and find smaller differences between Republican and Democratic administrations, generally in the order of 4-5 percent. See Hensel and Ziemba (1995), Johnson et al. (1999), and Siegel (1998). All of those studies were used the S&P500 index as a proxy for the stock market.

[12] A decreasing difference over time could be interpreted as evidence for learning.

3.2.1 Randomization-Bootstrap

The standard errors in Table 3A are computed using estimators that are robust to serial correlation and heteroskedasticity in the residuals. However, the results may still be driven by a "lucky draw" from the political variables. After all, there are only 18 distinct presidencies in our sample and even fewer switches of the White House between parties. To address this concern, we turn to a randomization-bootstrap procedure,[13] which is formally developed in Davison and Hinkley (1997), and Efron and Tibshirani (1998).[14] We address the question: How likely would it be to observe such a difference in returns during political regimes that are truly independent of returns?

To find the small sample distribution of the t-statistic, t, under the null,[15] we conduct the following resampling experiment. We draw 10,000 samples of T observations each by resampling independently from the series $\{r_{t+1}\}_{t=1}^{T}$ and $\{\pi_t\}_{t=1}^{T}$. Denote the j-th sample by $\left(r_{t+1}^{j}, \pi_t^{j}\right)_{t=1}^{T}$, for $j = 1, ..., 10,000$. We can compute $\hat{\beta}^j$ and the corresponding t^j as in regression (1). The bootstrapped distribution of t under the null hypothesis is simply the distribution of the 10,000 draws of t^j. The mean of the bootstraped distribution of $\hat{\beta}$ is denoted by $\overline{\hat{\beta}}$. Under the null, returns under Democratic and Republican presidencies must be equal to each other and to the unconditional mean, that is $\overline{\hat{\beta}} = 0$. The bootstrapped p-value is computed as $p_{boot} = \frac{\#\{t^j \geq t\}}{10,000}$, where $\#\{t^j \geq t\}$ denotes the number of t^j's that are higher than the computed t statistic.

Table 3B presents the results from the randomization-bootstrap tests. The first number (in square brackets) below the estimates is the mean of the corresponding parameter from the randomized samples. As noted above, under the assumption that returns are independent of the political variables, the mean return under the two regimes must be equal to each other and to the unconditional mean (in Table 2). The second number below the estimates is the p-value p_{boot}. We focus our attention on the column "Diff," which can be compared directly with column "Diff" in Table 3A, since both columns test the hypothesis of no difference in returns between the two regimes. The difference between political regimes is mostly significant at the 10 percent, for the value-weighted returns and is mostly significant at the 1 percent level for

[13] We thank the referee for this excellent suggestion.

[14] There are several equivalent ways of setting up this bootstrap. We chose a setup that lends itself to a multivariate generalization, which allows us to extend the analysis with control variables in the regressions.

[15] The maintained null hypothesis is that there is no relationship between returns and political variables.

equal-weighted returns across periods. Approximating the small-sample distribution of the t-statistic using a non-parametric randomization-bootstrap produces conservative results, which makes it that much more remarkable that we find such a clear difference in stock market performance during Democratic versus Republican presidencies.

3.2.2 Quantile Regressions

A related concern is whether the above results are driven by a few outliers, such as the extremely negative returns during the Hoover administration and the unusually high returns during the Roosevelt years. To address this concern, we run quantile regressions. We ask whether a particular quantile of the distribution of returns accounts for the difference between Republican and Democratic administrations. Conditional quantiles can be thought of as the inverse of the conditional distribution, and therefore contain the same information. By analyzing the entire distribution of returns under the two regimes, we can precisely find what quantiles of the distribution account for the differences in means.

Before discussing our results, we present a brief introduction to quantile regressions. Let the unconditional distribution of r_{t+1} be $F_{r_{t+1}}(r) = \Pr(r_{t+1} \leq r)$. Then, for any quantile τ, $0 < \tau < 1$, we can define the inverse of $F_{r_{t+1}}(.)$ as $Q_{r_{t+1}}(\tau) = \inf\left\{ r : F_{r_{t+1}}(r) \geq \tau \right\}$. The function $Q_{r_{t+1}}(.)$ is called the unconditional quantile function of r. $Q_{r_{t+1}}(0.5)$ is the 50th quantile, or the median, of r_{t+1}. The introduction of conditional quantiles is easily understood by making an analogy to the familiar least squares estimation. The conditional mean function $E(r_{t+1}|z = z_t) = z_t'\eta$, for some explanatory variables z, is estimated by solving $\hat{\eta} = \arg\min_{\eta} \sum_t (r_{t+1} - z_t'\eta)^2$. Similarly, the conditional quantile function $Q_{r_{t+1}|z}(\tau|Z = z_t) = z_t'\eta(\tau)$ can be estimated by solving:

$$\hat{\eta}(\tau) = \arg\min_{\eta} \sum_t \rho_\tau \left(r_{t+1} - z_t'\eta(\tau)\right)$$

where $\rho_\tau(.)$ is a piecewise linear "check function," defined as $\rho_\tau(u) = u(\tau - I(u < 0))$ and $I(.)$ is the indicator function. The function $\rho_\tau(.)$ selects the quantile τ to be estimated (see Koenker and Hallock (2000)). As above, for the case $\tau = 0.5$, $\rho_{0.5}(u) = |u|$ and the solution of the above problem, $\hat{\eta}(0.5)$, is equivalent to minimizing the sum of absolute values of the residuals. From the definition $\hat{Q}_{r_{t+1}|Z}(0.5|Z = z_t) = z_t'\hat{\eta}(0.5)$ represents the estimate of the conditional median of r_{t+1}. For different values of τ, the estimate $\hat{\eta}(\tau)$ is the effect of

Z_t on the $\tau - th$ quantile of r_{t+1}. An estimate of the entire function $\hat{Q}_{r_{t+1}|Z}(\tau|Z = z_t)$ can be computed from the above linear relation. For a more detailed introduction to quantile regressions, please refer to Koenker and Hallock (2000), and Koenker (2000).

We run the quantile regression:

$$\left[\hat{\alpha}(\tau), \hat{\beta}(\tau)\right] = \arg\min_{\alpha,\beta} \sum_t \rho_\tau \left(r_{t+1} - \alpha(\tau) - \beta(\tau) RD_t\right) \tag{2}$$

where the coefficient $\beta(\tau)$ captures the quantiles of the difference in returns between Republicans and Democrats. The estimation is conducted for $\tau = 0.02, 0.04, ..., 0.98$. The results of this quantile regression are plotted in Figure 2, where the difference $\hat{\beta}(\tau)$ is plotted in a solid line, the 95 percent bootstrapped confidence intervals are plotted in light dashed lines, and the oveall unconditional mean of the difference is plotted for reference. We can clearly see that the difference in returns between Republicans and Democrats is significant (outside the confidence interval) for quantiles 30 to 60, for value-weighted returns, and for quantiles 20 to 75, for equal-weighted returns. To summarize, extreme realizations at the tails of the distribution do not account for the observed difference in returns between Republicans and Democrats.

4 Three Potential Explanations

In this section we investigate three potential explanations for the empirical relation between political cycles and returns in the stock market.

4.1 A "Proxy" Explanation

The most natural explanation for the correlation between presidential-partisan terms and excess returns is based on a "proxy" effect. Since variations in returns have been associated with business cycle fluctuations,[16] and business cycle fluctuations have been associated with political variables,[17] it is only natural to suspect that the correlation between excess returns and political variables is only the reflection of the correlation between the business cycle and

[16] See Campbell (1991), Fama (1991), and Campbell et al. (1997) for a textbook treatment.

[17] There is an extensive list of theoretical and empirical papers in this area. Some of the most recent empirical papers are Blomberg and Hess (1997), Faust and Irons (1999), and Gonzalez (2000). For excellent reviews, see Alesina, Roubini and Cohen (1997), Alesina and Rosenthal (1995), and Drazen (2000).

political variables. If political variables were indeed proxying for such business cycle factors, then the strong correlation between presidential mandates and excess returns would come as no surprise. However, this correlation should evaporate once we take those factors into account.

To test the "proxy" hypothesis, we augment equation (1) in the following manner:

$$r_{t+1} = \alpha + \beta\pi_t + \gamma' X_t + u_{t+1} \tag{3}$$

where X_t is a vector containing predetermined macroeconomic variables, associated with the business cycle and known to forecast the stock market: the "annualized" log dividend yield (DP), the term spread (TSP), the default spread (DSP), the stochastically detrended real risk-free interest rate (RR), and an index for the NBER business cycle dates (NBERD). If political variables contain only information about returns that can be explained by business cycle fluctuations, then the coefficient β should equal zero.

Surprisingly, after conditioning on X_t, the presidential partisan variables remain statistically significant. Moreover, the magnitude of the coefficients is very similar to the case without conditioning variables, indicating that the political variables have explanatory power for expected returns that is orthogonal to the business cycle variables. Table 4 presents the results from those regressions. In regression (3), all control variables are demeaned, so that the coefficients of the political index variables can be directly compared with those from Table 3. The coefficients of RD and DD are displayed in Table 4A for the value-weighted returns, equal-weighted returns, and the real interest rate, for each of the subsamples. In Table 4, the parameters γ are suppressed for clarity of exposition.[18] After controlling for the macroeconomic forecasters of returns, the correlation between the political variables and returns is, if anything, stronger. The difference between the Republican and Democratic value-weighted returns remains between 6.1 and 10.5 percent (annualized) in the different subsamples, and is even more statistically significant than in Table 3. As observed above, it is the difference in returns of the stock market rather than the difference in the interest rate that accounts for the biggest portion of the difference in excess returns. The difference in equal-weighted returns remains high, at around 20 percent, and statistically significant. In other words, given similar economic conditions, the excess and real returns under Republican presidents have been between 10 and 20 percent lower than the returns under Democratic

[18] The estimates of γ are available upon request.

presidents. In fact, under Republican presidents, the equity premium is not significantly different from zero for any of the portfolios. In conclusion, the results in Table 4 indicate that the correlation between returns and political variables is not due to an indirect relation between business cycle factors and presidential mandates.

To verify the robustness of the conclusions, we run the randomization-bootstrap tests and quantile regressions once again. The results from the randomization test are displayed in Table 4B, where the first number (in square brackets) below the estimates is the parameter from the bootstrap and the second number is the empirical probability of rejecting the null of no relationship between returns and political index variables. The difference in returns is significant in all subsamples at the 10 percent level, for the equal-weighted returns. For the value-weighted portfolio, the difference is mostly significant at the 10 percent level, with the exception of two subsamples where the probabilities are around 15 percent. Once again, those results are surprisingly significant, given the conservative randomization procedure and the modest power of our tests. We should also not lose from sight the economic significance of the difference, which is never lower than 6 percent.

Figure 3 displays the results from the quantile regression:

$$\left[\hat{\alpha}(\tau), \hat{\beta}(\tau), \hat{\gamma}(\tau)\right] = \arg\min_{\alpha,\beta,\gamma} \sum_{t} \rho_\tau \left(r_{t+1} - \alpha(\tau) - \beta(\tau) RD_t - \gamma(\tau)' X_t\right)$$

where $\hat{\beta}(\tau)$ captures the quantiles of the difference in returns between Republicans and Democrats. The solid curve plots the estimates of the difference in quantiles. Confidence intervals and the null of no effect between political parties, shown in lighter dashed and solid lines, were computed using a randomization-bootstrap procedure as described above. Controlling for business cycle fluctuations has very little effect on the results. The difference in the distribution of returns between regimes comes mainly from the middle 40 percent quantiles and not from outliers at the tails of the distributions.

To recapitulate the findings in this subsection, political variables capture variations in returns that seem almost orthogonal to macroeconomic conditioning variables. Therefore, the correlation between returns and presidential index variables cannot be attributed to the latter's proxying for business cycle fluctuations.

4.2 Elections Shocks

Thus far, we have shown that political partisan cycles capture variations in average returns. We have said nothing about whether the difference in average returns between Republicans and Democrats corresponds to a difference in expected or in unexpected returns. It is possible that the difference in the estimated average returns is not due to systematic differences in expected returns but to unexpected returns around election dates. In other words, it may be the case that the entire difference is concentrated in the periods surrounding elections, when information about the future party to hold the presidency (with the corresponding economic and political platform) is revealed. Election "news" conveys information about the future economic policy of the presidency, and therefore about future cash flows and expected returns of the stock market. In this case, assuming rational expectations, the results of elections should have an immediate impact on asset prices. However, once the information is fully incorporated into asset prices, there should be no further difference in returns during the rest of the presidential terms in office. In contrast, if we observe a difference in returns that materializes gradually during the presidential mandate, it is likely that it corresponds to a difference in expected returns — that is, a difference in the risk premium of the stock market. Unless, of course, we admit that presidents of different parties repeatedly surprise investors during their tenure in office.

Using regression (3) with different timing variables, we can't find evidence of statistically significant returns before elections, nor is the different in returns due to any particular period of the presidency. Tables 5 and 6 present the results from those regressions. More precisely, in Table 5, we test whether excess returns during the last few months leading to the election are significantly different from the rest of the term, irrespective of the party in office. All tests are conducted for the value-weighted and equal-weighted portfolio returns, for the real interest rate, and for several periods before the elections. Although the point estimates of mean excess returns before elections are higher, the difference is not statistically significant. Admittedly, the insignificant results might be due to the lack of power of our test. For example, in the MD(0) case (for returns during the month of the election itself) there are only 18 observations to estimate the mean of returns. Similarly, for the MD(3) case, there are only 54 observations to estimate the mean of excess returns three months before the election. We cannot tell if the estimates represent real differences or if the outcomes are due

to chance, especially since, as we increase the number of observations (for example, going from MD(0) to MD(6)), the point estimates decline.

Table 6 presents similar results, conditioning on the party that won the elections. The results are largely unchanged. The market does not respond significantly to election shocks, irrespective of the party that is about to win the elections. The difference in returns does not seem to be due to the period preceding the election. The lack of market reaction to election news is quite puzzling, given the magnitude of the observed difference in returns for the entire mandate. However, our results parallel those of Cutler et al. (1989) who find that major news announcements that are likely to have real effects are not translated into large price movements.

The findings in Tables 5 and 6 are also consistent with the fact that the outcomes of most elections are predictable (Fair (1982, 1996)). The forecasts of election outcomes are widely available from Gallup and are closely followed by the media. Therefore, it is reasonable to assume that market participants have already incorporated information about the new presidency in market prices by the time of the election. If there is any political uncertainly left for the day of the election itself, it should be minimal. This makes it hard to test the "election shocks" hypothesis. However, a few presidential elections have been closely contested, and two of them were even wrongly forecasted by Gallup and the media. Unfortunately, such true political shocks are rare, clearly insufficient for rigorous statistical testing. We thus conduct an informal study of those cases and provide evidence of very limited, to non-existent, abnormal returns around elections.

Figure 4 shows the daily movement in price of the value-weighted portfolio around the dates of the four elections that have either been wrongly forecasted by Gallup, or whose outcomes were very close ex-post. From the four pictures, only the Truman/Dewey outcome seems to have had a large effect on prices right after the election. In the other three elections, prices did not seem to respond much to the election results, thus confirming our results that abnormal returns around elections cannot account for the observed difference in returns during Republican and Democratic presidencies.

As another illustration of this point, Figure 5 displays the price of the value-weighted portfolio in all elections and around elections that were won by Republicans or by Democrats. Panels A-D depict different windows around the election dates. The first two panels show

that prices do not differ significantly during the period immediately before or after the election. However, the difference in the performance of the value-weighted portfolio widens during the first year of the new president, as shown in panel C. The difference grows gradually and almost homogeneously throughout the entire presidential cycle, as shown in panel D.

In sum, the market seems to react very little, if at all, to presidential election news. Given that election shocks fail to explain the difference in returns, and that the difference builds gradually over the course of the presidency, differences in unexpected returns can be ruled out as a potential explanation.

4.3 Varying Risk

Another potential explanation for the difference in average returns would be a difference in stock market risk under Democratic and Republican presidents. Under this explanation, differences in economic policy of the two parties would translate into differences in the volatility of returns. In this case, the difference in average returns between Republicans and Democrats could be attributed to compensation for risk demanded by investors. We investigate this hypothesis by measuring the volatility of returns during Democratic and Republican presidencies.

We first run a regression of the monthly volatility (computed from within-month daily returns), VOL, on the political dummies RD and DD. Table 7 reports the results. For the overall sample, we find that volatility tends to be higher by about 1.4 percent per year under Republican presidents than under Democrat presidents. This difference is, however, not statistically significant. When considering the subsamples starting in 1946 and 1960, the difference in volatility increases to 2.8 percent and 3.4 percent respectively, and becomes significant. Thus, we find that Republican mandates have witnessed marginally higher volatility than Democratic mandates. This difference goes in the opposite direction of what would be required to explain the difference in mean returns in a world where excess returns are proportional to volatility, as in Merton's ICAPM.

Table 8 investigates further the difference in volatilities by adding the macroeconomic control variables to the regression. We find that these variables — the default spread and the NBER recession index in particular — significantly help explain the behavior of volatility through

time. After controlling for these macroeconomic variables, the difference in volatility across the political cycle is attenuated. For the entire sample, the difference actually changes sign, although it is statistically insignificant.[19] However, in the more recent subsamples, the volatility continues to be higher under Republican presidents, even after controlling for the state of the economy.

Figure 6 shows graphically the relation between risk and return in all presidential mandates. It is clear that there is a difference in the risk-return tradeoff between the two regimes. The points in the mean-standard deviation space that correspond to Democratic presidents typically dominate the points corresponding to Republican presidents.

To summarize, volatility is somewhat higher during Republican presidencies, which goes against our conjecture that the difference in mean returns could be attributed to compensation for risk.

5 Cross-Sectional Differences

In the previous sections we documented the performance of the overall stock market returns across different parties in the presidency. In this section we study the cross-section of stock returns. In particular, we examine the returns of portfolios sorted on the market capitalization of firms, as well as industry-based portfolios. We investigate whether the impact of the political cycle is felt differently for large versus small firms, and whether some industries have benefitted more than others from each type of administration.

5.1 Differences in Size-Sorted Portfolio Returns

Table 9 displays the estimates from regressing the excess returns of the 10 size decile portfolios on the presidential index variables. The results, although similar to those in Tables 3 and 4, contain a surprising pattern. The difference between returns is inversely related to the market capitalization of the companies. The smallest companies (decile 1) display the largest disparity in returns during the Republican and Democratic Presidencies — 21 percent per year — during the entire sample period. The difference in returns of the biggest companies

[19] This is driven by the great depression, where explaining the extreme volatility of the period requires large coefficients on the default spread and the NBER recession dummy.

(decile 10) remains economically and statistically significant — 7.71 percent (annualized) — but is three times smaller. The results from the subsamples were very similar and, hence, are omitted. This size effect explains the difference between the results in the value-weighted and equally-weighted regressions. The former put (relatively) more weight on large companies, whereas the latter put more weight on small companies. Finally, the robustness check in Table 9B, conducted using the randomization-bootstrap discussed above, confirms the statistical significance of the cross-sectional results.

It could be argued that the differences in the effect of political variables on the excess returns of the size-decile portfolios is simply due to the fact that small stocks tend to have higher betas on the market than big stocks. According to this explanation, political variables only affect the overall level of the market and the large effect on small stocks is due to their high sensitivity to market moves. To investigate this possibility, we run regressions of the excess returns of the size-decile portfolios on the political variables together with the excess return on the value-weighted portfolio. Table 10 shows the estimates of the coefficients on RD, DD and $VWR - TBL$. Note that the coefficients of RD and DD are not directly comparable with the ones presented in Table 9, because the excess return on the value-weighted portfolio has a non-zero mean. However, the difference between the coefficients on RD and DD does have the same interpretation as before. We see that, after controlling for the differences in beta with respect to the market, the political variables retain considerable explanatory power for the difference in expected returns of portfolios formed according to size. The difference for the smallest decile is still of the order of 10 to 15 percent. For the overall sample, the difference in "beta-adjusted" mean returns is significant for all size-decile portfolios. In the more recent subsamples, the statistical significance disappears for the biggest firms but remains high for smaller stocks. We believe that this evidence may shed further light on the "small-firm effect." For example, it might be the case that Republican and Democratic economic policies, and the risks associated with those policies, have a different impact on small and large companies. Such a cross-sectional difference, although beyond the scope of the current paper, can provide a possible explanation not only of the "small-firm effect" but also of the channels through which political cycles affect stock returns.

5.2 Differences in Industry Portfolio Returns

In this subsection, we investigate the relation between political variables and a cross-section of 48 industry returns.

Political parties are divided in their support to various industries. The platform of the Democratic party places higher priority on environmental preservation, support to labor unions, and stronger regulatory intervention, while the planks of the Republican party have evolved around deregulation and weakening government control on most business activities. From this perspective, the impact of federal taxation, spending, and regulatory policies should have a differential effect on industry returns. The partisan differences could perhaps be translated into more beneficial Democratic policies for labor-intensive and highly unionized industries, such as services and construction. On the other hand, industries that are subject to considerable regulation, such as tobacco, telecom, and chemicals, might benefit from Republican administrations.

Interestingly, the performance of the industries falls very much in line with these partisan convictions. Indeed, after running regressions similar to those in section 3 on industry portfolio returns, we find that presidential cycle variables are significantly correlated with industry returns. Table 11 displays industry returns under Republican and Democratic regimes, whereas Table 12 allows for differing industry "betas" by conditioning the results on the excess market return, $VWR - TBL$. For about 20 (out of 48) industries, returns are higher under Democratic presidents. However, there are industries, such as tobacco, with significantly higher returns under Republicans. The industries with the most favorable returns under Democrats — about 15 to 20 percent higher than under Republicans — are real estate, construction, personal services, and business services, whereas the tobacco, food, chemicals, and soda industries have registered about 8 to 10 percent higher returns under Republicans.

There is a link between the results for size-decile portfolios of the previous subsection and the findings for industry portfolios. During the 1963-1998 period, industries with the highest average firm size — tobacco, soda, and telecom — have earned significantly higher returns under Republicans. In general, industries with high average firm size, such as utilities, chemical, food, auto, and drugs have averaged significantly larger returns under Republican administrations. Similarly, 8 out of the 10 industries with the smallest average firm size

— real estate, construction, agriculture, personal services, wholesale, rubber, health, and fabricated products — have registered significantly higher returns under Democrats.[20]

The cross-sectional results suggest that our political cycle variables may be capturing the effect of federal economic policies on market stock returns.

6 Conclusion

This paper documents that excess returns correlate with presidential-partisan cycles and tests some obvious hypotheses as to the provenance of this correlation.

The major stylized facts that we document are:

1. The excess return of the value-weighted CRSP portfolio over the one-month Treasury bill is, on average, 9 percent higher under Democrat than Republican administrations. The premium on the equal-weighted CRSP portfolio is, on average, 16 percent higher under Democratic presidential terms (Table 3).

2. The presidential cycle variables capture information about expected returns that is orthogonal to business cycle variables (Table 4).

3. There is no evidence that pre- or post-election excess returns are higher than average (Tables 5 and 6, and Figure 4). The difference in excess returns builds up homogeneously throughout the presidential term — it is not due to any particular period during the presidency (Figure 5).

4. Volatility is somewhat higher in Republican presidencies (Table 8).

5. The difference in returns decreases monotonically with the market capitalization of firms. The difference varies from 7 percent for the largest firms to about 22 percent for the smallest firms (Tables 9 and 10).

[20] We use data for the average firm size per industry for the 1963-1998 period, obtained from Ken French and used in Fama and French (1997). The 10 industries with the highest average firm size (average firm size in millions of US dollars in parentheses) are: Smoke (5,193), Soda (4,791), Telcm (1,821), Hshld (1,516), Comps (1,135), Drugs (1,104), Autos (1,085), Aero (1,056), Oil (985), and Util (879). The 10 industries with the lowest average firm size are: RlEst (94), Cnstr (115), Rubbr (116), Agric (119), Txtls (122), PerSv (137), Clths (157), Whlsl (164), FabPr (168), Hlth (171).

6. The impact of presidential cycle variables varies across industries (Tables 11 and 12).

7. Congressional mandates do not have a statistically significant effect on excess stock returns (Tables I, II and III in appendix).

The mechanism through which political variables impact stock returns remains an open question. We conjecture that the presidency affects the stock market through its fiscal and regulatory policies. There is an extensive literature that analyzes the impact of monetary policy on financial markets. However, the effect of fiscal policy on the stock market has largely been ignored.[21] The cross-sectional evidence we present gives some support to this hypothesis. Indeed, the patterns we find in small versus large firms and in different industries are in line with ideological differences across the political parties. This raises the strong suspicion that economic policies pursued by the president may benefit some firms and industries over others. The effect on the stock market overall would then be the cumulative effect of these economic policies on the universe of firms. Tracing the unambiguous effect of political parties on stock returns would necessitate data on government taxation, spending, deficit, and other regulatory policies, which we leave for future work.

Whatever the fundamental factor that underlies the difference in returns between Republican and Democratic presidents, the small market reaction to election news is difficult to reconcile (in a rational expectations framework) with the observed long-term differences in returns. However, relaxing rational expectations would lead us into only recently explored territories.

Another fundamental question that we leave open is: do political variables cause fluctuations in stock returns, or is it the other way around? In this paper, we have implicitly assumed that political variables, and the election of the president in particular, are exogenous events. This assumption was given some support when we established that political variables do not proxy for fluctuations in the business cycle. However, there are a variety of models that successfully predict the outcome of presidential elections using economic data. Endogenizing the political cycles and their explicit modeling is a complicated problem that certainly deserves further attention.

[21] Fiscal policy has largely been ignored in economics in general. It is only recently that people have started to look at the effect of fiscal policy on the economy (Blanchard and Perotti (2000)).

Appendix: Additional Evidence

The main body of the paper focuses mainly on Presidential cycles. We have carried out a similar analysis for Congressional cycles and for the interaction between Presidential and Congressional cycles. A priori, the party that control Congress would seem a promising variable, since most taxing and spending initiatives are initiated and decided in Congress. However, we find no evidence of correlation between excess returns and Congressional variables. Tables I, II, and III present some of that evidence.

Table I presents the test of whether a political majority in the Senate or the House of Representatives has an effect on returns, beyond what we have already observed from the presidential cycles. The coefficients on the variable "RSD" can be interpreted as the difference in returns during a Republican-majority Senate and a Democratic-majority Senate. Similarly, the coefficients on "RHD" can be interpreded as the difference in excess returns during a Republican and a Democratic House of Representatives. The differences, although economically important, are statistically insignificant. Similar results were obtained when the usual macroeconomic control variables were added to the regressions. The only financial variable that is correlated with the Congressional dummies is the real interest rate.

Tables II and III conduct similar tests. The goal of those tables is to quantify the different means of excess returns and the real interest rate during different Congress and White House political combinations. The message from those tables is that the party in control of the Senate or the House of Representatives matters little beyond the party in control of the White House.

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Table 1: Variable Definitions

Acronym	Definition	Source
VWR	Log return of value-weighted portfolio	CRSP
EWR	Log return of equally-weighted portfolio	CRSP
DECj	Log return of size-decile j	CRSP
VOL	Standard deviation of monthly returns, computed from within-month daily returns	CRSP and Schwert (1990)
TBL	Log yield of 3-month T-bill	Ibbotson Associates
TSP	Difference between log yields on 10-year T-note and 3-month T-bill	Ibbotson Associates
DSP	Difference between log yields on BAA and AAA rated bonds	CRSP
DP	Log dividend-price ratio of value-weighted portfolio, computed with average dividends over previous year	CRSP
INF	Log difference of consumer price index	Citibase
RR	Relative interest rate, difference between T-bill yield and its lagged 12-month moving average	Ibbotson Associates
NBERD	Dummy variable for the expansion periods of the business cycle	NBER

Notes: This table shows the definition and the acronym of the variables used in the paper, as well as the sources of the data. All series are available at monthly frequency. The 48 industry returns, omitted here for brevity, are taken from Fama and French (1997). For exact definitions of the industries (SIC code) and construction of the portfolios, please refer to Fama and French (1997).

Table 2: Summary Statistics–Financial and Control Variables

	1927-1998 (864 obs)			1946-1998 (636 obs)			1946-1993 (576 obs)			1960-1998 (468 obs)		
Series	$\bar{X}$	$\hat{\sigma}$	$\hat{\phi}$	$\bar{X}$	$\hat{\sigma}$	$\hat{\phi}$	$\bar{X}$	$\hat{\sigma}$	$\hat{\phi}$	$\bar{X}$	$\hat{\sigma}$	$\hat{\phi}$
VWR-TBL	6.46	19.20	0.20	6.91	14.60	0.07	6.13	14.64	0.07	5.18	15.30	-0.02
VWR-INF	7.08	19.20	0.17	7.47	14.75	0.14	6.48	14.78	0.13	6.62	15.38	0.05
EWR-TBL	8.76	25.32	0.25	7.66	18.14	0.22	7.83	18.33	0.25	6.45	19.37	0.21
EWR-INF	9.39	25.25	0.22	8.22	18.21	0.24	8.18	18.42	0.27	7.90	19.37	0.21
TBL-INF	0.60	1.94	0.82	0.55	1.63	0.79	0.33	1.69	0.79	1.45	0.99	0.87
VOL	15.59	0.56	0.87	13.33	0.36	0.70	13.33	0.36	0.68	13.50	0.38	0.70
DEC1-TBL	8.43	3.29	0.27	6.51	2.04	0.28	6.76	2.08	0.30	5.26	2.13	0.27
DEC2-TBL	7.24	2.96	0.29	6.56	1.94	0.22	6.81	1.97	0.24	5.03	2.04	0.19
DEC3-TBL	7.77	2.75	0.22	7.33	1.90	0.11	7.45	1.92	0.14	6.08	2.01	0.06
DEC4-TBL	7.77	2.56	0.22	7.36	1.82	0.12	7.62	1.84	0.15	5.93	1.94	0.07
DEC5-TBL	7.52	2.51	0.16	7.26	1.76	0.09	7.39	1.77	0.13	5.87	1.87	0.01
DEC6-TBL	7.75	2.41	0.22	7.20	1.71	0.05	7.37	1.72	0.08	5.56	1.80	-0.02
DEC7-TBL	6.95	2.31	0.17	6.95	1.68	0.03	7.05	1.68	0.06	5.27	1.76	-0.03
DEC8-TBL	7.11	2.16	0.16	7.29	1.60	-0.03	7.06	1.61	-0.01	5.79	1.69	-0.14
DEC9-TBL	6.95	2.06	0.20	7.03	1.52	0.01	6.68	1.52	0.03	5.25	1.59	-0.11
DEC10-TBL	6.38	1.81	0.22	7.06	1.38	0.11	5.95	1.38	0.08	5.34	1.44	0.03
DP	-3.07	0.33	0.98	-3.15	0.31	0.99	-3.09	0.25	0.98	-3.24	0.28	0.99
DSP	1.14	0.02	0.97	0.89	0.01	0.97	0.92	0.01	0.97	0.99	0.01	0.97
TSP	1.64	0.04	0.91	1.56	0.04	0.89	1.52	0.04	0.89	1.66	0.04	0.90
INF	3.08	0.19	0.83	4.14	0.16	0.80	4.34	0.17	0.80	4.39	0.11	0.91
NBERD	0.80	0.40	0.88	0.85	0.36	0.84	0.83	0.37	0.83	0.86	0.35	0.85
RR	0.01	0.03	0.74	0.04	0.03	0.76	0.03	0.03	0.76	0.02	0.04	0.76

Notes: The table reports the sample average ($\bar{X}$), standard deviation ($\hat{\sigma}$), and the autoregressive coefficient ($\hat{\phi}$) of all financial series and control variables used in this study. All returns are in annualized percentage points. A complete description of the variables and their mneumonics can be found in Table 1. Summary statistics for the 48 industry portfolio returns are not displayed, in the interest of brevity. For those statistics, please refer to Fama and French (1997). Summary statistics of the political variables can be found in the text.

Table 3: Average Returns under Republican and Democratic Presidents

A: Significance Tests

	1927:01-1998:12			1946:01-1998:12			1946:01-1993:12			1960:01-1998:12		
	RD	DD	Diff	RD	DD	Diff	RD	DD	Diff	RD	DD	Diff
VWR-TBL	1.69	10.69	-9.01	4.08	10.59	-6.51	4.08	9.47	-5.40	1.46	9.86	-8.40
	0.33	0.00	0.03	0.09	0.00	0.05	0.09	0.00	0.10	0.35	0.00	0.04
	0.33	0.00	0.02	0.05	0.00	0.03	0.08	0.00	0.11	0.30	0.01	0.04
VWR-INF	4.25	9.56	-5.31	4.60	11.20	-6.61	4.60	9.53	-4.93	3.30	10.81	-7.51
	0.12	0.00	0.13	0.08	0.00	0.05	0.08	0.00	0.13	0.20	0.00	0.06
	0.09	0.00	0.10	0.06	0.00	0.05	0.04	0.01	0.14	0.15	0.00	0.06
EWR-TBL	-0.01	16.52	-16.52	2.04	15.07	-13.03	2.04	17.71	-15.67	-1.24	15.50	-16.75
	0.50	0.00	0.01	0.31	0.00	0.01	0.31	0.00	0.00	0.41	0.00	0.01
	0.46	0.00	0.01	0.28	0.00	0.00	0.25	0.00	0.01	0.62	0.00	0.01
EWR-INF	2.58	15.38	-12.80	2.58	15.67	-13.09	2.58	17.73	-15.15	0.62	16.44	-15.82
	0.29	0.00	0.02	0.27	0.00	0.01	0.27	0.00	0.00	0.46	0.00	0.01
	0.25	0.00	0.01	0.23	0.00	0.00	0.23	0.00	0.00	0.46	0.00	0.01
TBL-INF	2.54	-1.16	3.70	0.49	0.63	-0.15	0.49	0.06	0.43	1.83	0.99	0.84
	0.00	0.02	0.00	0.21	0.05	0.42	0.21	0.45	0.28	0.00	0.00	0.05
	0.00	1.00	1.00	0.05	0.05	0.38	0.05	0.45	0.82	0.00	0.00	1.00
T/Changes		863/ 7			635/ 7			575/ 7			467/ 5	
$\bar{R}^2$		0.01			0.01			0.01			0.01	

B: Robustness Tests

	RD	DD	Diff	RD	DD	Diff	RD	DD	Diff	RD	DD	Diff
VWR-TBL	1.69	10.69	-9.01	4.08	10.59	-6.51	4.08	9.47	-5.40	1.46	9.86	-8.40
	[6.46]	[6.46]	[0.00]	[6.91]	[6.91]	[0.00]	[6.13]	[6.13]	[0.00]	[5.18]	[5.18]	[0.00]
	0.08	0.06	0.06	0.07	0.07	0.06	0.16	0.04	0.09	0.04	0.05	0.04
VWR-INF	4.25	9.56	-5.31	4.60	11.20	-6.61	4.60	9.53	-4.93	3.30	10.81	-7.51
	[7.08]	[7.08]	[0.00]	[7.47]	[7.47]	[0.00]	[6.48]	[6.48]	[0.00]	[6.62]	[6.62]	[0.00]
	0.18	0.15	0.17	0.06	0.14	0.08	0.14	0.09	0.12	0.08	0.11	0.09
EWR-TBL	-0.01	16.52	-16.52	2.04	15.07	-13.03	2.04	17.71	-15.67	-1.24	15.50	-16.75
	[8.76]	[8.76]	[0.00]	[7.66]	[7.66]	[0.00]	[7.83]	[7.83]	[0.00]	[6.45]	[6.45]	[0.00]
	0.03	0.01	0.01	0.03	0.01	0.01	0.04	0.00	0.00	0.03	0.01	0.00
EWR-INF	2.58	15.38	-12.80	2.58	15.67	-13.09	2.58	17.73	-15.15	0.62	16.44	-15.82
	[9.39]	[9.39]	[0.00]	[8.22]	[8.22]	[0.00]	[8.18]	[8.18]	[0.00]	[7.90]	[7.90]	[0.00]
	0.05	0.02	0.03	0.02	0.01	0.00	0.03	0.01	0.01	0.03	0.01	0.00
TBL-INF	2.54	-1.16	3.70	0.49	0.63	-0.15	0.49	0.06	0.43	1.83	0.99	0.84
	[0.60]	[0.60]	[0.00]	[0.55]	[0.55]	[0.00]	[0.33]	[0.33]	[0.00]	[1.45]	[1.45]	[0.00]
	0.03	0.02	0.02	0.12	0.13	0.45	0.27	0.06	0.36	0.35	0.19	0.29

Notes: See next page.

Notes: Panel A reports mean returns of VWR-TBL, VWR-INF, EWR-TBL, EWR-INF and the real interest rate, TBL-INF, during Republican (RD) and Democratic (DD) presidential terms. All rates are represented as annualized percentage points. The difference between Republican and Democratic terms, displayed in column "Diff", is equivalent to running returns on a constant and a Republican index variable, which corresponds to equation (1) in the text. The numbers below the coefficients in the RD and DD columms represent p-values of a t-test under the null hypothesis that the estimates are not significantly different from zero. The first number is the p-value of the test conducted using Newey-West (1988) heteroskedasticity and serial-correlation robust t-statistics. The second number is the p-value of the test conducted using a conditional bootstrap t-statistic. The p-values below the coefficients in the "Diff" column are obtained from the Newey-West and conditional bootstrap t-statistics under the null that there is no difference in returns during Republican and Democratic regimes. The rows "T/Changes" display the number of observations and the number of party changes during the estimation period. The rows "$\bar{R}^2$" display the average R^2 obtained in the regressions. Panel B reports the results from a robustness exercise, designed to test whether the results obtained in Panel A might be due to small sample biases. The maintained null hypothesis is of no relationship between returns and political variables. To find the small sample distribution of the t-statistic, under the null, we draw 10,000 samples of T observations by resampling independently from the returns and political variables series. Given the samples, we can compute the bootstrapped distributions and p-values of the t-statistics of interest. In Panel B, the numbers in square brackets are the estimates obtained from this randomization-bootstrap. The second numbers represent the p-values from the randomization-bootstrap.

Table 4: Average Returns under Republican and Democratic Presidents, Controlling for Business-Cycle Variables

A: Significance Tests

	1927:01-1998:12			1946:01-1998:12			1946:01-1993:12			1960:01-1998:12		
	RD	DD	Diff	RD	DD	Diff	RD	DD	Diff	RD	DD	Diff
VWR-TBL	2.45	10.02	-7.57	2.39	12.93	-10.53	3.82	9.93	-6.11	-2.51	14.39	-16.90
	0.20	0.00	0.04	0.19	0.00	0.00	0.07	0.00	0.07	0.21	0.00	0.00
	0.24	0.00	0.05	0.17	0.00	0.01	0.08	0.00	0.09	0.20	0.00	0.00
VWR-INF	4.52	9.33	-4.81	2.56	14.03	-11.47	3.89	10.80	-6.91	-0.95	15.67	-16.63
	0.06	0.00	0.13	0.19	0.00	0.00	0.09	0.00	0.06	0.38	0.00	0.00
	0.09	0.00	0.17	0.16	0.00	0.00	0.08	0.00	0.05	0.39	0.00	0.00
EWR-TBL	0.61	15.97	-15.35	-1.34	19.76	-21.10	0.47	20.53	-20.06	-8.91	24.26	-33.17
	0.44	0.00	0.01	0.35	0.00	0.00	0.44	0.00	0.00	0.02	0.00	0.00
	0.44	0.00	0.01	0.35	0.00	0.00	0.46	0.00	0.00	0.04	0.00	0.00
EWR-INF	2.70	15.26	-12.56	-1.15	20.84	-21.99	0.55	21.35	-20.80	-7.31	25.50	-32.81
	0.24	0.00	0.02	0.38	0.00	0.00	0.44	0.00	0.00	0.04	0.00	0.00
	0.28	0.00	0.02	0.38	0.00	0.00	0.41	0.00	0.00	0.06	0.00	0.00
TBL-INF	2.05	-0.72	2.77	0.12	1.14	-1.02	0.02	0.89	-0.86	1.53	1.33	0.20
	0.00	0.07	0.00	0.42	0.01	0.12	0.49	0.04	0.17	0.00	0.00	0.37
	0.00	0.01	0.00	0.34	0.00	0.02	0.45	0.02	0.06	0.00	0.00	0.27
T/Changes		863/ 7			635/ 7			575/ 7			467/ 5	
$\bar{R}^2$		0.06			0.08			0.09			0.10	

B: Robustness Tests

	RD	DD	Diff	RD	DD	Diff	RD	DD	Diff	RD	DD	Diff
VWR-TBL	2.45	10.02	-7.57	2.39	12.93	-10.53	3.82	9.93	-6.11	-2.51	14.39	-16.90
	[6.54]	[6.54]	[0.00]	[8.17]	[8.17]	[0.00]	[7.32]	[7.32]	[0.00]	[5.93]	[5.93]	[0.00]
	0.12	0.11	0.13	0.03	0.05	0.04	0.12	0.19	0.15	0.05	0.04	0.02
VWR-INF	4.52	9.33	-4.81	2.56	14.03	-11.47	3.89	10.80	-6.91	-0.95	15.67	-16.63
	[7.05]	[7.05]	[0.00]	[9.10]	[9.10]	[0.00]	[8.06]	[8.06]	[0.00]	[7.34]	[7.34]	[0.00]
	0.24	0.22	0.23	0.03	0.06	0.03	0.09	0.21	0.13	0.05	0.03	0.03
EWR-TBL	0.61	15.97	-15.35	-1.34	19.76	-21.10	0.47	20.53	-20.06	-8.91	24.26	-33.17
	[8.35]	[8.35]	[0.00]	[8.59]	[8.59]	[0.00]	[9.99]	[9.99]	[0.00]	[6.95]	[6.95]	[0.00]
	0.06	0.04	0.04	0.01	0.01	0.00	0.04	0.02	0.01	0.02	0.01	0.00
EWR-INF	2.70	15.26	-12.56	-1.15	20.84	-21.99	0.55	21.35	-20.80	-7.31	25.50	-32.81
	[8.75]	[8.75]	[0.00]	[9.78]	[9.78]	[0.00]	[10.86]	[10.86]	[0.00]	[8.53]	[8.53]	[0.00]
	0.10	0.05	0.07	0.01	0.01	0.00	0.02	0.02	0.01	0.02	0.01	0.00
TBL-INF	2.05	-0.72	2.77	0.12	1.14	-1.02	0.02	0.89	-0.86	1.53	1.33	0.20
	[0.51]	[0.51]	[0.00]	[1.04]	[1.04]	[0.00]	[0.78]	[0.78]	[0.00]	[1.45]	[1.45]	[0.00]
	0.04	0.04	0.04	0.05	0.49	0.21	0.09	0.49	0.23	0.48	0.44	0.45

Notes: See next page.

Notes: The table displays the results from regressing returns on political variables *and* other control variables. The controls, denoted by X_t in the paper are the log dividend price ratio (DP), the default spread (DSP), the term spread (TSP), the inflation rate (INF), the relative rate (RR), and the NBER business-cycle index variable (NBERD). Panel A reports mean returns of VWR-TBL, VWR-INF, EWR-TBL, EWR-INF and the real interest rate, TBL-INF, during Republican (RD) and Democratic (DD) presidential terms, while controlling for X_t. All rates are represented as annualized percentage points. To make the means directly comparable with those in Panel 3, all conditioning variables in X_t are demeaned. The difference between Republican and Democratic terms, displayed in column "Diff", is equivalent to running returns on a constant, a Republican index variable, and X_t which corresponds to equation (4) in the text. The numbers below the coefficients in the RD and DD columms represent p-values of a t-test under the null hypothesis that the estimates are not significantly different from zero. The first number is the p-value of the test conducted using Newey-West (1987) heteroskedasticity and serial-correlation robust t-statistics. The second number is the p-value of the test conducted using a conditional bootstrap t-statistic. The p-values below the coefficients in the "Diff" column are obtained from the Newey-West and conditional bootstrap t-statistics under the null that there is no difference in returns during Republican and Democratic regimes. The rows "T/Changes" display the number of observations and the number of party changes during the estimation period. The rows "$\bar{R}^2$" display the average R^2 obtained in the regressions. Panel B reports the results from a robustness exercise, designed to test whether the results obtained in Panel A might be due to small sample biases. The maintained null hypothesis is of no relationship between returns and political variables. To find the small sample distribution of the t-statistic, under the null, we draw 10,000 samples of T observations by resampling independently from the returns, the political variables, and the controls. Given the samples, we can compute the bootstrapped distributions and p-values of the t-statistics of interest. In Panel B, the numbers in square brackets are the estimates obtained from this randomization-bootstrap. The second numbers represent the p-values from the randomization-bootstrap.

Table 5: Difference in Returns Before and After Presidential Elections

	MD(0)	1-MD(0)	Diff	MD(1)	1-MD(1)	Diff	MD(3)	1-MD(3)	Diff	MD(6)	1-MD(6)	Diff
					1927:1–1998:12							
VWR-TBL	23.00	6.11	16.88	13.00	6.18	6.82	16.01	5.60	10.41	12.50	5.44	7.06
	0.05	0.00	0.12	0.09	0.01	0.12	0.00	0.01	0.12	0.00	0.02	0.12
	0.06	0.00	0.14	0.13	0.00	0.27	0.03	0.01	0.10	0.01	0.02	0.14
VWR-INF	25.95	6.67	19.28	15.39	6.71	8.69	17.69	6.10	11.59	13.37	5.99	7.38
	0.03	0.00	0.08	0.05	0.00	0.08	0.00	0.01	0.08	0.00	0.01	0.08
	0.07	0.00	0.13	0.09	0.00	0.22	0.01	0.01	0.10	0.01	0.00	0.10
EWR-TBL	21.37	8.49	12.88	7.76	8.81	-1.04	17.57	7.96	9.61	13.14	8.01	5.13
	0.09	0.01	0.21	0.26	0.01	0.21	0.02	0.01	0.21	0.04	0.01	0.21
	0.14	0.00	0.22	0.30	0.00	0.44	0.06	0.00	0.21	0.03	0.01	0.28
EWR-INF	24.37	9.05	15.32	10.19	9.33	0.86	19.26	8.47	10.79	14.03	8.57	5.45
	0.05	0.00	0.16	0.19	0.00	0.16	0.01	0.01	0.16	0.03	0.01	0.16
	0.11	0.00	0.21	0.24	0.00	0.47	0.04	0.00	0.16	0.03	0.01	0.24
TBL-INF	3.06	0.52	2.54	2.45	0.50	1.95	1.73	0.47	1.26	0.89	0.52	0.37
	0.00	0.09	0.00	0.00	0.10	0.00	0.00	0.12	0.00	0.06	0.11	0.00
	0.04	0.02	0.05	0.02	0.02	0.04	0.02	0.01	0.06	0.07	0.01	0.26
T		863			863			863			863	
					1946:1–1998:12							
VWR-TBL	23.93	6.45	17.48	15.17	6.45	8.73	10.23	6.50	3.73	9.30	6.39	2.91
	0.06	0.00	0.13	0.02	0.00	0.13	0.03	0.00	0.13	0.01	0.00	0.13
	0.06	0.00	0.12	0.07	0.00	0.20	0.07	0.00	0.29	0.05	0.00	0.32
VWR-INF	26.96	6.96	20.01	17.13	6.95	10.18	11.80	6.97	4.83	9.97	6.93	3.04
	0.03	0.00	0.09	0.00	0.00	0.09	0.02	0.00	0.09	0.00	0.00	0.09
	0.05	0.00	0.10	0.06	0.00	0.15	0.06	0.00	0.27	0.03	0.00	0.29
EWR-TBL	16.91	7.30	9.60	6.95	7.52	-0.57	6.49	7.59	-1.10	5.26	7.87	-2.61
	0.16	0.01	0.29	0.21	0.01	0.29	0.16	0.01	0.29	0.17	0.01	0.29
	0.16	0.00	0.29	0.27	0.00	0.48	0.22	0.00	0.43	0.21	0.01	0.38
EWR-INF	19.98	7.81	12.17	8.95	8.02	0.93	8.08	8.06	0.03	5.95	8.41	-2.47
	0.11	0.00	0.23	0.13	0.00	0.23	0.10	0.01	0.23	0.13	0.01	0.23
	0.15	0.00	0.27	0.22	0.00	0.44	0.17	0.00	0.49	0.19	0.00	0.36
TBL-INF	3.15	0.49	2.65	2.01	0.48	1.53	1.64	0.45	1.19	0.71	0.52	0.19
	0.00	0.10	0.00	0.01	0.11	0.00	0.00	0.14	0.00	0.10	0.11	0.00
	0.04	0.02	0.06	0.06	0.03	0.09	0.02	0.05	0.07	0.11	0.02	0.33
T		635			635			635			635	
					1946:1–1993:12							
VWR-TBL	19.95	5.71	14.24	12.96	5.71	7.26	7.46	5.88	1.59	8.71	5.55	3.16
	0.11	0.01	0.19	0.04	0.01	0.19	0.08	0.01	0.19	0.01	0.02	0.19
	0.08	0.01	0.15	0.10	0.00	0.27	0.14	0.00	0.42	0.06	0.00	0.32
VWR-INF	23.03	6.01	17.03	14.93	5.99	8.94	9.02	6.12	2.90	9.23	5.87	3.36
	0.07	0.01	0.14	0.01	0.01	0.14	0.05	0.01	0.14	0.01	0.01	0.14
	0.07	0.00	0.14	0.09	0.00	0.21	0.10	0.00	0.33	0.05	0.00	0.28
EWR-TBL	16.27	7.47	8.80	7.73	7.65	0.08	5.53	7.85	-2.32	5.79	7.97	-2.18
	0.19	0.01	0.32	0.20	0.01	0.32	0.22	0.01	0.32	0.16	0.01	0.32
	0.15	0.00	0.29	0.26	0.00	0.47	0.27	0.00	0.42	0.20	0.00	0.36
EWR-INF	19.40	7.76	11.63	9.74	7.93	1.81	7.10	8.09	-0.99	6.33	8.29	-1.97
	0.13	0.01	0.26	0.13	0.01	0.26	0.15	0.01	0.26	0.13	0.01	0.26
	0.14	0.00	0.24	0.20	0.00	0.43	0.24	0.00	0.44	0.20	0.00	0.37
TBL-INF	3.19	0.27	2.92	2.02	0.26	1.76	1.61	0.22	1.39	0.55	0.29	0.26
	0.00	0.26	0.00	0.01	0.27	0.00	0.00	0.31	0.00	0.17	0.27	0.00
	0.05	0.15	0.07	0.06	0.12	0.08	0.02	0.21	0.05	0.18	0.13	0.32
T		575			575			575			575	

Notes: See Next Page.

Table 5: Difference in Returns Before and After Presidential Elections (Cont'd)

	MD(0)	1-MD(0)	Diff	MD(1)	1-MD(1)	Diff	MD(3)	1-MD(3)	Diff	MD(6)	1-MD(6)	Diff
					1960:1–1998:12							
VWR-TBL	35.15	4.73	30.42	18.41	4.80	13.61	16.87	4.30	12.57	11.99	4.21	7.78
	0.00	0.03	0.01	0.01	0.03	0.01	0.00	0.06	0.01	0.00	0.07	0.01
	0.02	0.02	0.04	0.09	0.04	0.15	0.02	0.05	0.08	0.03	0.06	0.13
VWR-INF	37.69	6.13	31.56	19.96	6.22	13.74	18.31	5.73	12.57	13.23	5.68	7.55
	0.00	0.01	0.01	0.00	0.01	0.01	0.00	0.02	0.01	0.00	0.03	0.01
	0.02	0.00	0.05	0.07	0.00	0.15	0.01	0.02	0.08	0.02	0.01	0.16
EWR-TBL	28.08	6.10	21.98	9.54	6.44	3.10	12.39	6.03	6.37	7.59	6.39	1.20
	0.03	0.05	0.07	0.17	0.04	0.07	0.05	0.06	0.07	0.12	0.06	0.07
	0.09	0.02	0.14	0.25	0.03	0.37	0.11	0.03	0.26	0.16	0.02	0.40
EWR-INF	30.69	7.51	23.18	11.15	7.87	3.28	13.86	7.46	6.40	8.85	7.86	0.99
	0.01	0.02	0.05	0.11	0.02	0.05	0.03	0.03	0.05	0.08	0.03	0.05
	0.07	0.01	0.12	0.18	0.01	0.34	0.11	0.02	0.28	0.15	0.01	0.50
TBL-INF	2.70	1.41	1.29	1.64	1.43	0.21	1.53	1.43	0.10	1.29	1.46	-0.17
	0.00	0.00	0.05	0.03	0.00	0.05	0.01	0.00	0.05	0.00	0.00	0.05
	0.01	0.00	0.10	0.04	0.00	0.40	0.00	0.00	0.46	0.00	0.00	0.34
T		467			467			467			467	

Notes: The table displays results from testing whether returns are significantly higher several months prior to an election. The regression is: $R_{t+1} = \alpha_1 MD(j)_t + \alpha_2 [1 - MD(j)_t] + \varepsilon_{t+1}$, $j = 0, 1, 3, 6$, where $MD(j)_t$ equals to 1 in the period from j months prior to an election, and 0 otherwise. This regression tests the hypothesis that a difference in returns is observed prior to elections. The test of the null hypothesis $\alpha_1 = \alpha_2$ is displayed in columns "Diff". This test can be motivated by "opportunistic" models of political behavior (Nordhaus (1975), Rogoff (1990)), where policymakers choose policies that maximize ther chances to stay in office. Similar results were obtained when the usual controls were included in the regression. As in the previous tables, the first number below the estimates is the p-value of the test conducted using Newey-West (1987) heteroskedasticity and serial-correlation robust t-statistics. The second number is the p-value of the test conducted using a conditional bootstrap t-statistic. The p-values below the coefficients in the "Diff" column are obtained from the Newey-West and conditional bootstrap t-statistics under the null that there is no difference in returns during Republican and Democratic regimes.

Table 6: Difference in Returns Before and After Presidential Elections, by Political Party, Controlling for Business Cycle Variables

	DBD(0)	RBD(0)	DAD(0)	RAD(0)	Diff1	Diff2	DBD(1)	RBD(1)	DAD(1)	RAD(1)	Diff1	Diff2
					1927:1–1998:12							
VWR-TBL	2.22	44.87	10.29	1.49	-42.65	8.80	10.45	15.79	10.04	1.82	-5.35	8.23
	0.45	0.01	0.00	0.31	0.05	0.02	0.15	0.15	0.00	0.28	0.37	0.03
	0.45	0.03	0.00	0.36	0.06	0.03	0.21	0.16	0.00	0.30	0.38	0.04
VWR-INF	2.83	47.23	9.60	3.52	-44.40	6.08	11.08	17.33	9.32	3.88	-6.24	5.44
	0.44	0.00	0.00	0.12	0.04	0.08	0.13	0.12	0.00	0.11	0.35	0.11
	0.40	0.02	0.00	0.16	0.09	0.09	0.22	0.13	0.00	0.12	0.39	0.11
EWR-TBL	7.31	36.24	16.23	-0.17	-28.94	16.40	13.29	3.83	16.08	0.48	9.46	15.59
	0.38	0.03	0.00	0.48	0.17	0.00	0.15	0.42	0.00	0.45	0.31	0.01
	0.37	0.08	0.00	0.48	0.19	0.00	0.21	0.43	0.00	0.45	0.38	0.00
EWR-INF	7.92	38.68	15.52	1.87	-30.76	13.65	13.92	5.43	15.34	2.56	8.49	12.78
	0.37	0.02	0.00	0.31	0.15	0.01	0.14	0.38	0.00	0.27	0.32	0.02
	0.34	0.10	0.00	0.39	0.23	0.01	0.25	0.38	0.00	0.26	0.38	0.02
TBL-INF	0.57	2.54	-0.72	2.00	-1.97	-2.72	0.61	1.61	-0.75	2.03	-1.00	-2.78
	0.19	0.00	0.01	0.00	0.04	0.00	0.11	0.01	0.01	0.00	0.10	0.00
	0.25	0.02	0.00	0.00	0.11	0.00	0.20	0.03	0.00	0.00	0.18	0.00
T			863						863			
					1946:1–1998:12							
VWR-TBL	6.35	32.65	13.00	1.87	-26.30	11.14	6.28	22.05	13.17	1.59	-15.76	11.58
	0.41	0.04	0.00	0.24	0.22	0.00	0.35	0.02	0.00	0.28	0.22	0.00
	0.35	0.04	0.00	0.24	0.17	0.00	0.28	0.05	0.00	0.30	0.24	0.00
VWR-INF	7.16	33.56	13.93	2.15	-26.40	11.78	7.07	22.72	14.10	1.87	-15.65	12.23
	0.40	0.03	0.00	0.22	0.21	0.00	0.32	0.01	0.00	0.25	0.21	0.00
	0.34	0.05	0.00	0.19	0.16	0.00	0.30	0.04	0.00	0.25	0.19	0.01
EWR-TBL	4.30	20.90	20.07	-1.74	-16.60	21.81	5.13	9.76	20.36	-1.79	-4.63	22.15
	0.44	0.15	0.00	0.31	0.33	0.00	0.38	0.20	0.00	0.31	0.42	0.00
	0.42	0.17	0.00	0.30	0.29	0.00	0.36	0.26	0.00	0.25	0.44	0.00
EWR-INF	5.12	21.90	20.97	-1.43	-16.79	22.40	5.90	10.52	21.27	-1.49	-4.62	22.76
	0.43	0.13	0.00	0.34	0.32	0.00	0.36	0.17	0.00	0.34	0.42	0.00
	0.43	0.15	0.00	0.33	0.26	0.00	0.35	0.23	0.00	0.33	0.40	0.00
TBL-INF	0.78	1.01	0.96	0.24	-0.23	0.72	0.78	0.73	0.97	0.23	0.05	0.74
	0.20	0.10	0.00	0.25	0.43	0.06	0.08	0.04	0.00	0.26	0.47	0.06
	0.19	0.13	0.00	0.06	0.42	0.00	0.16	0.12	0.00	0.05	0.47	0.00
T			635						635			
					1946:1–1993:12							
VWR-TBL	-6.05	33.35	10.34	3.25	-39.41	7.09	-1.10	23.63	10.44	2.98	-24.72	7.46
	0.42	0.03	0.00	0.11	0.14	0.04	0.48	0.01	0.00	0.14	0.12	0.04
	0.41	0.04	0.00	0.12	0.08	0.07	0.47	0.03	0.00	0.14	0.12	0.04
VWR-INF	-5.27	34.11	11.05	3.38	-39.38	7.66	-0.34	24.16	11.15	3.11	-24.51	8.04
	0.43	0.03	0.00	0.10	0.13	0.04	0.49	0.01	0.00	0.13	0.12	0.03
	0.39	0.04	0.00	0.10	0.09	0.05	0.50	0.04	0.00	0.12	0.12	0.04
EWR-TBL	0.26	22.70	21.05	0.03	-22.44	21.02	6.17	11.80	21.19	-0.01	-5.62	21.20
	0.50	0.13	0.00	0.50	0.30	0.00	0.38	0.15	0.00	0.50	0.41	0.00
	0.48	0.15	0.00	0.47	0.27	0.00	0.34	0.23	0.00	0.48	0.40	0.00
EWR-INF	1.01	23.55	21.72	0.19	-22.54	21.53	6.88	12.41	21.86	0.14	-5.54	21.72
	0.49	0.11	0.00	0.48	0.29	0.00	0.37	0.13	0.00	0.48	0.41	0.00
	0.47	0.11	0.00	0.49	0.25	0.00	0.39	0.22	0.00	0.47	0.43	0.00
TBL-INF	0.70	0.86	0.73	0.10	-0.16	0.63	0.71	0.59	0.73	0.09	0.12	0.64
	0.26	0.14	0.00	0.39	0.45	0.10	0.14	0.08	0.00	0.40	0.43	0.10
	0.22	0.17	0.00	0.29	0.45	0.01	0.21	0.17	0.00	0.27	0.46	0.01
T			575						575			

Notes: See Next Page.

Table 6: Difference in Returns Before and After Presidential Elections, by Political Party, Controlling for Business Cycle Variables (Cont'd)

	DBD(0)	RBD(0)	DAD(0)	RAD(0)	Diff1	Diff2	DBD(1)	RBD(1)	DAD(1)	RAD(1)	Diff1	Diff2
					1960:1–1998:12							
VWR-TBL	33.14	30.22	13.81	-3.06	2.92	16.87	22.96	17.68	13.91	-3.35	5.28	17.27
	0.01	0.10	0.00	0.16	0.46	0.00	0.00	0.09	0.00	0.15	0.37	0.00
	0.06	0.08	0.00	0.20	0.45	0.00	0.08	0.10	0.00	0.17	0.39	0.00
VWR-INF	33.60	31.59	15.02	-1.42	2.01	16.43	23.55	18.93	15.13	-1.69	4.62	16.83
	0.00	0.08	0.00	0.32	0.47	0.00	0.00	0.06	0.00	0.30	0.38	0.00
	0.09	0.09	0.00	0.32	0.50	0.00	0.07	0.12	0.00	0.30	0.37	0.00
EWR-TBL	36.64	14.64	23.86	-9.30	21.99	33.16	26.48	2.21	24.07	-9.34	24.27	33.41
	0.00	0.30	0.00	0.01	0.23	0.00	0.00	0.44	0.00	0.01	0.08	0.00
	0.08	0.26	0.00	0.03	0.32	0.00	0.08	0.41	0.00	0.02	0.20	0.00
EWR-INF	37.09	16.15	25.03	-7.62	20.94	32.65	27.04	3.57	25.25	-7.65	23.47	32.89
	0.00	0.27	0.00	0.03	0.23	0.00	0.00	0.40	0.00	0.04	0.08	0.00
	0.09	0.26	0.00	0.05	0.28	0.00	0.10	0.42	0.00	0.05	0.20	0.00
TBL-INF	0.52	1.56	1.25	1.61	-1.04	-0.36	0.65	1.37	1.26	1.62	-0.72	-0.36
	0.22	0.08	0.00	0.00	0.21	0.19	0.06	0.02	0.00	0.00	0.17	0.20
	0.27	0.03	0.00	0.00	0.19	0.05	0.18	0.01	0.00	0.00	0.23	0.06
T			467						467			

Notes: The table displays the results from the regression: $R_{t+1} = \alpha_1 DBD(j)_t + \alpha_2 RBD\,(j)_t + \alpha_3 DAD\,(j)_t + \alpha_4 RAD\,(j)_t + \beta' X_t + \varepsilon_{t+1}$, $j = 0, 1$ where the dummy variables DBD, RBD, DAD, and RAD are defined in Section 2 of the text and X_t is a vector with the usual control variables. This regression tests the hypothesis that a difference in returns betweeen Democrats and Republicans is observed only prior to elections ($\alpha_1 = \alpha_2$), or only immediately after the elections, ($\alpha_3 = \alpha_4$). The tests of the null hypotheses $\alpha_1 = \alpha_2$ and $\alpha_3 = \alpha_4$ are displayed in columns "Diff1" and "Diff 2", respectively. As above, the first number below the estimates is the p-value of the test conducted using Newey-West (1987) heteroskedasticity and serial-correlation robust t-statistics. The second number is the p-value of the test conducted using a conditional bootstrap t-statistic. The p-values below the coefficients in the "Diff1" and "Diff2" columns are obtained from the Newey-West and conditional bootstrap t-statistics under the null that there is no difference in returns during the respective periods. The difference in returns, while insignificant right before elections, is significant immediately after elections. During the first two months after the election, returns under Democrats are positive, while returns under Republicans are significantly (economically and statistically) negative.

Table 7: Volatility during Republican and Democratic Presidential Terms

Period	RD	DD	Diff	T	R^2
1927:1 –1998:12	16.347	14.940	1.408	863	0.003
	0.00	0.00	0.14		
	0.02	0.00	0.06		
1946:1 –1998:12	14.478	11.707	2.771	635	0.041
	0.00	0.00	0.00		
	0.00	0.00	0.08		
1946:1 –1993:12	14.478	11.235	3.244	575	0.053
	0.00	0.00	0.00		
	0.00	0.00	0.18		
1960:1 –1998:12	15.103	11.662	3.440	467	0.057
	0.00	0.00	0.00		
	0.01	0.00	0.09		

Notes: Table 7 displays the results from the regression: $VOL_t = \alpha_1 RD_t + \alpha_2 DD_t + \varepsilon_t$. The test results of the null hypothesis that volatility is constant during the tenure of Democrats and Republicans, or $\alpha_1 = \alpha_2$, are displayed in column "Diff". The first number below the estimates is the p-value of the test conducted using Newey-West (1987) heteroskedasticity and serial-correlation robust t-statistics. The second number is the p-value of the test conducted using a conditional bootstrap t-statistic. The p-values below the coefficient in the "Diff" column is obtained from the Newey-West and conditional bootstrap t-statistics under the null that there is no difference in volatility during Republican and Democratic regimes. It is interesting to investigate whether the higher excess returns under Democrats are merely compensation for risk, in which case, we would have $\alpha_2 > \alpha_1$. The results do not support this conjecture. On the contrary, market volatility seems to be lower under Democratic regimes, even after controlling for other covariates.

Table 8: Volatility during Republican and Democratic Presidential Terms, Controlling for Business Cycle Variables

Period	RD	DD	DP	DSP	TSP	NBERD	RR	Diff	T	R^2
1927:1 –1998:12	15.26	15.90	-2.61	9858.18	-500.64	-5.93	1155.24	-0.63	863	0.38
	0.00	0.00	0.03	0.00	0.21	0.00	0.04	0.22		
	0.01	0.00	0.09	0.06	1.00	0.00	1.00	0.14		
1946:1 –1998:12	14.16	12.15	-1.98	2824.88	-300.58	-3.92	656.40	2.00	635	0.10
	0.00	0.00	0.07	0.01	0.27	0.00	0.15	0.00		
	0.00	0.00	0.03	0.01	0.99	0.00	1.00	0.01		
1946:1 –1993:12	14.21	11.72	1.10	2499.89	157.31	-3.89	1145.20	2.49	575	0.12
	0.00	0.00	0.21	0.02	0.39	0.00	0.06	0.00		
	0.00	0.00	0.00	0.01	0.99	0.00	1.00	0.07		
1960:1 –1998:12	14.26	12.62	-2.73	1495.15	0.02	224.80	-6.21	1.64	467	0.15
	0.00	0.00	0.17	0.20	0.24	0.30	0.00	0.05		
	0.05	0.00	0.00	0.00	0.00	1.00	0.07	0.01		

Notes: Table 8 displays the results from the regression: $VOL_t = \alpha_1 RD_t + \alpha_2 DD_t + \gamma' X_t + \varepsilon_t$ where X_t represents the control variables DP, DSP, TSP, NBERD, and RR. The test results of the null hypothesis that volatility is constant during the tenure of Democrats and Republicans, or $\alpha_1 = \alpha_2$, are displayed in column "Diff". As above, the first number below the estimates is the p-value of the test conducted using Newey-West (1987) heteroskedasticity and serial-correlation robust t-statistics. The second number is the p-value of the test conducted using a conditional bootstrap t-statistic. The p-values below the coefficient in the "Diff" column is obtained from the Newey-West and conditional bootstrap t-statistics under the null that there is no difference in volatility during Republican and Democratic regimes. It is interesting to investigate whether the higher excess returns under Democrats are merely compensation for risk, in which case, we would have $\alpha_2 > \alpha_1$. The results do not support this conjecture. On the contrary, market volatility seems to be lower under Democratic regimes, even after controlling for other covariates.

Table 9: Average Returns of Size-Decile Portfolios under Republican and Democratic Presidents

	A: Significance Tests			B: Robustness Tests		
	RD	DD	Diff	RD	DD	Diff
		1927. 1–1998.12				
DEC1-TBL	-2.86	18.40	-21.25	-2.86	18.40	-21.25
	0.31	0.00	0.01	[8.43]	[8.43]	[0.00]
	0.68	0.00	0.00	0.03	0.01	0.02
DEC2-TBL	-2.47	15.78	-18.25	-2.47	15.78	-18.25
	0.32	0.00	0.01	[7.24]	[7.24]	[0.00]
	0.68	0.00	0.00	0.04	0.02	0.03
DEC3-TBL	-1.22	15.70	-16.92	-1.22	15.70	-16.92
	0.40	0.00	0.01	[7.77]	[7.77]	[0.00]
	0.60	0.00	0.00	0.04	0.02	0.02
DEC4-TBL	-0.09	14.70	-14.79	-0.09	14.70	-14.79
	0.49	0.00	0.01	[7.77]	[7.77]	[0.00]
	0.50	0.00	0.00	0.04	0.02	0.02
DEC5-TBL	-0.13	14.30	-14.43	-0.13	14.30	-14.43
	0.49	0.00	0.01	[7.52]	[7.52]	[0.00]
	0.51	0.00	0.00	0.04	0.02	0.02
DEC6-TBL	1.26	13.48	-12.22	1.26	13.48	-12.22
	0.39	0.00	0.02	[7.75]	[7.75]	[0.00]
	0.38	0.00	0.02	0.07	0.03	0.04
DEC7-TBL	0.99	12.20	-11.21	0.99	12.20	-11.21
	0.41	0.00	0.02	[6.95]	[6.95]	[0.00]
	0.41	0.00	0.02	0.06	0.03	0.04
DEC8-TBL	1.75	11.84	-10.09	1.75	11.84	-10.09
	0.33	0.00	0.03	[7.11]	[7.11]	[0.00]
	0.31	0.00	0.02	0.08	0.04	0.05
DEC9-TBL	1.87	11.45	-9.58	1.87	11.45	-9.58
	0.32	0.00	0.03	[6.95]	[6.95]	[0.00]
	0.27	0.00	0.03	0.07	0.05	0.06
DEC10-TBL	2.31	10.01	-7.71	2.31	10.01	-7.71
	0.26	0.00	0.04	[6.38]	[6.38]	[0.00]
	0.23	0.00	0.05	0.10	0.09	0.10
T/Changes		863/ 7				
$\bar{R}^2$		0.01				

Notes: See next page.

Notes: The table reports mean excess returns of the size decile portfolios (DEC1=smallest and DEC10=largest) during Republican (RD) and Democratic (DD) presidential terms. The monotonic relationship is strikingly clear in the data; smaller companies stocks have higher returns under Democrats. All rates are represented as annualized percentage points. The difference between Republican and Democratic terms, displayed in column "Diff", is equivalent to running excess returns on a constant and a Republican dummy variable, which corresponds to equation (1) in the text. Panel A presents the results from the statistical inference. The numbers below the coefficients in the RD and DD columms represent p-values of a t-test under the null hypothesis that the estimates are not significantly different from zero. The first number is the p-value of the test conducted using Newey-West (1987) heteroskedasticity and serial-correlation robust t-statistics. The second number is the p-value of the test conducted using a conditional bootstrap t-statistic. The p-values below the coefficients in the "Diff" column are obtained from the Newey-West and conditional bootstrap t-statistics under the null that there is no difference in returns during Republican and Democratic regimes. The rows "T/Changes" display the number of observations and the number of party changes during the estimation period. The rows "$\bar{R}^2$" display the average R^2 obtained in the regressions. Panel B reports the results from a robustness exercise, designed to test whether the results obtained in Panel A might be due to small sample biases (similar to Table 3). The maintained null hypothesis is of no relationship between the size portfolio returns and political variables. To find the small sample distribution of the t-statistic, under the null, we draw 10,000 samples of T observations by resampling independently from the returns and political variables series. Given the samples, we can compute the bootstrapped distributions and p-values of the t-statistics of interest. In Panel B, the numbers in square brackets are the estimates obtained from this randomization-bootstrap. The second numbers represent the p-values from the randomization-bootstrap.

Table 10: Average Returns of Size-Decile Returns under Republican and Democratic Presidents, Controlling for Market Returns

	Significance Tests															
	1927.1–1998.12				**1945.1–1998.12**				**1946.1–1993.12**				**1960.1–1998.12**			
	RD	DD	VWR-TBL	Diff	RD	DD	VWR-TBL	Diff	RD	DD	VWR-TBL	Diff	RD	DD	VWR-TBL	Diff
DEC1-TBL	1.91	14.18	1.39	-12.27	3.54	13.08	1.14	-9.53	0.80	16.60	1.15	-15.80	-2.14	13.74	1.13	-15.87
(small)	0.25	0.00	0.00	0.00	0.05	0.00	0.00	0.01	0.35	0.00	0.00	0.00	0.21	0.00	0.00	0.00
	0.27	0.00	0.00	0.00	0.06	0.00	0.00	0.01	0.34	0.00	0.00	0.00	0.23	0.00	0.00	0.00
DEC2-TBL	2.13	11.71	1.35	-9.57	5.15	10.65	1.17	-5.50	2.68	13.49	1.18	-10.81	0.34	10.57	1.17	-10.24
	0.16	0.00	0.00	0.00	0.00	0.00	0.00	0.04	0.05	0.00	0.00	0.00	0.44	0.00	0.00	0.00
	0.18	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.06	0.00	0.00	0.00	0.42	0.00	0.00	0.00
DEC3-TBL	3.26	11.75	1.31	-8.49	5.98	11.16	1.18	-5.18	3.73	13.56	1.19	-9.84	2.13	10.83	1.20	-8.71
	0.03	0.00	0.00	0.00	0.00	0.00	0.00	0.02	0.00	0.00	0.00	0.00	0.09	0.00	0.00	0.00
	0.04	0.00	0.00	0.00	0.00	0.00	0.00	0.02	0.00	0.00	0.00	0.00	0.11	0.00	0.00	0.00
DEC4-TBL	4.12	10.98	1.23	-6.85	6.66	10.13	1.15	-3.47	4.61	12.62	1.16	-8.01	3.25	9.30	1.17	-6.06
	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.07	0.00	0.00	0.00	0.00	0.02	0.00	0.00	0.02
	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.04	0.00	0.00	0.00	0.00	0.03	0.00	0.00	0.01
DEC5-TBL	4.09	10.57	1.23	-6.48	6.27	10.11	1.13	-3.85	4.41	12.24	1.13	-7.83	3.28	9.09	1.14	-5.82
	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.02	0.00	0.00	0.00	0.00	0.01	0.00	0.00	0.01
	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.00	0.00	0.00	0.00	0.01	0.00	0.00	0.00
DEC6-TBL	5.37	9.84	1.20	-4.47	7.54	8.37	1.12	-0.83	5.63	10.09	1.12	-4.47	4.13	7.54	1.12	-3.41
	0.00	0.00	0.00	0.01	0.00	0.00	0.00	0.33	0.00	0.00	0.00	0.01	0.00	0.00	0.00	0.06
	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.29	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.04
DEC7-TBL	4.97	8.68	1.16	-3.71	7.51	8.06	1.11	-0.55	5.38	9.59	1.11	-4.21	4.18	6.85	1.11	-2.68
	0.00	0.00	0.00	0.01	0.00	0.00	0.00	0.37	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.07
	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.30	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.05
DEC8-TBL	5.51	8.51	1.10	-3.00	7.55	8.29	1.08	-0.74	5.87	8.84	1.08	-2.98	5.07	6.95	1.08	-1.88
	0.00	0.00	0.00	0.01	0.00	0.00	0.00	0.27	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.09
	0.00	0.00	0.00	0.01	0.00	0.00	0.00	0.25	0.00	0.00	0.00	0.01	0.00	0.00	0.00	0.07
DEC9-TBL	5.49	8.25	1.06	-2.76	7.41	7.78	1.03	-0.36	5.83	7.90	1.02	-2.07	4.78	6.08	1.03	-1.30
	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.36	0.00	0.00	0.00	0.02	0.00	0.00	0.00	0.11
	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.34	0.00	0.00	0.00	0.01	0.00	0.00	0.00	0.10
DEC10-TBL	5.49	7.20	0.93	-1.71	7.18	7.71	0.92	-0.53	5.99	5.62	0.92	0.37	4.87	6.36	0.91	-1.48
(big)	0.00	0.00	0.00	0.02	0.00	0.00	0.00	0.29	0.00	0.00	0.00	0.37	0.00	0.00	0.00	0.11
	0.00	0.00	0.00	0.01	0.00	0.00	0.00	0.30	0.00	0.00	0.00	0.35	0.00	0.00	0.00	0.13

Notes: See next page.

Notes: Table 10 reports the results from the regression: $DEC(j)_t - TBL_t = \alpha_1 RD + \alpha_2 DD + \beta\,(VWR_t - TBL_t) + \varepsilon_t$, estimated for four periods and j=1,...,10. The numbers below the coefficients in the RD and DD columms represent p-values of a t-test under the null hypothesis that the estimates are not significantly different from zero. The first number is the p-value of the test conducted using Newey-West (1987) heteroskedasticity and serial-correlation robust t-statistics. The second number is the p-value of the test conducted using a conditional bootstrap t-statistic. The p-values below the coefficients in the "Diff" column are obtained from the Newey-West and conditional bootstrap t-statistics under the null that there is no difference in returns during Republican and Democratic regimes, or $\alpha_1 = \alpha_2$.

Table 11: Average Returns of Industry Portfolios under Republican and Democratic Presidents

				A: Significance Tests for 1927. 9–1998.12							
Industry	RD	DD	Diff	Industry	RD	DD	Diff	Industry	RD	DD	Diff
Agric	0.82	15.80	-14.98	BldMt	5.07	13.09	-8.02	PerSv	-1.21	14.70	-15.90
	0.43	0.00	0.01		0.13	0.00	0.09		0.43	0.00	0.03
	0.44	0.00	0.01		0.10	0.00	0.07		0.43	0.00	0.01
Food	11.95	9.38	2.57	Cnstr	-2.38	15.15	-17.52	BusSv	2.89	16.50	-13.61
	0.00	0.00	0.27		0.33	0.00	0.01		0.28	0.00	0.02
	0.00	0.00	0.26		0.33	0.00	0.00		0.29	0.00	0.03
Soda	—	—	—	Steel	3.25	11.37	-8.12	Comps	8.67	15.67	-7.00
					0.26	0.00	0.11		0.04	0.00	0.12
					0.24	0.00	0.13		0.02	0.00	0.12
Beer	7.06	14.81	-7.75	FabPr	—	—	—	Chips	1.95	18.59	-16.63
	0.05	0.00	0.11						0.37	0.00	0.01
	0.06	0.00	0.09						0.34	0.00	0.01
Smoke	15.29	9.16	6.13	Mach	3.13	14.16	-11.04	LabEq	5.64	15.58	-9.95
	0.00	0.00	0.08		0.26	0.00	0.04		0.14	0.00	0.05
	0.00	0.00	0.10		0.21	0.00	0.06		0.10	0.00	0.06
Toys	3.36	13.60	-10.24	ElcEq	5.73	12.66	-6.93	Paper	—	—	—
	0.29	0.01	0.12		0.14	0.00	0.14				
	0.27	0.01	0.11		0.11	0.00	0.14				
Fun	5.88	13.76	-7.88	Autos	5.10	15.46	-10.36	Boxes	9.91	10.86	-0.95
	0.18	0.00	0.17		0.16	0.00	0.06		0.00	0.00	0.42
	0.15	0.00	0.16		0.12	0.00	0.06		0.01	0.00	0.41
Books	6.25	11.99	-5.74	Aero	7.56	16.39	-8.83	Trans	2.38	12.49	-10.11
	0.12	0.01	0.21		0.15	0.00	0.15		0.32	0.00	0.06
	0.09	0.01	0.19		0.11	0.00	0.13		0.32	0.00	0.05
Hshld	6.75	12.71	-5.96	Ships	3.22	13.28	-10.05	Whlsl	-1.22	15.26	-16.48
	0.05	0.00	0.12		0.26	0.00	0.06		0.42	0.00	0.01
	0.02	0.00	0.11		0.24	0.00	0.05		0.41	0.00	0.00
Clths	3.07	13.23	-10.15	Guns	—	—	—	Rtail	8.13	12.54	-4.41
	0.27	0.00	0.05						0.03	0.00	0.21
	0.25	0.00	0.04						0.01	0.00	0.21
Hlth	—	—	—	Gold	—	—	—	Meals	6.67	12.89	-6.22
									0.10	0.00	0.17
									0.05	0.00	0.14
MedEq	9.60	13.37	-3.77	Mines	1.99	13.85	-11.86	Banks	8.25	16.26	-8.01
	0.01	0.00	0.24		0.33	0.00	0.02		0.04	0.00	0.09
	0.00	0.00	0.27		0.30	0.00	0.02		0.05	0.00	0.08
Drugs	11.93	12.48	-0.55	Coal	2.34	14.24	-11.90	Insur	3.67	14.46	-10.79
	0.00	0.00	0.45		0.31	0.00	0.03		0.23	0.00	0.03
	0.00	0.00	0.44		0.32	0.00	0.03		0.22	0.00	0.04
Chems	7.50	12.49	-4.99	Oil	5.62	15.33	-9.71	RlEst	-4.04	14.05	-18.09
	0.04	0.00	0.18		0.07	0.00	0.03		0.26	0.01	0.02
	0.04	0.00	0.16		0.07	0.00	0.02		0.23	0.00	0.01
Rubbr	—	—	—	Util	9.34	8.07	1.27	Fin	3.75	15.60	-11.84
					0.01	0.01	0.40		0.23	0.00	0.03
					0.01	0.01	0.40		0.21	0.00	0.02
Txtls	1.77	12.82	-11.05	Telcm	10.96	10.15	0.81	Other	1.63	13.95	-12.32
	0.36	0.00	0.06		0.00	0.00	0.42		0.36	0.00	0.02
	0.33	0.00	0.03		0.00	0.00	0.43		0.30	0.00	0.02
T/Changes						856/ 7					
$\bar{R}^2$						0.01					

Notes: See next page.

Table 11: Average Returns of Industry Portfolios under Republican and Democratic Presidents (Cont'd)

B: Significance Tests for 1963. 9–1998.12

Industry	RD	DD	Diff	Industry	RD	DD	Diff	Industry	RD	DD	Diff
Agric	6.39	20.71	-14.31	BldMt	8.15	15.54	-7.39	PerSv	-0.66	19.70	-20.37
	0.08	0.00	0.02		0.04	0.00	0.12		0.46	0.00	0.01
	0.10	0.00	0.04		0.03	0.01	0.17		0.43	0.00	0.01
Food	14.99	8.83	6.16	Cnstr	-1.02	21.83	-22.85	BusSv	6.04	24.78	-18.74
	0.00	0.00	0.10		0.44	0.00	0.01		0.14	0.00	0.00
	0.00	0.02	0.10		0.41	0.00	0.00		0.11	0.00	0.01
Soda	17.06	13.68	3.39	Steel	5.17	9.17	-3.99	Comps	3.83	20.51	-16.68
	0.00	0.00	0.30		0.12	0.01	0.26		0.22	0.00	0.01
	0.00	0.01	0.28		0.15	0.06	0.29		0.17	0.00	0.00
Beer	11.18	13.78	-2.60	FabPr	2.26	16.15	-13.89	Chips	4.27	21.62	-17.35
	0.01	0.00	0.33		0.35	0.00	0.04		0.22	0.00	0.01
	0.00	0.00	0.30		0.30	0.01	0.03		0.17	0.00	0.01
Smoke	18.88	12.86	6.02	Mach	6.11	13.81	-7.70	LabEq	3.63	23.51	-19.88
	0.00	0.00	0.17		0.10	0.00	0.13		0.28	0.00	0.01
	0.00	0.01	0.16		0.06	0.01	0.14		0.28	0.00	0.01
Toys	4.64	22.02	-17.38	ElcEq	7.17	15.71	-8.54	Paper	11.57	9.75	1.82
	0.23	0.00	0.03		0.07	0.00	0.10		0.00	0.01	0.38
	0.26	0.00	0.02		0.04	0.00	0.12		0.00	0.04	0.41
Fun	10.30	20.13	-9.84	Autos	9.54	10.94	-1.40	Boxes	10.34	8.81	1.54
	0.07	0.00	0.14		0.03	0.00	0.42		0.00	0.01	0.38
	0.03	0.00	0.15		0.01	0.02	0.43		0.00	0.03	0.36
Books	7.44	20.34	-12.90	Aero	6.22	21.11	-14.89	Trans	7.47	13.00	-5.53
	0.10	0.00	0.03		0.15	0.00	0.04		0.08	0.00	0.22
	0.03	0.00	0.03		0.13	0.00	0.04		0.06	0.02	0.22
Hshld	10.00	15.37	-5.37	Ships	7.43	17.98	-10.55	Whlsl	6.56	20.81	-14.25
	0.01	0.00	0.17		0.11	0.00	0.08		0.12	0.00	0.02
	0.00	0.00	0.19		0.07	0.00	0.08		0.10	0.00	0.02
Clths	6.23	13.06	-6.83	Guns	8.66	17.28	-8.63	Rtail	13.72	11.30	2.42
	0.17	0.01	0.21		0.05	0.00	0.11		0.00	0.00	0.36
	0.11	0.02	0.18		0.05	0.00	0.14		0.00	0.01	0.37
Hlth	1.70	17.08	-15.38	Gold	1.01	14.61	-13.60	Meals	8.39	19.61	-11.23
	0.43	0.05	0.14		0.44	0.04	0.10		0.10	0.00	0.10
	0.38	0.04	0.14		0.45	0.04	0.10		0.05	0.00	0.10
MedEq	11.89	17.84	-5.96	Mines	6.36	13.72	-7.37	Banks	7.00	17.52	-10.52
	0.01	0.00	0.18		0.12	0.01	0.17		0.09	0.00	0.06
	0.01	0.00	0.21		0.11	0.02	0.19		0.06	0.00	0.05
Drugs	12.85	15.75	-2.90	Coal	5.54	13.99	-8.45	Insur	8.26	17.14	-8.88
	0.00	0.00	0.31		0.19	0.01	0.16		0.04	0.00	0.09
	0.00	0.00	0.30		0.15	0.01	0.19		0.02	0.00	0.09
Chems	11.08	8.84	2.24	Oil	8.46	15.61	-7.15	RlEst	-1.63	25.27	-26.89
	0.00	0.01	0.35		0.02	0.00	0.10		0.40	0.00	0.00
	0.00	0.04	0.32		0.01	0.00	0.13		0.36	0.00	0.00
Rubbr	7.90	16.80	-8.90	Util	10.45	8.03	2.41	Fin	8.05	19.92	-11.87
	0.07	0.00	0.12		0.00	0.00	0.28		0.03	0.00	0.02
	0.05	0.00	0.11		0.00	0.01	0.27		0.03	0.00	0.02
Txtls	10.50	9.32	1.18	Telcm	12.82	11.92	0.90	Other	5.07	14.34	-9.27
	0.04	0.04	0.44		0.00	0.00	0.43		0.17	0.00	0.10
	0.01	0.05	0.41		0.00	0.00	0.40		0.16	0.01	0.11
T/Changes						424/ 5					
$\bar{R}^2$						0.00					

Notes: See next page.

Notes: Table 11 reports mean excess returns of 48 industry portfolios. For exact definitions of the industries by SIC codes, refer to Fama and French (1997). Panels A and B present the results for the entire sample and for the period 1963:09-1998:12, respectively. Returns of industries for which historical data was not available are marked by a dashed line. All rates are represented as annualized percentage points. The difference between Republican and Democratic terms, displayed in column "Diff", is equivalent to running excess returns on a constant and a Republican dummy variable, which corresponds to equation (1) in the text. Panel A presents the results from the statistical inference. The numbers below the coefficients in the RD and DD columms represent p-values of a t-test under the null hypothesis that the estimates are not significantly different from zero. The first number is the p-value of the test conducted using Newey-West (1988) heteroskedasticity and serial-correlation robust t-statistics. The second number is the p-value of the test conducted using a conditional bootstrap t-statistic. The p-values below the coefficients in the "Diff" column are obtained from the Newey-West and conditional bootstrap t-statistics under the null that there is no difference in returns during Republican and Democratic regimes. The rows "T/Changes" display the number of observations and the number of party changes during the estimation period. The rows "$\bar{R}^2$" display the average R^2 obtained in the regressions. The presidential index variables do have an impact on the cross section of returns. In the 1927-1998 sample, 25 out of the 41 industry returns are significantly different during the two regimes at the 10 percent level. During 1963-1998, 20 out of 48 industry returns are significant at that level of significance. (Note that if the correlation were spurious, we would expect no more than 5 significant results out of 48.) The overwhelming majority of the industries have higher returns during Democratic presidents. For industries, whose returns are higher under Republicans, the difference is not statistically significant. The industries whose returns are higher under Republicans tend to be big (Smoke, Util, Telcm) and dominated by a few large companies. Those findings are in accord with our previous results that the difference in returns are more pronounced for the equally weighted returns and for returns of small-sized companies.

Table 12: Average Returns under Republican and Democratic Presidents, Controlling for Market Returns

					A: Significance Tests for 1927. 1–1998.12						
Industry	RD	DD	Diff	Industry	RD	DD	Diff	Industry	RD	DD	Diff
Agric	4.64	12.94	-8.30	BldMt	9.44	9.55	-0.11	PerSv	—	—	—
	0.05	0.00	0.03		0.00	0.00	0.48				
	0.08	0.00	0.04		0.00	0.00	0.46				
Food	15.00	7.00	8.00	Cnstr	1.62	10.99	-9.38	BusSv	6.83	13.66	-6.83
	0.00	0.00	0.00		0.30	0.00	0.02		0.01	0.00	0.04
	0.00	0.00	0.00		0.31	0.00	0.03		0.04	0.00	0.11
Soda	—	—	—	Steel	8.02	7.58	0.44	Comps	12.96	12.60	0.36
					0.00	0.00	0.44		0.00	0.00	0.46
					0.00	0.00	0.47		0.00	0.00	0.45
Beer	11.01	11.76	-0.75	FabPr	—	—	—	Chips	6.45	14.62	-8.17
	0.00	0.00	0.43						0.00	0.00	0.01
	0.00	0.00	0.43						0.02	0.00	0.01
Smoke	18.11	7.17	10.94	Mach	7.94	10.47	-2.54	LabEq	9.78	12.60	-2.83
	0.00	0.00	0.00		0.00	0.00	0.14		0.00	0.00	0.24
	0.00	0.00	0.00		0.00	0.00	0.10		0.00	0.00	0.24
Toys	7.21	9.75	-2.54	ElcEq	11.28	8.77	2.51	Paper	—	—	—
	0.02	0.01	0.33		0.00	0.00	0.18				
	0.05	0.01	0.31		0.00	0.00	0.16				
Fun	10.58	9.47	1.11	Autos	10.18	11.82	-1.64	Boxes	13.68	8.03	5.65
	0.00	0.00	0.41		0.00	0.00	0.31		0.00	0.00	0.01
	0.00	0.00	0.42		0.00	0.00	0.28		0.00	0.00	0.01
Books	9.80	8.69	1.11	Aero	13.14	12.35	0.79	Trans	6.75	8.99	-2.25
	0.00	0.00	0.39		0.00	0.00	0.44		0.00	0.00	0.21
	0.00	0.00	0.41		0.00	0.00	0.43		0.00	0.00	0.23
Hshld	10.25	10.01	0.25	Ships	7.57	9.79	-2.22	Whlsl	1.72	11.86	-10.14
	0.00	0.00	0.46		0.01	0.00	0.29		0.28	0.00	0.00
	0.00	0.00	0.44		0.00	0.00	0.25		0.24	0.00	0.00
Clths	7.13	10.14	-3.01	Guns	—	—	—	Rtail	12.28	9.58	2.70
	0.00	0.00	0.19						0.00	0.00	0.16
	0.00	0.00	0.18						0.00	0.00	0.12
Hlth	—	—	—	Gold	—	—	—	Meals	10.66	9.80	0.86
									0.00	0.00	0.41
									0.00	0.00	0.40
MedEq	13.16	10.70	2.46	Mines	5.70	11.03	-5.33	Banks	11.95	13.11	-1.16
	0.00	0.00	0.25		0.02	0.00	0.07		0.00	0.00	0.37
	0.00	0.00	0.26		0.01	0.00	0.07		0.00	0.00	0.36
Drugs	15.31	9.79	5.53	Coal	5.36	11.99	-6.63	Insur	8.49	11.00	-2.50
	0.00	0.00	0.04		0.09	0.00	0.10		0.00	0.00	0.22
	0.00	0.00	0.02		0.06	0.00	0.10		0.00	0.00	0.26
Chems	12.07	9.35	2.72	Oil	8.35	12.63	-4.29	RlEst	0.90	10.10	-9.20
	0.00	0.00	0.11		0.00	0.00	0.08		0.38	0.00	0.03
	0.00	0.00	0.11		0.00	0.00	0.06		0.42	0.00	0.05
Rubbr	—	—	—	Util	12.71	5.48	7.23	Fin	8.85	11.78	-2.93
					0.00	0.01	0.01		0.00	0.00	0.11
					0.00	0.00	0.00		0.00	0.00	0.12
Txtls	6.43	9.30	-2.87	Telcm	13.28	8.25	5.03	Other	5.67	10.79	-5.12
	0.01	0.00	0.22		0.00	0.00	0.02		0.02	0.00	0.08
	0.00	0.00	0.19		0.00	0.00	0.02		0.00	0.00	0.08
T/Changes						863/ 7					
$\bar{R}^2$						0.55					

Notes: See next page.

Table 12: Average Returns under Republican and Democratic Presidents, Controlling for Market Returns (Cont'd)

B: Significance Tests for 1963.10–1998.12

Industry	RD	DD	Diff	Industry	RD	DD	Diff	Industry	RD	DD	Diff
Agric	8.88	17.19	-8.31	BldMt	10.93	11.51	-0.57	PerSv	2.19	15.46	-13.26
	0.00	0.00	0.06		0.00	0.00	0.42		0.32	0.00	0.02
	0.01	0.00	0.10		0.00	0.00	0.41		0.27	0.00	0.01
Food	17.03	6.00	11.03	Cnstr	2.33	17.14	-14.81	BusSv	9.15	20.29	-11.14
	0.00	0.00	0.00		0.22	0.00	0.00		0.00	0.00	0.00
	0.00	0.02	0.00		0.22	0.00	0.00		0.00	0.00	0.00
Soda	19.28	10.55	8.73	Steel	7.67	5.47	2.20	Comps	6.09	17.04	-10.95
	0.00	0.00	0.03		0.01	0.02	0.30		0.02	0.00	0.01
	0.00	0.00	0.02		0.00	0.06	0.27		0.02	0.00	0.01
Beer	13.26	10.66	2.60	FabPr	4.97	12.27	-7.30	Chips	7.44	17.19	-9.75
	0.00	0.00	0.26		0.09	0.00	0.10		0.00	0.00	0.01
	0.00	0.00	0.28		0.08	0.00	0.10		0.00	0.00	0.00
Smoke	21.00	10.11	10.89	Mach	8.95	9.79	-0.84	LabEq	6.80	18.83	-12.03
	0.00	0.01	0.02		0.00	0.00	0.41		0.03	0.00	0.01
	0.00	0.01	0.01		0.00	0.00	0.41		0.04	0.00	0.01
Toys	8.03	17.37	-9.34	ElcEq	10.00	11.66	-1.66	Paper	13.86	6.10	7.76
	0.01	0.00	0.09		0.00	0.00	0.33		0.00	0.01	0.02
	0.02	0.00	0.06		0.00	0.00	0.37		0.00	0.02	0.01
Fun	13.53	15.54	-2.01	Autos	11.86	7.50	4.36	Boxes	12.61	5.64	6.97
	0.00	0.00	0.37		0.00	0.00	0.15		0.00	0.03	0.02
	0.00	0.00	0.34		0.00	0.01	0.11		0.00	0.01	0.03
Books	9.88	16.53	-6.65	Aero	9.33	16.91	-7.58	Trans	10.40	8.96	1.43
	0.00	0.00	0.04		0.00	0.00	0.10		0.00	0.00	0.35
	0.00	0.00	0.04		0.00	0.00	0.07		0.00	0.00	0.39
Hshld	12.37	12.00	0.37	Ships	10.06	14.29	-4.23	Whlsl	9.48	16.62	-7.14
	0.00	0.00	0.45		0.01	0.00	0.23		0.00	0.00	0.03
	0.00	0.00	0.44		0.00	0.00	0.21		0.00	0.00	0.02
Clths	9.20	8.97	0.23	Guns	11.56	13.45	-1.88	Rtail	16.22	7.58	8.63
	0.00	0.01	0.48		0.00	0.00	0.34		0.00	0.00	0.01
	0.00	0.01	0.43		0.00	0.00	0.37		0.00	0.01	0.01
Hlth	4.92	11.95	-7.04	Gold	2.97	11.89	-8.91	Meals	11.54	15.16	-3.62
	0.23	0.09	0.26		0.33	0.07	0.19		0.00	0.00	0.25
	0.22	0.05	0.26		0.30	0.07	0.19		0.00	0.00	0.23
MedEq	14.39	14.44	-0.05	Mines	8.89	10.01	-1.12	Banks	9.74	13.72	-3.98
	0.00	0.00	0.50		0.02	0.01	0.42		0.00	0.00	0.17
	0.00	0.00	0.49		0.00	0.02	0.46		0.00	0.00	0.15
Drugs	15.24	12.59	2.64	Coal	8.28	10.30	-2.03	Insur	10.57	13.85	-3.29
	0.00	0.00	0.25		0.07	0.01	0.39		0.00	0.00	0.23
	0.00	0.00	0.27		0.03	0.02	0.41		0.00	0.00	0.19
Chems	13.55	5.29	8.26	Oil	10.57	12.77	-2.20	RlEst	1.41	21.03	-19.62
	0.00	0.01	0.00		0.00	0.00	0.30		0.34	0.00	0.00
	0.00	0.01	0.00		0.00	0.00	0.31		0.32	0.00	0.00
Rubbr	10.75	12.85	-2.10	Util	11.94	6.05	5.89	Fin	10.71	16.24	-5.53
	0.00	0.00	0.32		0.00	0.00	0.03		0.00	0.00	0.01
	0.00	0.00	0.30		0.00	0.01	0.05		0.00	0.00	0.00
Txtls	13.02	5.68	7.34	Telcm	14.38	9.52	4.86	Other	7.81	10.21	-2.40
	0.00	0.07	0.08		0.00	0.00	0.11		0.00	0.00	0.29
	0.00	0.07	0.05		0.00	0.00	0.10		0.00	0.00	0.29
T/Changes						423/ 5					
$\bar{R}^2$						0.62					

Notes: See next page.

Notes: Table 12 reports mean excess returns of 48 industry portfolios, after controlling for market returns. For exact definitions of the industries by SIC codes, refer to Fama and French (1997). Panels A and B present the results for the entire sample and for the period 1963:09-1998:12, respectively. Returns of industries for which historical data was not available are marked by a dashed line. All rates are represented as annualized percentage points. The difference between Republican and Democratic terms, displayed in column "Diff", is equivalent to running excess returns on a constant a Republican dummy variable, and VWR-TBL. Panel A presents the results from the statistical inference. For conciseness, we do not display the coefficient on VWR-TBL (the beta of the industry). The numbers below the coefficients in the RD and DD columms represent p-values of a t-test under the null hypothesis that the estimates are not significantly different from zero. The first number is the p-value of the test conducted using Newey-West (1988) heteroskedasticity and serial-correlation robust t-statistics. The second number is the p-value of the test conducted using a conditional bootstrap t-statistic. The p-values below the coefficients in the "Diff" column are obtained from the Newey-West and conditional bootstrap t-statistics under the null that there is no difference in returns during Republican and Democratic regimes. The rows "T/Changes" display the number of observations and the number of party changes during the estimation period. The rows "$\bar{R}^2$" display the average R^2 obtained in the regressions. Even after controlling for the market return, the presidential index variables do have an impact on the cross section of returns. Interestingly, the results in Tables 9 and 10 are not very different, which implies that the political variables capture variations that are unrelated to the market. In the 1927-1998 sample, 17 out of the 41 industry returns are significantly different during the two regimes at the 10 percent level. During 1963-1998, 23 out of 48 industry returns are significant at that level of significance. (Note that if the correlation were spurious, we would expect no more than 5 significant results out of 48.) The overwhelming majority of the industries have higher returns under Democratic presidents. For industries, whose returns are higher under Republicans, the difference is not statistically significant. The indusries whose returns are higher under Republicans tend to be big (Smoke, Util, Telcm) and dominated by a few large companies. Those findings are in accord with our previous results that the difference in returns are more pronounced for the equally weighted returns and for returns of small-sized companies.

Table I: Impact of Congress on Excess Returns

	RSD	RHD	RD	DD	Diff1	Diff2
			1927:1–1998:12			
VWR-TBL	-9.24	13.60	3.13	9.99	-22.84	-6.86
	0.19	0.12	0.20	0.00	0.14	0.07
VWR-INF	-3.32	9.61	3.97	8.55	-12.94	-4.58
	0.37	0.20	0.14	0.00	0.27	0.16
EWR-TBL	-6.44	0.51	2.53	17.47	-6.95	-14.95
	0.31	0.49	0.31	0.00	0.40	0.01
EWR-INF	-0.53	-3.44	3.38	16.02	2.91	-12.64
	0.48	0.40	0.25	0.00	0.46	0.03
TBL-INF	5.90	-3.96	0.81	-1.47	9.85	2.28
	0.00	0.00	0.01	0.00	0.00	0.00
T/Changes			863/ 7			
R^2			0.02			
			1946:1–1998:12			
VWR-TBL	2.93	6.32	2.30	8.85	-3.39	-6.55
	0.35	0.21	0.26	0.00	0.41	0.06
VWR-INF	8.50	0.70	1.74	9.47	7.80	-7.73
	0.14	0.47	0.33	0.00	0.31	0.04
EWR-TBL	2.61	-2.06	1.46	14.97	4.67	-13.50
	0.40	0.42	0.39	0.00	0.41	0.01
EWR-INF	8.18	-7.66	0.91	15.57	15.83	-14.66
	0.22	0.24	0.43	0.00	0.22	0.01
TBL-INF	5.63	-5.66	-0.61	0.64	11.29	-1.25
	0.00	0.00	0.16	0.08	0.00	0.05
T/Changes			635/ 7			
R^2			0.01			
			1946:1–1993:12			
VWR-TBL	3.04	6.86	2.20	9.47	-3.83	-7.28
	0.35	0.21	0.29	0.00	0.40	0.07
VWR-INF	8.13	-1.21	2.11	9.53	9.34	-7.41
	0.15	0.45	0.30	0.00	0.27	0.07
EWR-TBL	4.16	6.00	-0.09	17.71	-1.84	-17.80
	0.35	0.29	0.49	0.00	0.46	0.00
EWR-INF	9.25	-2.09	-0.16	17.73	11.34	-17.89
	0.19	0.43	0.49	0.00	0.29	0.00
TBL-INF	5.15	-8.16	-0.13	0.06	13.31	-0.18
	0.00	0.00	0.42	0.45	0.00	0.41
T/Changes			575/ 7			
R^2			0.02			
			1960:1–1998:12			
VWR-TBL	5.31	4.71	-0.08	7.56	0.60	-7.64
	0.26	0.32	0.49	0.01	0.49	0.09
VWR-INF	9.76	2.82	0.48	7.93	6.94	-7.45
	0.12	0.39	0.46	0.01	0.35	0.10
EWR-TBL	7.48	-17.50	-3.41	17.80	24.98	-21.21
	0.25	0.12	0.31	0.00	0.15	0.00
EWR-INF	11.91	-19.30	-2.82	18.14	31.21	-20.96
	0.15	0.09	0.34	0.00	0.10	0.01
TBL-INF	4.49	-1.87	0.53	0.39	6.36	0.15
	0.00	0.00	0.05	0.12	0.00	0.38
T/Changes			467/ 5			
R^2			0.03			

Notes: See Next Page.

Notes: The table displays the coefficients from the regression: $r_{t+1} = \alpha_1\ RSD + \alpha_2 RHD + \alpha_3 RD + \alpha_4 DD + \varepsilon_{t+1}$, where the variables RSD, RHD, RD, and, DD are defined in section 2 of the text. The coefficient α_1 can be interpreted as the difference in returns during a Republican-majority Senate and a Democratic-majority Senate. Similarly, the coefficient α_2 can be interpreted as the difference in returns during a Republican-majority House and a Democratic-majority House. The null hypothesis $\alpha_1 = \alpha_2$ is tested in column "Diff1". The null hypothesis $\alpha_3 = \alpha_4$, tested in column "Diff2", is the difference in returns between Republican and Democratic presidencies, when controlling for Congress. P-values from Newey-West (1987) T-statistics are shown below the estimated coefficients. Similar results were obtained with the business cycle control variables

Table II: Excess Returns, controlling for Presidency and Senate

	(1) DSDxDD	(2) RSDxDD	(3) DSDxRD	(4) RSDxRD	(5) Diff(4-3)	(6) Diff(2-1)	(7) Diff(4-2)	(8) Diff(3-1)
				1927:1–1998:12				
VWR-TBL	10.86	21.88	10.78	2.48	-8.307	11.022	-19.401	-0.072
	0.00	0.00	0.00	0.33	0.02	0.19	0.00	0.00
VWR-INF	18.73	18.70	10.84	-2.49	-13.330	-0.033	-21.189	-7.892
	0.00	0.02	0.01	0.36	0.04	0.07	0.00	0.00
EWR-TBL	-0.75	-1.12	0.20	4.99	4.790	-0.361	6.104	0.953
	0.08	0.16	0.30	0.00	0.00	0.00	0.09	0.00
EWR-INF	8.37	19.39	6.28	-3.47	-9.744	11.012	-22.855	-2.099
	0.01	0.00	0.05	0.27	0.01	0.20	0.00	0.00
TBL-INF	16.27	16.19	6.32	-8.45	-14.771	-0.082	-24.642	-9.953
	0.00	0.03	0.10	0.12	0.02	0.07	0.00	0.00
T/Changes				863/ 7				
R^2				0.06				
				1946:1–1998:12				
VWR-TBL	13.59	41.67	8.06	2.37	-5.689	28.077	-39.298	-5.532
	0.00	0.00	0.01	0.29	0.00	0.01	0.01	0.00
VWR-INF	23.51	33.47	5.41	-2.90	-8.308	9.959	-36.367	-18.100
	0.00	0.00	0.10	0.31	0.00	0.00	0.03	0.00
EWR-TBL	0.97	1.21	-0.52	1.71	2.229	0.234	0.507	-1.489
	0.01	0.07	0.22	0.05	0.00	0.00	0.13	0.11
EWR-INF	8.73	36.70	3.71	-2.70	-6.411	27.965	-39.393	-5.017
	0.00	0.00	0.14	0.27	0.00	0.11	0.02	0.00
TBL-INF	18.69	28.48	1.05	-7.99	-9.042	9.787	-36.469	-17.640
	0.00	0.00	0.41	0.09	0.00	0.01	0.05	0.00
T/Changes				635/ 7				
R^2				0.08				

Notes: The tables display the results from the regressions: $r_{t+1} = \alpha_1 DSD_t DD_t + \alpha_2 RSD_t DD_t + \alpha_3 DSD_t RD_t + \alpha_4 RSD_t RD_t + \beta' X_t + \varepsilon_{t+1}$, where X_t is a vector of the usual control variables. The OLS estimates of the α coefficients and p-values from Newey-West t-statistics are displayed in columns 1 through 4, respectively. The goal of this regression is to test whether the difference in returns can be traced to a particular Senate-White House combination. The possible null hypotheses, $\alpha_3 = \alpha_4$, $\alpha_1 = \alpha_2, \alpha_2 = \alpha_4$, and $\alpha_1 = \alpha_3$ are tested in columns 5 through 8. We were unable to run the 1946-1993 and 1960-1998 periods because the explanatory variables were almost perfectly multicollinear. The rows "T/Changes" display the number of observations and the number of party changes during the estimation period. The rows "$\bar{R}^2$" display the average R^2 obtained in the regressions.

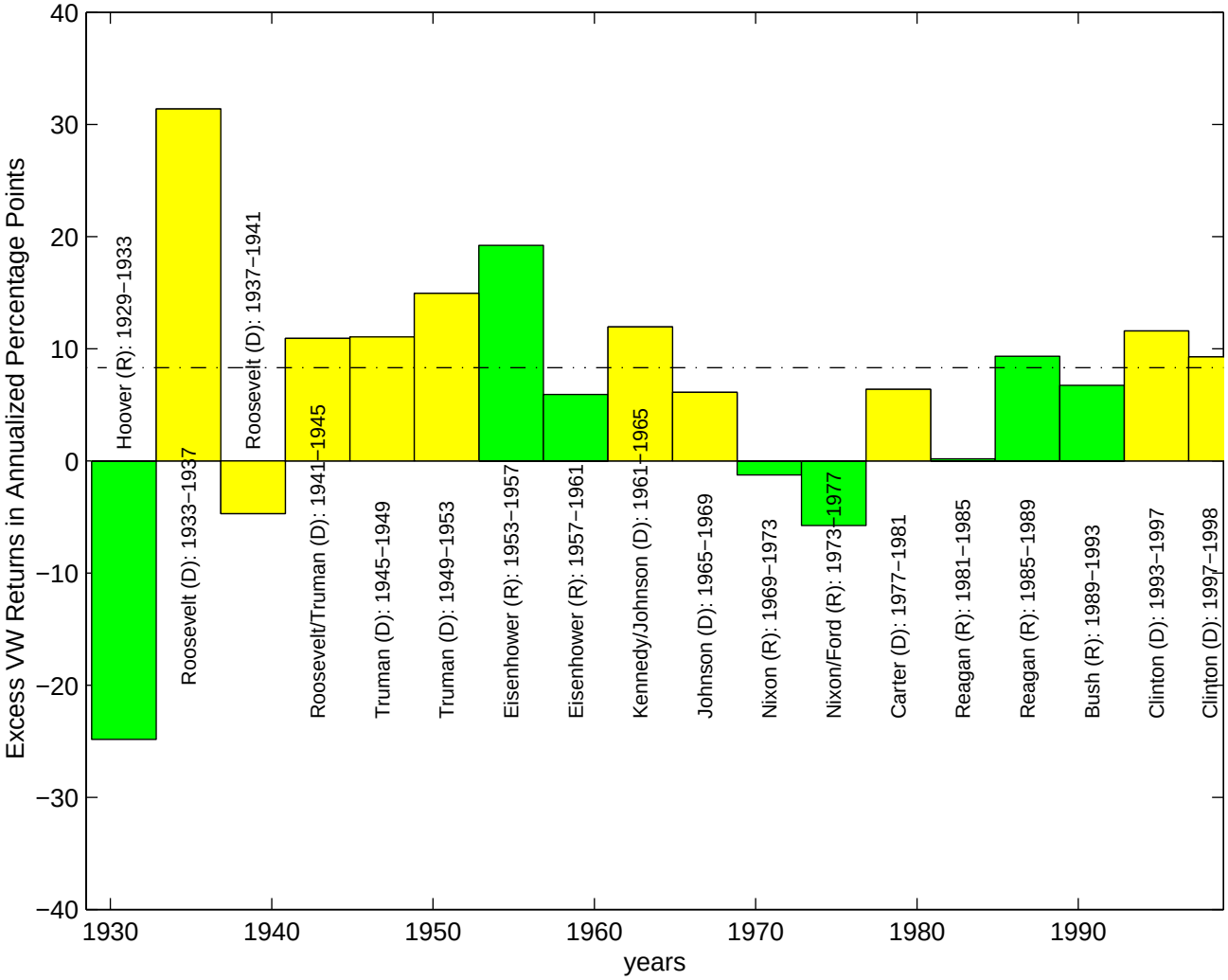
Table III: Excess Returns, controlling for Presidency and House of Representatives

	(1) DHDxDD	(2) RHDxDD	(3) DHDxRD	(4) RHDxRD	(5) Diff(4-3)	(6) Diff(2-1)	(7) Diff(4-2)	(8) Diff(3-1)
				1927:1–1998:12				
VWR-TBL	10.89	20.48	7.05	10.42	3.363	9.595	-10.066	-3.834
	0.00	0.00	0.01	0.13	0.04	0.21	0.00	0.00
VWR-INF	18.81	16.54	5.25	8.11	2.861	-2.276	-8.429	-13.567
	0.00	0.03	0.10	0.25	0.09	0.08	0.01	0.00
EWR-TBL	-0.82	-0.42	1.76	3.66	1.904	0.392	4.086	2.573
	0.07	0.36	0.00	0.00	0.00	0.00	0.06	0.00
EWR-INF	8.38	17.67	1.47	8.18	6.713	9.288	-9.483	-6.908
	0.01	0.00	0.32	0.19	0.02	0.22	0.00	0.00
TBL-INF	16.32	13.70	-0.35	5.85	6.206	-2.623	-7.846	-16.675
	0.00	0.05	0.47	0.31	0.06	0.09	0.01	0.00
T/Changes				863/ 7				
R^2				0.06				
				1946:1–1998:12				
VWR-TBL	13.78	38.99	6.20	8.17	1.965	25.207	-30.825	-7.583
	0.00	0.00	0.02	0.12	0.00	0.02	0.01	0.00
VWR-INF	24.34	28.09	1.63	11.78	10.148	3.751	-16.305	-22.702
	0.00	0.00	0.34	0.08	0.05	0.00	0.02	0.00
EWR-TBL	0.84	2.41	0.32	-1.21	-1.533	1.570	-3.619	-0.517
	0.04	0.00	0.32	0.24	0.03	0.00	0.23	0.23
EWR-INF	9.03	33.47	1.47	4.75	3.280	24.436	-28.720	-7.564
	0.00	0.00	0.32	0.25	0.00	0.15	0.01	0.00
TBL-INF	19.62	22.53	-3.13	8.38	11.508	2.903	-14.147	-22.751
	0.00	0.01	0.22	0.16	0.04	0.01	0.04	0.00
T/Changes				635/ 7				
R^2				0.08				

Notes: The tables display the results from the regressions: $r_{t+1} = \alpha_1 DHD_t DD_t + \alpha_2 RHD_t DD_t + \alpha_3 DHD_t RD_t + \alpha_4 RHD_t RD_t + \beta' X_t + \varepsilon_{t+1}$, where X_t is a vector of the usual

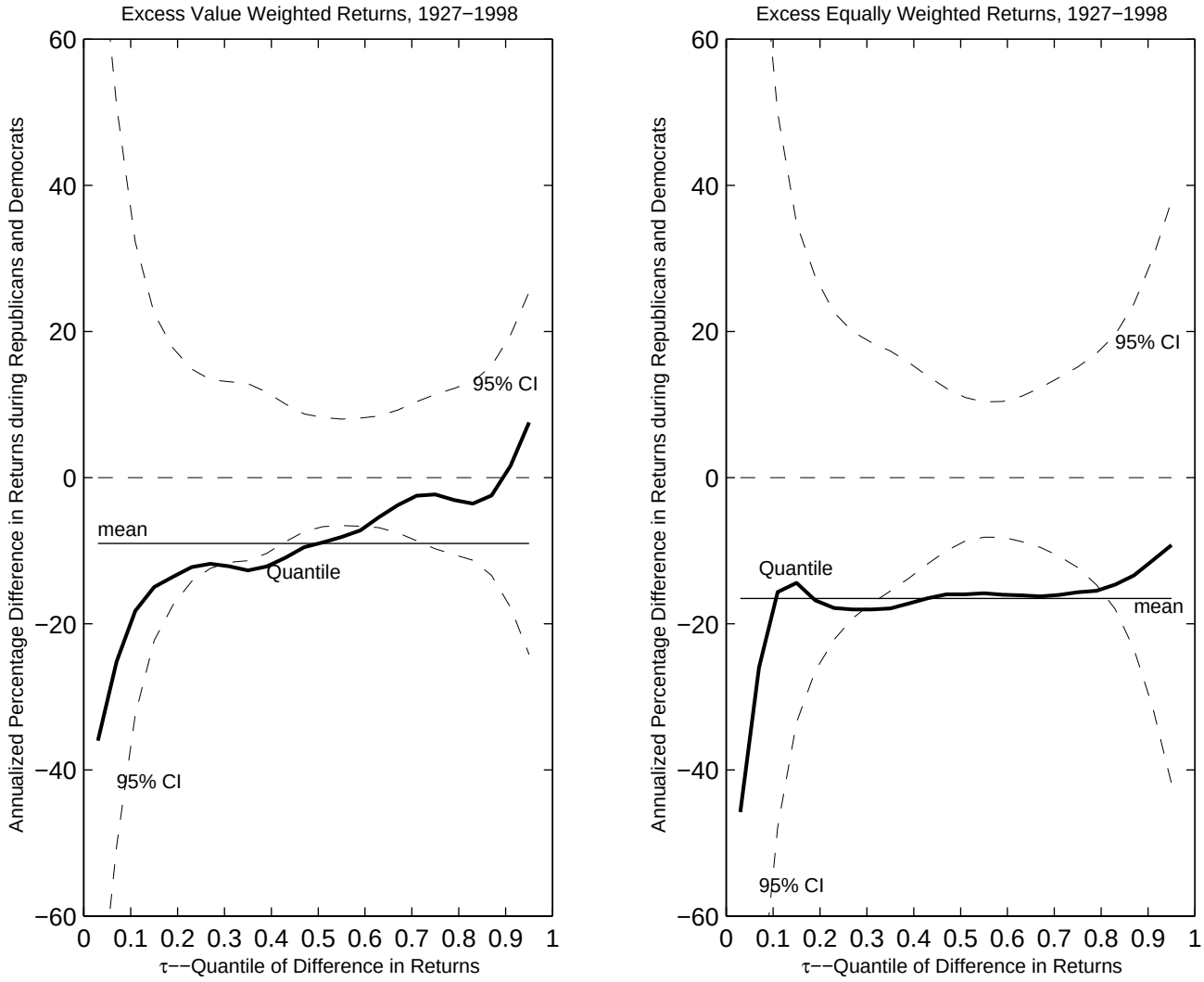
Figures

Figure 1: Average Annual Excess Returns by Presidential Term, 1927-1998



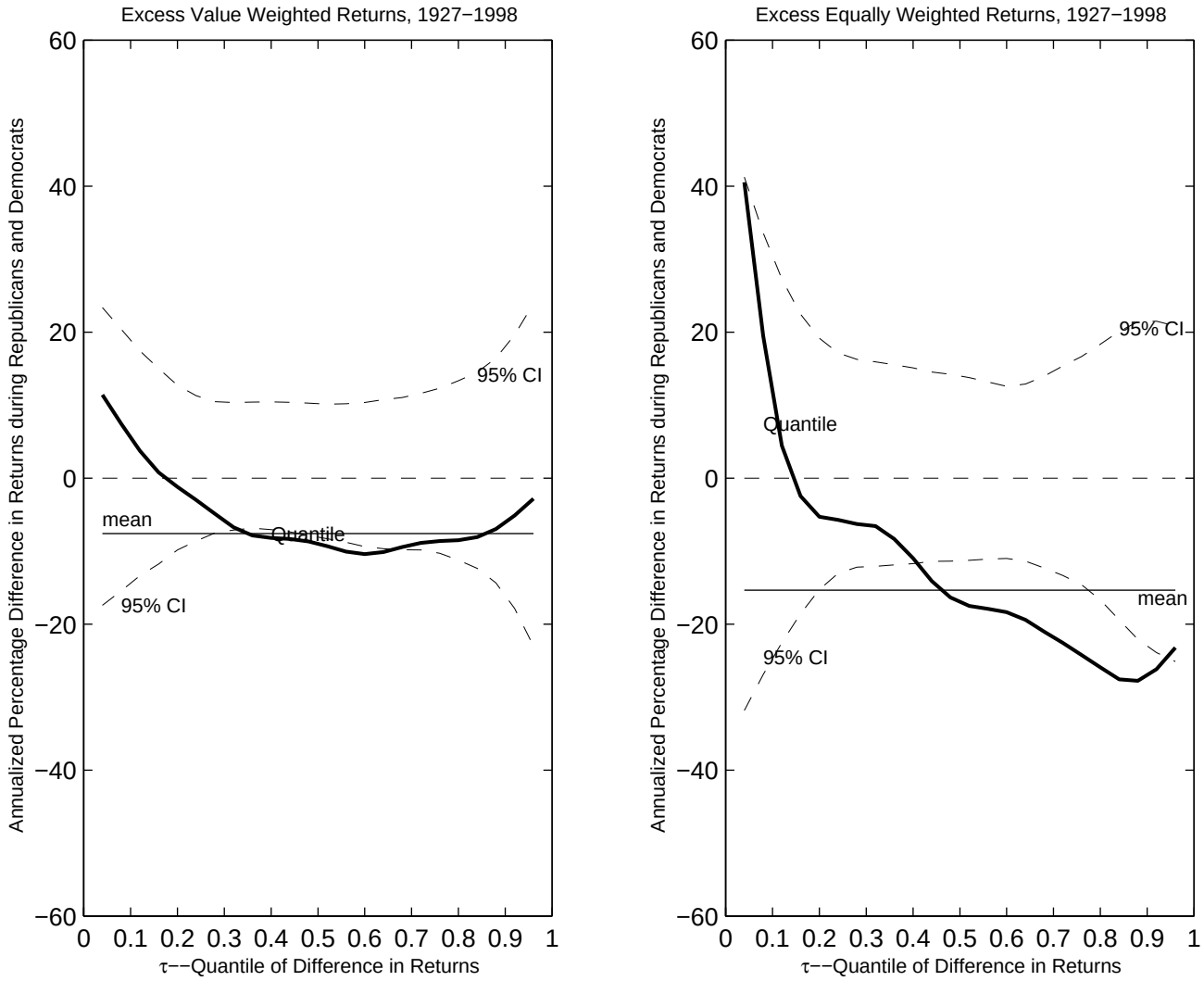
Notes: Figure 1 displays the average annualized excess value weighted returns during each presidential term during the 1927-1998 period. Republican administrations are denoted with darker shades. The average excess return is marked in dash-dotted line. Most Democratic presidencies have been associated with higher than average excess returns (with Roosevelt's (1937-1941) tenure being the only significant exception). Similarly, most Republican presidencies have been associated with significantly lower than average returns (the only exception is Eisenhower (1953-1957)).

Figure 2: Quantiles of Difference in Excess Returns under Republican and Democratic Presidencies



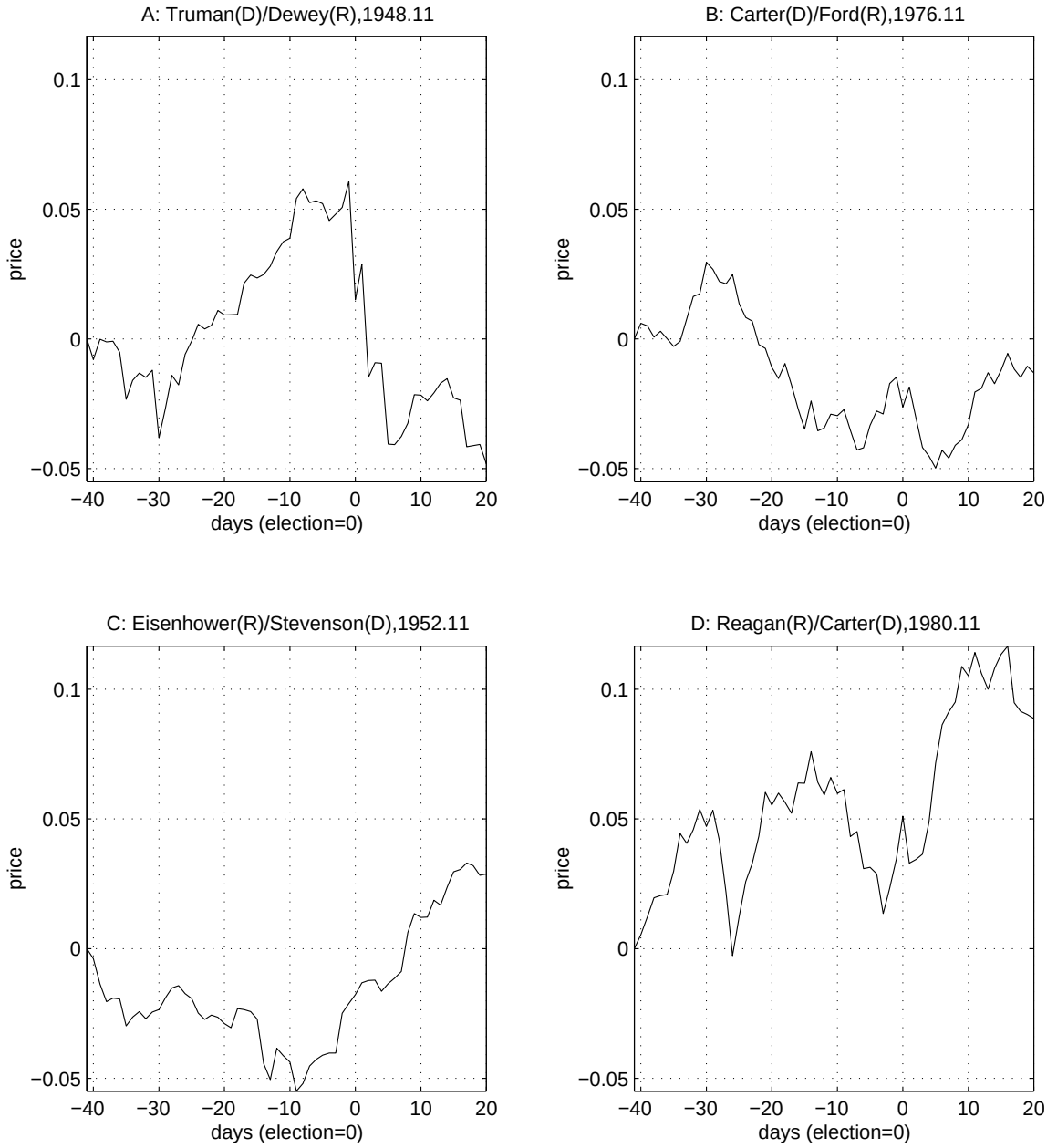
Notes: Figure 2 displays the difference in quantiles of value weighted and equally weighted returns between Republican and Democratic presidents (see Figure 2). The quantile of the difference is computed as: $\left[\hat{\alpha}(\tau), \hat{\beta}(\tau)\right] = \arg\min_{\alpha,\beta} \sum_t \rho_\tau \left(r_t - \alpha - \beta RD_t\right)$ as discussed in the text. The difference in quantiles $\hat{\beta}(\tau)$ is displayed in a solid line, for τ=0.02,...,0.98, whereas the dashed pattern denotes the 2.5%, mean, and 97.5% of the estimates, computed by bootstrap. The mean of the difference is shown for reference as a light straight line. The statistical significance of the difference comes from the middle quantiles, which supports our robustness claims.

Figure 3: Quantiles of Difference in Excess Returns under Republican and Democratic Presidencies, Controlling for Business Cycle Variables



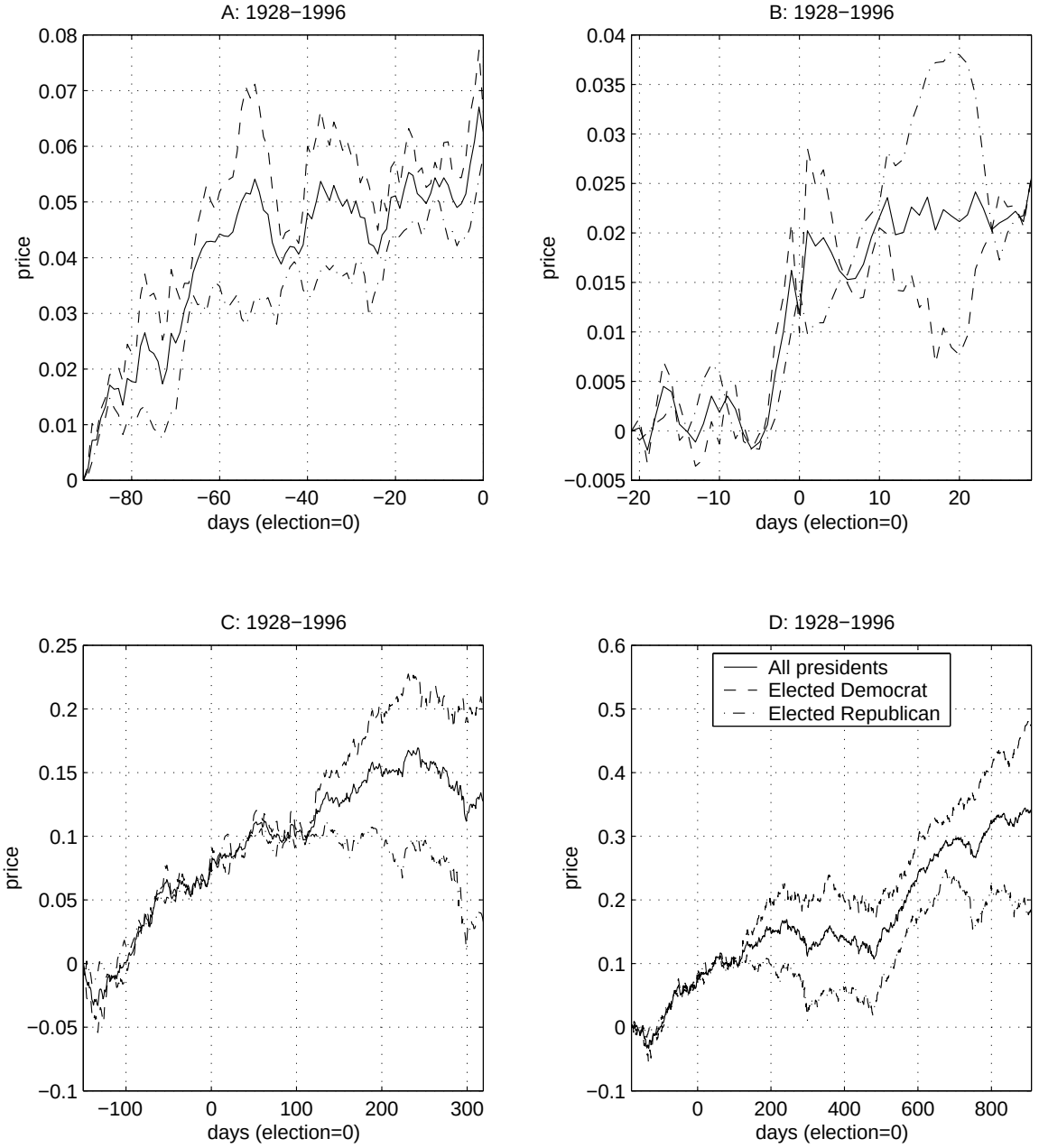
Notes: Figure 3 displays the results from the quantile regression: $\left[\hat{\alpha}(\tau), \hat{\beta}(\tau), \hat{\gamma}(\tau)\right] = \arg\min_{\alpha,\beta,\gamma} \sum_t \rho_\tau \left(y_t - \alpha - \beta RD_t - \gamma' Z_t\right)$, where $\hat{\beta}(\tau)$ captures the quantiles of the difference in returns between Republicans and Democrats, after controlling for business cycle variables. The results are not very different from the unconditional case (Figure 2): the difference in returns remains significant in the middle of the distribution (quantiles 30 to 70).

Figure 4: Stock Market Level Around the Four Most Contested Elections



Notes: Figure 4 displays the price of the value-weighted portfolio during the 4 elections that were either incorrectly forecasted by Gallup and political scientists, or were very close in their outcome. The elections in subplots A and B were won by Democrats, whereas those in subplots C and D, by Republicans.

Figure 5: Stock Market Level Around Election Dates



Notes: Figure 5 displays the price of the value-weighted portfolio during different periods of the election cycle. The daily data is from 1928 to 1996, encompassing 18 presidential elections, 10 Democratic, and 8 Republican. Subplots A and B show the average movement of prices during the period of the election. Subplots C and D trace the movement of prices one year and three and a half years after the election. The difference in returns (prices) during Republican and Democratic president is neither due to the period before the election, nor to any given period during the presidential cycle.

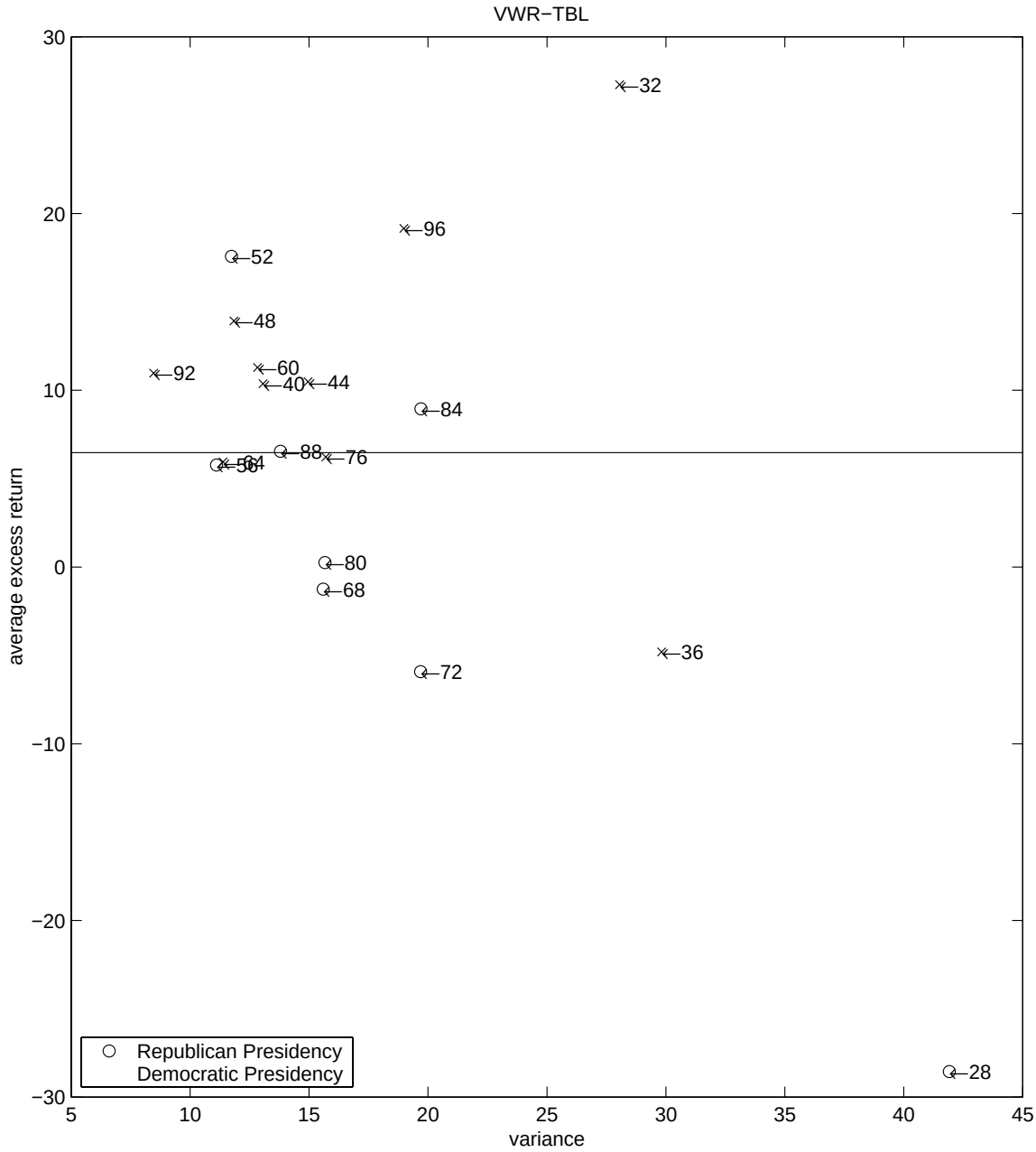



Figure 6: Excess Return-Variance Tradeoff