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THE STOCK MARKET AND POLITICS: AN ANALYSIS OF STOCK MARKET REACTIONS TO POLITICAL DECISIONS AND WORLD EVENTS

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Abstract

The stock market is influenced by many outside factors around the world. Stock prices change every single day and there are many factors that cause this. This paper is structured as an extended literature review analyzing previous literature on the topic of politics and the stock market. There are six specific types of political decisions and world events analyzed to determine the effect on the stock market. The following topics are political elections, the presidential impact, tariffs, war, the pandemic, and tax cuts. Stock market data is gathered before and after the event takes place to understand the effects on the market. Finally, this paper will use the data to suggest whether or not political and world events impact the market. It will also suggest the possibility to predict the market based on the effects of the events.

KEY WORDS: stock market, political decisions, finance, predicting the market, political party, S&P 500, stock prices, World War II, Tel Aviv Stock Exchange, investing, jump risk, TCJA, pandemic

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Introduction

International business is becoming a more relevant topic in the world. Ideas like trade, war, and foreign currency make every country relevant to each other. Countries around the world are influenced by two key factors: money and political power. The finance world and the political world are intertwined daily, and one of the main indicators of the economy in a region is its stock market. The stock market is a market where shares and other investment securities of public companies are bought and sold. Stock prices move daily in expectation of future performance. When looking at the economy and the stock market, they have consistently moved together in past years. In great depressions and economic boom, we have seen the stock market follow the same trends as the economy. Being able to analyze the stock market is a great tool in preparing for the future economy. More often than not, the overall trend in the market will allow people to understand the economic position at that moment in time. This allows the stock market to be a very influential tool for financial experts.

Political decisions and world events play a big role in the economic standard of a country. Governments in every country make important decisions that impact the economy. Along with political decisions, world events play a big role in the economic standard of a nation. As we have seen in the current events with Russia and Ukraine, big world events have an impact on the economy. For example, in the U.S. the economy is being affected with gas prices reaching record highs, along with stock markets around the world reacting to these events. Political issues like an election of a world leader, statements from the president, tariffs, and tax cuts have an impact on the economy. World events like war and the pandemic have also shown their impact on the economy. These themes affect every aspect of the economy and financial experts have seen much of this impact starting with the stock markets. Political actions can have a direct effect on the economy, and they have more of an indirect effect on the stock market. For example, political actions like laws and regulations impact the economy, and they could also affect the stock market. Investors may want to buy and sell more often based on a political event, or they could back off a little. Although a new regulation may not directly affect the stock market, it can have an effect on investors. When more and more people buy stocks, stock prices go up. When politics are involved, it provides an easier explanation as to why an increase in corporate taxes would decrease the stock price of companies like Apple and Microsoft. This idea begins the argument that politics do affect the markets and for the most part, politics in different countries will have different effects. The remainder of this paper looks to examine specific political issues and world events, and their overall impact on the economy.

Methodology

This thesis is an extended literature review on the topic of political effects on the stock market. This extensive review provides information from a long list of scholarly articles obtained through EBSCO and Business Source Complete library databases provided by Southeastern University. Many of the search terms used to find articles include “stock market,” “politics,” “the economy,” “president,” “war,” and other key words. The data was narrowed down to peer-reviewed journals. Among this research, articles were used that focused on stock market reactions to individual political and world events. This review identifies past research and incorporates multiple political aspects into stock market reactions.

The goal of this review is to look into the market reactions before and after events affected by politics and to tie this research into possible scenarios where investors could predict the market based on historical data. The political topics are classified into five sections: presidential elections, presidential impact, war, tariffs, the pandemic, and tax cuts. These sections provide insight into political events around the world and the stock market movements during these events. These major sections will provide the organizational structure of this review and provide a clearer picture as to what the market does when politics is involved.

Literature Review

The Stock Market and Politics

The stock market has been around for hundreds of years. One of the stock markets that is commonly used in the U.S. is the New York Stock Exchange (NYSE). According to Business Insider, the NYSE is the largest stock market based on market capitalization. Market capitalization is the total market value of a single company stock, and in this case the total market value of the entire stock exchange. Alongside the NYSE, top stock markets include markets in China, Japan, Hong Kong, Canada, and the United Kingdom (Winck, 2020). These markets are affected by many factors globally and different indexes show the impact of these factors on the markets. Within the stock market, there are different stock indexes that show the big picture of how the market is doing. Stock indexes are basically a grouping of large stocks that help show the movement within the market. One stock index that is commonly used to analyze the NYSE is the S&P 500. According to Brans and Scholtens, “The S&P 500 is a stock market index based on the market capitalization of 500 large companies listed on the NYSE, NASDAQ or CBOE” (2020, p. 4). This index is one of three indexes used to give insight into how the overall market is doing for a specific day. The other two stock indexes are the Dow Jones Industrial Average and the Nasdaq Composite index. Throughout this research, indexes like the S&P 500 will be a tool to explain the impacts on the market.

The stock market is a market that consists of different investment securities that are actively traded on a daily basis. The stock market moves every single day, and the cause of these movements is based on the idea of supply and demand. When more people want to buy the stock, stock prices go up. Alternatively, when more people sell a stock, the price goes down. While this is the simple reason why stock prices change, integrated markets will show movements because of outside factors. Stock markets that are well integrated with foreign markets will see their stock prices respond a lot more to global events (Inaba, 2019). The rise of these global factors provides an insight into predicting future prices. When trying to predict future prices, it is important to look at stock market synchronization. This idea refers to the idea that the market makes significant movements based on environmental factors. Analyzing the global factors that create these movements will help in the process of predicting the market.

Movements within the market help experts make decisions on business transactions like asset allocation, risk management, and international diversification (Chuluun, 2017). Companies make many of their business decisions based on how the company is doing. The stock price of the company is a way to analyze the company's well-being. Since global factors affect the stock market, decision makers may be able to make their decisions based on global events. Researchers like Hudson, Urquhart, Gourevitch, Brans, and Scholtens have looked into political events that have affected the stock market, but the goal of this study is to tie a large number of political events and ideas into how they affect the stock market.

Since the markets are known to be an economic indicator, examining the politics behind the stock market is an important objective. Political decisions can be anything from creating new laws to going to war. Today politics and the economy are intertwined. Since politics is so focused on driving the economy, we can analyze the stock market based on political events. "Politics drives regulations, and regulations shape corporate governance patterns, which then protect or abuse investors'' (Gourevitch and Shinn, 2005, p.260). Regulations affect the people invested in the stock market, and as a result these decisions impact the stock market. The remainder of this paper will look into key political and world events and analyze their effects on the stock market.

Political Elections

World leaders are especially important for politics to take place. The governments around the world are ultimately influenced by one person who is at the top. Presidents, Kings and Queens, Prime ministers, and sometimes even religious figures are claimed as world leaders. This section looks at how a political election, specifically in the U.S., may or may not affect the stock market. There is evidence that when a new leader is elected, the stock market sees an impact from it (Nippani and Medlin, 2002). Many experts have given good input on the effect of elections on the market. Homaifar, Randolph, Helms, and Haddad (1988) provide evidence on the net profit of shareholders just after an election. Other studies by Foerster (1994) and Foerster and Schmitz (1997) add to the research about the market's impact from presidential elections (Nippani and Medlin, 2002). Research has been done to look at how the presidential elections have impacted the stock market. Investors look for an initial reaction in the market after the results of the election are declared. These election results impact the performance within the U.S. and international stock markets (Nippani and Medlin, 2002). This section will look at the evidence of stock market effects and see if there is a possible trend that will help with predicting the market.

In the past five elections, there hasn't been a common occurrence, but when Bush was elected in 2000, the markets saw a 6% decrease in the S&P 500 (a highly used stock index) in the first ten days after the election (Richter, 2020). According to this shift, the market showed initial movements from the results of the election. In the following election, the S&P 500 saw almost a 4% increase in 2004. In Barack Obama's two election years of 2008 and 2012, the S&P 500 showed 14% and almost 3% decreases respectively. Finally, from the data collected for the 2016 election, the S&P 500 increased by 3% in the next ten days. As seen here, these five elections did not see extreme market reactions, except for in the case of 2008 (Richter, 2020). When Barack Obama was elected in 2008, the market saw its biggest performance change in 20 years with a decrease of 14%. In the first ten days after Donald Trump was elected in 2016, the S&P 500 had increased by 3% as well (Richter, 2020). Also seen in these elections is a common pattern. For the most part, when a Democrat was elected, the stock market saw decreases in the following ten days. On the other hand, the market has shown general increases when a Republican was elected, except for the anomaly in 2000 (Richter, 2020). The 2000 election was an anomaly in the research done because of how late the results were posted, but this election will be talked about a little later.

Past research has investigated the impact of the political party of the newly elected president. Lobo (1999) and Riley and Luksetich (1980) have looked at the initial effects on the stock market when a Republican or a Democrat is elected. The party of the elected president does show a pattern within the effects of the stock market. There is an important risk involved with the stock market when looking at changes in stock prices. Jump risk is the risk that a stock will have an extreme change due to current events. The political party in office shows different jump risks for different stocks. Lobo (1999) illustrates the political parties' effect by stating "... we notice that small stock returns are higher on average during Democratic administrations, consistent with the finding in Hensel and Ziemba (1995). Moreover, jump risk increases for large stocks during Democratic regimes, but is similar for small stocks across partisan regimes" (Lobo, 1999, pg. 9) Small stocks are not affected much by the election results, but for the larger stocks, there is evidence of elections affecting the risk that a stock will move unexpectedly (Lobo, 1999).

The research done by Lobo (1999) provides insight into the effect of the political party on the stock market. He looks at how different small and large cap stocks react to certain political parties being elected. "On balance, it would seem that while small stocks perform better under Democrats compared to Republicans, unexpected news dominates during Democratic administrations and increases the jump risk for large stocks in these periods" (Lobo, 1999). Overall, the stock market is much more at risk when a Democrat is elected to office initially. The small stocks generally provide a better return, but large stocks are much more likely to crash when the elected president is a Democrat. Like Lobo (1999) stated, unexpected news is much more abundant when a Democrat is in office. With more unexpected news, it would make sense for jump risks to be higher.

Although political parties show a major impact on the market, there is an election that shows how influential the results are to the stock market. In 2000, the U.S. presidential election was different from other elections. On November 7, 2000, people around the country went in to cast their votes. The results are usually announced within a day or two, but in 2000, the results were not released until December 13 because of many errors counting the votes (Nippani and Medlin, 2002). This presidential election was very influential on the stock market in November and December of 2000. Using the three main indexes of the New York Stock Exchange, the research shows the effect of the election delay. Nippani and Medlin (2002) used three different windows. Data was shown between 11/08 to 11/13, 11/14 to 12/06, and 12/07 to 12/14. The S&P 500, NASDAQ, and Dow Jones all showed interesting results. The impact of the delayed results was similar in all three indices at all three windows. Although the results were similar, negative effects were seen in the short term. The S&P 500 dropped 4.6% and the Nasdaq composite dropped 13.7% in the first event window (11/8 - 11/13). After this first event window, the market began to stabilize back to normal. In the first four trading days after the delay, the stock market saw negative effects, but it soon returned to normal (Nippani and Medlin, 2002). Political elections are very influential on the stock market in the short term. Stock returns vary within different political parties and some election anomalies have provided information on how the stock market reacts. The political parties have shown many trends in the market, but it is not all certain. As discussed before, the market generally reacts positively to a Republican being elected and negatively to a Democrat being elected. As can be seen, it is not always the case. In the 2000 election, George W. Bush was elected to be president as a Republican. The market went against its normal trend, and the market saw negative effects of his election.

While the election results may show a common reaction for the party that is elected, the stock market has shown corrections after the election. Like stated before, when a Democrat is elected, stock prices see negative effects compared to positive increases when a Republican is elected. In the longer run, stock prices have seen different effects based on the political party elected. For example, according to Forbes, over the last 60 years only two presidents have seen decreases in the stock market when their term(s) were up. When President Nixon and President George W. Bush had finished their term(s) the S&P 500 had been negatively affected (Klebnikov and Touryalai, 2020). Both of these presidents happened to be from the Republican Party. This goes against the initial prediction that Republican presidents have a positive impact on the stock market. The S&P 500 was down 20 points when Nixon finished his term and down 40 points when Bush finished his term (Klebnikov and Touryalai, 2020). The S&P 500 saw increases after every Democratic President was finished in office. Past research has shown that when a Democrat is elected as president, the stock market has regularly shown negative impacts in the short term. While the initial reaction is negative, when the President actually puts his or her ideas into place, the market may see a positive reaction. The S&P 500 has not seen a decrease in 60 years when a Democrat was in office (Klebnikov and Touryalai, 2020). For now, we may be able to say that initial market reactions are negative when a democrat is elected, but the president's impact may prove otherwise for the long-term. Also, when an unexpected event occurs like the Bush election, the stock market may show negative price changes.

Presidential impact

"What a STUPID deal for Verizon to buy AOL for $4.4 billion. AOL has been bad luck for everyone who touched it. Worth less than $1 billion!" (Trump, 2015). This is a tweet from the United States' former president Donald Trump. Donald Trump was a very active user on his Twitter and other social media accounts. He has made many statements on these accounts, with a lot of the statements affecting other areas of the U.S. The president has a very big impact on the American economy. Using Donald Trump as an example, his twitter statements have shown effects on the stock prices of individual companies (Brans and Scholtens, 2020). If the president can affect stock prices using twitter, they have the ability to affect the economy through the government actions as well. The country as a whole is led by the president with their residing government influencers. Since so many people are accustomed to following the president's commands, they are very influential on the country. Since the president is so influential on the citizens of a country, the economy is therefore affected by these statements and ideas. Along with statements made by the president, the party they represent can also have effects on the economy. This section focuses on the individual statements made by the president, along with the party they associate with. In a later section, the laws and tariffs imposed by the president will be discussed and how those decisions affect the stock market.

In today’s world, everyone is on social media including the president. Barack Obama was the first to use the official Twitter account for the president and Donald Trump was the second. President Trump was one of the few presidents to be involved on social media, and his use on Twitter gained a lot of media coverage. President Trump is one of the most influential people on Twitter, having over 58 million followers to go along with his 40,000 plus tweets (Brans and Scholtens, 2020). Since he is so popular on twitter, the question that arises is did Donald Trump’s tweets affect the stock market?

Social media is so abundant in society today that it can be claimed as news. To summarize what Brans and Scholtens (2020) stated in their research, any tweet is public information, so it serves as public news. Public news generally can affect the stock market in two ways. First, commentary on a company can have a positive effect on the stock price whether or not the information is positive about the company. This is because the more people that hear about this company, the more likely they are to buy. This means that the stock price will eventually increase in price and yield a greater return for stockholders. According to a majority of finance literature, many investors show much more noticeable responses to negative news as opposed to positive news (Brans and Scholtens, 2020). With these ideas in mind, Brans and Scholtens researched the effect of the president's tweets on the stock market.

President Donald Trump has made many tweets about companies during his term as president. Many tweets like the AOL tweet have negative connotations, but the president also posted tweets that were encouraging for a company to hear. In Brans’ and Scholtens’ research, they used the S&P 500 index to determine the effect of the stock market as a whole. The S&P 500 was investigated on the day the tweet was posted and the day after to understand the effects of the tweet on stock prices. As a whole, the day of the tweet and the day after the tweet showed no significant change in the return of the stock market (Brans and Scholtens, 2020). This means that having a company stated in one of the president's tweets did not affect their stock price immediately. The sentiment of the tweet on the other hand could show that the president does have influence. In the data from Brans and Scholtens (2020), the strong negative tweets created a negative response from financial investors. A negative response from financial investors may not affect the stock price immediately, but it will have an effect later on. For example, when an investor hears negative news about a company, they are likely to either pull out their investments or completely stay away from buying the company. This will end up causing the stock price to fall because less and less people will be purchasing shares. The positive news on the other hand, did not show much effect on the market. Donald Trump did have an impact on the market when he spoke negatively about a company though. Donald Trump posted on his Twitter account stating, "Boeing is building a brand new 747 Air Force One for future presidents, but costs are out of control, more than $4 billion. Cancel order!" (Trump, 2016). Tweets like this had a big impact on the return of stocks. A week after this tweet was posted, Boeing stock had dropped 12%. This company stock went from trading at $234 to $208 (Brans and Scholtens,2020). This is a big price change, since Boeing's stock had been increasing steadily over the previous two months.

Donald Trump was not the only president to make statements that affected the stock market. President Barack Obama made statements on companies that received "bailout" funds when there was a form of financial crisis going on. The president stated, "You are not going to be able to give out these big bonuses until you've paid taxpayers back, you can't get corporate jets, you can't go take a trip to Las Vegas or go down to the Super Bowl on the taxpayer's dime" (Gift and Gift, 2011, p.59). This comment was aimed at places of tourism like Las Vegas (Gift and Gift, 2011). Previous research from Brans and Scholtens (2020) has shown that statements from the president had influence on the market. A negative statement like the one made by President Obama could cause returns and prices to fall of stocks that are involved in luxury and vacation expenses.

Based on the statements from President Obama, researchers Gift and Gift (2011) studied the effect on specific types of stocks. In their research they classified companies into two groups, CTT and non-CTT companies. The study looked at CTT companies and non-CTT companies' stock, which are different types of casino and gambling companies. Gift and Gift defined CTT companies as companies focused more on conventions, trade shows, and tourists and non-CTT companies generally focused more on local or regional customers (Gift and Gift, 2011). The stocks were selected from Hoover's "Gambling Resorts & Casinos" industry classification (Hoover, 2011). When studying these two types of companies, an investor would predict that Barack Obama's statements would have a positive impact on the stock prices of non-CTT companies and a negative impact on the CTT companies. CTT companies were largely producing negative abnormal returns after the statements from the president. In comparison, the non-CTT companies produced all but one positive abnormal return. Based on tests like this, CTT company stocks generally saw a 2-7% decrease in market capitalization, and the non-CTT companies reacted positively with a 1-6% increase (Gift and Gift, 2011). The research from Gift and Gift found this to be true. "Our analysis supports the hypothesis that presidential rhetoric can have a real impact on public behavior towards a particular industry with President Obama's statements adversely affecting CTT companies and positively affecting non-CTT companies in our sample." (Gift and Gift, 2011, p.71).

The president can make very influential statements. Negative effects on the CTT companies' stock were not intended by the president's statements. It was more focused on getting U.S. citizens to spend financial crisis money on local businesses which resulted in negative trends in the market for these types of companies. Gift and Gift (2011) explain that the CTT companies focused on gaining customers from tourism, while the non-CTT gambling companies looked to attract the people in the area. Therefore, President Obama was making statements critiquing citizens going to gamble at the CTT businesses. President Obama scared customers away and the stocks of these companies saw effects.

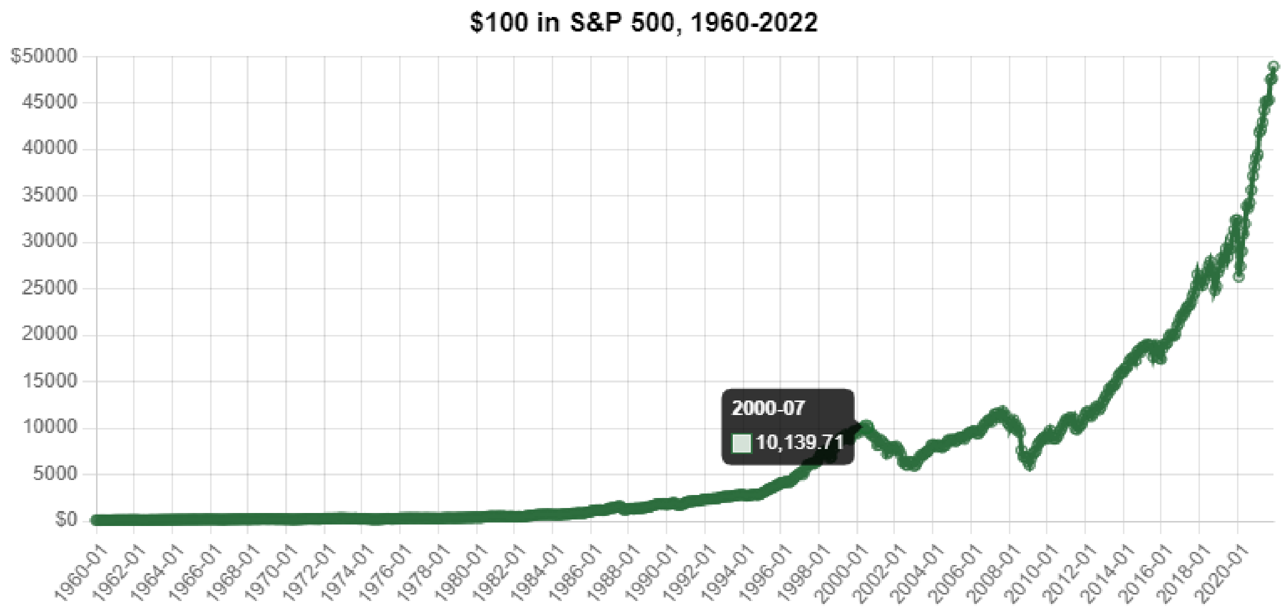
Over the last two presidential terms, the stock market has seen substantial effects brought about by the sitting president. Their statements have greatly impacted the stock market seen today. Thus far, negative statements made by the president have shown the most notable effects on the market, while positive statements did not show much change in stock prices. In the research done by Brans and Scholtens (2020) they show the effects of statements made by Donald Trump. Gift and Gift (2011) also explain the effects of the president using President Obama in their research. Both President Obama and President Trump made negative statements that directly affected the stock prices of the companies named. For the overall market however, not much change was noted when the president brought up a company's name. Understanding this idea, can help predict price changes in individual stock prices, but it will not help when looking at the whole market.

Political Party of the President

While individual statements made by the president affect a certain company's stock prices, the political party of the president may have an impact on the overall market returns. Republicans and Democrats have different views on certain political decisions. Since, the ideas of both parties differ, the economy may react differently according to which party is in office during that time. Analyzing the stock market returns based on the party in office is best to analyze the short-term effects, since the market has consistently followed a bullish trend in the long run. Short term effects can help predict the market quickly, but in the long run, the stock market has shown increases overall. For example, over the last 60 years, the S&P 500 has increased by about 800%. Figure 1 shows the extent of $100 invested in 1960 to what it is worth in 2020 (Webster, 2022). During this 62-year timeframe, the overall market has trended positively averaging a rate of return of 10.8%. Within these 62 years there were only two presidents that ended their term with a negative return in the S&P 500. The two presidents with negative returns were both Republicans, so the political party in office may have an impact on the market (Klebnikov and Touryalai, 2020) The remainder of this section will look at the impacts on the market based on the party in office, and whether or not it actually makes a difference if the president is Republican or Democrat.

Figure 1.

S&P 500 Performance in the last 60 years.



Note. This model shows the value of $100 invested into the S&P 500 over the last 62 years. From “S&P 500: $100 in 1960 → $46,783.22 in 2022” by Webster, 2022, officialdata.org. Copyright by Official Data.

For the most part, the stock market has shown positive increases since Truman was president. Forbes researchers Klebnikov and Touryalai have looked at the movement of the S&P 500 when different presidents were in office. They wanted to research whether or not the political party in office showed different effects. The article quotes Jeremy Siegel stating, “Stock markets do perform better under Democrats than Republicans. That’s a well-known fact, but it does not imply cause and effect” (Klebnikov and Touryalai, 2020, p.3).

Since research has shown that when Democrats are in office, the stock market outperforms a market with a Republican president, the returns for the individual presidents in office should be examined in order to decide if the political party made an impact or the president in office. Starting with the highest return of any president, President Clinton had the highest cumulative stock return with almost 210% (Klebnikov and Touryalai, 2020). This high return adds to the idea that Democrats have helped increase returns in the stock market. One thing to note during Clinton's presidency is that he inherited good economic conditions. Inflation fell to less than 3% which made sense why the market was able to perform so well (Klebnikov and Touryalai, 2020). Good economic conditions and the beginning of the internet boom helped the stock market succeed during Clinton's presidency.

Even though Clinton had a good economy, he did still have some positive effects on the market. Clinton pushed for an increase in taxes in his first term and as a result the Fed increased the federal funds rate from 3.25% in January of 1994 to 5% in February of 1995 (Klebnikov and Touryalai, 2020). These political decisions helped keep inflation in check. Since the economy was doing well during Clinton's presidency, he was able to keep the momentum which resulted in positive returns in the stock market. Clinton's time as president resulted in positive movements in the market. Clinton started out his presidency in a strong economy which helped the market show great positive returns when Clinton's term ended.

President Obama also showed great returns during his time in office. According to Forbes, the S&P had a positive return of 182% by the time Obama had finished his presidency (Klebnikov and Touryalai, 2020). While president Obama did make some statements that impacted the stock market negatively, the overall market showed positive results for his term. The U.S. was just coming out of their biggest financial crisis in almost 80 years. This basically set up Obama to have great returns. Interest rates had already been cut by the end of Bush's term, so the economy was ready for a long bull market. Along with this rebound from the recession, technology and innovation surged in the next few years (Klebnikov and Touryalai). The advancements in technology were very influential on the market. Products from companies like Apple, Microsoft, and Amazon showed just how much technology was advancing. These companies were able to generate large earnings with low interest rates because of the strong demand for these products. The increase in performance of Apple, Microsoft, and Amazon produced positive changes in their stock prices (Klebnikov and Touryalai, 2020). All three of these companies are included in the S&P 500 index, so the increase in individual stock prices showed positive effects on the S&P 500. The majority of the positive movement in this time is attributable to non-political ideas. The advancements in technology pertain to non-political events, so while Obama did end his terms with a high positive return, politics may not have been the reason for the good fortune.

The democratic party holds the two highest S&P returns for presidential terms, but two Republican presidents showed good returns as well. The S&P returns of 129% and 117% from President Eisenhower and Reagan demonstrate positive signs for the stock market when a Republican is in office. President Eisenhower helped resolve some conflict in the Korean war, but America was still under psychological attack with red scare tactics. Although the war was over, the U.S. still faced financial problems. In Eisenhower's two terms, he went up against three recessions in 1953, 1958, and 1960 (Klebnikov and Touryalai, 2020). Looking at the financial crisis' during Eisenhower's terms, it is impressive he managed to help the market return a positive 129% in the S&P.

President Reagan also saw positive results with a 117% return when his terms were finished. Like in Eisenhower's presidency, the U.S. went into another recession during Reagan's first term. The recession lasted long enough that it "broke the back of inflation" (Klebnikov and Touryalai, 2020). For the most part, recessions result in negative returns in the stock market. For example, from the election in 1981 to the beginning of 1982 the S&P 500 was down 5%. The government took action to resolve the economic situation and fight inflation. In order to fight against the recession, U.S. Treasury rates increased above 16% in August of 1981 (Klebnikov and Touryalai, 2020). The increase in Treasury rates helped stabilize the economy and ultimately helped the stock market rebound. Most of the credit goes to Fed Chairman Volcker who helped keep a tight monetary policy with the 16% increase in the treasury rates (Klebnikov and Touryalai, 2020). Reagan's economic policy of "Reaganomics" including fiscal policies to reduce government spending and tax cuts (Blanchard, 1987). Tax cuts began with Reagan, and they have become more and more useful in helping the economy rebound in an economic downturn. Reagan's policies resulted in positive results in the economy and the stock market. It is pretty impressive that the S&P 500 showed positive returns at the end of Reagan's presidency, noting that he came into office during a recession.

Both the Democratic and Republican parties have seen good returns in the stock market, but two Presidents finished their terms with a negative return. President Nixon and President George W. Bush were the only presidents since Truman where the stock market had negative returns during their time as president (Klebnikov and Touryalai, 2020). Next, the only two negative returns in the last 60 years will be examined to determine the effects of the political party on the stock market.

President Nixon was in office from 1969 to 1974 and in that time frame, the S&P 500 had a -20% return. In some of the situations discussed previously, some presidents were elected into a good economic position and continued that trend. Also, some of the Republicans, like Eisenhower started out with a rough economy and turned it around. For President Nixon, he started out with a poor economy and made things worse. The U.S. economy was in a time of high inflation, slow economic growth, and high unemployment (Klebnikov and Touryalai, 2020). When the economy is struggling, it may be good to try something new. Nixon made an executive order to freeze wages and prices to battle the high inflation (Klebnikov and Touryalai, 2020). Inflation is the rate at which the value of the U.S. dollar falls. In theory, if wages and prices stayed the same, then the value of the dollar should stay the same, but this was not the case. Inflation rates were still high and since the wages and prices stayed the same, the economy was worse off. Also, the Arab oil embargo happened in 1973 leading to a surge in oil prices (Klebnikov and Touryalai, 2020). The stock market did not do well during Nixon's presidency. He may have been dealt a bad hand, but ultimately his decisions led to the stock market crashing.

George W. Bush was the only other president to finish his terms with a negative stock market return. He had the lowest return at -40% (Klebnikov and Touryalai, 2020). Along with other presidents, Bush inherited the stock market bubble from Clinton. Just like Nixon, things went from bad to worse. In an effort to beat inflation, the Federal Reserve raised interest rates between 2004 and 2006 (Klebnikov and Touryalai, 2020). This method had worked in the past, so it didn't seem like a bad idea. Klebnikov and Touryalai (2020) show us that the high interest rates will not work forever.

The economy eventually began to recover somewhat as Greenspan and the Federal Reserve methodically raised interest rates again between 2004-2006. But toward the end

> of Bush's second term, with interest rates above 5%, the Fed started slashing rates dramatically, setting the stage for a housing bubble (Klebnikov and Touryalai, 2020, p.1).

The stock market fared poorly during the eight years of George W. Bush's presidency. The U.S. was in a financial crisis during Bush's presidency and as a result, the stock market showed its worst years of any presidency. Big companies like Bear Stearns and Lehman Brothers disappeared from the S&P 500 which could have caused the drop in the S&P 500. Based on the research presented, we can conclude the political party in office does have an influence on the stock market.

Tariffs

The Great Depression was the most devastating economic depression in the industrialized western world. Kids learn all about it in school and remember the dates and times, but the Great Depression all started with the stock market crash of 1929. The market crashed due to many factors including the introduction of the Smoot-Hawley tariffs. This legislation was going to increase the tariff rates in the U.S. Tariffs are basically a way for a country to restrict imports by increasing the prices of goods and services from other countries. The tariffs imposed in 1929 were not the leading factors, but financial analysts would come to find out that the stock market does not like tariffs (Whitfield, 2019). The U.S. government passed the Smoot-Hawley legislation which raised the U.S.'s already high tariffs. This tariff was passed in legislation in May of 1929, but it was not certain to become a law. In October of 1929, the Senate pushed for the tariffs to be put in place (Whitfield, 2019). The tariffs would restrict the importation of many goods used by many farms and businesses around the world. On October 28, 1929, one day before the market began to crash, Hoover began a push to implement this new tariff (Whitfield, 2019). The introduction of the higher tariff rates was not the only reason for the market crash, but it’s not a coincidence that President Hoover agreed to the increase in tariffs, and one day later the stock market crashed. Stock indexes reacted negatively to tariffs put in place 90 years ago.

Along with the crash in the stock market, the economy started to decline. The stock market is one indicator of the economic position for certain time periods. Five months after Hoover agreed to the tariffs, the senate passed the Smoot-Hawley Bill. By the end of 1930, GDP had dropped 8.5% and continued to fall in 1931 and 1932 (Whitfield, 2019). The economy tanked soon after the passing of the tariffs and the stock market showed the first indication. Economists had warned Hoover about tariffs, but the government passed them anyway (Whitfield, 2019). In the 1920s, tariffs harmed the stock market and the economy, so the modern stock market could show the same impact with the increase in tariffs.

The rise of tariffs is being talked about more and more in today’s literature. President Donald Trump is very interested in the idea of more tariffs. The government imposed a series of tariffs on China, Mexico, Canada, and the European Union. Most notable of these tariffs are the tariffs on China. Tariffs have been put on many industrial and technological goods. President Trump put tariffs on trade with China for national security. In the long run, these tariffs could very much hurt the stock market. At the time, Whifield (2019) stated, “Put simply, the stock market doesn't like tariffs, and if Trump pushes it too far, he could sink the stock market” (p.1). Tariffs have an impact on many companies. The increased cost to trade results in less production and a decrease in jobs. The economic well-being is damaged, and the stock market follows that trend. Past evidence from the Smoot-Hawley Bill has shown the negative effects of tariffs within the market. People warned Hoover about these tariffs, and Donald Trump was warned in the same way (Whitfield, 2019). The market has seen declines in the past with the increase of tariffs, and it seems like the U.S. is on the same path.

While evidence in the past has found tariffs to be harmful to the stock market, some evidence from 2018 shows that there could be a different way to look at the effects of tariffs. In 2018, the stock market went back and forth. It staggered from losing to gaining three trillion dollars for the entire year (Brewer and Trzcinka, 2018). One of the main factors for this trend was the implementation of tariffs by the White House. The increase is a small percentage, but more than a third of the S&P 500 companies' revenue comes from outside of America (Brewer and Trzcinka, 2018). Taxes began to be imposed on goods from China. This tax would account for $257 billion worth of tariffs on goods. When the talks of tariffs began, the Dow Jones fell 100 points which erased a big gain it held just before the news was announced. Two days after this drop, the index went up 200 points from the previous drop. White House media reported talks are "going well" with China (Brewer and Trzcinka, 2018). The market had a little scare when the tariffs were being talked about. When the White house began talking about tariffs, the market reacted negatively; similar to the way the market reacted in 1929.

Although the past tariffs have shown negative impacts on the market, if the countries involved in the tariffs can settle on a mutual agreement, the tariffs could pose a huge benefit to the stock market. With this being said Brewer and Trzcinka (2018) forecasted many positive numbers for the economy in 2019. Their research, Brewer and Trzcinka (2018) found:

> Analysts are forecasting earnings will increase 9.4 percent in 2019 for the S&P 500 … Revenues for the S&P 500 are expected to rise 5.4 percent in 2019. The best sector, communications services, is expected to rise 9.8 percent, while the worst sector, materials, is predicted to rise 2.7 percent (p.4).

While these are just predictions, these financial analysts are very accurate when given a short period of data for this S&P 500. These forecasts show potential for great effects in the market from these tariffs. The S&P 500 is one of the most renowned stock indexes used in the U.S., and these forecasts show that the index could still yield positive results from the tariffs.

Another forecast shows the impact of tariffs on IPOs. First off, an IPO is an initial public offering. This means it is a process of offering shares of a private company as a new public stock issuance. Brewer and Trzcinka (2018) provide forecasts for IPO's stating, "There have been 173 IPOs (as of October 15) that raised $45.7 billion. This is up 47 percent over this time last year and is three times as much as in 2016" (p.1). These IPOs are predicted to be significantly better in the next year compared to previous years. Another stat to consider is that the S&P 500 is forecasted as a 53.3% buy in the next year (Brewer and Trzcinka, 2018). A percentage above 50% buy is a great sign. With a prediction for more people to buy than hold or sell, it looks promising for the stock market.

The tariff talk made by President Trump equated to some interesting results in the stock market. Tariffs with China have been delayed in this "trade war." "China waived import tariffs on 16 different types of U.S. goods, including shrimp, fish meal and cancer treatment drugs" (Klebnikov, 2019, p.1). Along with this delay, President Trump tweeted that he would delay his tariff increases as well. The result of the delay in tariffs helped the stock market approach close to record highs. According to Forbes, "The S&P 500 was up 0.29% for the day—leaving it just 0.61% off its record of 3,027.98, while the Dow Jones Industrial Average rose 0.17%—about 0.79% off its record of 27,398.68" (Klebnikov, 2019, p.1). As soon as the news came in that China and the U.S. were putting delays on the "trade war," the stock market saw major positive numbers. While the tariffs may be delayed at the moment, it will be interesting to see what happens to the market if trade tensions continue between the U.S. and China.

War

International conflict is inevitable with the contrast in cultures of different countries. No country is the same, nor does each follow all of the same rules and guidelines. Many countries have different forms of government as well. The type of government can range anywhere from a communist state with a one-man dictatorship, like in North Korea, to a republic, which is the case here in the U.S. Since government types differ around the world, conflict will eventually arise. In some cases, the conflict could lead to war. Studies in the past have examined the effect of international conflicts on the stock market. One study indicates that the two main political factors affecting the markets are the severity of the conflictive events and the expense to which economic analysts could anticipate the conflict events. Also, in the past cooperative events after the war have shown some impact on the stock market. (Schneider and Troeger, 2006). Schneider and Troeger examined how these political events, like war, affect and will eventually affect different stock markets.

War can have a major influence on every economy. Sometimes the result is favorable and other times unfavorable. War is a positive sign for industries related to armed conflict, but for the rest of businesses, great wars could cause financial and social hardship. In their research, Schneider and Troeger (2006) proposed their first hypothesis stating, “Financial markets react to an intensification of a conflict negatively if they expect the conflict to be costly for the economy” (p. 628). As mentioned before, when events affect the economy negatively, the stock market generally follows in the same direction. As opposed to the first hypothesis, the study indicates that war rallies follow a logical pattern and can be easily identified (Schneider and Troeger, 2006). With the prediction of these rallies, the markets will follow a more bullish (positive) trend. The type of conflict has an influence on the market as well. We have seen that conflict impacts the market, so the type of conflict will determine the severity of changes on the stock market. Studies have predicted that severe conflicts will result in a negative impact on the market, as well as conflictive events to have a more noticeable impact than cooperative events (Schneider and Troeger, 2006). The following subsections will examine exact wars and how they impacted the economy and the stock markets related. The focus will be on specific wars in different countries around the world. I will examine the stock markets in the countries affected by war before, during, and after the war.

U.S. Conflict Effect on Markets

The U.S. has seen war in the past and studies have been done on the effect of the war on the stock market. Hudson and Urquhart (2015), Schneider and Troeger (2006), and Konwicki (2018) are just a few researchers who have looked at how the stock market reacts to war and terrorism. One of the biggest events to cause conflict reflected in the literature came when the U.S. and British forces bombed Iraqi installations. This was the first war led by the U.S. against Sadam Hussein in 1998 and was the highest level of conflict studied by Schneider and Troeger (2006). This conflict was a major event, and it would soon show to have effects on the market. Investigation on the impact of this conflictive event resulted in the Dow Jones gaining a boost following the conflict between the U.S. and Iraq (Schneider and Troeger, 2006). This idea goes against the prediction of the market reacting negatively to the conflict. Wall Street believed that the escalation in conflict was not going to be for more cooperative efforts. Rather, Wall Street predicted that this war was a sign of Western resolve (Schneider and Troeger, 2006). Since Wall Street was sending out news that the U.S. was not looking to cooperate with Iraq, traders believed these events reduced the uncertainty and they believed that the economic costs could be reduced as a result. The belief was that the rising conflict would end the war much faster without cooperative efforts (Schneider and Troeger, 2006). Based on the evidence from Schneider and Troeger, it can be assumed that investors will be active in the market when costs are lower. When costs are low, profits will be higher which is good for any business. Reducing economic costs is a positive sign for financial analysts and traders. Although the market reacted positively initially, reduced costs were not the end result, so the market hovered around the normal range thereafter.

Another idea imposed is the effect of cooperative events. Cooperative efforts are events focused on resolving the conflict at hand. “Cooperative events during the conflict have a significant positive effect on the CAC and the FTSE, while they affect the development of the Dow Jones in a negative, though not significant, way” (Schneider and Troeger, 2006, p. 634). While the cooperative events did not show positive change in U.S. stock markets, the two European stock indexes (CAC and FTSE) showed positive results from cooperative events. Something can be said about cooperative events in different countries. The U.S. may take a more radical approach to war, since the market reacted positively to an announcement against cooperative efforts. On the other hand, Europe may be a little more conservative when it comes to war. This may be why the European indexes saw a positive impact from cooperative events in conflict. Since this section was mainly looking at the U.S. stock market, we may be able to predict the market a little better based on the conflict going on. It may be a good time to trade in the U.S. when we do not take cooperative efforts to solve the conflict.

Effect on British Markets

Stock markets are worldwide markets. Investors in a different country like the U.K. have markets they can invest in there, as well as being able to invest in other countries’ markets like the U.S. The majority of this literature review has focused on the U.S. stock market, but other markets exist in other countries. The British stock market is one of the other widely used markets. Just like the U.S. markets, they are affected by politics and more specifically international conflicts like war. One of the biggest impacts on the U.K. market was World War II. Data was collected on the war's impact from 1939 to 1945 and Hudson and Urquhart (2015) used the FT30 to show the effects on the British stock market. The FT30 is a stock index for the British stock market. It is similar to the S&P 500 and the Dow Jones in that it provides an overall assessment of the stock market. In the beginning years of the war in 1940, the market saw it reached its lowest point. On June 6th of 1940, the FT30 was down almost 5%. It had continually decreased since 1939, and this decrease resulted in the lowest returns during the world war. This low point makes sense since this was the worst year for the U.K. in the war (Hudson and Urquhart, 2015). In 1940, the country saw France fall and they also feared a possible invasion. With that being said, Hudson and Urquhart (2015) point out that the volatility of the market in 1940 was very high. This means that the prices of stocks were fluctuating a lot during this time period. The time during the war greatly affected the market in a negative war for the U.K. here.

In the years after the war, the British market still saw downturns. The average returns for the market during the war were around +0.5%, and after the war returns were just under 0%. The stock market was showing better returns during the war than they were just after the war. This is because, after the war, the country was left with a shortage of oil and a devastated economy (Hudson and Urquhart, 2015). The days after the war were hard for the people in the U.K. Economic numbers were at an all-time low and the country was drained from the war. FT30 results show a weaker market post-war than it was before the war started (Hudson and Urquhart, 2015). Along with the effects of World War II, the markets in the U.K. saw impact from the war between 1990 and 2000. Two of the market indexes, the CAC and the FTSE showed a negative reaction in this time period (Scheider and Troeger, 2006). This shows that wars have not been very good to the stock markets in the U.K. It may provide insight on how to trade in Europe when war is taking place. The research would show that buying during times of war may result in some big returns a few years later because the stock prices will rise back to normal.

Effect on Middle Eastern Markets

When talking about markets in the Middle East, the main stock exchange is the Tel Aviv Stock Exchange. The Middle East is greatly affected by war. Israel deals with political and military conflict all of the time with Palestine and the countries surrounding them (Konwicki, 2018). In Konwicki's (2018) research, he examines political and military events between 2002 and 2016. Much other literature has described the effects of war on the stock market and for the most part, the effects are negative. Kollias et al. (2010) studied the effects of the Madrid and London bombings on the stock market. These bombings had different effects, but there are definitely negative results because the volatility of prices increased making securities much riskier (Kollias et al., 2010). The Tel Aviv market works differently. Since Israel is so used to international conflict, the market does not receive nearly the impact of other nations (Konwicki, 2018).

While the market is very used to terror and war, there are still some events that are too great to defend against. For example, the 2002 Netanya Passover attack resulted in a bombing of 28 Israeli civilians during Passover celebrations. The next day of trading saw decreases of 5.5% in the Tel Aviv stock indexes. The high magnitude of the event is reason enough for the negative impact and it is one of very few large market shifts the Tel Aviv market has seen (Konwicki, 2018). To get a real picture of the effects of war on the stock market in Israel, Konwicki (2008) looks at events in the years following 2002. The Lebanon war in 2006 caused similar reactions to the Passover attack dropping 3% but bouncing back positive in the following three days. The only difference in this case is that the stock market in Israel reached all-time highs in 2006 (Konwicki, 2018). Israel is a very resilient nation. They have seen conflict time and time again, so they know how to come back from the negative effects. Also, to be noticed in Konwicki's (2018) findings, Jerusalem and Israel have had much military conflict and have basically been at war with each other for years. In 2014, Israel was impacted by two terror attacks which have been a common strategy during the war. As a result of these attacks, the market had a 0.20% rise after the first attack and a 0.67% rise after the second attack (Konwicki, 2018). Trading on the Tel Aviv market was the same before and after these attacks. There was almost no movement which is insane to think about after seeing the huge effects war has had on other nation's markets. It seems as though Israel and possibly other Middle Eastern markets have become used to political conflicts like war. Findings by Peleg et al. (2011) help them conclude that Israel's stock market has "normalized" terror. While war has made many influential impacts on stock markets around the world, the Tel Aviv stock market has shown a different side to the spectrum in respects to the stock market. Israel has proven to be an anomaly among stock markets and it is clear that political events like war can have multiple forms of impact on the stock market.

Pandemic

COVID-19 has become one of the most influential global events within the last 10 years. COVID-19, also known as coronavirus, was discovered by China in December of 2019. According to the Centers for Disease Control and Prevention (2021), this disease can cause severe illness and even death. It can come in the form of mild systems for younger and healthier individuals, and the virus can be deadly when it comes to older people and people with pre-existing medical conditions. COVID-19 is said to be responsible for almost three million deaths worldwide according to the CDC (2021) and other respective government statistics trackers. When talking about COVID-19, the disease is not the first thing that comes to mind. The global pandemic is a whole other story compared to this virus. The pandemic has been a result of this virus and the world has seen many social, political, economic, and health problems. In this review, the focus will be on the political and economic aspects of the pandemic.

Politics in the Pandemic

Politics plays a huge role in the decisions made after an epidemic is announced. Leaders must make tough decisions, whether it is implementing the requirement to wear masks, shutting down the economy, or any other laws that would help the world get back to “normal.” When talking about the politics during a disease like this, Mykhalovskiy (2020) likes to refer to the politics of prevention. This basically means that political actions will be taken to prevent the disease from getting any worse. We recognize that a range of public health measures including physical distancing, isolation, quarantine, handwashing, wearing masks, the temporary closure of public spaces, testing, and contact tracing may be necessary to control the COVID-19 pandemic (Mykhalovskiy, 2020). These decisions are made for the protection of the citizens within their respective countries. Almost all of the world created rules and regulations for people to follow to help and mitigate the spread of the coronavirus.

In opposition to the previous idea, some leaders used their political decisions in the pandemic to gain more followers. This was the case for President Donald Trump. In the research of David Altheide (2020) he claims President Trump used the aspects of the pandemic to pursue attention-based politics. The president of the U.S. was more worried about gaining public exposure than preventing the spread of this disease. Much more could have been done to prevent this pandemic. As early as January of 2020 the World Health Organization gave warning of an emerging pandemic with this virus. In other words, the President responded saying the virus was nothing to worry about, it's “like the flu” (Altheide, 2020). This pandemic was known about, and the president did not take initiative to get ahead of the spread. The president continued to blow off the severity of this disease and his political decisions were completely opposite of other countries. “Dr. Ashish Jha, the Director of Harvard's Global Health Institute told BBC World News America on March 16, 2020, I would give them a 10 out of a hundred … By any objective measure the American response has been dramatically worse than everybody else” (Altheide, 2020, p.14). This a response to the rate of handling the virus in the U.S. Other countries had responded much better, and their cases showed for it. Politics is at play all around the world, especially in a global pandemic. These two outlooks on political decisions can cause major effects on the economy. As a result, the stock market can respond in different ways.

Stock Market Impact

Worldwide, the financial markets were affected by the pandemic. This section looks to understand the impacts on the stock market and the response as things may soon get better. The first idea to analyze is the announcement of the global pandemic by the World Health Organization. Liu et al. (2020) show that on the first day of the pandemic announcement 52 out of 77 countries’ stocks markets showed abnormal negative returns. The second day after, the number jumped to 71 and soon fell back down to 32. The whole world markets crashed with the announcement of the pandemic. 70 out of 77 countries saw their lowest return on March 9, 2020, two days before the announcement of the pandemic (Liu et al., 2020). Pandemic news was just in its beginning stages and these markets had already hit their lows for the entire year. The announcement had a huge effect on the stock market. With this all being said, another important aspect of the stock market reaction is the response after the dips in returns. The response of most countries was very slow. Fourteen countries have yet to bounce back from the negative returns after the announcement. This includes four developed countries' stock market containing Singapore, Cyprus, Oman, and Bahrain; five developing countries' stock market containing Bulgaria, Colombia, Serbia, Tunisia, and Mauritius; five undeveloped countries' stock market containing Jordan, Jamaica, Morocco, Kenya, and Cote d'Ivoire (Liu et al., 2020). These results indicate the announcement of the pandemic has hit stock markets hard. While for some countries the stock market has not recovered, most of the markets around the world have bounced back to pre-announcement levels (Liu et al., 2020). The announcement of the pandemic was a big influencer on the stock market, but that is not the only influence it has had on the markets.

The announcement was the first stage of the pandemic's effects. The second stage is the months of March through May of 2020. This is the beginning of political action taking place. Cutcu and Kilic (2020) look at 10 of the most commonly observed countries that have been affected by the pandemic (USA, Spain, Russia, Britain, Brazil, Italy, France, Germany, Turkey, and Iran). These top 10 countries are ones that began to take action at this time. Laws and regulations were beginning to be put in place and the market was responding. All 10 of these countries were either put into a form of lockdown or provided recommendations to close operations. As a result of these political decisions, analysts saw a response in the stock markets for these months. Some notable events displayed by Cutcu and Kilic (2020) show that when the break dates are analyzed, you can see very noticeable changes.

> It was observed that the decrease in death toll and financial measures caused the day with the highest return since the beginning of the pandemic in the USA; that Spanish markets experienced uneasiness due to the declaration of the infection of the vice prime minister; that Russia closed its borders; that the number of deaths

> in nursing homes in the UK was not added to the total death toll; that Brazil became one of the countries with the biggest number of deaths with the sudden increase in the number of cases and deaths; that the number of deaths increased once again in Italy with the decrease of measures; that the French prime minister announced harsher measures; that wearing masks was made compulsory in all the states of Germany; and that the number of discharged patients exceeded that of new cases for the first time in Turkey. (Cutcu and Kilic, 2020, p.218)

These important events are the reason for breakpoints. The breakpoints are classified as the changes in the market. Cutcu and Kilic (2020) determined that overall, the average breakpoints accounted for negative activity within the market. The pandemic has had many effects on the stock market. Economies have not completely rebounded from this tough event, but things are looking up. The pandemic has had negative effects on the stock market, but markets are recovering well. For example, the U.S. stock market is very close to pre-pandemic numbers. The pandemic may have been bad for the stock market, but the stock market has always stabilized back to its average prices. When trying to predict the market, a likely assumption is that when a global crisis occurs, the financial markets will not look so good.

Tax Cuts

Fiscal policy is the use of government spending and taxation in order to influence economic conditions. This section will focus on the tax decisions made by the government. Taxes are a way for the government to fund different activities and obligations. The biggest portion of government funding comes from the federal income tax. Along with federal income tax, individuals and corporations also pay taxes to the federal, state, and local governments. Based on my prior knowledge of economics, the government has been known to change tax rates in order to influence the economic condition. For example, if the economy is in a recession, the government will likely make decisions to lower taxes. On the other hand, if the economy is doing well, the government may impose more taxes to help with their funding. The majority of this section will look at the different tax cuts made and analyze the possible effects on the stock market.

The most recent tax act imposed by the government occurred in 2017 when the Trump administration signed the Tax Cuts and Jobs Act (TCJA) into law. According to Nemergu (2018), this tax act “decreased the corporate and individual tax rate, altered credits and deductions for businesses and individuals, and created a territorial system for corporations that have overseas earnings" (p. 49). At first glance, the decrease in corporate tax rate would serve as an indicator of an increase in future stock price. The corporate tax rate was lowered from 35% to 21%. This is a very material difference for a large corporation, saving them millions of dollars in taxes. Since these corporations would be paying less in taxes, they would be able to retain more of their earnings, which in theory would suggest an increase in stock price (Nemergu, 2018). While increased earnings does not directly affect the stock price, it will increase earnings per share which is a valuable ratio for investors. The expectation is that stock prices will react positively to the tax cuts, but some large corporations may not see positive effects.

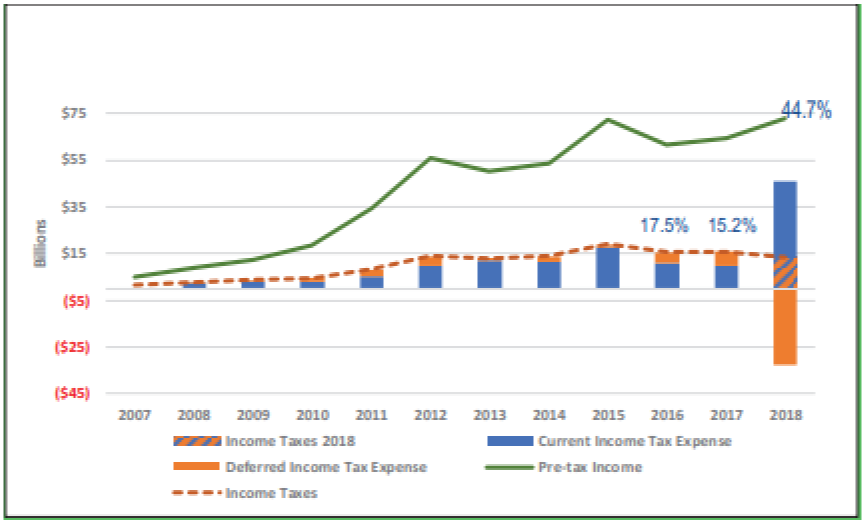
As stated before, the corporate tax rate decreased by 14 percentage points, but many corporations had an effective tax rate lower than 35% already. This is due to companies holding earnings in other countries with lower tax rates. This is the case for Johnson & Johnson who had an effective tax rate of 17% before the act was implemented (Nemergu, 2018). The tax act was focused on lowering taxes on earnings in the U.S. and increasing taxes on overseas earnings.

Kovacs and Roohani (2021) studied the effects of this new law on Apple Inc. Apple's offshore accounts totaled $250 billion in 2021, and as a result of the new tax act, they made a payment of $38 billion. This tax payment made up 15.5% of their offshore earnings (Kovacs and Roohani, 2021). Along with the 15.5% tax rate Apple paid on their overseas earnings, the corporation would still be subject to the corporate tax rate of 21%. The large cap corporations did not see much benefit from the Tax Cuts and Jobs Act. Big companies like Apple, make up a large portion of the S&P 500. Since these large companies have large amounts of revenue in accounts outside of the U.S., the tax cuts may not have a positive impact on the S&P 500.

Before the TCJA, U.S. companies were not required to pay taxes on foreign earnings. Now large companies will have to pay taxes on all foreign-generated earnings (Kovacs and Roohani, 2021). Using Apple Inc. as an example of the tax cut effects, figure 2 shows the effect of the TCJA on income tax expenses.From 2007 to 2017, Apple's taxes are similar from year to year. In 2018, after the TCJA, Apple's income tax expense increased by $46 billion, and the deferred tax liability decreased by $33 billion. The TCJA effectively required Apple to reclassify its deferred tax liabilities into taxes payable (Kovacs and Roohani, 2021). In previous years, Apple was able to defer their tax liabilities and ultimately never paid taxes on their foreign earnings. With the new tax act, Apple is now required to realize those deferred taxes as taxes payable which has resulted in a transfer of wealth from Apple shareholders to the U.S. treasury. This transfer resulted in a 5.1% decrease in Apple's $747.5 billion market value (Kovacs and Roohani, 2021). Based on these transfers, Apple's earnings in 2018 would be reduced based on the increased tax expense.

Figure 2

Apple's Pretax Income and Income Tax Components, 2007-2018



Note. This model shows the increases and decreases of Apple's taxes from 2007 to 2018. From "Did the Tax Cuts and Jobs Act Really Lower Corporate Taxes?" by Kovacs and Roohani, 2021, The CPA Journal, p. 45. Copyright by CPA Journal.

So, what happened to the stock market? As discussed before, Apple's earnings were reduced because of the reclassification of deferred tax assets required by the TCJA. Along with Apple, many other large companies within the S&P 500 saw their earnings decrease as well. Generally speaking, company stocks are affected negatively by reduced earnings. According to historical stock prices, the tax cuts may have had an effect on Apple's stock price. On the day the TCJA was announced, Apple stock price was down 4.5%, and in the following week after the announcement, the stock price was down another 2.4%. These changes in stock price could be due to the tax cuts. Overall, the stock price of Apple was not harmed in the long run as the company's stock increased by 21.9% in 2018. Apple's stock decreased in the short term, suggesting that it would be a good time to purchase stock shortly after a tax cut is announced. Since companies like Apple make up the S&P 500, the S&P 500 will follow a similar trend.

The stock price changes may not be the only indicator of the impact of tax cuts. The TCJA can have an effect on the monetary policy within the U.S. Shortly after the act was passed in 2017, the Federal Reserve increased the Federal Funds Rate. Nemergu (2018) states "This increase can have negative effects on the stock market as the cost of capital increases for businesses. The Act itself also has the ability to lead to higher interest rates" (p. 57). Lowering taxes can ultimately put the government into a deficit, therefore they must find another form of government funding. This is why they increased interest rates. As a result of the increased interest rates, the stock market may see negative effects. It will be more costly for businesses to borrow money which will hurt their earnings (Nemergu, 2018). While the tax cuts show positive results in the short term, the monetary policy effects may show negative returns in the market.

Other examples of the effects of tax cuts come from the tax acts during George W. Bush's presidency. President Bush signed the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA 2003, also known as Bush Tax Cut) and it was put into place in May of 2003. This tax cut lowered the personal tax rate on dividends from 38.1% to 15% (Vianna, 2017). This tax cut was specifically for dividend income received from owning a stock. At first glance, you would assume a tax decrease for earnings in the stock market would show positive results in stock market returns. Vianna (2017) researched the effects of this tax cut compared to a tax increase during Obama's presidency. In January of 2013, President Obama signed a tax act that increased the dividend tax rate from 15% to 20% (Vianna, 2017). Vianna (2017) analyzed the effects of both a tax cut and a tax increase, to provide evidence for which political decision is better for the stock market. Based on Vianna's (2017) findings, stock returns after Bush's tax cut were 75% greater than after the increase in taxes from the act in 2013. The results show that the tax cut increased dividend payments which resulted in positive stock returns. Investor's saw more value with the increased dividend payments, so they purchased more stock. The tax increase lowered dividend payments, which decreased the returns of the overall market. Vianna (2017) states in her research, “The insolvency variable shows larger and more significant coefficients in the stock repurchase regressions, which suggests that leveraged firms reacted strongly to the tax reforms by repurchasing stocks, especially in the Bush Tax Cut: +1.11 % per solvency ratio percentage (p. 461). Based on the insolvency tests, the Bush Tax Cut increased stock repurchases. An increase in share repurchases will increase the stock price and increase returns for the market. Overall, tax cuts have shown positive results for the stock market. While it may have some negative long-term effects, it has shown to be a good investment opportunity when a tax cut is implemented.

Discussion and Analysis

Political and world events have shown impacts on the economy, and the stock market has also seen those effects as well. Based on the literature for this topic, the results are differentiated by the event taking place. There are six specific types of events and decisions that serve as a good indicator of political effects. Political elections, the presidential impact, tariffs, war, the Pandemic, and tax cuts were the six topics examined for stock market impacts.

When looking at the impact of political elections on the stock market, the political party that was elected was the biggest influencer. Based on the literature for this topic, when a Democrat was elected as president, the stock market has shown negative effects. These negative effects have been primarily due to the jump risk associated with Democrats. Stock prices have shown to be more volatile when a Democrat is elected because unexpected news is more prevalent in Democratic elections. These jump risks explain the negative returns from Democrat elections in the past. Another influencer on the stock market was the 2000 election. This election resulted in negative returns for the stock market because the results were delayed for weeks. While there have been negative returns in the short term, the market has always corrected itself back to its normal averages. Therefore, when investing during a political election it can be assumed that the market will react negatively to a Democrat being elected, as well as when the results are postponed.

In my conclusion from the research presented, the political party does have an impact on the stock market. When looking back at the political party in office, the Democratic party has never had a president that ended with a negative stock return. The same cannot be said about the Republican party. While initial thoughts would say stock markets show better returns when a Democrat is president, it is not all cut and dry. President Clinton and Obama both began their presidencies in the perfect time for a market surge. President Obama began his term in the 2008 recession, which allowed for large returns when the market stabilized. On the other hand, every one of the Republican presidents discussed started their first term in some sort of economic hardship. Obama and Clinton may have seen the best results, but they were introduced into some of the best conditions. If you take away the two negative returns, it is possible to say that the Republicans are better for the stock market. For example, after Clinton and Obama, Eisenhower and Reagan were the next two highest market returns, both of which began their first terms in a recession. I think it is much more impressive that they were able to help a hurting economy into returning over 100% in the stock market. Both parties have shown good returns, but ultimately a Democratic president has never finished with a negative return. Therefore, historical data would suggest at least a small positive return when investing during a time when the Democratic party is in office.

Tariffs have also played a role in the stock returns of the S&P 500. The greatest example of the effects of tariffs comes from the tariff act of 1929. This act was put in place just before the stock market crash of 1929, but the market may not always react negatively. Tariffs can have very different effects on the market. As seen in the stock market crash in 1929 and possibly in 2019, the stock market could react poorly to tariffs. Things could also be looking up though. Predictions for a positive stock market year are coming along with the newly introduced tariffs on China. Tariffs play a big role in the stock market, and a cautious approach to investing would be advised when tariffs are involved with the stock market.

The stock market has generally moved in correlation with the economy. War has proven to be very influential on the economy, and past research has shown the same for the stock market. While war may impact the stock market, it varies for different parts of the world. For example, Middle Eastern markets have shown little to no effects, and U.S. and British markets have seen stock prices change during times of war. In U.S. markets, the main indicator of the market during war has been the economy. If the economy was struggling, like in the case of World War II, the stock market would follow a similar pattern. One interesting thing though, when the U.S. believed non-cooperative efforts were the solution to ending the war, the stock market produced positive returns. For British markets, the stock market has reacted negatively to war. In the beginning of World War II, the FT30 reached its all-time low for the year. With this being said, positive gains could be earned investing in a time of war in the U.K. War does not last forever, so buying during the lows will allow for large gains when the war is done in British markets. For Middle Eastern markets, there have been very little effects from war. Terror in the middle east is normalized, so their economy and stock markets do not show much change in a time of war.

COVID-19 has become one of the worst pandemics in world history. This pandemic has had negative effects all over the world. As the disease began to spread, many countries implemented regulations for lockdown. As a result, of these lockdowns, the economy and the stock market were affected negatively. The stock market realized negative returns for a couple of years, but the market has regained strength, specifically in the U.S. markets. Not only did the COVID-19 Pandemic affect U.S. markets, but the whole world saw effects. 70 out of the 77 markets worldwide saw their lowest returns just two days before the pandemic was announced. While it may have looked like a bad idea to invest in the stock market during this pandemic, stock prices were much lower than their normal averages. Investing in the stock market during times of distress can provide large gains in the long run as the market stabilizes. This pandemic hurt the economy and the stock market, but as I have come to realize the market will regain strength and provide good returns in the long run.

Fiscal policy is government policy to reduce or increase government spending and taxation to influence the economy. Tax cuts are a great way to make an impact on the economy. Since tax cuts generally affect the economy, we can assume it will show changes in the stock market. Based on the research provided, the most recent tax cuts implemented by the Tax Cuts and Jobs Act created negative returns in the short term. This tax cut actually increased the effective tax rates of many companies, which is why stock returns were down for big companies like Apple. In opposition to this tax cut, the tax cuts implemented during President George W. Bush actually increased stock prices. This is because the tax act decreased the tax rate down to 15% for dividend payments. As a result, investors were able to retain higher profits at this lowered tax rate. This tax cut was short lived, however. President Obama increased the dividend tax rate up to 20%, and the market saw negative results in the short. Over the long run, the stock market has continually shown positive trends, but for short term investments, paying attention to current events in politics could help predict the market.

Conclusion

Based on the literature on this topic, the stock market is impacted by many things on a political spectrum. Ideas like the presidential election, presidential impact, war, tariffs, and the pandemic have caused shifts in the stock markets. While not all of the shifts are noted in this review, a majority of the effects explained relate to the majority of other changes that have been discussed in other research. The U.S. is probably the most used stock market around the world and that has served as a main indicator for the overall effects on the stock market. Politics has shown to be very important in an economy. With the importance to the economy, politics plays a big role in the stock market. The stock market is the key indicator of the economy's well being for most countries. Therefore, the effects politics has on the economy has the same effect on the stock market. Political decisions and events have yielded both positive and negative returns, but for the most part it always has a form of impact. Politics and the stock market are important to each other, and the effects will help analysts and investors make important investment decisions based on the effects that result. When interpreting the market with respect to politics, we can conclude that negative political news generally influences the market negatively in the short term. This idea will help small-time investors like myself to use political information as a predictor to beat the market. Over the long term, the market has always had a tendency to produce positive returns, so politics had little influence over the long-term investor. For short term gains, analyzing political events can provide insight into good investment strategies. In the past, the stock market has been hard to predict in the short term, but maybe now we have a fighting chance at making large profits from predicting the market.

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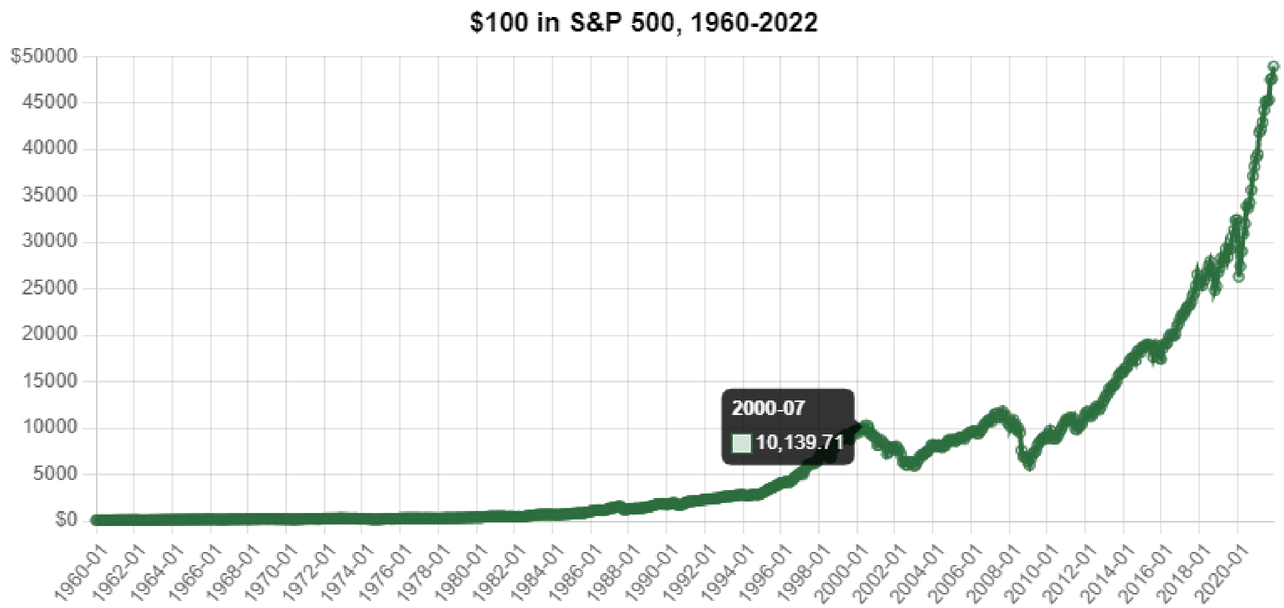
Appendix A

Figure 1.

S&P 500 Performance in the last 60 years.



Note. This model shows the value of $100 invested into the S&P 500 over the last 62 years.

From “S&P 500: $100 in 1960 → $46,783.22 in 2022” by Webster, 2022, officialdata.org.

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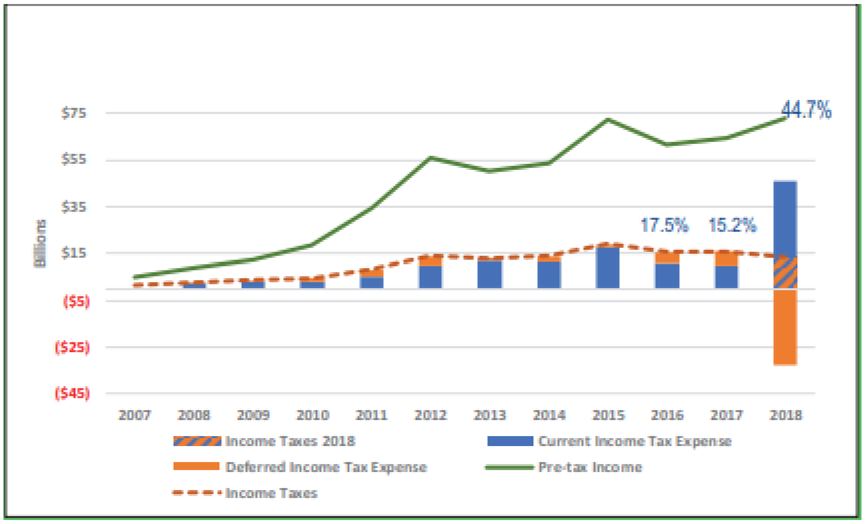
Figure 2

Apple's Pretax Income and Income Tax Components, 2007-2018



Note. This model shows the increases and decreases of Apple's taxes from 2007 to 2018. From "Did the Tax Cuts and Jobs Act Really Lower Corporate Taxes?" by Kovacs and Roohani, 2021, The CPA Journal, p. 45. Copyright by CPA Journal.