# “Republican rule”

Our Opinion
December 2024

Dear Readers

The article “Republican rule” discusses how markets have developed in the past, broken down by ruling party.

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We wish you a pleasant read.
Your Advisory Team

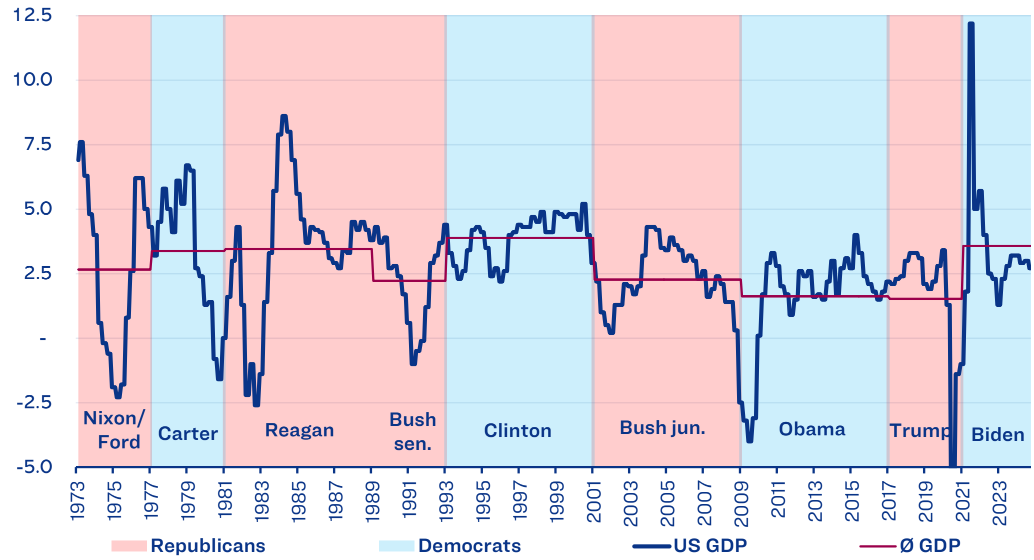
Neue
Bank

# “Republican rule”

## Economy

A common debate among political parties centres on which has greater economic expertise. It is often claimed that voting for the “wrong” party could prevent the economy from reaching its full potential. Following the Republican election victory, we examined how successful they and their opponents have been with regard to the financial markets during past administrations and whether any conclusions can be drawn.

Economic development under different administrations




Source: Bloomberg, Neue Bank AG

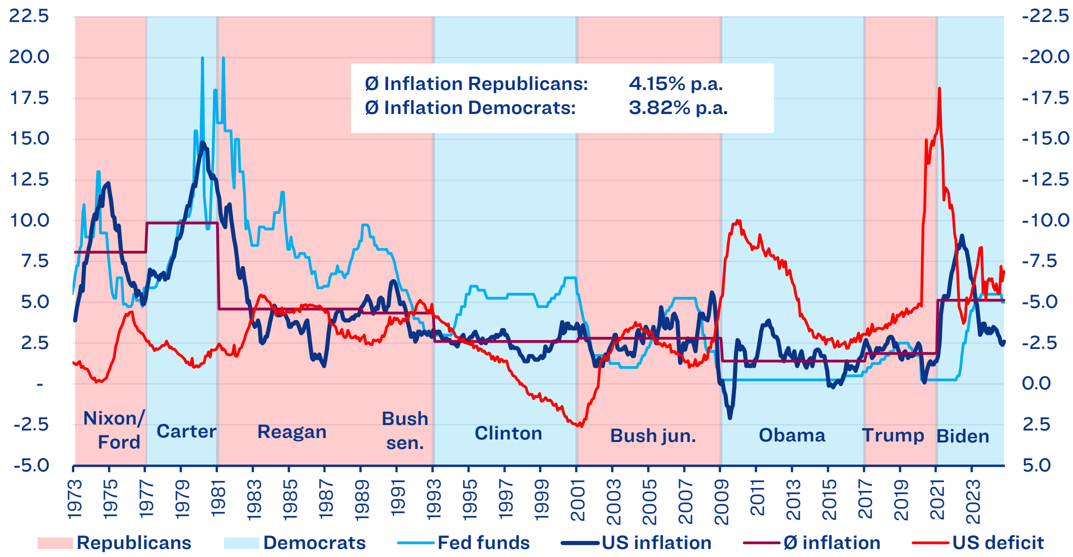
The first aspect we examined was the economic cycle, specifically the growth rates over the past 50 years or so. Over the entire examined period, Democrats performed slightly better, achieving an average annual growth rate of nearly 3%, compared to just over 2.5% under Republican presidencies. The president under whom the smallest economic expansion was recorded was Donald Trump. During his first term, GDP growth was underwhelming, with an average annual rate of only 1.52%. His misfortune was the outbreak of the covid pandemic at the end of his term, which caused a severe economic downturn. Joe Biden’s administration, by contrast, benefited from economies of scale and posted the highest economic expansion of this millennium to date, with an average annual growth rate of 3.58%.

This example illustrates how strongly economic trends can depend on exogenous factors and not solely on the current government. Of the seven recessions during the period examined, five originated under the Grand Old Party and only two during Democratic administrations. Naturally, the opposition party in each case tends to assign blame to the governing party. Fundamentally, however, recessions are a normal part of the economic cycle, occurring repeatedly and often unexpectedly. Governments (through fiscal policy) and central banks (through monetary policy) aim to soften economic downturns through targeted measures. The economic trends observed above under different administrations make it clear that it is impossible to draw definitive conclusions about the development of the next four years.

## Bonds

Maintaining price stability is primarily the responsibility of the central bank, but government spending policies can also impact inflation and, consequently, yields. For this reason, we have included both the key interest rates (Fed funds, light blue) and the US deficit (as a percentage of GDP, red, inverted) in the chart below:

**Inflation trend**

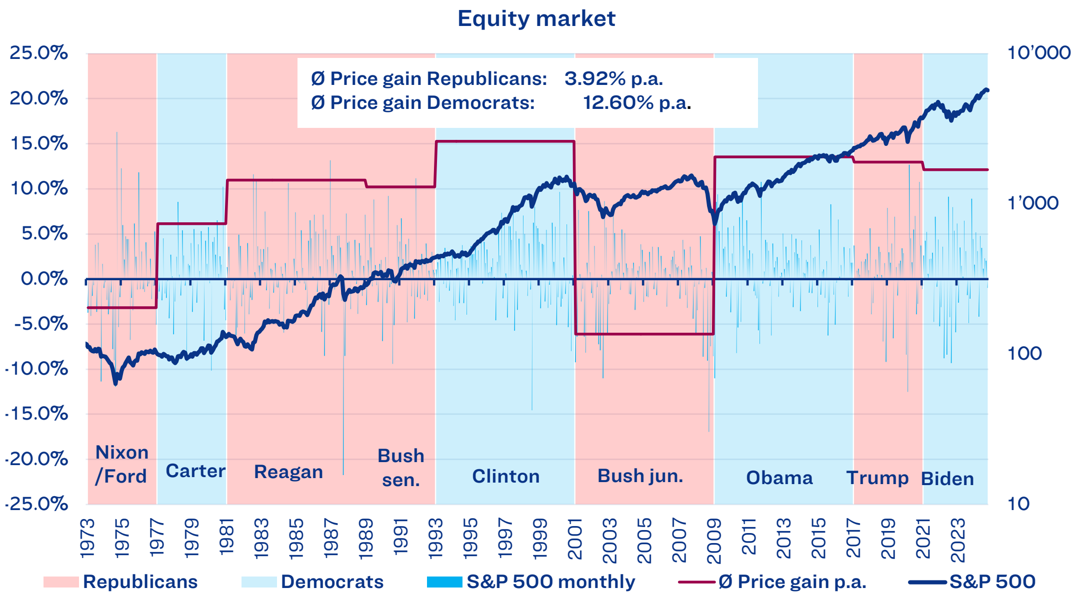



Source: Bloomberg, Neue Bank AG

Notably, Bill Clinton was the only president in the last 50 years to achieve a budget surplus. Debt levels increased most significantly during the efforts to combat the financial crisis and the covid pandemic. Broadly speaking, these large shifts were again driven by the circumstances of the time. Republicans are generally known for cutting taxes, which reduces revenue, while Democrats are associated with increasing spending. Both approaches are intended to stimulate the economy. However, regardless of the approach, the deficit should remain within reasonable bounds over time. This has largely not been the case, particularly since 2008, with total debt rising to an unhealthy level relative to economic output, from approximately 60% to around 120% today. The chart above also highlights that, in addition to the supply chain disruptions during the pandemic, the extremely expansionary fiscal policy and a monetary policy that became restrictive only belatedly contributed to the sharp rise in inflation. Donald Trump now plans to cut taxes, raise tariffs, and has enlisted Elon Musk to help reduce spending. Financial markets have recently reacted with scepticism regarding whether the rising debt can be controlled, and yields on US government bonds have been climbing again.

## Equities

Looking only at the past 50 years, equity markets have performed better under Democratic administrations. There has not been a single legislative period during which the equity market declined under their rule.



Source: Bloomberg, Neue Bank AG

The picture is different for Republicans, where both the split Nixon/Ford era (Richard Nixon resigned in August 1974 to avoid impeachment) and George W. Bush's presidency ended with negative equity market performance. Does this mean one should now exit the equity market? We

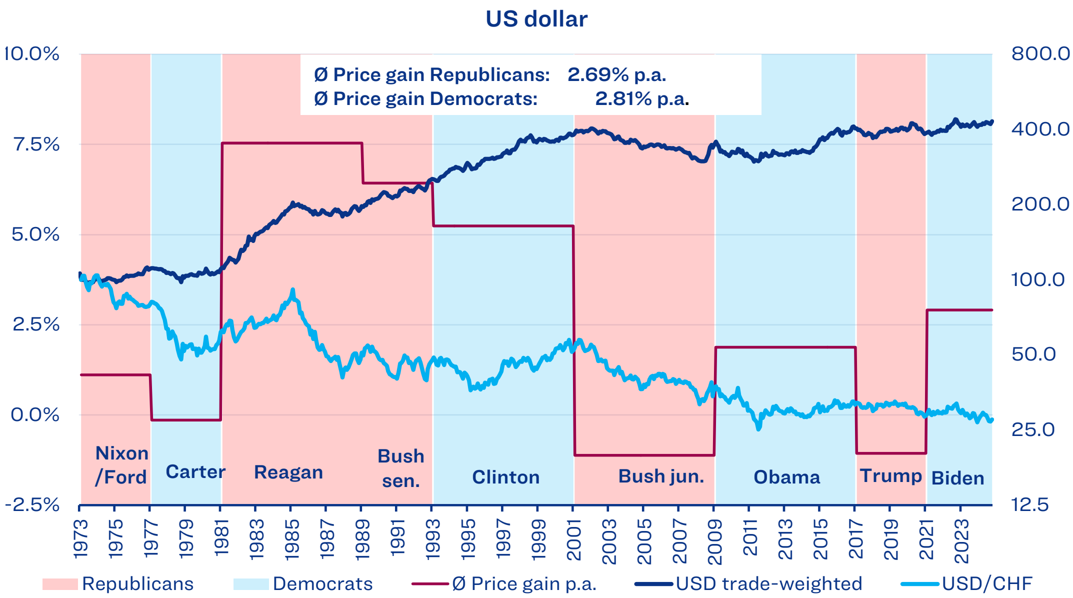
**Neue Bank traffic light**

- strongly bearish
- bearish
- neutral
- slightly bullish
- bullish
- strongly bullish

answer this with a clear no. After all, the other three Republican presidents achieved share price gains exceeding 10% per year during their terms, including the former and newly elected president, Donald Trump. While we cannot entirely rule out a market correction over the next four years, staying on the sidelines comes with the risk of missing out on equity gains. Regardless of which party is in power, the chart clearly demonstrates that equities have delivered long-term gains.

## Currencies

For investors thinking in Swiss francs, the US dollar may not appear particularly stable, as its exchange rate has lost nearly 75% of its value over the past 50 years (see indexed USD/CHF exchange rate). However, when viewed through the trade-weighted USD index, it becomes clear that the USD is, in fact, a stable currency:



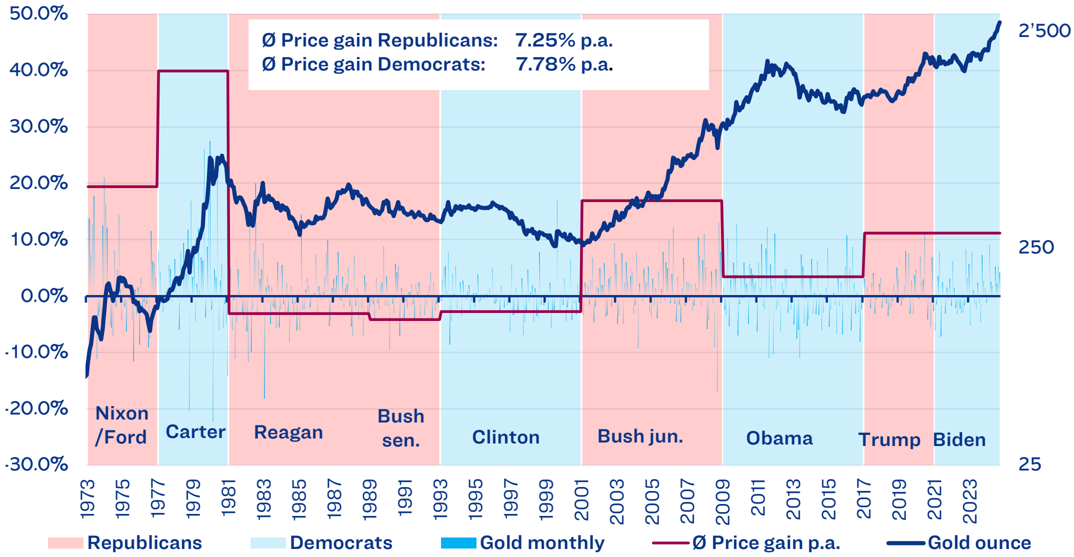
Source: Bloomberg, Neue Bank AG

The average price gains, broken down by party, show no significant differences. The USD saw notable gains in the 1980s and 1990s under varying presidencies. For the remainder of the period, trends were less pronounced. As such, the past does not provide a basis for predicting future performance.

## Alternative investments

Richard Nixon had the most significant impact on the gold price shown in the chart below when he ended the US dollar's peg to gold in 1971. Until that point, under the Bretton Woods system established in 1944, an ounce of gold could be obtained at the fixed price of USD 35.00. Since then, the United States has been able to expand its money supply without the need to back it with gold reserves.

**Development of ounce of gold**




Source: Bloomberg, Neue Bank AG

As shown in the chart above, the price of an ounce of gold rose most sharply in the 1970s following the abolition of the gold price peg, even climbing by nearly 40% per year during Jimmy Carter's presidency. This was followed by two decades of consolidation before the start of another "golden" decade in the early 2000s. However, no discernible pattern emerges based on the governing party, making it impossible to draw any conclusions for the next four years.

# PRIMUS–PASSIVE

For anyone wishing to make a long-term investment according to strategic principles and be fully invested when the equity markets rise again, we recommend the PRIMUS-PASSIVE asset management mandate. Under this mandate, we use strategic asset allocation to invest the available assets in cost-effective index products. We would be pleased to discuss the special characteristics of this innovative solution with you in person. We look forward to your call.

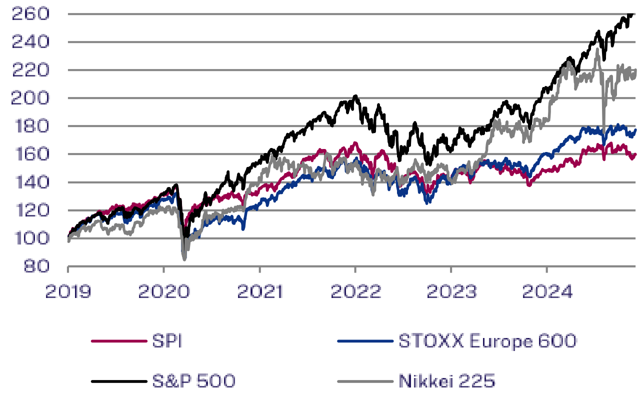
### Key Performance Indicator PRIMUS–PASSIVE Balanced EUR[1]

| | 30.11.2024 | 2023 | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|---|
| **PRIMUS-PASSIVE Balanced EUR** | 10.22 % | 10.83 % | -12.90 % | 13.76 % | 1.56 % | 17.05 % |
| **Benchmark** | 10.22 % | 10.68 % | -12.28 % | 13.37 % | 1.63 % | 15.61 % |

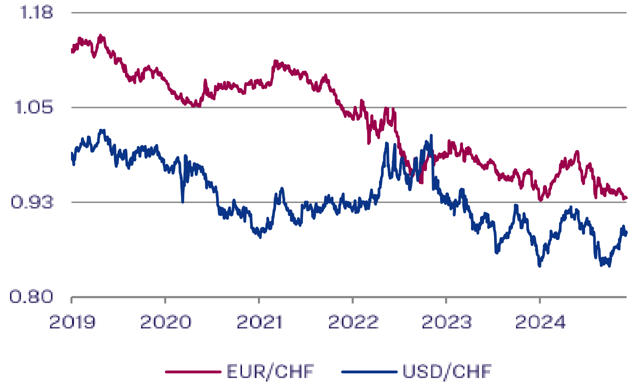
[1] Past performance is not an indicator of future performance and offers no guarantee of success in the future. The presentation of performance is gross without taking into account your individual tax liability. The net performance is lower due to fees. You can also find Our Opinion on our website: www.neuebankag.li S.E.& O.

# Market data

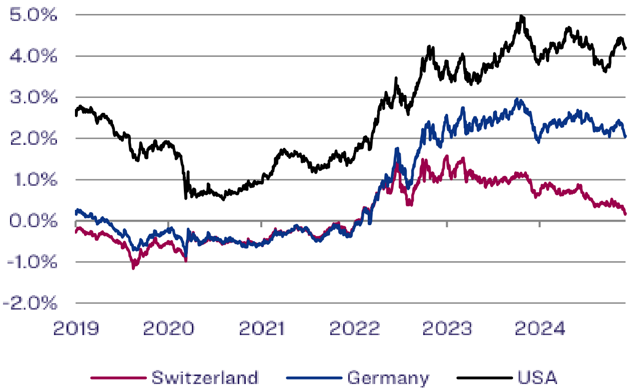
### Stock market (indexed)



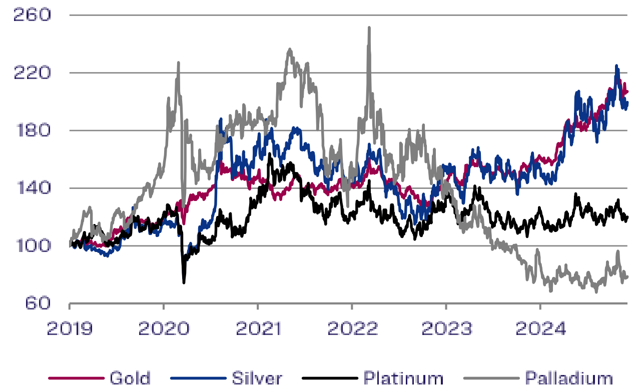

### EUR/CHF and USD/CHF



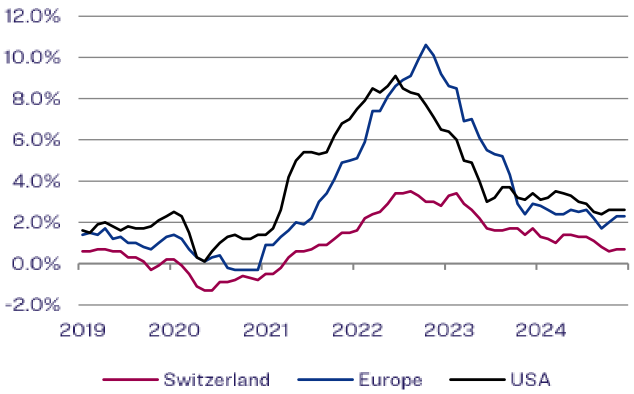

### 10-year government bond yield



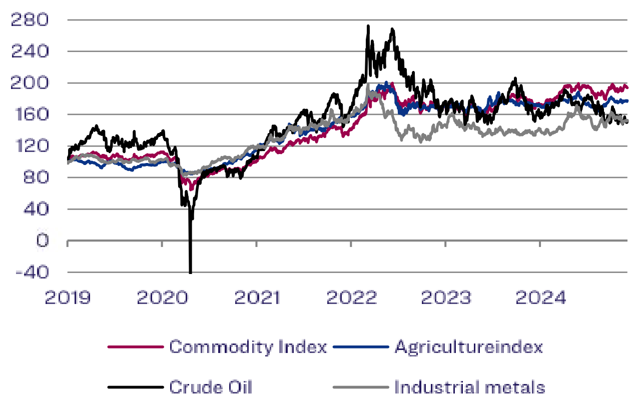

### Precious metals (indexed)




### Inflation rate




### Raw materials (indexed)




The price developments are shown over 5 years.

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