

Partisan Conflict and Market Volatility

✘ Even with last weekend's government shutdown, no agreed-upon budget and yet another debt ceiling increase needed, the major U.S. indexes continued to set record highs. While Mr. Market's ongoing calm mood may seem paradoxical given what's happening inside of the Beltway, **one study** suggests it is normal for volatility to be low.



The study's authors (Rangan Gupta et. al) analyzed the S&P 500 index's volatility in relation to partisan conflict over the period of January 1981, through April 2017. Partisan conflict was measured by tabulating the number of headlines referring to political disagreement among U.S. politicians. The headlines were pulled from The Washington Post, The New York Times, the Los Angeles Times, the Chicago Tribune, and The Wall Street Journal. Volatility was measured using a statistical analysis of fluctuations in the S&P 500's returns.

Gupta and his co-authors found the negative impact of partisan conflict on relative volatility "is more pronounced when the former increases from an initial value moderately below or above the median, with [the S&P 500's volatility] being lower than its normal state." One reason why this would be the case is the inverse impact that higher partisan conflict has on economic policy uncertainty. The more politicians disagree with each other, the less likely they are to push through legislation affecting the economy. The study's authors further suggest that partisan conflict "at least causes market agents to perceive a possible reduction in economic policy uncertainty, and, hence, a fall in market volatility."

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 - [For Mutual Funds, Competition Doesn't Mean Lower Fees](#) - Domestic equity funds operating in more competitive market segments charge more than funds operating in less competitive segments.
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AAll Sentiment Survey

Optimism fell back into its typical historical range for the first time since mid-December. [More about this week's results.](#)

This week's results:

- Bullish: 45.5%, down 8.7 points
- Neutral: 30.5%, up 6.0 points
- Bearish: 24%, up 2.6 points

Historical averages:

- Bullish: 38.5%
- Neutral: 31.0%

- Bearish: 30.5%

Take the [Sentiment Survey](#).

What's Trending on AAI

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The Week Ahead

It's going to be a busy week for earnings with 123 members of the S&P 500 scheduled to report. Included in this group are 10 Dow components: Pfizer Inc. (**PFE**) and McDonald's Corp. (**MCD**) on Tuesday; Microsoft Corp. (**MSFT**) and Boeing Co. (**BA**) on Wednesday; DowDuPont Inc. (**DWDP**), Visa Inc. (**V**) and Apple Inc. (**AAPL**) on Thursday; and Merck & Co. Inc. (**MRK**), Chevron Corp. (**CVX**) and Exxon Mobil Corp. (**XOM**) on Friday.

The Federal Open Market Committee will hold a two-day meeting starting on Tuesday. It will be the last meeting with Janet Yellen serving as the chair. The meeting statement will be released on Wednesday around 2:00 p.m. ET. No change in rates is expected.

The week's first economic report will be December personal income and spending, released on Monday. The November Case-Shiller home price index and the Conference Board's January consumer confidence survey will be released on Tuesday. Wednesday will feature the January ADP employment report, January Chicago purchasing managers' index (PMI) and the December pending home sales index. January motor vehicle sales, preliminary fourth-quarter productivity, the January PMI manufacturing index, the ISM's January manufacturing index and December construction spending will be released on Thursday. On Friday, January jobs data—including the changes in nonfarm payrolls and the unemployment rate—plus the University of Michigan's final January consumer sentiment survey and December factory orders will be released.

San Francisco president John Williams, who will speak on Friday, is the only Federal Reserve official scheduled to make a public appearance.

Local Chapter Meetings

AII Local Chapter Meetings offer you a variety of presentations from expert speakers who will give you their view on the world of investing. A bonus of attending a Chapter Meeting near you is the opportunity to meet other AII members who share your interest and enthusiasm for investing. You can even share the Chapter experience with your family and friends by inviting them to attend Chapter Meetings with you!

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