How Have Presidential Elections Impacted Biotechnology Stocks?

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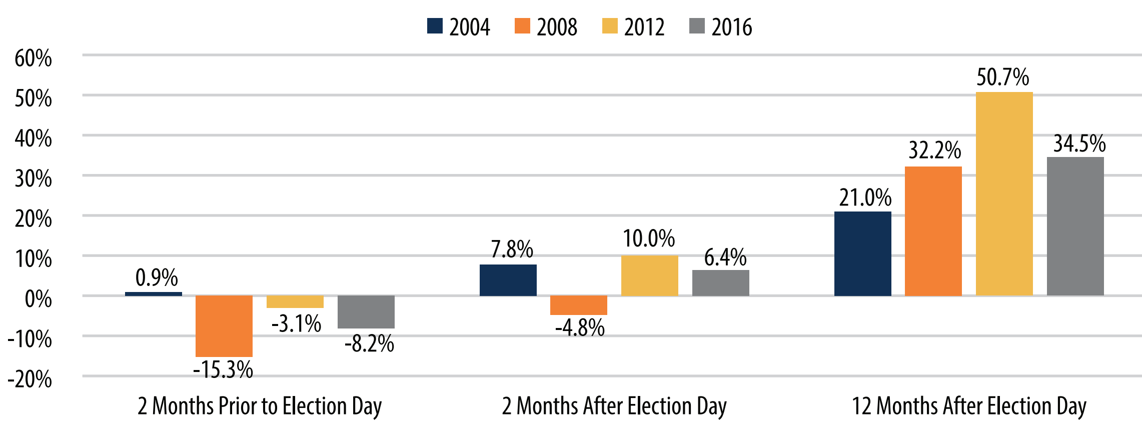
Biotechnology stocks had a stellar start to 2020, showing great resilience as investors pinned their hopes on the industry to produce new COVID-19 vaccines and therapeutics. As we discussed earlier this year, the pandemic may also bring about important long-term benefits for the industry, including more efficient regulation, increased mergers and acquisitions (M&A) activity, and an improved public image.

However, since peaking on July 20th, the NYSE Arca Biotechnology Index has declined by 12.7%, while the S&P 500 Index has advanced by 8.7% (through 9/1/20). While there are many possible explanations for biotech's recent underperformance, I believe one important factor is the upcoming presidential election. Rising health care costs in the U.S. have been a go-to wedge issue for Democratic party candidates in election campaigns, especially over the past two decades (Affordable Care Act passed in 2010). But if history repeats, this pullback may represent an attractive buying opportunity.

During the last four presidential elections (2004, 2008, 2012, and 2016), biotechnology stocks performed poorly heading into election day. On average, the NYSE Arca Biotechnology Index had a -6.4% return during the prior 2 months (see chart below). However, biotech stocks also rebounded nicely following these elections, regardless of which candidate was elected. While Democratic and Republican presidential candidates split these four elections evenly, the average return 2 months after election day was 4.9%, and the average return 12 months after election day was 34.6%.

The link between biotech stocks and politics is nothing new, and recent weakness substantiates that point. But investors that can look past election day—or take advantage of weakness leading up to it—may be rewarded.

NYSE Arca Biotechnology Index Performance Before and After Election Day



Source: Bloomberg. For illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions or other expenses incurred when investing. These total returns were the result of certain market events that may not be repeated in the future.
Past Performance is no guarantee of future results.