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CAN THE STOCK MARKET PREDICT ELECTIONS BETTER THAN THE POLLS?

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ABSTRACT

The ability to accurately predict the outcome of the U.S. presidential election has long fascinated journalists and scientists and many theories have been proposed as a solution. This paper pits financial industry returns and factor analysis of both economic and non-economic variables against the well-respected Gallup Poll in predicting the outcome of elections prior to a presidential election cycle. The results show that while a large index like the S&P 500 has no predictive power, certain industries do yield p-values that are superior to the Gallup Poll at six and three month intervals prior to the election. Factor analysis also shows that, while certain observable financial, economic, and non-economic variables are important to voters prior to three weeks out from the election, a regime shift in the closing phases of an election changes what variables and industry returns are important to the final outcome.

Keywords: *stock market, finance, Gallup Poll*