



October 2021

REPUBLICANS VS DEMOCRATS: AN ANALYSIS OF POLITICAL CONTRIBUTIONS AND STOCK PERFORMANCE

GOODS UNITE US



Prepared by:
Ian Woods, Analyst
Lindsey Umberger, Lead Researcher
Ben Johnson, Data Intern

Introduction

For decades, the Republican Party has claimed to be the party of financial responsibility and economic growth. Indeed, it still touts itself as being pro-business.

But do Republican ideologies and policies actually lead to better business performance?

Are the companies that support Republicans actually better off for doing so?

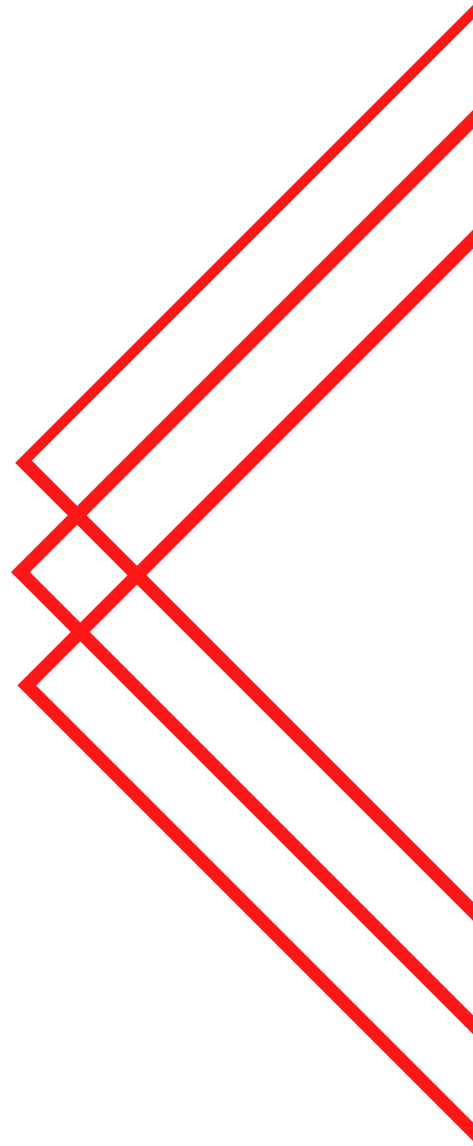
And similarly, do companies that are run by Republican-leaning executives have better overall corporate performance?

This study aims to shed some light on these questions. And the results might surprise you.

While there's no way to know how executives at companies are actually voting at the ballot box, we believe by analyzing a company's and its senior executives' political contribution data, we can determine which companies have Republican values and are likely run by Republicans. (And vice versa.)

Using Goods Unite Us' political contribution data, this study examines whether companies that have supported Republican politicians and organizations - and been run by Republican-leaning executives - have achieved superior stock performance over the last five years relative to their Democratic counterparts.

To our knowledge, this is the first study of its kind.



Summary of Results

Our methodology was simple. We split the S&P 500 companies into two groups: a Republican group comprising companies that have contributed more to Republican politicians and PACs than to Democrats over the last three federal election cycles; and a Democratic group comprising the companies that have contributed more to Democrats than Republicans.

We then analyzed each group's stock performance over the last five years using both an equal weighting and a market cap weighting methodology.

The results were unequivocal. The Democratic companies significantly outperformed the Republican companies in total and in four out of the five individual years on an annualized basis, sometimes by a wide margin. The Democratic group also outperformed the entire S&P 500 over the same five year term on a market cap basis. The Republican group did not.

Had one invested \$1,000 on the first trading day in January 2016 into both the Democratic and Republican groups of companies on a market cap basis, the Democratic group would have outperformed the Republican group by more than 8% per year. The Democratic group would have yielded an 18.4% average annual return compared to 10.3% for the Republican group. The entire S&P 500 (SPY) had an average annual return over the same period of 12.7%.

Similarly, even if an investor had invested \$1,000 into both groups on the first trading day in January 2016 on an equal weighted basis, the Democratic group would have still outperformed the Republican group by more than 5% per year (19.1% annually v. 14.0% annually).

¹ The S&P 500 includes the largest publicly traded companies in the U.S.

Data Sources

The data we used for this analysis came from three sources: Goods Unite Us, Bloomberg, and YahooFinance.

Goods Unite Us provided political contribution data for the S&P 500 companies. This data includes contributions to politicians and PACs by each corporation and its senior executives.² The data was aggregated over the prior three federal election cycles.³

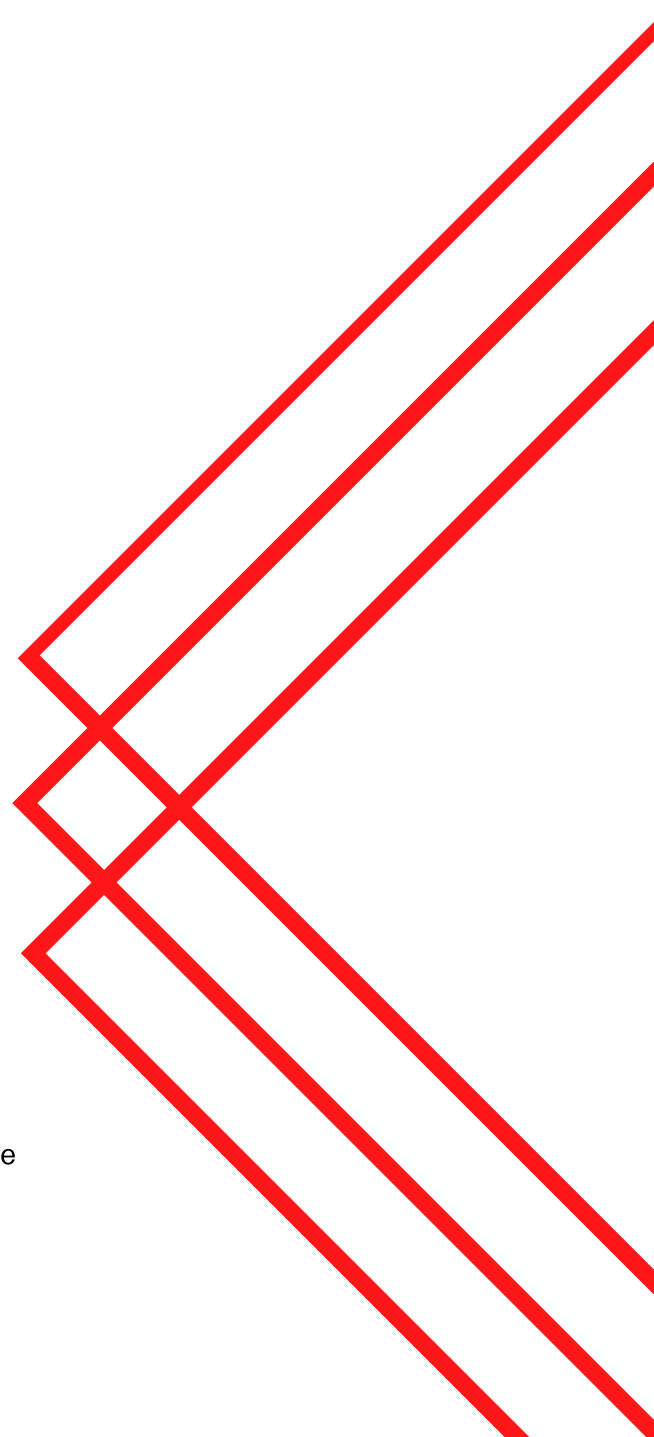
Bloomberg and YahooFinance supplied the market capitalization and equity performance data. The market capitalization of the groups was determined based on the market capitalization at the time of the assumed investment (i.e., the first trading day in January 2016 at market open).⁴

Our entire data set is available for download on the Studies page on our website.

² Executives are defined as anyone at the level of Executive Vice President or higher who gave at least \$1,000.

³ 2016, 2018, and 2020.

⁴ Several companies were left out of the final analysis, either because they didn't exist for the full 5 year period or simply made no donations.



The Indices

Using the political contribution data, we split the companies into two groups - Republican or Democratic - based on each company's political contribution history.

The companies were assigned to a group based on the aggregate contributions made by their senior executives and PACs for the prior three federal election cycles. For example, if 50% or more of a company's total contributions over the time period were donated to Democratic PACs and candidates, the company was placed into the Democratic group, and vice versa.

In the event the donations went to an unaffiliated PAC, we considered which candidates and PACs it supported; in essence, we tracked the donations until they were spent in support of a candidate or party.

The Republican group consists of 275 companies. The Democratic group consists of 211 companies. (Only 4 companies contributed to neither party, and no company contributed equally to both. In addition, companies that have been removed from the S&P 500 over the relevant time period were not considered.)

Based on these partisan categories, we then created two new indices, a Democratic index and Republican index, to track the stock performance of the companies in each.

These indices were compared to the largest ETF in the world, the SPDR S&P 500 Trust ETF, which is designed to track the S&P 500 index as a whole (ticker: SPY).

Results

The Democratic group outperformed the Republican group.

Ten comparisons were made between the two indices (Republican vs. Democratic).

The comparisons looked at each of the five years between 2016 and 2020.

The first set of comparisons equally weighted the stocks.⁵ The second set of comparisons weighted the stocks based on their market capitalization.⁶

In four out of five years, the results were the same⁷ -- the Democratic group outperformed the Republican group. The one instance where the Republican group slightly outperformed the Democratic group was in 2016 under both weighting methodologies.

Notably, the Democratic outperformance grew in magnitude when weighting the companies by market cap. According to the analysis, had one invested \$1,000 on the first trading day in January 2016 into both the Democratic and Republican groups of companies on a market cap basis, the Democratic group would have outperformed the Republican group by more than 8% per year. The Democratic group would have yielded an 18.4% average annual return compared to 10.3% for the Republican group. The entire S&P 500 (SPY) had an average annual return over the same period of 12.7%.

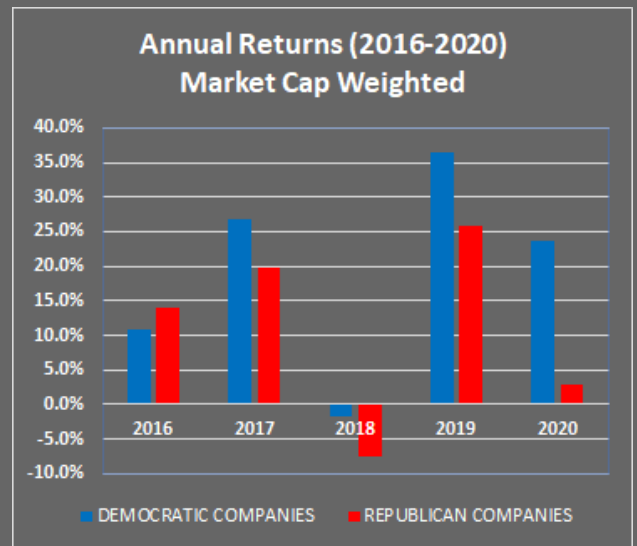
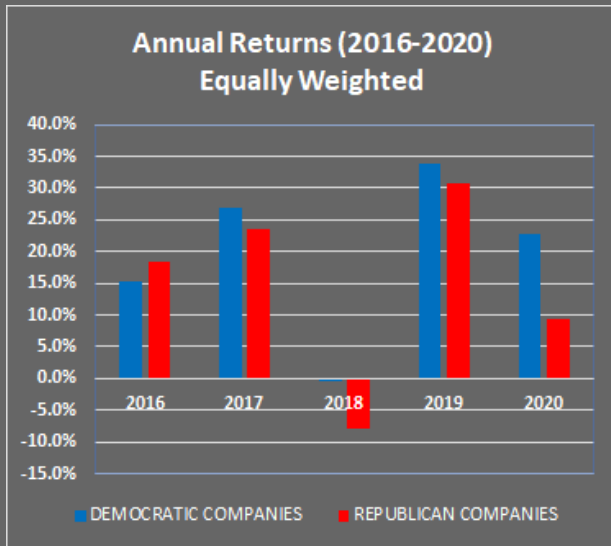
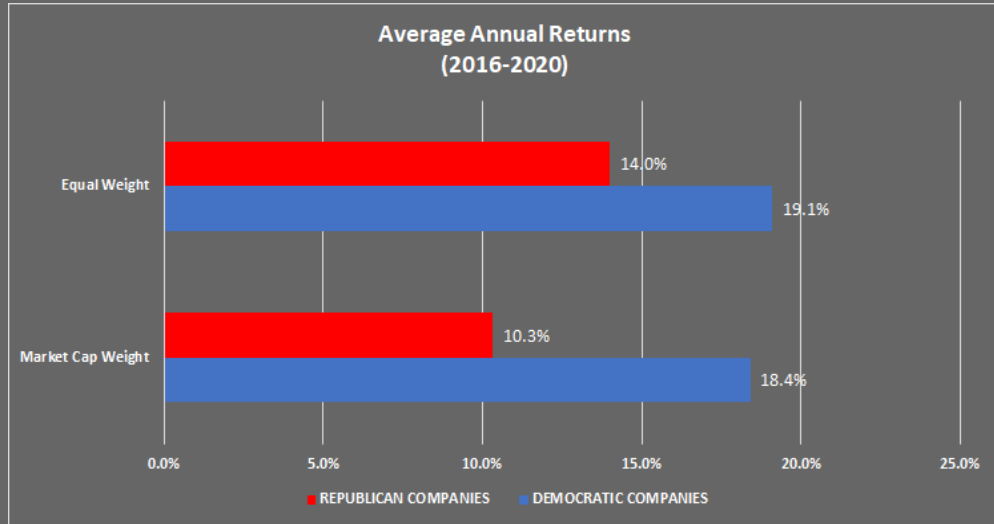
Similarly, even if an investor had invested \$1,000 on the first trading day in January 2016 on an equal weighted basis into the two groups, the Democratic group would have still outperformed the Republican group by more than 5% per year (19.1% annually v. 14.0% annually).

⁵ Five in total.

⁶ Again, five in total.

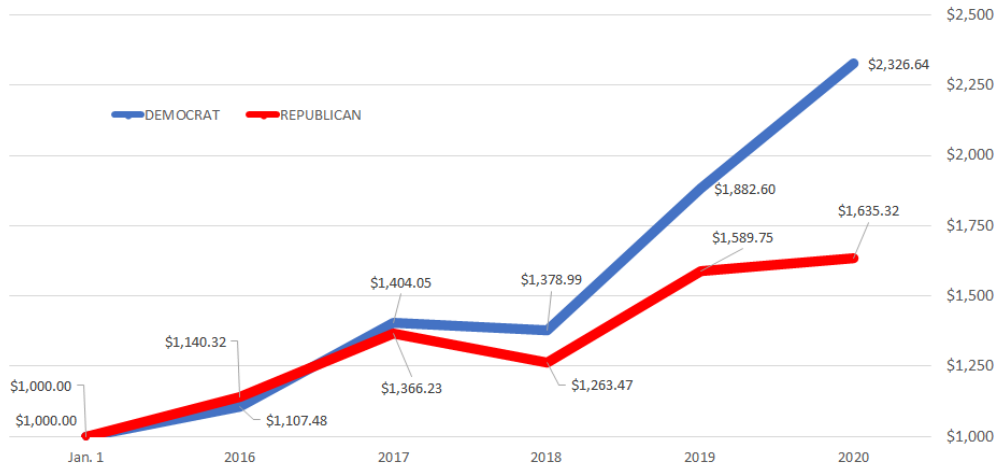
⁷ Varying only by degree.

Charts

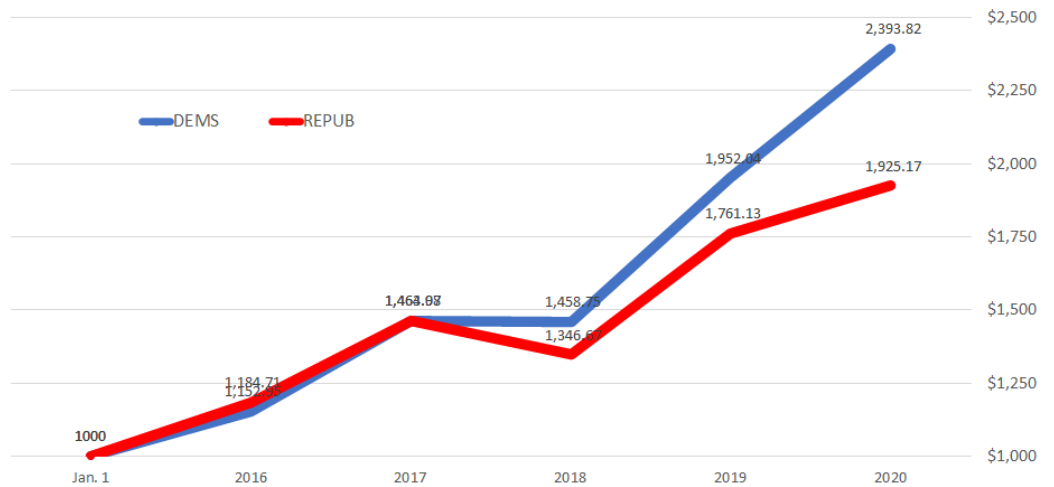


Growth of \$1000

Market Cap Weight Return On \$1,000 Investment In 2016



Equal Weight Return On \$1,000 Investment In 2016



Conclusion

Over the last five years, companies that have contributed more to Democrats than to Republicans have outperformed those that don't. They've also outperformed the entire S&P 500.

This observation was present regardless of weighting.

Further research is required to determine which industries are responsible for these differences, whether PAC donations or executive contributions have more effect on the pattern, and how far back this pattern persists.

Additionally, since companies might change donations based on which party is in power or expected to be in power soon, a future study using contribution data organized by election cycle would be informative.

