Politics and Liquidity

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Abstract

The equity market is more liquid under Democratic than Republican presidencies. This is apparent at the market level but is stronger in small, value stocks and in industries that are more sensitive to Democratic presidents. The effect is robust to different liquidity measures and time periods. It holds after controlling for the business cycle, macroeconomic variables, and the party with House of Representatives and Senate majorities. There is evidence that the liquidity effect is driven by a number of channels. Information asymmetry, volatility, and economic policy uncertainty are all lower during Democratic presidencies.

JEL Classification Codes: G11, G14

Keywords: Liquidity, Politics, Information Asymmetry, Economic Policy Uncertainty

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Abstract

The equity market is more liquid under Democratic than Republican presidencies. This is apparent at the market level but is stronger in small, value stocks and in industries that are more sensitive to Democratic presidents. The effect is robust to different liquidity measures and time periods. It holds after controlling for the business cycle, macroeconomic variables, and the party with House of Representatives and Senate majorities. There is evidence that the liquidity effect is driven by a number of channels. Information asymmetry, volatility, and economic policy uncertainty are all lower during Democratic presidencies.

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1. Introduction

The performance of the U.S. economy and equity market differs depending on whether the U.S. president is a Democrat or a Republican. Blinder and Watson (2016) find the economy has grown faster when Democratic presidents have been in power, while Santa-Clara and Valkanov (2003) show the equity market has experienced larger returns under Democrats. We investigate the hitherto unanswered question of whether there is a link between politics and equity market liquidity.

Liquidity is an important aspect of financial markets and, as such, is an area of focus for researchers, investors, and regulators. There have been many advances in research into liquidity in recent times. For example, Chordia, Roll, and Subrahmanyam (2000) and Hasbrouck and Seppi (2001) find liquidity does not influence stocks in isolation, but rather, it has a common component. Brunnermeier and Pedersen (2009) suggest liquidity "dry ups" play an important role in financial crises, while Naes, Skjeltorp, Ødegaard (2011) find a strong relation between liquidity and the business cycle in general, with liquidity being lower in economic downturns.

But is there any reason to expect a relation between politics and liquidity? There are at least two channels through which this relation could occur. First, there is the asymmetric information route. If investors are more concerned about the risks of trading against those with superior information when one party holds the presidency, due to, for instance, different levels of focus on the regulation of financial markets, then liquidity can be expected to be lower during the terms of presidents from that party. Second, Ball, Nagar, and Schoenfeld (2016) show that uncertainty regarding government economic policy can result in a deterioration in liquidity; thus,

if there tends to be more uncertainty under the presidency of one particular party, this can be expected to have an impact on liquidity.

Our paper contributes to the literature that documents the impact of politics on financial markets. Santa-Clara and Valkanov (2003) show the value-weighted (equal-weighted) equity market excess return is 9% (16%) higher under Democratic presidents. Addoum and Kumar (2016) show changes in the party in power are associated with changes in the composition of investor portfolios and this generates predictable patterns in returns. Cooper, Gulen, and Ovtchinnikov (2010) find the level of firm-level contributions to political campaigns is positively associated with future stock returns. Goldman, Rocholl, and So (2009) show the appointment of a politically connected board member generates abnormal stock returns, and the Republican victory in the 2000 presidential election resulted in Republican- (Democratic-) linked firms increasing (decreasing) in value. Finally, Di Giuli and Kostovetsky (2014) find firms with Democrat rather than Republican founders, CEOs, and directors, along with those headquartered in Democratic states have higher corporate social responsibility (CSR) rankings.

Our results indicate consistent evidence of higher liquidity under Democratic presidents. Our core analysis is based on the Amihud (2002) illiquidity measure, but it is also evident when the high–low proxy from Corwin and Schultz (2012) and the Pástor–Stambaugh (2003) share turnover (e.g., Datar, Naik, and Radcliffe, 1998) measures are used. This result holds in the full sample (1926–2015) period and in two subperiods. The finding of a liquidity premium under Democratic presidents holds in stocks of all sizes and book-to-market quintiles, but is strongest in small and value stocks. Naes, Skjeltorp, and Ødegaard (2011) show stock market liquidity is tied to the business cycle, with liquidity lower during economic downturns. Given this finding and the Blinder and Watson (2016) result of stronger economic growth under Democratic

presidents, we control for the business cycle to ensure the politics–liquidity link is distinct to the business cycle effect; we find it is. Our result is also robust to controlling for a range of macroeconomic variables.

We also investigate whether the partisan differences in liquidity are more strongly related to the party controlling the House or the Senate rather than the party holding the presidency; we find they are not. The finding that the presidency is more influential is consistent with Blinder and Watson (2016), who show that variation in GDP growth is more strongly associated with changes in the party holding the presidency rather than Congress.

We find evidence that asymmetric information plays a role in explaining the higher liquidity under Democratic presidents. We apply the method of Llorente, Michaely, Saar, and Wang (2002), which measures informed trading based on the cross-sectional variation in the relation between volume and return autocorrelation. This shows asymmetric information is, on average, lower under Democratic presidents. Gilder and Westheide (2016) suggest there is a link between idiosyncratic volatility and asymmetric information. This is based on the premise that informed investors transact when there is a lot of private information, and trading on this information causes prices to deviate from a typical return-generating process. We use this intuition and show idiosyncratic volatility is lower under Democratic presidents, which confirms our results from the Llorente, Michaely, Saar, and Wang (2002) approach. Given the well-documented finding that asymmetric information is an important determinant of bid–ask spreads (e.g., Glosten and Milgrom, 1985), this result is consistent with lower spreads under Democratic presidents.

There is also evidence that policy uncertainty and volatility are higher under Republican presidents. Given the evidence of Chordia, Sarkar, and Subrahmanyam (2005) of a negative

relation between liquidity and volatility, and the Ball, Nagar, and Schoenfeld (2016) finding of increased policy uncertainty leading to deterioration in liquidity, this supports the notion that policy uncertainty and volatility are also drivers of the results we document. We also find the president liquidity effect is stronger in Democratic-leaning industries. This supports the notion that while economic policy uncertainty is lower in general during times when a Democrat is in the White House, the reduction in uncertainty is even more pronounced in those industries more closely aligned to the Democrats.

The remainder of this paper proceeds as follows. Section 2 describes the data and liquidity measures. Our core method and results are described in Section 3. Robustness checks are in Section 4 and our conclusions are set forth in Section 5.

2. Data and Method

We calculate the liquidity measures using data from CRSP. We use data from Compustat to compute book-to-market ratios. Our core analysis is based on the 1926–2015 period, but we also consider a range of subperiods. Our primary liquidity measure is Amihud, which captures price changes per unit of dollar volume. Higher Amihud values therefore indicate more illiquidity:

$$\text{Amihud} = \frac{|r_t|}{Volume_t} \tag{1}$$

where r_t is return on day t and $Volume_t$ is dollar volume on day t. We calculate a monthly measure as the average of daily measures. We require a minimum of 15 daily return observations

within a given month to calculate the monthly measure. Monthly Amihud measures are then scaled by 10^5 for practical application. We calculate Amihud measures for all U.S.-based common stocks trading on the New York Stock Exchange (NYSE), the American Stock Exchange (AMEX), and the NASDAQ. Following Gao and Ritter (2010), we adjust for institutional features of the way volume is reported on NASDAQ.[1] However, we also conduct robustness checks based on NYSE stocks only and NYSE and AMEX stocks only.

Our sample period covers 89 years, a period in which there have been many changes in determinants of liquidity, such as market structure and technology. We therefore follow Naes, Skjeltorp, and Ødegaard (2011) and test whether the Amihud series has a unit root, using the Augmented Dickey-Fuller test. We are unable to reject the null hypothesis that the Amihud series does have a unit root, so we de-trend the series using a two-year moving average of the series. Consistent with Naes, Skjeltorp, and Ødegaard (2011), we also apply alternative de-trending approaches, such as log differences and the Hodrick–Prescott filter, and find consistent results.

We also use four other liquidity measures as robustness checks. We apply the Corwin and Schultz (2012) high–low price ratio spread proxy, the Hasbrouck (2004, 2009) Gibbs estimator, the Pástor–Stambaugh (2003) liquidity measure, and turnover.[2] Our results hold for these alternative liquidity measures.

The basic regression specification we employ is as follows:

[1] Specifically, we divide the volume reported in CRSP for stocks that trade on the NASDAQ by 2.0, 1.8, 1.6, and 1 for the periods prior to February 2001, between February 2001 and December 2001, between January 2002 and December 2003, and during or subsequent to January 2004, respectively.

[2] We thank Shane Corwin, Paul Schultz, Joel Hasbrouck, and Lubos Pastor for making their liquidity data available through their websites. Following Datar, Naik, and Radcliffe (1998), we measure monthly turnover as the ratio of average monthly trading volume during the preceding three months over the number of shares outstanding as of that month.

$$LIQ_t = \alpha + \beta PRESIDENT_t + \varepsilon_t \quad (2)$$

where LIQ_t is the monthly liquidity measure (Amihud value in our core tests) and $PRESIDENT_t$ is a dummy variable that equals 1 if a Democratic president is in power in a given month and 0 otherwise. We also include a range of control variables, discussed in the Results section below.

3. Results

3.1. Market Results

The results shown in Table 1, which relate to all NYSE, AMEX, and NASDAQ stocks, indicate clear evidence that markets are more liquid (the Amihud illiquidity measure is lower) when Democratic presidents are in office. The PRESIDENT dummy variable, which equals 1 when there is a Democratic president and 0 otherwise, is statistically significant when the Amihud measure is value-weighted and equal-weighted, for the entire 1926–2015 period, and the two subperiods. While the higher levels of liquidity under Democratic presidents are evident in both the value- and equal-weighted results, they are much stronger in the equal-weighted results, indicating the effect is stronger in small stocks.

To ensure our results are robust, we test whether the finding of higher liquidity under Democratic presidents holds when other measure of liquidity are used. The Appendix 1 results indicate this is the case. The high–low and Gibbs proxies, which capture the size of the bid–ask spread, are both lower under Democratic presidents, while the Pástor–Stambaugh (2003) liquidity measure and turnover are both higher when Democratic presidents are in office.

Naes, Skjeltorp, and Ødegaard (2011) point out there have been numerous changes in the factors that influence liquidity, such as market structure and technology, over the decades. In the 1926–1970 sub period, a $100,000 trade had an average impact on price (based on the value weighting of stocks) of just over 10%, yet in the 1971–2015 sub period, the average price impact was less than 1%. It is therefore important to de-trend a liquidity series such as the Amihud value and equal-weighted series. Our core tests are based on de-trending using a two-year moving average of past prices. However, we also de-trend using a range of various approaches and report these results in Appendix 2. The results hold when we de-trend using 12-, 36-, or 48-month moving averages, log differences, or the Hodrick–Prescott filter. Our results are also robust to alternative sample selections. Further, they hold for NYSE firms only and for NYSE and AMEX firms only.

The average Amihud measure over the 1926–2015 period for value-weighted stocks is 0.058, so the coefficient of -0.01 for this period suggests illiquidity is 18% lower (-0.01/0.058) when Democratic presidents are in office. This effect is relatively stable through time. Liquidity is 20% higher in the first subperiod and 19% higher in the second subperiod. The Democratic president liquidity premium is even more pronounced in the equal-weighted Amihud series. The average equal-weighted Amihud measure over the full sample is 0.855, so the coefficient of -0.316 implies a 37% (-0.316 / 0.855) improvement in liquidity under Democratic presidents.

[Please Insert Table 1 About Here]

3.2. Size and Book-to-Market Quintiles

Table 2 reports results for size and book-to-market quintiles. The pattern from Table 1 of stronger results for smaller stocks is clearly evident in the Table 2 results. The coefficient sizes of the value-weighted quintile portfolios range from -0.825 for the smallest quintile to -0.001 for the largest quintile. The equally weighted portfolios display a similar trend, with the coefficients ranging from -1.347 in small stocks to -0.002 in large stocks. There is also evidence of the Democratic liquidity premium being stronger in value rather than growth stocks. In the value-weighted portfolios, the coefficient ranges from -0.001 for the quintile of stocks with the lowest book-to-market ratios to -0.011 for the quintile of stocks with the highest book-to-market equity ratios. In the equal-weighted quintile portfolios, the coefficients range from -0.047 for growth stocks to -0.277 for value stocks.

[Please Insert Table 2 About Here]

3.3. Explanations

In this subsection, we consider the channels through which politics influences liquidity. Asymmetric information is an important determinant of liquidity (e.g., Glosten and Milgrom, 1985), thus we consider whether there is evidence of less asymmetric information when Democratic presidents are in office. We apply the method of Llorente, Michaely, Saar, and Wang

(2002), which measures informed trading based on the cross-sectional variation in the relation between volume and return autocorrelation. We estimate the following regression:

$$R_{j,t} = \alpha_j + \gamma_j R_{j,t-1} + \Theta_y R_{j,t-1} V_{j,t-1} + e_{j,t}, \quad (3)$$

where $R_{j,t}$, $R_{j,t-1}$, and $V_{j,t-1}$ are contemporaneous daily stock returns, lagged daily stock returns, and lagged log turnover de-trended by subtracting the average prior 200 trading-day logged turnover, respectively. We estimate model (3) for each stock and each presidential term. The coefficient of the interaction term Θ_y represents the amount of information-based trading. As Fernandes and Ferreira (2008) point out, it is assumed that stocks with more information-based trading will have higher values of Θ or positive return autocorrelation when volume is higher. The Table 3 results show the Llorente, Michaely, Saar, and Wang (2002) measure of information-based trading is statistically significantly lower during periods when there is a Democratic president. It is difficult to determine why this is the case, but it may point to a greater emphasis on regulations that require dissemination of information to all investors or a greater focus on deterring trading on private information under Democratic presidencies.

Gilder and Westheide (2016) suggest idiosyncratic volatility can be expected to be higher when there is more asymmetric information. These authors propose that informed investors transact when there is a lot of private information, and trading on this information causes prices to deviate from a typical return-generating process. We use this intuition to investigate whether idiosyncratic volatility is lower under Democratic presidents.

Monthly idiosyncratic volatility for each firm is defined as the standard deviation of residuals from a Fama and French three-factor model.[3] Monthly idiosyncratic volatility is then detrended using the average prior 24-month value. Monthly aggregate market idiosyncratic volatility is the simple average of all detrended idiosyncratic volatilities in a month. The results in Table 3 show that aggregate idiosyncratic volatility is lower when Democratic presidents are in office. We interpret this result as confirming our finding, using the Llorente, Michaely, Saar, and Wang (2002) approach, that asymmetric information is lower under Democratic presidents.

Baker, Bloom, and Davis (2016) find economic policy uncertainty plays an important role in financial markets. These authors' uncertainty measure is based on newspaper articles containing the words "economic" and "uncertainty" (or close substitutes) and "congress," "White House," "legislation," "regulation," or similar. They show greater economic policy uncertainty is associated with reduced investment and employment in some sectors, and higher price volatility. Kyle (1985) sets forth a theory to support the notion that stock liquidity is impacted by not only uncertainty about firm-specific factors, but also uncertainty about market-wide factors, and there is recent empirical evidence to support this. Ball, Nagar, and Schoenfeld (2016) use the 2013 U.S. Government shut down as an event that increased economic policy uncertainty, and show that this led to a reduction in both price efficiency and liquidity. These findings suggest that economic policy uncertainty is another channel through which politics may influence liquidity.

In Table 3, we present results based on testing whether economic policy uncertainty differs under Democratic versus Republican presidents. We apply equation 2 with 24-month detrended economic policy uncertainty from Baker, Bloom, and Davis (2016), instead of market liquidity, as the dependent variable. The results indicate evidence that economic policy uncertainty is lower under Democratic presidents on average, consistent with illiquidity also

[3] We include only idiosyncratic volatilities computed from at least 15 daily return residuals.

being lower under Democratic presidents. We also show that general market volatility, which we measure from the EGARCH (1, 1) model, is lower under Democratic presidents.

[Please Insert Table 3 About Here]

3.4. Industries

Addoum and Kumar (2016) show predictable patterns in the returns of politically sensitive firms and industries. Changes in the party holding the presidency are associated with changes in the industry-level composition of investor portfolios. We use data from Addoum and Kumar (2016) to measure the five industries most sensitive to Republican and Democratic presidencies. These authors calculate these based on the Fama and French 48 industries that have the largest returns when there is a Republican or Democratic president. These tests are conducted using rolling 15-year windows to allow for time variation in the political sensitivity estimates.

We use the Addoum and Kumar (2016) data to investigate whether the Democratic president liquidity premium differs across Democratic- and Republican-leaning industries. The evidence that the economic policy uncertainty channel plays a role implies that the effect may be stronger in Democratic-leaning industries than Republican-leaning industries. This is based on the supposition that while economic policy uncertainty might be lower in general during times when a Democrat is in the White House, it is likely that this reduction in uncertainty is even more pronounced in those industries more closely aligned to Democrats.

The results in Table 4 support this. For the value-weighted Amihud series, the $PRESIDENT_t$ coefficient is -0.026 for Democratic-leaning industries compared to -0.007 for Republican-leaning industries, and the difference between these coefficients is statistically significant. Moreover, the coefficient for Democratic- (Republican-) leaning industries is -0.332 (-0.051) for the equal-weighted Amihud series, and the difference between them is statistically significant.

[Please Insert Table 4 About Here]

4. Robustness Checks

4.1. Senate and House of Representatives

As Blinder and Watson (2016) note, the U.S. Constitution assigns many powers to Congress rather than the president. This raises the question of whether the partisan difference in liquidity is in fact driven by the party that controls the House or the Senate rather than the party holding the presidency. In Table 5, we include control variables for both the House and Senate. Each variable equals 1 if the Democratic Party holds the majority, 0 otherwise. The results indicate that the party holding the presidency is the most important determinant of liquidity. Illiquidity is also lower when the Democratic Party has a Senate majority, but the economic and statistical significance of this is lower than for Democratic presidents. The control variable for the party controlling the House is not statistically significant. Our results are similar to Blinder

and Watson (2016), who show that the partisan difference related to macroeconomic variables is the party holding the presidency rather than the party controlling the House.

[Please Insert Table 5 About Here]

Let us now turn our attention to the effect, if any, of Democratic presidencies coinciding with periods when the Democratic Party has a majority in the House, in the Senate, or in both the House and the Senate. The Table 6 results indicate that the impact of these majorities coinciding with the presidency is not particularly pronounced. The overall result from Table 1 involves a coefficient (t-statistic) of -0.010 (-3.42) for the value-weighted series and a coefficient (t-statistic) of -0.316 (-3.87) for the equal-weighted series. From Table 6 Panel A we see that when the Democratic Party holds the presidency and a majority in the House, the value-weighted coefficient (t-statistic) is -0.011 (-3.25) and the equal weighed equivalent is -0.329 (-3.53). The Panel B results, which relate to Democrats holding the presidency and the Senate, have coefficients and t-statistics that are marginally lower than those in Table 1. Finally, the Panel C results, which compare periods when the Democratic Party controls the House, the Senate, and holds the presidency, have coefficients (t-statistics) of -0.010 (-3.01) and -0.333 (-3.42) for the value and equal-weighted liquidity series, respectively. Again, these are not materially different from the results in Table 1.

[Please Insert Table 6 About Here]

4.2. Control Variables

In Table 7, we control for a number of variables shown to be related to liquidity or that may vary over the business cycle to ensure they do not drive our partisan liquidity result. Naes, Skjeltorp, and Ødegaard (2011) show stock market liquidity is tied to the business cycle, with liquidity lower during economic downturns, while Blinder and Watson (2016) show economic growth has been stronger under Democratic presidents. We therefore control for business cycle. We also find that illiquidity is lower in expansionary periods (i.e., liquidity is lower in recessions). However, the presidential political influence on liquidity is distinct from this phenomenon.

Blinder and Watson (2016) investigate whether a range of macroeconomic and related variables vary based on the party holding the presidency. Using the data these authors make available, we include a control variable from the various categories, including GDP growth rate, employment payroll, S&P 500 returns, hourly compensation, total factor productivity, government surplus, inflation, and the 3-month T-bill rate. Our core results are robust to inclusion of each of these control variables.

[Please Insert Table 7 About Here]

5. Conclusions

We document a link between politics and equity market liquidity. There is consistent evidence of higher liquidity under Democratic presidents. This result holds in the full sample (1926–2015) period and in various subperiods. It holds in stocks of all sizes, but is strongest in small, value stocks. The partisan differences in liquidity are influenced more strongly by the party holding the presidency than the party controlling the House of Representatives or the Senate and are not driven by variation in liquidity across the business cycle.

There are a number of channels through which politics appears to influence liquidity. There is evidence of lower levels of asymmetric information and lower idiosyncratic return volatility under Democratic presidents, which is consistent with increased liquidity. There is also evidence that economic policy uncertainty and volatility are lower under Democratic presidents, which is also consistent with higher liquidity when Democratic presidents are in office. We find the president liquidity effect is stronger in Democratic-leaning industries, which further supports that economic policy uncertainty is a driver of the liquidity difference. The implication here is that economic policy uncertainty is generally lower during times when a Democrat is President, and the reduction in uncertainty is even more pronounced for those industries more closely aligned to Democrats.

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Table 1
Overall Result

	Constant		PRESIDENT		Adj. R^2
	coeff.	t-stat.	coeff.	t-stat.	
Panel A: Amihud Value-Weighted					
1926:01–2015:12	0.005	**2.31**	-0.010	**-3.42**	0.036
1926:01–1970:12	0.013	**2.31**	-0.021	**-3.13**	0.067
1971:01–2015:12	0.000	0.63	-0.002	**-2.68**	0.027
Panel B: Amihud Equal-Weighted					
1926:01–2015:12	0.160	**2.93**	-0.316	**-3.87**	0.036
1926:01–1970:12	0.310	**2.39**	-0.497	**-3.13**	0.047
1971:01–2015:12	0.074	**1.87**	-0.178	**-2.67**	0.035

These results relate to the following regression: $LIQ_t = \alpha + \beta PRESIDENT_t + \varepsilon_t$. *PRESIDENT* is a dummy variable that equals 1 if a Democratic president is in power in a given month, and 0 otherwise. Newey–West standard errors are applied and CRSP data are used. t-statistics that are statistically significant at the 10% level or better are in bold.

Table 2
Size and Book-to-Market Quintile

	Constant		PRESIDENT		Adj. R^2
	coeff.	t-stat.	coeff.	t-stat.	
Panel A: Amihud Value-Weighted					
Size 1 (Small)	0.431	**3.04**	-0.825	**-4.35**	0.051
Size 2	0.079	**2.74**	-0.153	**-4.19**	0.048
Size 3	0.020	**2.59**	-0.040	**-3.91**	0.042
Size 4	0.006	**2.27**	-0.013	**-2.93**	0.021
Size 5 (Large)	0.001	**1.70**	-0.001	**-2.11**	0.009
BM 1 (Growth)	0.000	0.56	-0.001	-1.44	0.013
BM 2	0.000	0.91	-0.001	**-2.30**	0.009
BM 3	0.001	0.55	-0.001	-1.56	0.007
BM 4	0.001	0.88	-0.003	**-1.96**	0.003
BM 5 (Value)	0.005	**2.00**	-0.011	**-3.70**	0.035
Panel B: Amihud Equal-Weighted					
Size 1 (Small)	0.680	2.87	-1.347	**-3.70**	0.031
Size 2	0.091	2.77	-0.175	**-4.14**	0.044
Size 3	0.022	2.57	-0.044	**-3.88**	0.040
Size 4	0.007	2.33	-0.014	**-3.18**	0.027
Size 5 (Large)	0.001	1.81	-0.002	**-2.30**	0.011
BM 1 (Growth)	0.021	1.54	-0.047	**-2.27**	0.013
BM 2	0.034	1.33	-0.067	**-2.38**	0.009
BM 3	0.036	1.19	-0.073	**-2.22**	0.007
BM 4	0.039	0.94	-0.069	-1.51	0.003
BM 5 (Value)	0.138	**2.41**	-0.277	**-3.35**	0.035

These results relate to the following regression: $LIQ_t = \alpha + \beta PRESIDENT_t + \varepsilon_t$. *PRESIDENT* is a dummy variable that equals 1 if a Democratic president is in power in a given month, and 0 otherwise. *Size* is the natural logarithm of total market capitalization, while *BM* is the ratio of book value to market value. Newey–West standard errors are applied. CRSP and Compustat data are used. The results for *Size* quintiles relate to the 1926–2015 period. The results for the book-to-market (*BM*) quintiles relate to the 1962–2015 period because of data availability in Compustat to compute book-to-market ratio. t-statistics that are statistically significant at the 10% level or better are in bold.

Table 3
Channels

	Constant		PRESIDENT		Adj. R^2
	coeff.	t-stat.	coeff.	t-stat.	
Llorentee et al.	0.012	**40.60**	-0.002	**-4.97**	0.000
Idiosyncratic Volatility	0.001	0.92	-0.003	**-3.47**	0.001
Economic Policy Uncertainty	-0.002	-0.18	-0.026	**-1.85**	0.002
Volatility	0.049	**56.17**	-0.002	**-2.01**	0.003

These results relate to the following regression: $CHANNEL_t = \alpha + \beta PRESIDENT_t + \varepsilon_t$. *PRESIDENT* is a dummy variable that equals 1 if a Democratic president is in power in a given month, and 0 otherwise. Llorentee et al. is a measure of information asymmetry based on Llorente, Michaely, Saar, and Wang (2002), Idiosyncratic Volatility is calculated following Ang and Hodrick (2006), Economic Policy Uncertainty is the index from Baker, Bloom, and Davis (2016), and Volatility is calculated using an E-GARCH (1,1) model. The results relate to the 1926–2015 period. Newey–West standard errors are applied and CRSP data are used. t-statistics that are statistically significant at the 10% level or better are in bold.

Table 4
Industries

	Constant		PRESIDENT		Adj. R^2
	coeff.	t-stat.	coeff.	t-stat.	
Panel A: Amihud Value-Weighted					
Top-5 Democrat Leaning	0.003	0.98	-0.026***	**-5.05**	0.007
Top-5 Republican Leaning	0.002	**1.96**	-0.007***	**-2.51**	0.002
Panel B: Amihud Equal-Weighted					
Top-5 Democrat Leaning	0.177	**2.45**	-0.332***	**-4.36**	0.005
Top-5 Republican Leaning	0.033	**1.95**	-0.051***	**-1.98**	0.001

These results relate to the following regression: $LIQ_t = \alpha + \beta PRESIDENT_t + \varepsilon_t$. *PRESIDENT* is a dummy variable that equals 1 if a Democratic president is in power in a given month, and 0 otherwise. Top-5 Democrat and Republican Leaning industries are from Addoum and Kumar (2016). The results relate to the 1939–2011 period. Newey–West standard errors are applied and CRSP data are used. t-statistics that are statistically significant at the 10% level or better are in bold. *** refers to a difference in coefficients that is statistically significant at the 1% level.

Table 5
Controlling for Senate and House Majorities

	Constant		PRESIDENT		SENATE		HOUSE		Adj. R^2
	coeff.	t-stat.	coeff.	coeff.	coeff.	t-stat.	coeff.	t-stat.	
Panel A: Amihud Value-Weighted									
Senate	0.008	**2.46**	-0.008	**-3.58**	-0.006	**-2.34**			0.045
House	0.005	**2.76**	-0.010	**-3.41**			0.000	0.13	0.035
Senate and House	0.006	**2.78**	-0.008	**-3.48**	-0.008	**-2.08**	0.004	1.15	0.048
Panel B: Amihud Equal-Weighted									
Senate	0.225	**2.99**	-0.266	**-4.06**	-0.147	**-2.21**			0.042
House	0.145	**2.51**	-0.317	**-3.91**			0.022	0.33	0.035
Senate and House	0.167	**2.67**	-0.249	**-3.80**	-0.208	**-2.33**	0.123	1.37	0.044

These results are as per Table 1, except that control variables SENATE (HOUSE) variables that equal 1 in months that the Democratic Party controls the Senate (House) and 0 otherwise, are included. The results relate to the 1926–2015 period. Newey–West standard errors are applied and CRSP data are used. t-statistics that are statistically significant at the 10% level or better are in bold.

Table 6
Democratic Presidencies and Senate Majority, Democratic Presidencies and House Majority, and Democratic Presidencies and House and Senate Majorities

Panel A: Democratic Presidencies and Senate Majority

	Constant		PRESIDENT*SENATE		Adj. R^2
	Coeff	t-stat.	coeff.	t-stat.	
Value-Weighted	0.004	**1.95**	-0.009	**-2.97**	0.028
Equal-Weighted	0.117	**2.61**	-0.300	**-3.36**	0.031

Panel B: Democratic Presidencies and House Majority

	Constant		PRESIDENT*HOUSE		Adj-R2
	coeff.	t-stat.	coeff.	t-stat.	
Value-Weighted	0.004	**2.17**	-0.011	**-3.25**	0.036
Equal-Weighted	0.117	**2.76**	-0.329	**-3.53**	0.037

Panel C: Democratic Presidencies and House and Senate Majority

	Constant		PRESIDENT*SENATE*HOUSE		Adj-R2
	coeff.	t-stat.	coeff.	t-stat.	
Value-Weighted	0.003	**2.00**	-0.010	**-3.01**	0.032
Equal-Weighted	0.111	**2.70**	-0.333	**-3.42**	0.036

These results are as per Table 1 except that PRESIDENT*HOUSE is a variable that equals 1 in months that the Democratic Party holds the presidency and controls the House, and 0 otherwise, PRESIDENT*SENATE is a variable that equals 1 in months that the Democratic Party holds the presidency and controls the Senate, and 0 otherwise, and PRESIDENT*SENATE*HOUSE is a variable that equals 1 in months that the Democratic Party holds the presidency and controls the Senate and House, and 0 otherwise. The results relate to the 1926–2015 period. Newey–West standard errors are applied and CRSP data are used. t-statistics that are statistically significant at the 10% level or better are in bold.

Table 7
Control Variables

	Constant		PRESIDENT		Control Variable		Adj. R^2
	Coeff	t-stat.	coeff.	t-stat.	coeff.	t-stat.	
Business Cycle	0.021	**3.58**	-0.006	**-2.52**	-0.022	**-3.89**	0.127
GDP	0.002	**2.91**	-0.002	**-2.48**	-0.227	**-5.58**	0.141
Employment	0.001	1.38	-0.002	**-2.49**	-0.545	**-4.20**	0.089
Equity Returns	0.000	0.55	-0.002	**-2.76**	-0.021	**-3.32**	0.042
Hourly Compensation	-0.015	**-1.93**	-0.002	**-2.82**	0.004	**1.96**	0.049
Total Factor Productivity	0.000	0.04	-0.002	**-2.86**	0.013	1.12	0.030
Govt. Surplus	0.002	**2.32**	-0.002	**-3.16**	0.034	**1.77**	0.040
Inflation	-0.001	-0.86	-0.002	**-2.85**	0.002	1.59	0.035
Treasury Bills	-0.001	**-2.16**	-0.002	**-2.63**	0.032	**2.66**	0.046

These results are as per Table 1, except that the Business Cycle and Macroeconomic control variables are included. Business cycle data are from NBER and the other control variables are from Blinder and Watson (2016). GDP is Real GDP, Employment is All Employees: Total Nonfarm Payrolls, Equity Returns is based on the S&P 500, Hourly Compensation is Nonfarm Business Sector: Real Compensation Per Hour, Govt. Surplus is the Net Federal Government Savings Without Automatic Stabilizers as a Percent of Potential Output, Inflation is Personal Consumption Expenditures, and Treasury Bills is the yield on the 3-month Treasury Bill. The dependent variable is the Amihud value-weighted series. Newey–West standard errors are applied and CRSP data are used. t-statistics that are statistically significant at the 10% level or better are in bold.

Appendix 1
Other Liquidity Measures

		Constant		PRESIDENT		Adj. R^2
		coeff.	t-stat.	coeff.	t-stat.	
High–Low	1926–2014	0.004	**3.36**	-0.008	**-5.24**	0.083
Gibbs	1926–2009	1.025	**154.92**	-0.020	**-2.64**	0.075
Pastor and Stambaugh	1962–2015	-0.039	**-8.46**	0.020	**3.48**	0.024
Turnover	1962–2015	0.066	**14.36**	0.017	**2.32**	0.030

This table is as per Table 1, except that alternative liquidity measures are used, as described in Section 3.1.

Appendix 2
Amihud Robustness

	Constant		PRESIDENT		Adj. R^2
	coeff.	t-stat.	coeff.	t-stat.	
Panel A: Amihud Value-Weighted					
De-trend by 12-month Moving Average	0.003	2.02	-0.006	**-2.72**	0.019
De-trend by 36-month Moving Average	0.007	2.41	-0.013	**-3.80**	0.046
De-trend by 48-month Moving Average	0.007	2.38	-0.015	**-3.81**	0.048
De-trend using Log Difference	0.010	1.29	-0.024	**-2.12**	0.001
De-trend using Hodrick–Prescott filter	0.002	1.83	-0.005	**-1.96**	0.009
Amihud estimated for firms in NYSE only	0.005	2.12	-0.009	**-3.15**	0.030
Amihud estimated for firms in NYSE and AMEX	0.005	2.15	-0.010	**-3.20**	0.031
Panel B: Amihud Equal-Weighted					
De-trend by 12-month Moving Average	0.084	2.35	-0.167	**-2.92**	0.015
De-trend by 36-month Moving Average	0.229	3.40	-0.438	**-4.58**	0.055
De-trend by 48-month Moving Average	0.273	3.60	-0.515	**-4.81**	0.064
De-trend using Log Difference	0.017	1.62	-0.033	**-2.25**	0.001
De-trend using Hodrick–Prescott filter	0.052	1.58	-0.106	**-1.75**	0.004
Amihud estimated for firms in NYSE only	0.116	2.32	-0.240	**-3.17**	0.024
Amihud estimated for firms in NYSE and AMEX	0.131	2.51	-0.267	**-3.44**	0.029

This table is as per Table 1, except that alternative de-trending and Amihud construction approaches are used, as described in Section 3.1.