Investing in a U.S. Presidential Election Year: A Look at Market Performance and Fed Moves

Will this election year matter to markets?

As the 2024 U.S. presidential election nears, investors are expressing concern about its potential effect on monetary policy and the markets. We think those fears are largely overblown and continuing to hold high cash allocations for even longer may mean missing out on attractive opportunities.

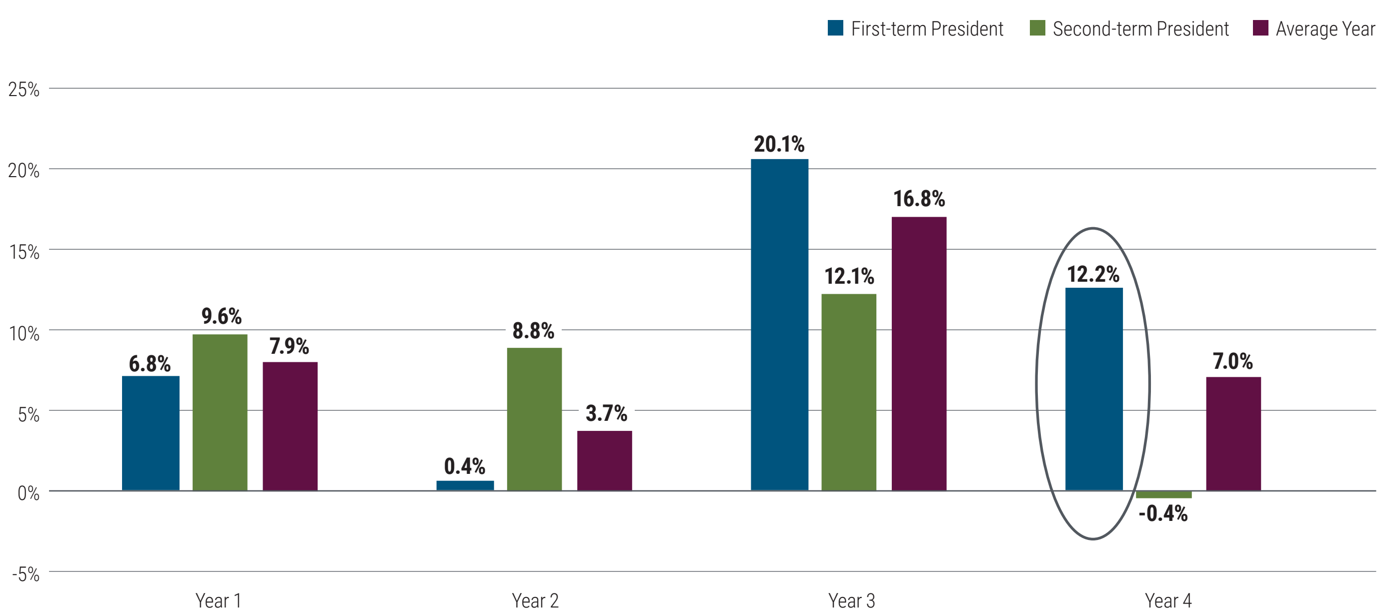
On pages that follow, we explore the historical effects of past presidential elections and provide insights into what this year may bring.

MARKET PERFORMANCE POISED FOR GROWTH

While past performance is not necessarily a predictor of future returns, a look at market performance in past U.S. presidential election years can be nevertheless instructive.

Historical data shows that risk markets, such as the stock market, have typically shaken-off election year concerns, especially during the election of an incumbent president (circled below) – as is the case this year. After all, there is arguably less uncertainty about policy changes when an incumbent president is seeking reelection vs. an open presidential election when two new candidates are running.

S&P 500 Index Returns based on 4-year Presidential Cycle (1955-2023)

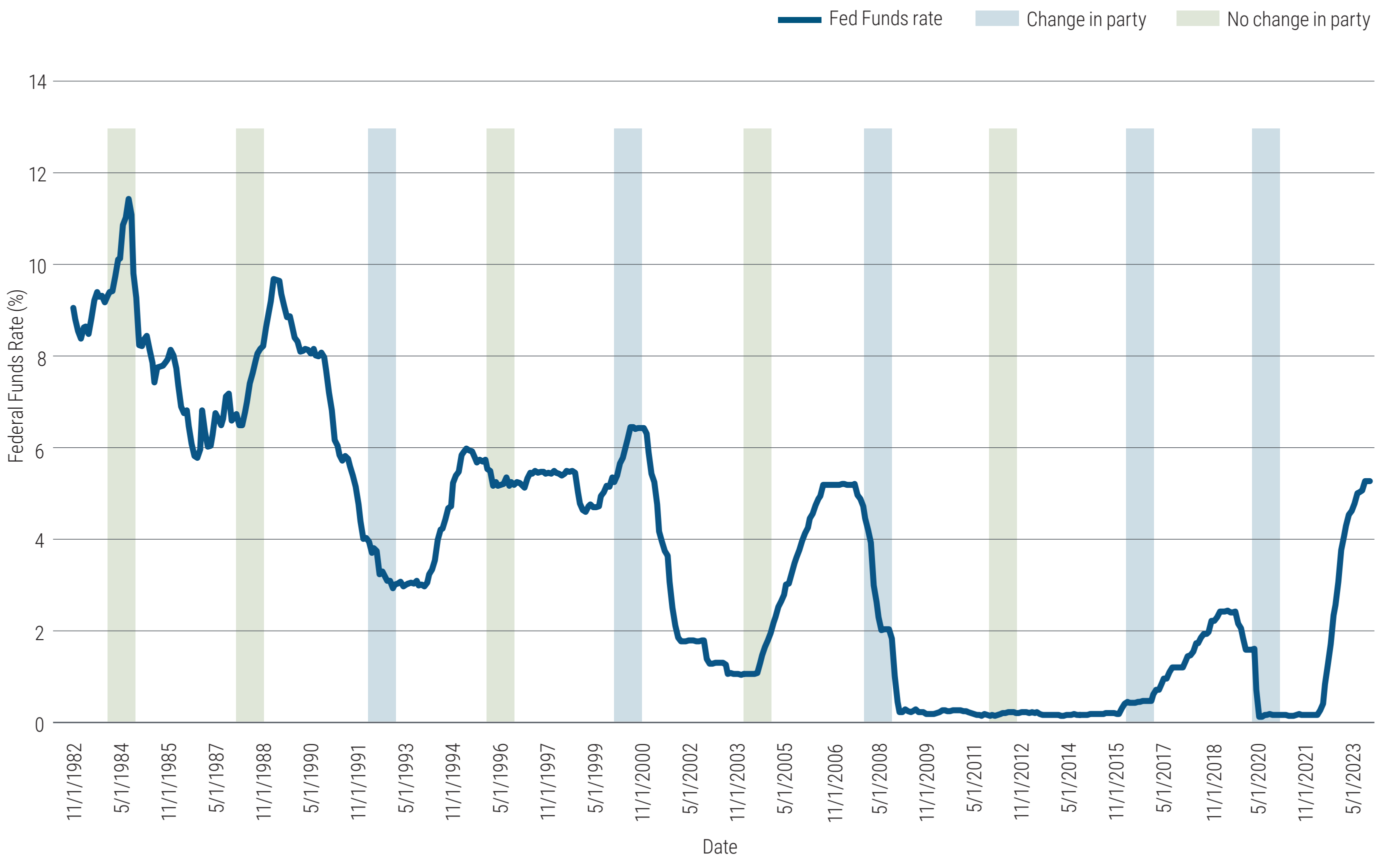


As of 5 December 2023. Source: LPL Research, Factset

FED POLICY LIKELY TO STAY ON TRACK

While the U.S. Federal Reserve is expected to start its interest-rate cutting cycle this year, there is some concern that the upcoming election could have an impact on Fed policy as they try to avoid even the perception of being political.

Yet, the data going back to the 1980 election cycle tells a different story. In fact, in every election cycle except for 2012, the Fed has adjusted interest rates in an election year – either cutting or raising rates, and in the case of 1984 – doing both. The data also indicates that the Fed is not afraid to adjust policy even in the months (or month) directly before the election.



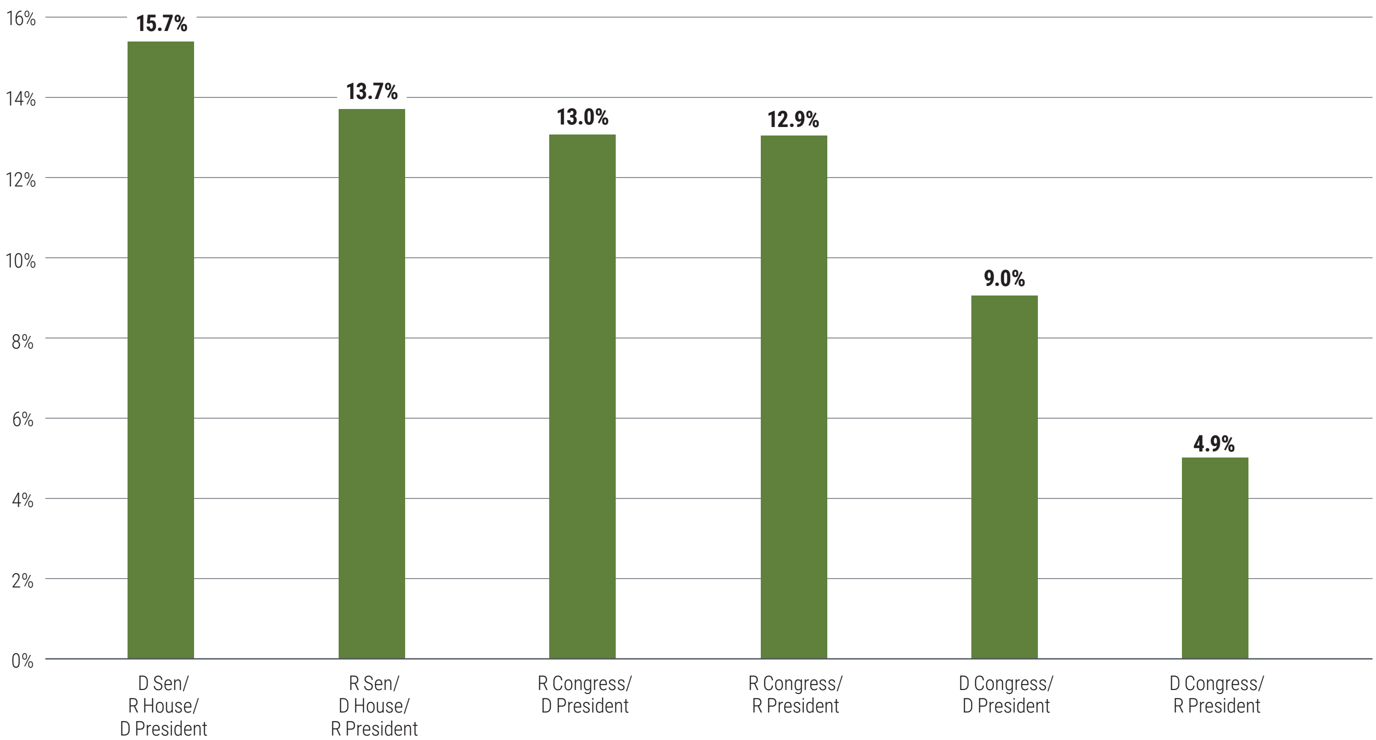
As of February 2024. Source: Bloomberg. "Election periods" are defined as the period between the November in the year before an election year to the October of an election year

ELECTION OUTCOMES HAVE LED TO POSITIVE RETURNS HISTORICALLY REGARDLESS OF WHO WINS

Ultimately, the stock market has done well historically, no matter the election outcome.

The chart below shows how stocks have performed across various election outcomes, including the control of the White House and Congress, underscoring that the market typically does well regardless. We have found that markets historically have performed better under divided government.

Partisan Control, Avg. Annual S&P Performance (1933-2023)



As of January 2024. Source: Bloomberg, US House of Representatives

Past performance is not a guarantee or reliable indicator of future results.

All investments contain risk and may lose value.

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It is not possible to invest directly in an unmanaged index.

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