

## Take Your Politics Out of Investing

In case you weren't aware, 2024 is an election year. With Super Tuesday's results behind us, it looks almost certain (barring a surprise 3<sup>rd</sup> party candidate) that voters will have the same choice they had in 2020 – Donald Trump or Joe Biden. In our experience, politics often becomes a key source of anxiety for investors as the election approaches, and we typically field a growing number of inbound calls from clients expressing concern about markets if their preferred party or candidate fails to win. Given the highly polarized political environment we find ourselves in today and the growing number of articles on the upcoming election in the financial media (the lead story in the February 19<sup>th</sup> edition of Barons was *Election Angst, What's at Stake in a Biden vs. Trump Rematch*), we thought it was a good time to share our views on the influence of politics, political parties, and elections on financial markets.

### Politics are just one of many factors that impact markets.

We accept that politics and political developments can (and often do) influence markets in the short term. However, they are just one factor among many, and we believe there are other factors such as overall economic growth and trends in corporate earnings that have a much bigger impact and much higher predictive value over the long term. Additionally, the level of interest rates, inflationary trends and global events play significant roles in shaping market performance. Understanding that the market's dynamics are influenced by this intricate web of factors can provide a more nuanced perspective for investors, highlighting the importance of looking beyond political headlines to make informed investment decisions.

### Despite the inherent uncertainty of elections, U.S. stocks tend to do well in election years.

Election years invariably come with a degree of uncertainty, as investors contemplate the implications of potential shifts in leadership and policy direction. This uncertainty can manifest in heightened market volatility. Despite this uncertainty and associated volatility, U.S. stocks have historically performed well during election years.

Year of Presidential Term	Positive Returns	Negative Returns	Average Returns
1	▲ 60%	▼ 40%	▲ 11.3%
2	▲ 60%	▼ 40%	▲ 7.5%
3	▲ 92%	▼ 8%	▲ 18.7%
4	▲ 83%	▼ 17%	▲ 11.4%
<b>All Years</b>	▲ 74%	▼ 26%	▲ 12.2%

Over the last 100 years, we've had 24 presidential elections. In 83% of those elections, the stock market has seen positive returns during the election year. The average return in election years is 11.4%. In terms of the 4-year presidential cycle, the only year that is better than the election year is the third year of the presidential term. So, despite the inherent uncertainty associated with elections, equity markets tend to do well in those environments.

### What if my preferred candidate/party loses?

Over the long term, the performance of the stock market has shown a positive trajectory regardless of which political party holds the presidency. Over the nearly 100 years from 1925 through 2023, U.S. stocks have generated positive returns in 74% of those years with an average annual return of a little over 12%. During Democratic administrations, stocks were higher 78% of the time, with an average annual return of nearly 15%, whereas for Republican administrations, stocks were higher 69% of the time with an average annual return of nearly 10%. So, while there have been variations in market performance between the two parties, the difference is relatively modest and aligns closely with the overall 100-year average. Consequently, historical data suggests that making significant adjustments to investment portfolios based solely on the outcome of U.S. elections may not be warranted, as the market's growth has been steady across different political landscapes.

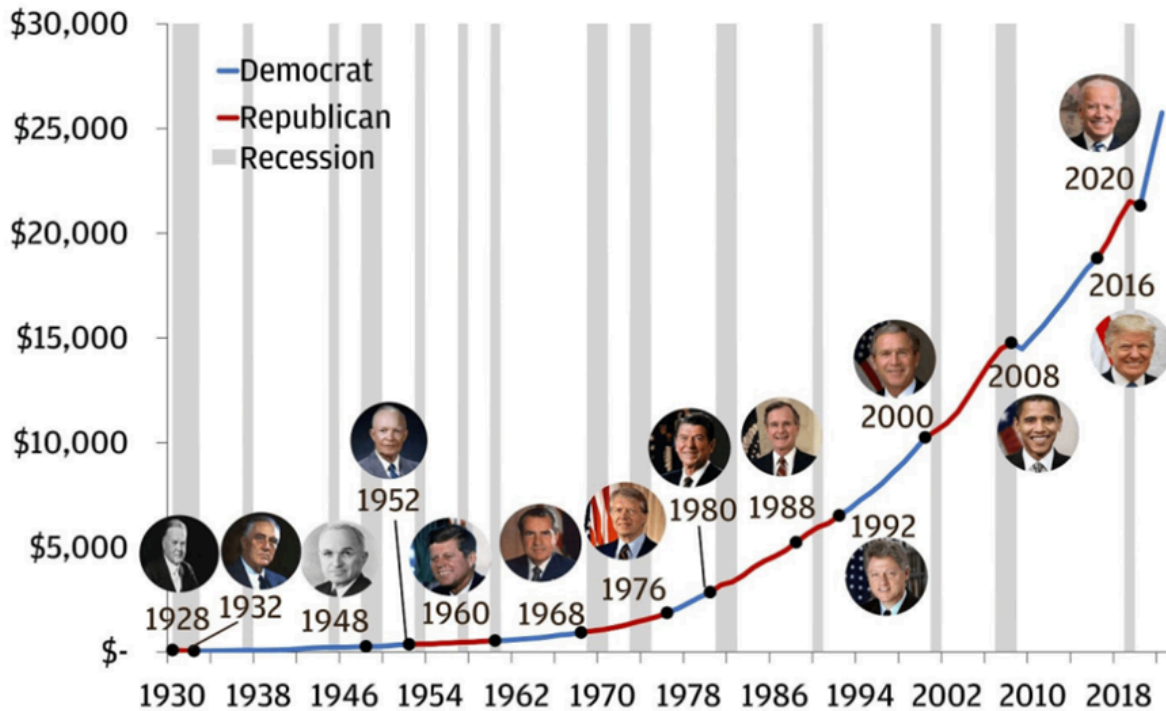
President Political Party	Positive Returns	Negative Returns	Average Returns
<b>Democrat</b>	▲ 78%	▼ 22%	▲ 14.7%
<b>Republican</b>	▲ 69%	▼ 31%	▲ 9.6%
<b>Overall</b>	▲ 74%	▼ 26%	▲ 12.2%

### The U.S. economy has continued to grow regardless of who is in the White House.

One reason that stocks have done so well over the last 100 years, is that U.S. nominal GDP has grown from around \$10 billion in the late 1920's to over \$27 trillion in 2023. We know that corporate earnings are one of the key drivers of equity returns and we also know that there is a positive relationship between U.S. corporate earnings growth and U.S. real GDP growth over the long term. As such, a key factor underlying the success of U.S. stocks has been this multi-trillion-dollar wave of economic activity that has occurred since 1925. This enduring growth is a testament to the unique underlying strengths of the U.S. economy, which include a market economy based on competition, a flexible labor market, high productivity, a culture of innovation, and the dollar's predominant role in the global economy. Moreover, as demonstrated in the chart below, the trend in economic activity has occurred regardless of which person or party was in power along the way.



### U.S. Nominal Gross Domestic Product (GDP), USD billions



Source: BEA, Haver Analytics, White House History, J.P. Morgan Wealth Management. Data as of Q3 2023. Party indicator is that of the serving president at that time. Markers only represent election years (intra-term presidents not pictured).

In conclusion, while politics and elections undeniably influence market sentiment and can introduce short-term volatility, over the long-term, the market has rewarded those who remain invested and avoid making decisions based on political cycles. Ultimately, we believe investors should separate their politics from their approach to investing. History suggests that making significant changes to your investment portfolios based on the outcome of U.S. elections or the party that is in control is not an effective investment strategy. Focusing on fundamental economic indicators, buying shares of high-quality companies and securities, diversifying portfolios, and maintaining a long-term perspective are key strategies for navigating market uncertainties. By doing so, investors can align their financial goals with sound investment principles, rather than being swayed by the transient winds of political change.

If you are interested, the chart on the following page provides a comprehensive overview of the S&P 500 returns during each presidential term, spanning 100 years and 25 administrations. If you have any questions regarding this note or any aspect of your financial life, please don't hesitate to contact us. We are here to provide guidance and support for all your financial needs.

President	Party	Inaugural Year		Second Year		Third Year		Election Year	
		Year	Returns	Year	Returns	Year	Returns	Year	Returns
Coolidge	Republican	1925	▲ 29.5 %	1926	▲ 11.1%	1927	▲ 37.1%	1928	▲ 43.3%
Hoover	Republican	1929	▼ -8.9%	1930	▼ -25.3%	1931	▼ -43.9%	1932	▼ -8.9%
FDR - 1st	Democrat	1933	▲ 52.9%	1934	▼ -2.3%	1935	▲ 47.2%	1936	▲ 32.8%
FDR - 2nd	Democrat	1937	▼ -35.3%	1938	▲ 33.2%	1939	▼ -0.9%	1940	▼ -10.1%
FDR - 3rd	Democrat	1941	▼ -11.8%	1942	▲ 21.1%	1943	▲ 25.8%	1944	▲ 19.7%
FDR/Truman	Democrat	1945	▲ 36.5%	1946	▼ -8.2%	1947	▲ 5.2%	1948	▲ 5.1%
Truman	Democrat	1949	▲ 18.1%	1950	▲ 30.6%	1951	▲ 24.6%	1952	▲ 18.5%
Eisenhower - 1st	Republican	1953	▼ -1.1%	1954	▲ 52.4%	1955	▲ 31.4%	1956	▲ 6.6%
Eisenhower - 2nd	Republican	1957	▼ -10.9%	1958	▲ 43.3%	1959	▲ 11.9%	1960	▲ 0.5%
Kennedy/Johnson	Democrat	1961	▲ 26.8%	1962	▼ -8.8%	1963	▲ 22.7%	1964	▲ 16.4%
Johnson	Democrat	1965	▲ 12.4%	1966	▼ -10.1%	1967	▲ 23.9%	1968	▲ 11.0%
Nixon	Republican	1969	▼ -8.5%	1970	▲ 4.0%	1971	▲ 14.3%	1972	▲ 18.9%
Nixon/Ford	Republican	1973	▼ -14.8%	1974	▼ -26.5%	1975	▲ 37.3%	1976	▲ 23.7%
Carter	Democrat	1977	▼ -7.4%	1978	▲ 6.4%	1979	▲ 18.4%	1980	▲ 32.3%
Reagan - 1st	Republican	1981	▼ -5.1%	1982	▲ 21.5%	1983	▲ 22.5%	1984	▲ 6.2%
Reagan - 2nd	Republican	1985	▲ 31.6%	1986	▲ 18.6%	1987	▲ 5.2%	1988	▲ 16.6%
Bush	Republican	1989	▲ 31.7%	1990	▼ -3.1%	1991	▲ 30.5%	1992	▲ 7.6%
Clinton - 1st	Democrat	1993	▲ 10.1%	1994	▲ 1.3%	1995	▲ 37.6%	1996	▲ 23.0%
Clinton - 2nd	Democrat	1997	▲ 33.4%	1998	▲ 28.6%	1999	▲ 21.0%	2000	▼ -9.1%
Bush (GW) - 1st	Republican	2001	▼ -11.9%	2002	▼ -22.1%	2003	▲ 28.7%	2004	▲ 10.9%
Bush (GW) - 2nd	Republican	2005	▲ 4.9%	2006	▲ 15.8%	2007	▲ 5.5%	2008	▼ -37.0%
Obama - 1st	Democrat	2009	▲ 26.5%	2010	▲ 15.1%	2011	▲ 2.1%	2012	▲ 16.0%
Obama - 2nd	Democrat	2013	▲ 32.4%	2014	▲ 13.7%	2015	▲ 1.4%	2016	▲ 12.0%
Trump	Republican	2017	▲ 21.8%	2018	▼ -4.4%	2019	▲ 31.5%	2020	▲ 18.4%
Biden	Democrat	2021	▲ 28.7%	2022	▼ -18.1%	2023	▲ 26.3%	2024	TBD
Percent Positive			60.0%		60.0%		92.0%		83.3%
Percent Negative			40.0%		40.0%		8.0%		16.7%
Average Positive Return			26.5%		21.1%		22.3%		17.0%
Average Overall Return			11.3%		7.5%		18.7%		11.4%