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JULY 2024

Market Perspectives: Yet Another *Most* Important Election in History

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"Politics is the ability to foretell what is going to happen tomorrow, next week, next month and next year. And to have the ability afterwards to explain why it didn't happen"
~ Winston Churchill, Former Prime Minister of the United Kingdom

- Midway through 2024, stock markets around the world continue to trend higher.
- U.S. economic data remains resilient, although there are some early signs the labor market is softening. A weaker employment outlook may help the Federal Reserve (the "Fed") in its efforts to control inflation.
- The coming months may be characterized by increased noise attributable to the election cycle, as investors assess the state of the economy and the implications of future leadership in Washington.

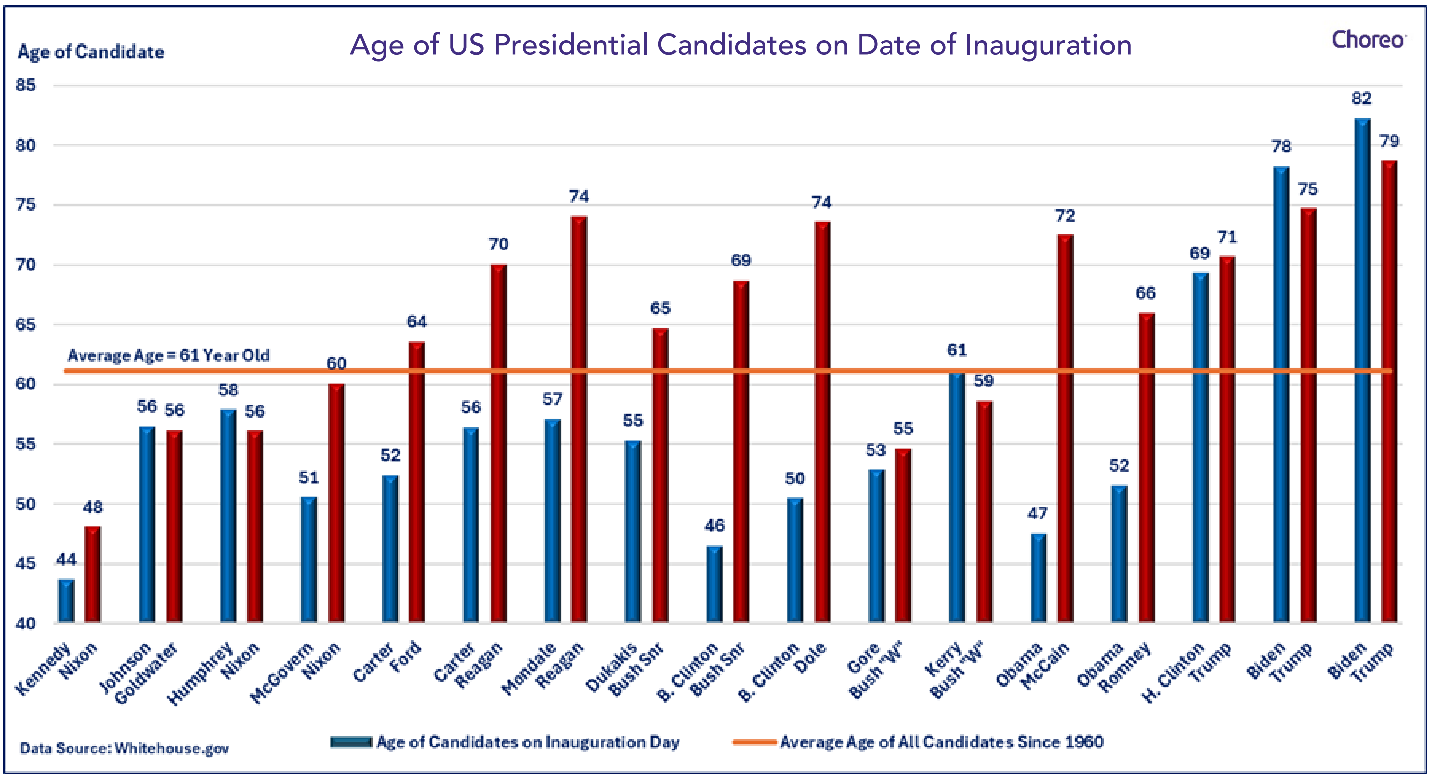
July brings with it several significant events certain to captivate the global audience. The Summer Olympics in Paris begins on July 26, promising to feature a mix of new and established athletic stars on our screens. An even more widely watched global event (which may surprise U.S. residents), the Tour de France (TdF), is currently underway. This grueling three-week race is estimated to attract nearly 3.5 billion viewers worldwide.[1] Global interest will soon shift to an even more challenging event: the 2024 U.S. Presidential election cycle. The Republican National Convention confirmed Donald Trump as the candidate. Recent developments of President Joe Biden's decision to drop out of the race will cause the Democratic Party to reconsider nominees. The election path is also being reshaped by the July 13 assassination attempt of former President Trump. These conventions and the path that follows may be even more important for this election cycle.

Beyond U.S. borders, more than 70 national elections will take place in 2024, with roughly 4.4 billion people heading to the polls to vote – more people than ever before in history.[2] Some elections have already occurred in like Taiwan, Germany, Belgium, France, India, and Mexico. Others, such as in the U.S., are rapidly approaching. This month we explore the historical context to help alleviate some of the market-related concerns which the upcoming election cycle may cause. In short, global markets on occasion can exhibit some level of short-term volatility around important news events but have maintained rationality in the long-term. In other words, elections are "very important" but may not impact the long run as much as investors may think.

[1] https://www.roadtrips.com/blog/the-most-watched-sporting-events-in-the-world/
[2] https://www.idea.int/

What is unique about this election?

In many ways, nothing is unique about this election and in some ways everything is unique. Throughout history, political pundits utter the common phrase every four years: "*this is the most important election in history*." Of course that is an exaggeration, but each election cycle certainly feels that way. The 2024 presidential election will be unique in that at the onset it began with a current and a former President facing one another, which may seem unprecedented. However, this occurred twice previously, the last being in the 1896 election between Grover Cleveland and William McKinley. The more obvious, truly unique angle is that the two major political parties were set to nominate the oldest candidates in U.S. history, President Joe Biden (81 years old) and former President Donald Trump (78 years old). For comparison's sake, the average age of nominees since the Kennedy Administration was 61 years old.



Of course, recent developments have changed this and with President Biden withdrawing as the nominee, there is another unique angle in modern times which will apparently be an open convention. America has not seen an open convention for decades. In fact, no convention has gone past the first ballot since 1952 with state primaries and caucuses helping to predetermine the nominee.[3]

[3] https://www.history.com/news/contested-conventions-presidential-elections

Even though each election feels uniquely important, the reality is they all are important. Many elections also just happen to occur during pivotal times, such as during COVID, or during an economic crisis. These events may impact markets more than the election and the candidates themselves. As a reminder, statistically speaking, elections only occur every four years so even hundreds of years into U.S. history, the sample size of elections is quite small.

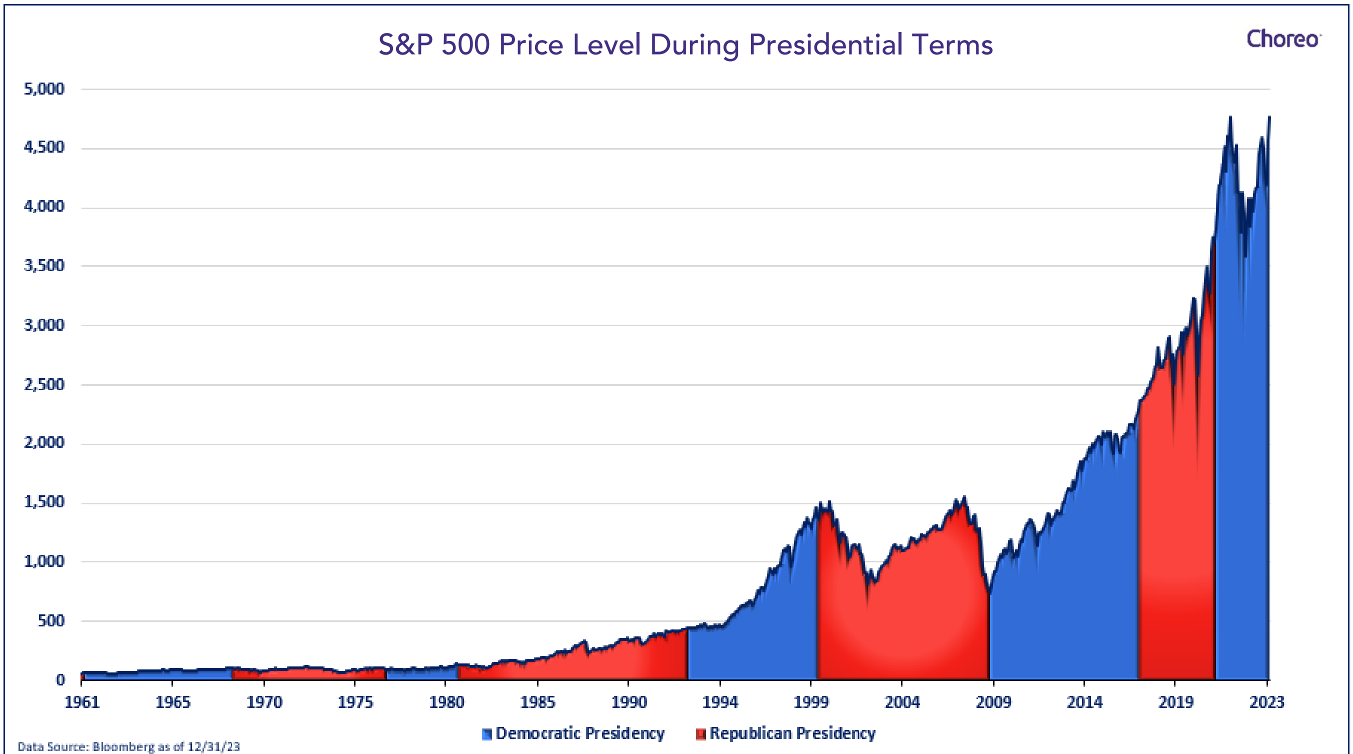
Will this election cycle cause more volatility than others?

Presidential elections can often be divisive and unsettling, raising concerns among investors about how the outcome might affect their investment objectives (among other important issues). Historically, equity performance leading up to and following U.S. Presidential elections have shown mixed results, reflecting in part the uncertainty surrounding leadership. Rather than focusing on the election, which generally has a short-term impact and certainly can create noise and volatility, we suggest investors consider the larger picture. The strong ability of the economic environment to evolve has been proven regardless of the political landscape. It is difficult to determine how, if at all, the party in charge, the election itself, or the candidate will impact markets in any lasting manner.

Does the market perform better with Democrats or Republicans in the White House?

Historically, it hasn't mattered much, and any anomalies that do appear in the data suggesting markets perform better under the leadership of one party or the other may be misleading as market outcomes are largely attributable to other factors. For instance, in the last 64 years, just two of twelve presidencies saw stocks finishing lower than where they started, one being during President George W. Bush's time in office. Importantly, President Bush inherited a recession at the tail end of the internet bubble in the early 2000s, in his first term. The Global Financial Crisis, a culminating event resulting from many years of poor oversight and risky financial practices, occurred during his second term, contributing to market declines. President Ronald Reagan may have had more market friendly policies, though its true his term benefited from timing too. The 1970's were marred by high levels of inflation, restrictive monetary policy and economic strain which contributed to low stock prices. President Reagan entered office in 1981 following nearly a decade of low returns for the major indices. President Obama clearly benefited from timing as well, beginning his term during the depths of the Great Financial Crisis in which markets were near lows. These examples show that market performance is influenced by many factors beyond presidential control, including those of the prior presidents.

The data also suffers from small sample sizes, making it difficult to draw conclusions. While presidential elections can stoke concerns for investors, history shows there is no consistent relationship between which party is in office and stock returns. Rather, stocks have trended higher regardless of whether a Democrat or Republican was in the White House, an ode to the nation's unique ability to adapt. Over the long run, the market has continued to grow, demonstrating the market's trajectory is influenced more-so by broader economic forces than by the political party in power. The following chart and corresponding table below highlight this.



President	Kennedy	Johnson	Nixon	Ford	Carter	Reagan	Bush Snr	Clinton	Bush	Obama	Trump	Biden
First Term Return	16%	24%	17%	27%	28%	33%	51%	79%	(12%)	85%	70%	TBD
Second Term Return		17%	(32%)			64%		73%	(31%)	53%		
Total Return	16%	46%	(20%)	27%	28%	118%	51%	210%	(40%)	182%	70%	TBD

Does the year into the Presidential term matter?

The chart below shows the returns during each year of the Presidents' terms dating back to 1960. One would be hard-pressed to ascribe all the blame (or credit) to the party in the White House at the time of those market returns. Virtually no discernible pattern can be seen, nor can the size of the returns be directly attributed to the party in the office.

S&P 500 Return During Presidential Term by Year

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1960 Election	1964 Election	1968 Election	1972 Election	1976 Election	1980 Election	1984 Election	1988 Election	1992 Election	1996 Election	2000 Election	2004 Election	2008 Election	2012 Election	2016 Election	2020 Election
Kennedy	Johnson	Nixon	Nixon	Carter	Reagan	Reagan	Bush Snr	Clinton	Clinton	GW Bush	GW Bush	Obama	Obama	Trump	Biden
Year One 26.8%	Year Three 23.9%	Year Four 18.9%	Year Three 37.2%	Year Four 32.2%	Year Three 22.5%	Year One 31.6%	Year One 31.3%	Year Three 37.4%	Year One 33.3%	Year Three 28.5%	Year Two 15.6%	Year One 26.9%	Year One 32.2%	Year Three 31.3%	Year One 28.6%
Year Three 22.6%	Year One 12.3%	Year Three 14.3%	Year Four 23.6%	Year Three 18.2%	Year Two 21.4%	Year Two 18.6%	Year Three 30.4%	Year Four 22.8%	Year Two 28.5%	Year Four 10.8%	Year Three 5.4%	Year Four 15.7%	Year Two 13.5%	Year One 21.7%	Year Three 26.2%
Year Four 16.3%	Year Four 11.0%	Year Two 4.0%	Year One (14.8%)	Year Two 6.4%	Year Four 6.1%	Year Four 16.3%	Year Four 7.6%	Year One 10.0%	Year Three 21.0%	Year One (11.9%)	Year One 4.8%	Year Two 15.0%	Year Four 11.9%	Year Four 18.4%	Year Four 14.5%
Year Two (8.8%)	Year Two (10.1%)	Year One (8.5%)	Year Two (26.6%)	Year One (7.5%)	Year One (5.1%)	Year Three 5.1%	Year Two (3.2%)	Year Two 1.2%	Year Four (9.1%)	Year Two (22.1%)	Year Four (37.0%)	Year Three 1.9%	Year Three 1.3%	Year Two (4.5%)	Year Two (18.2%)

Data Source: Ned Davis Research as of 6/29/2024, Calendar year 2024 is a partial year return
S&P 500 Total Return During Calendar year, assumes yearly return begins on Jan 1 of first year of new term, Inauguration is typically Jan 20th of year one of term

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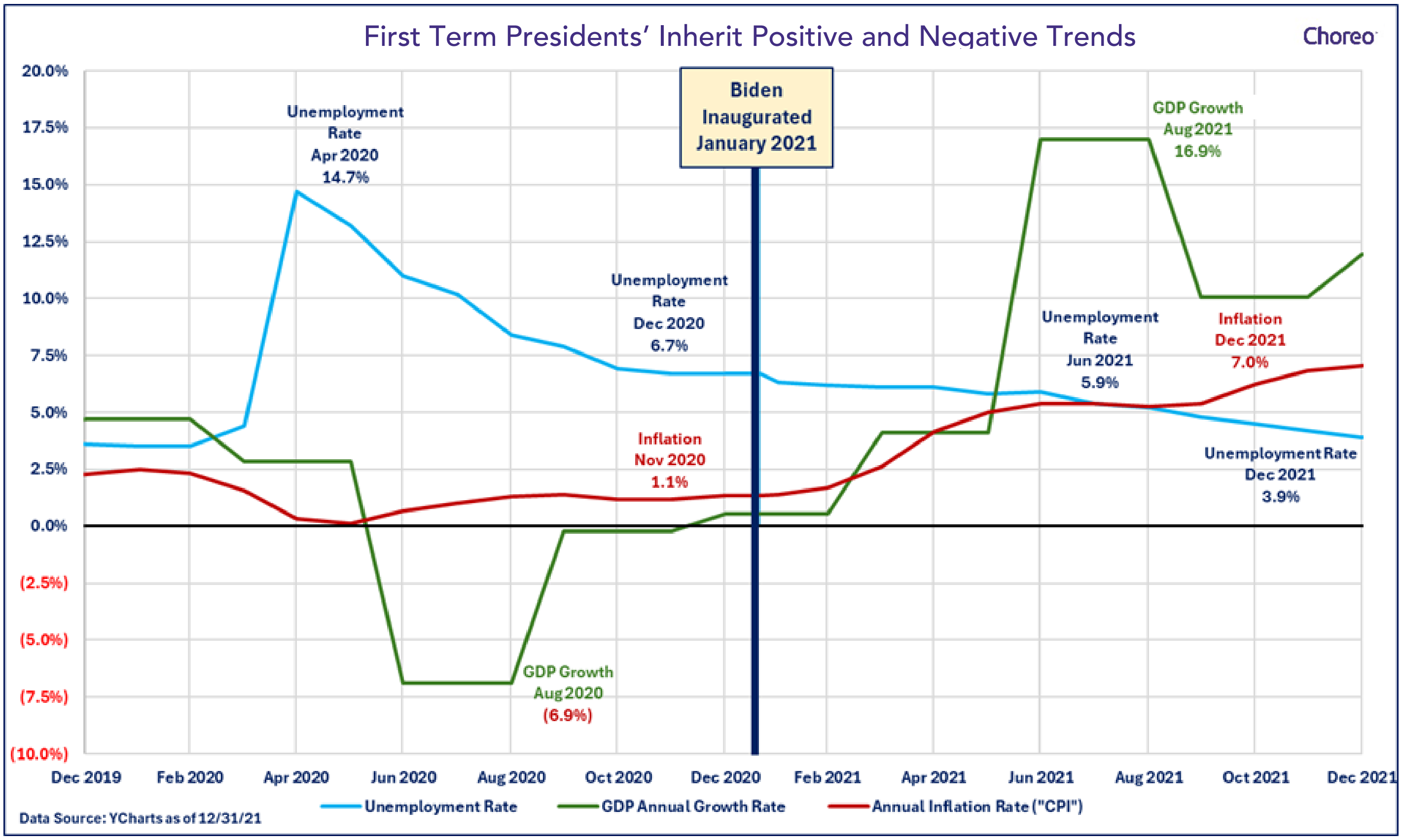
Economic variables, profit growth, valuations and Central Bank policy, all factors which are challenging to predict on their own, play a significant role in driving returns. These factors point towards a long-term focus for a portfolio.

Does Presidential Policy impact markets?

This question can be more ambiguous in that it certainly does matter in many ways. Tax policy, government spending, global trade policy and the size of government are all factors that clearly impact macroeconomic conditions. Importantly, these changes can take years to enact and even longer to be impactful. Neither party has historically had consistent methodologies of dealing with most of the above issues despite commonly held beliefs, and they tend to vary widely by administration so clear trends are difficult to ascertain. Even obvious points such as increased spending in the short run, which seems likely to have positive short-term impacts on economic growth, may have negative long-term impacts in terms of more debt, thereby limiting the effect.

The better question may be whether economic conditions impact Presidential election outcomes. This is more likely to be an affirmative answer. Displeasure with a sitting President may be higher during recessionary periods when people are hurting. Short of a clear recession, when economic conditions are mixed, as was the case during the 2020 election as shown below, outcomes can be more scattered. The employment picture was strengthening prior to Biden's inauguration during the end of Trump's term in office, but GDP had yet to flourish while inflation was just beginning to trend higher. It is during times of clear recessions that the polls may be impacted, such as in 1980 or 2008. Overall, as we sit here in mid-July, economic conditions remain resilient, inflation is still elevated more than policymakers would like, and the labor markets are still reasonably strong (although showing some recent signs of potential slippage). In other words, it is a mixed bag.



Conclusion

Elections are always unique, and it is that uniqueness that makes them similar. While the environment today may seem unusual, remember recent elections: 2020 was in the middle of COVID, 2008 was in the middle of a financial crisis, 2000 at the beginning of the bursting of the internet bubble. Markets, like the economy, are resilient. Short-term volatility is to be expected when major change occurs. Elections themselves are very unpredictable, and therefore the market reaction to elections is even less knowable. Winston Churchill's earlier quote recognized this fact. Elections and politics, as well as markets and economics, are inherently unpredictable. It is this uncertainty that guides our focus at Choreo. We know it is important to understand these trends, the risks, and the potential rewards; but it is important that we work with the client and families that we serve to develop a sound long-term plan which meets the individual goals and objectives.

We hope you and your family are enjoying your summer, and we encourage you to reach out to your Choreo advisor with any questions or comments.

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