Key Questions

November 7, 2023

Election Day is One Year Away. What Should Investors Know?

George Mateyo, Chief Investment Officer

The Key Wealth Institute is a team of highly experienced professionals from across wealth management, dedicated to delivering commentary and financial advice. From strategies to manage your wealth to the latest political and industry news, the Key Wealth Institute provides proactive insights to help grow your wealth.

Election Day is One Year Away. What Should Investors Know?

In almost exactly 365 days from today, Americans will cast their ballots for president, just as they've done every four years for the past 236 years. In this span of more than two centuries, divisiveness has been a defining characteristic. With many candidates already campaigning vigorously, such discord is likely to continue in the months ahead, possibly giving rise to feelings of anxiety among investors.

To be sure, a lot will be at stake on November 5, 2024. While the presidential election will receive the greatest coverage, 435 seats of the House of Representatives and 33 seats in Senate will also be decided. And with near-historically narrow majorities in the House and the Senate, Republicans and Democrats will both undertake great measures to make their candidates known.

In so doing, a large number of office-seekers (and their supporters) will most assuredly claim that this election will be the most consequential election in the history of our country. Such claims are hard to affirm, but these statements by themselves will likely cause the above-cited anxieties to grow.

So, what should investors know as we embark on another election?

First, it is important to recognize that while the markets may influence candidates' fortunes, candidates have little-to-no direct influence over the markets. Instead, larger economic forces carry greater sway. One need not look any further back than the last presidential election, during which Covid-19 was profoundly impacting the economy. Similarly, in 2008, as the financial system shuttered, candidates could do or say very little to arrest the decline in asset values.

That important caveat aside, equity market returns tend to be weaker during election years relative to non-election years. This observation, in large part, is due to some outsized and coincidental events, including the above-referenced incidents. But it may also be reflective of the general uncertainty over the outcome of the election itself.

Such an assertion is borne out by the fact that equity market returns during election years are driven mostly by earnings growth, not multiple expansion (the price investors are willing to pay for a dollars' worth of earnings).

In addition, in many election years, equity markets have generated respectable but not spectacular returns in the first half of the year, only then to meander sideways during the subsequent summer months, before sliding south between August and October. But once the election results were known, stocks typically stabilized and ultimately reverted higher in the months that followed.

For example, in the first six months of 2016, the S&P 500 index gained roughly 6%. The index then traded sideways before falling nearly 5% from mid-August until early-November. In the subsequent six months, however, the S&P 500 gained 10% and accumulated additional gains thereafter.

We would strongly advise against overlaying this recount of 2016 onto what will happen in 2024. But in several other election years, markets have followed this broad pattern: flat-to-negative returns in the months immediately prior to the election followed by a “relief rally” once the election is over and the uncertainty clears.

Quoting my colleague, Steve Hoedt, Managing Director of Equities, “The markets don’t care which candidate wins. The markets care about clarity.” For this reason, during periods when the market is seeking resolution, the best strategy might be doing nothing versus doing too much.

This has been an eventful year; 2024 will be no different. But with the added uncertainty that stems from the unknown outcome of an election, investors will be best served to refrain from letting their emotions overtake them and instead focus on things they can control.

For more information, please contact your advisor.

230426-2042861-1263043966