

PERSPECTIVES

Presidential Elections: What Do They Mean for Markets?

Sep 30, 2024

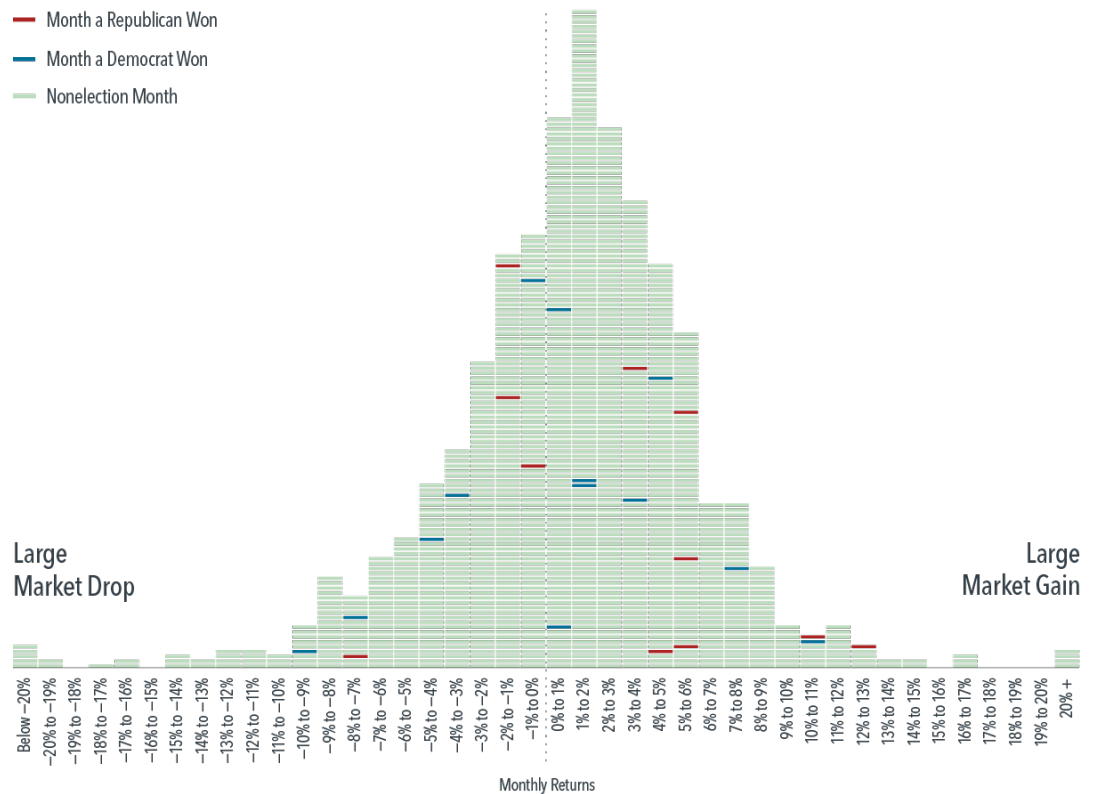
It's almost Election Day in the US once again. While the outcome may be uncertain, one thing we can count on is that plenty of opinions and predictions will be floated in the days surrounding the vote. In financial circles, this will inevitably include discussion of the potential impact on markets. But should elections influence long-term investment decisions?

We would caution investors against making changes to a long-term plan in a bid to profit or avoid losses from changes in the political winds. For context, it is helpful to think of markets as a powerful information-processing machine. The combined impact of millions of investors placing billions of dollars' worth of trades each day results in market prices that incorporate the collective expectations of those investors. This makes consistently outguessing market prices very difficult.¹

Furthermore, data for the stock market going back to 1926 shows that returns in months when presidential elections took place have not tended to be that different from returns in any other month. **Exhibit 1** shows the frequency of monthly returns (expressed in 1% increments) for a broad-market index of US stocks from January 1926–December 2023. Each horizontal dash represents one month, and each vertical bar shows the cumulative number of months for which returns were within a given 1% range (e.g., the tallest bar shows all months in which returns were between 1% and 2%). The blue and red horizontal lines represent months during which a presidential election was held, with red meaning a Republican won the White House and blue representing the same for Democrats. This graphic illustrates that election month returns have been well dispersed throughout the range of outcomes, with no clear pattern based on which party won the presidency.

Exhibit 1 Dash Board

Distribution of Monthly
Returns for the S&P 500
Index, January 1926–
December 2023



Past performance is not a guarantee of future results.

In USD. Dashes representing returns for a given month are stacked in ascending order of return within each column, with highest return within that range on top. S&P data © 2024 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.

It's natural for investors to look for a connection between who wins the White House and which way stocks will go. But shareholders are investing in companies, not a political party. And companies focus on serving their customers and helping their businesses grow, regardless of who is in the White House.

Stocks have rewarded disciplined investors over the long term, [through Democratic and Republican presidencies](#). Making investment decisions based on the outcome of elections, or how investors think they might unfold, is unlikely to result in reliable excess returns. On the contrary, it may lead to costly mistakes. Accordingly, there is a strong case for investors to rely on a consistent approach to asset allocation—making a long-term plan and sticking to it.

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When It's Value vs. Growth, History Is on Value's Side

Large and In Charge? Giant Firms atop Market Is Nothing New.

Under the Microscope: When Stocks and the Economy Diverge

1. The performance of active investment managers casts doubt on the ability of investors to consistently outguess market prices. For more on this topic, see Fama and French (2009), "Luck versus Skill in Mutual Fund Performance."

This material is in relation to the US market and contains analysis specific to the US.

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