VERO BEACH GLOBAL ADVISORS

Registered Investment Advisor

ELECTION INSIGHTS

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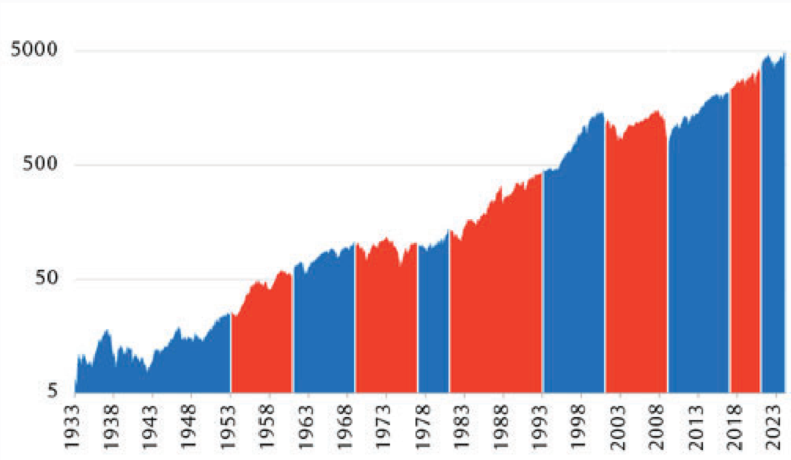
Elections and Long Term Investing Go Hand in Hand

Although presidential elections are catalysts in the years they occur, the election is only one factor of many that influence market performance and long-term investment strategy. Underlying economic trends such as inflation, growth, interest rates, employment, corporate earnings, etc. all have a much stronger relationship with asset returns on an ongoing basis, whereas presidential elections are distinct events happening just once every four years. As a result, it is essential to understand the economic conditions leading up to an election and how they impact the markets after the results are tallied. Because Vero Beach Global Advisors (VBGA) is focused on the long-term success of each individual client's investment plan, we focus on the economics of the market and view politics as a factor when making our investment decisions.

With a few notable exceptions, the election years and the year following have been positive for the US stock market. In fact, during presidential election years in the previous 60 years, the S&P has averaged 7.3% returns, which is slightly under the 8.2% average for that period. In the year following the election, the market has averaged 10.2% returns. Overall, evidence indicates that markets do well around presidential elections. Currently, the S&P is up 17% year to date. There are four notable election year exceptions over the last one hundred years. The most recent was in 2008, when the market declined 20.1% amid the Great Financial Crisis caused by the real estate bubble. The other three years with negative returns occurred amid historical events – the Great Depression, WWII, and the tech bubble.

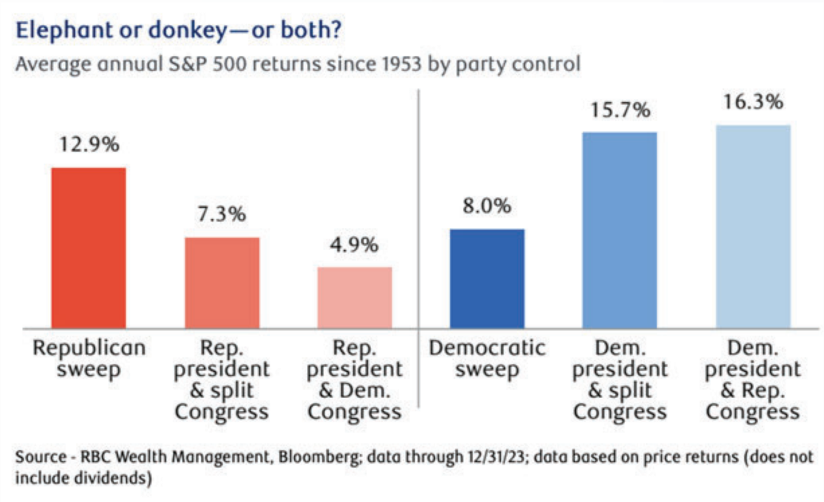
S&P 500 performance since 1933 by presidential party control



Source: https://my.dimensional.com/one-pagers/what-history-tells-us-about-us-presidential-elections-and-the-market

From a party in power perspective over the same period, if a Democrat won the election the returns were on average 5.6% that year and 17.3% the year following. When a Republican won, the returns were 9% that year and 3.1% the year following.

For a perspective of the various scenarios around party control see the following chart:



Source - RBC Wealth Management, Bloomberg; data through 12/31/23; data based on price returns (does not include dividends)

Charles Schwab recently published an article containing statistics around party control of the White House and attempting to time the market. The ballpark results were as follows: If you invested $10,000 starting in 1929 and only left your money invested while a democrat was in the White House, you would have just over $500,000 today. If you did the same for republican administrations, you would have just over $100,000 today. Alternatively, if you had left the money invested the entire time and never removed it from the market you would have just over $5,500,000 today.

This is a controversial election and the differences between the two candidates are stark. Currently, the election is a dead heat with neither candidate having an obvious advantage for victory. However, even though there is plenty of controversy and heightened anxiety on both sides, the market is taking these things in stride. At this point, the market seems more concerned with the economic trends discussed earlier. This tells us that market participants have up until now discounted the drama and rhetoric with a “grain of salt” mentality. Our take is that the “politics” of this election are being viewed appropriately as one factor in a sea of many.
Presently, VBGA has a cautious but positive view of the economy and the markets for the remainder of this year and next, especially considering the Federal Reserve’s easing plan. If they were to lower rates as predicted, the economy should respond positively; thus, increasing corporate profits and higher stock prices

All this research helps to solidify what we always say, buy high quality businesses trading below their intrinsic value that have consistently paid growing dividends in a thoughtfully diversified portfolio. VBGA’s discipline has never wavered from staying invested in the appropriate investment plan regardless of elections, recessions, and world events.

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