MARKET SIGHT LINES

Maintaining Composure During An Election Year

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Throughout the year, my colleagues and I will be talking and writing about the upcoming U.S. elections. As happens every four years, the balance of power will be contested in 2024. In this week's Sight|Lines, we discuss how investors can prepare for the election by reflecting on history and the benefits of maintaining composure up to and through the election itself.

THE TAKEAWAY: KEEP COMPOSURE DURING VOLATILE ELECTION YEARS

Market volatility often increases during election years, especially as Election Day approaches. The stock market typically tends to perform better after an election, and history tells us the results are not related to which party wins the White House. In summary:

- We see presidential elections unfolding in four phases: early primary, late primary, the election itself, and the post-election period.
- On average, market volatility is higher during presidential election years, especially up to and through the election.
- Markets tend to perform better in the three to six months after the election, compared to the same period prior.
- Our analysis of the S&P 500 indicates there's no one "playbook" in an election year when it comes to sectors.
- For the long-term investor, maintaining composure and remaining invested during the uncertainty and volatility of elections may remind us that time in the market is better than timing the market.

IN-DEPTH: ELECTION YEARS CAN BE VOLATILE. HISTORY ILLUSTRATES THAT, FOR LONG-TERM INVESTORS, KEEPING COMPOSURE CAN HELP

Presidential election years can seem more uncertain than other years, and this uncertainty can often lead to increased market volatility. Investors are well served by maintaining composure. Going deeper:

- We tend to evaluate the presidential elections across four phases:
  - In the early primary phase, numerous candidates vie for their party's nomination.
  - In the late primary phase, the field of candidates narrows, allowing voters and investors to study the platforms of these candidates to better understand potential outcomes.
  - Once the primaries are behind us, we make our way through the election itself, where the candidates are known and their platforms and proposals can be further studied.
  - And then in the post-election phase, the winner is known, and we can more fully anticipate what might be changing with the incoming administration and Congress.
- While many factors influence stock market volatility, elections can play a part. The CBOE Volatility Index (VIX), a volatility measure based on the S&P 500, allows us to assess the last eight presidential elections:
  - From 1990 through 2023, the monthly VIX averaged 20.7 during presidential election years, compared to 19.4 in the other years.
  - More importantly, in each such election year the VIX surged from September to October, increasing by an average of 25%. In other years, the VIX fell over that period, on average.
- Markets tend to perform better after the election:
  - In the three and six months after the election, the S&P 500 performed better than the three months prior to the election in seven of the eight election years since 1990.
    - 2000 was the exception, as the market fell when the dot-com bubble burst.
    - The average return for the three months after was 4.1%, compared to -1% prior.
    - The average return for the six months after was 7.6%, compared to 0.5% prior.
- When we look at S&P 500 sectors, there's no one "playbook" in an election year:
  - There's no repeatable pattern of individual sector winners and losers during election years.
  - That said, consistent with the broader index analysis, all sectors tend to be higher 12 months after the election.

CONCLUSION

Presidential election years can be volatile. During these years, and especially as the election approaches, the long-term investor should focus on maintaining composure. Stocks tend to perform better in the wake of the election, on average. This is perhaps one more lesson reminding us that time in the market is better than timing the market.

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