Depoliticize Your Portfolio: 2024 Edition

QPW Perspectives – October 2024

The U.S. presidential election cycle is in the final stretch with only a few weeks remaining before America votes on November 5th. The election process is long, taking almost two years to get through all primaries, conventions, and debates. As we near the end, it is a natural time to share some of Quadrant's thoughts and reminders about how politics impact investment portfolios, particularly as it relates to the largest capital market in the world.

Depoliticize Your Portfolio: 2016 vs. 2024 Edition

Quadrant published an earlier newsletter on this topic in 2016 – a year characterized by populist politics, ugly rivalries, and a divided population. In many ways, the 2024 election feels similar.

In 2016:

- There was no incumbent candidate as President Obama was serving out his final term in office.
- Donald Trump was running against Hillary Clinton.
    - Both candidates were considered widely unpopular at the time.
    - Clinton was the first female presidential nominee in history.
    - Trump (70) and Clinton (69) were among the oldest candidates in history.
- Populism, anti-globalization, income inequality, immigration, and climate change were notable themes.
- One of the candidates was under FBI investigation (Clinton – related to improper use of a private email server).
- Political opinion was divided and polarized.

Many of the above points are the same or similar today, eight years later.

In 2024:

- There is no incumbent candidate as President Joe Biden, in a surprising turn of events, withdrew from the race late into the election cycle.
- Donald Trump is running against Kamala Harris.
    - Harris is the second female presidential nominee in history.
    - Trump, now 78 years old, is the oldest candidate in history. Biden, at 81, would have been the oldest if he remained in the race. Harris will be 60 at the time of the election.
- Populism, anti-globalization, income inequality, immigration, and climate change continue to be notable themes.
- One of the candidates is under criminal investigation(s) (Trump – related to multiple charges including election interference and mishandling of classified documents). This is in addition to criminal convictions related to falsifying business records in a "hush money" scheme.
- Political opinion remains dividend and polarized.

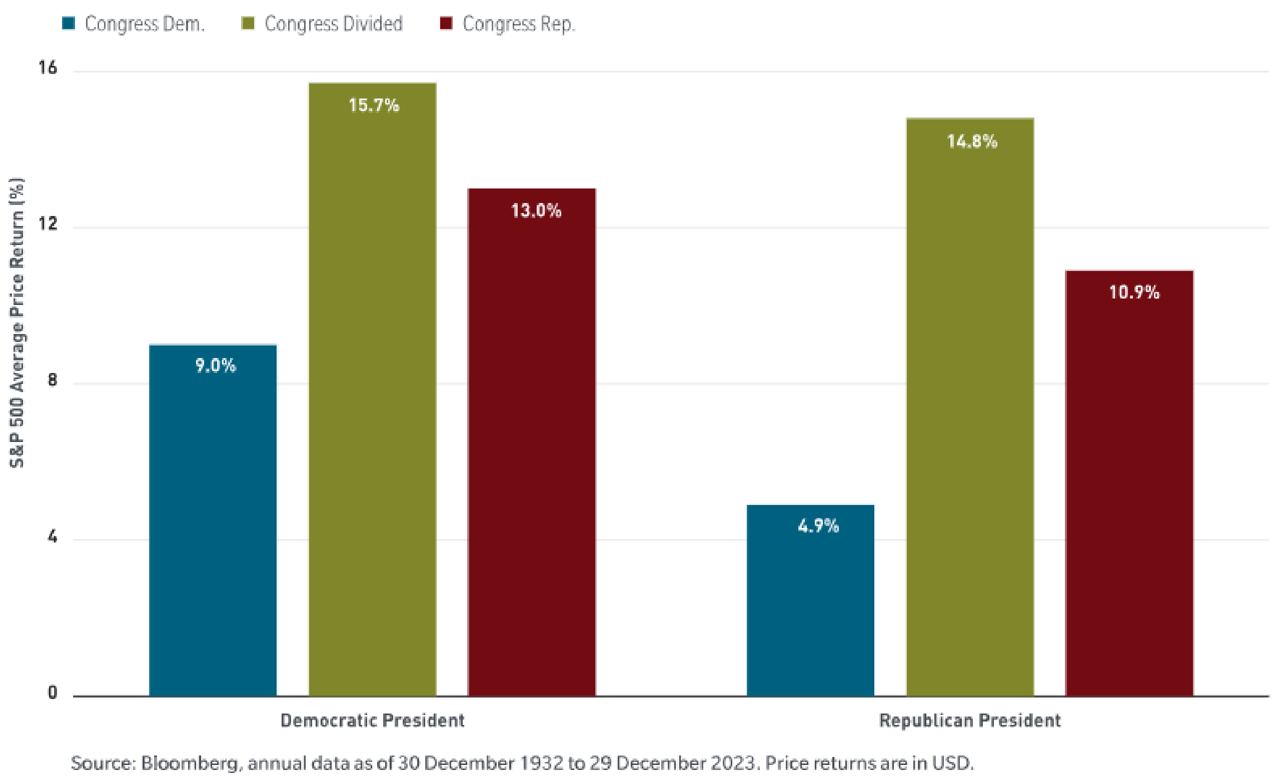
While this is an interesting comparative from a political perspective, what does it all mean for investors? Current polling suggests that the November 2024 election will be a coin-toss as there is no candidate with a dominant lead. How should you position a portfolio in this situation?

Take Politics Out of the Equation

The capital markets are essentially a collection of people around the world making decisions under uncertainty, and based on their own views of the future. During an election year, an additional level of uncertainty is added to investors' forecasts of the future. This increased uncertainty combined with the political emotions of many investors can result in a wider range of speculation within the market – in other words, volatility.

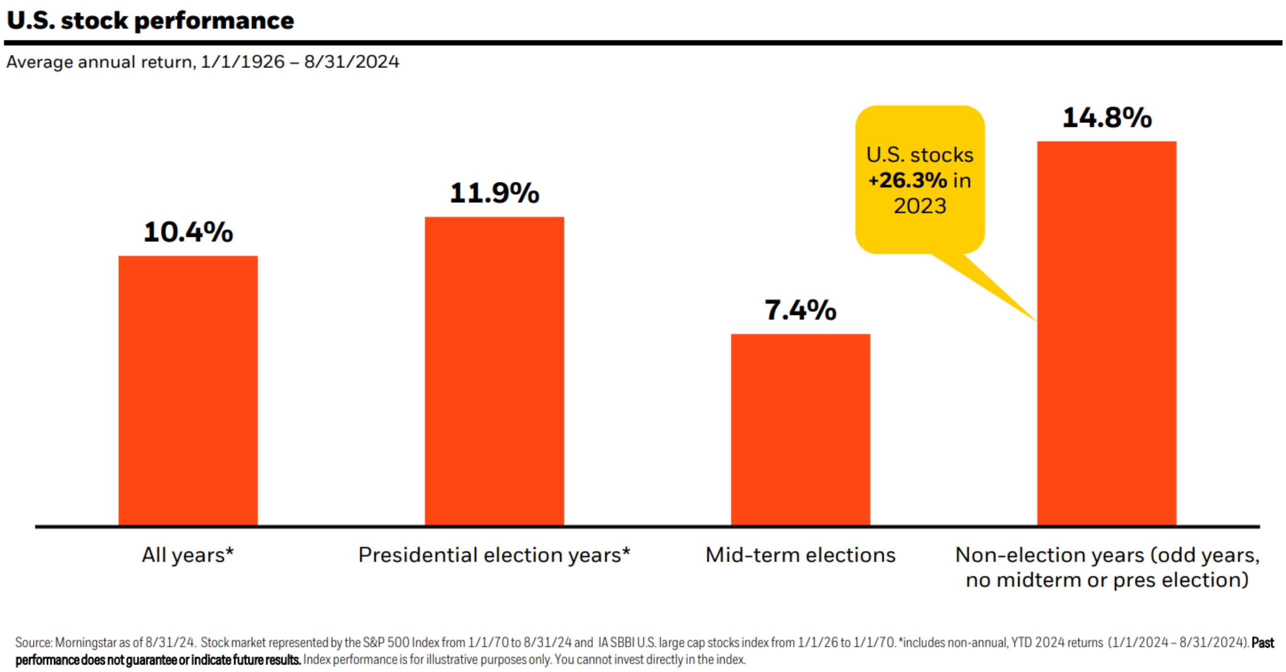
It is certainly true that candidates or parties, in any election, promote different policy positions that may impact businesses, the economy, and taxes, among many other things considered relevant to investments. However, history has shown that there is no clear pattern in how the stock market performs under various presidents or parties.

Below are charts from various sources that look at historical U.S. market performance across different political scenarios.



Source: MFS Investment Management

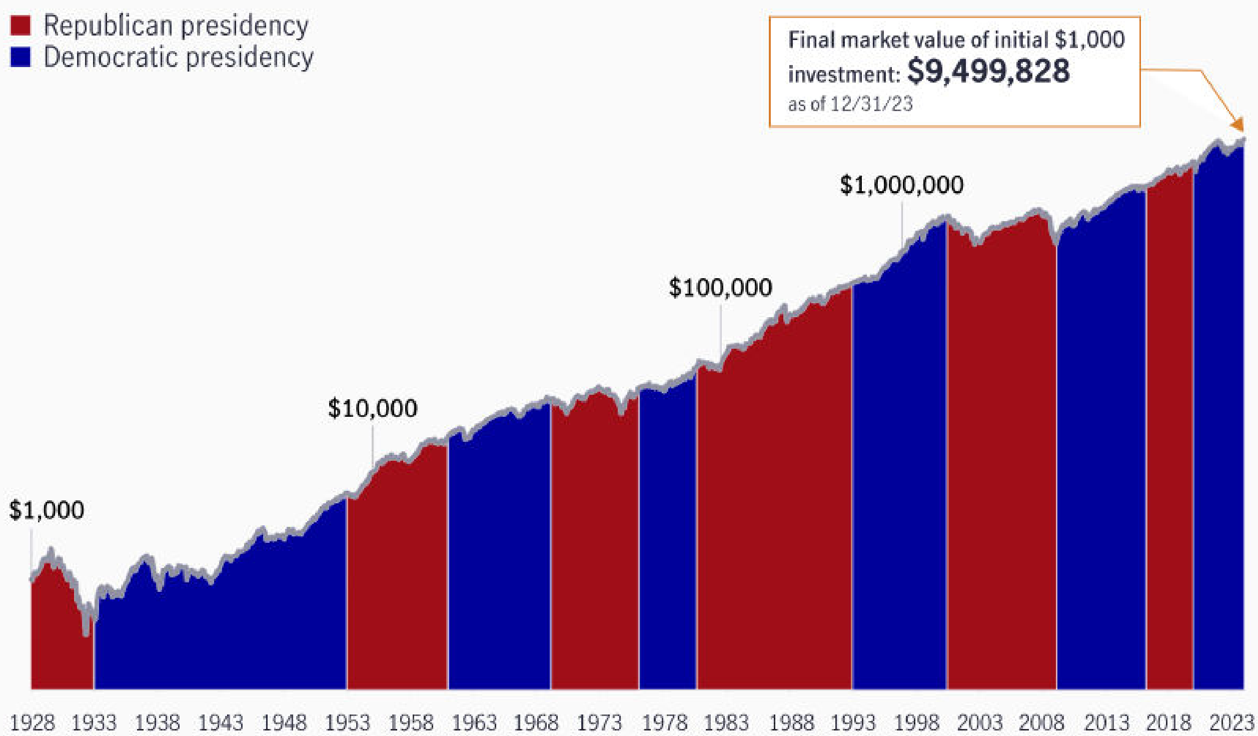
- Since 1932, the U.S. stock market (as represented by the S&P 500 Index) has performed best on average when Congress is divided (different parties control the House and Senate), regardless of which party is in the Oval Office. Markets presumably favour this scenario as it typically limits the amount of significant policy changes that pass legislation – reducing uncertainty.



Source: BlackRock

- U.S. stocks (as represented by the S&P 500 Index) have tended to perform slightly better than average during presidential election years. Years during which there have been no presidential or mid-term congressional elections have historically had the highest returns on average.

Growth of a hypothetical $1,000 investment in the S&P 500 Index, 1/31/28–12/31/23



Source: Morningstar, 2024. A logarithmic scale has been applied to the growth of $1,000 in order to more clearly show changing values during the early decades of the 1928–2023 time span. Dates of political party control of the White House correspond with presidential inauguration months. The S&P 500 Index tracks the performance of 500 of the largest companies in the United States. It is not possible to invest directly in an index. This figure is for illustrative purposes only and does not represent any specific investment or imply any guaranteed rate of return.

Source: John Hancock Investment Management

- Stocks have risen over the long term regardless of which party has held the presidency. Time in the market is what matters – not which political party is in power.

It is important to note that the above charts are presented for the sake of interest and are not meant to be predictive of future performance in any way. In reality there are many factors that have a far more significant influence on market returns than politics. Valuations, corporate earnings, economic growth, demographics, inflation, and interest rates are the real fundamental drivers of market performance. Politicians often bear the blame for a weak economy and receive too much credit for a strong economy because most of the fundamental factors driving it are simply out of their control.

While the political environment continues to remain emotionally charged, betting on one outcome or another is not advisable when it comes to investment portfolios. Even if we had the ability to know with certainty who will win in November, our client portfolios and long-term investment strategy would remain the same. Presidents are not dictators and do not have the power to introduce radical changes at their whim. The president must work with Congress (comprised of the House and the Senate), which is also elected by the voting public, to introduce changes like new legislation or tax reform. This process takes time, involves compromises, and the real effects of any changes can only be seen over a long time horizon.

Nobody knows for certain which candidate will be elected, which proposed policies will be turned into real legislation, or what the ripple effects of any new policies will be on the broader economy or financial markets. Simple narratives are designed to persuade voters one way or another but are often oversimplified and do not consider the complex world we live in. For example, narratives during the 2008 election claimed that electing Obama would put gun-makers out of business and spark a boom in alternative energy. With the benefit of hindsight we see that shares of U.S. gun manufacturers actually outperformed the broad market during that time while clean-energy companies underperformed. Jimmy Carter presided during a time of economic stagnation and high inflation ("stagflation") and left office with a very low approval rating, but stocks still gained significantly during his term (approx. 12% annualized for the S&P 500).

When it comes to investing it is best to focus on things that you have control over. Quadrant maintains a long term view and focuses its efforts on asset allocation policy, manager selection, systematic rebalancing, and understanding our clients' individual financial circumstances. Presidents will come and go, as will business cycles; however, the capital markets will remain a fundamental building block in creating and preserving wealth.

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