Beyond Red vs. Blue: Staying the Course Through Election Noise

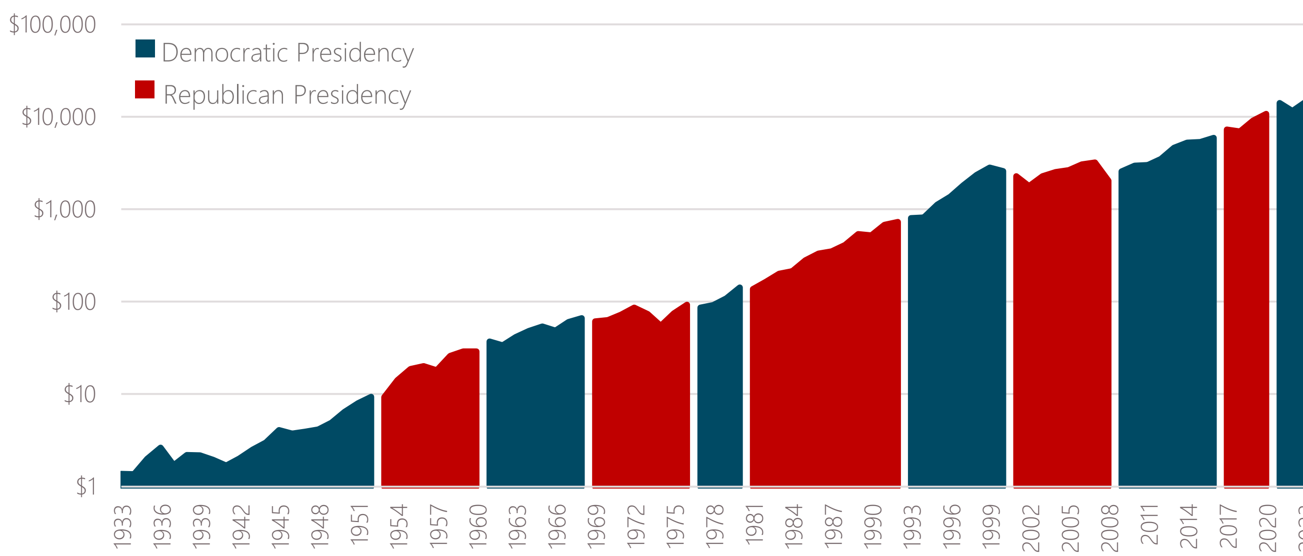
As we near another election season, politics will inevitably occupy a prominent place in investors' minds. Presidential campaigns offer a wave of new policy promises and agendas that look to address kitchen-table issues like jobs, taxes and healthcare.

Presidential elections feel incredibly consequential, as whoever wins control of the White House will be in charge of the policy agenda for the next four years. Investors naturally speculate about how election outcomes and policy proposals might affect their investment portfolios. But the truth is that the economy and markets are generally more indifferent to presidential election outcomes than many people believe. Despite the uncertainty, history shows us that investors don't have to worry too much about how an election result will affect their investments—and keeping this in mind will help maintain a long-term focus and navigate economic uncertainty during 2024.

Investors Win Regardless of Political Party

Conventional wisdom suggests one political party is inherently better or worse for investors than another, but historically, stock returns have been strong under both Democratic and Republican presidents. In looking at past returns since 1932, Democratic presidents have seen stocks advance by 8.6% on average compared to an average advance of 6.6% under their Republican counterparts.

S&P 500 Index: Growth of Dollar Based on Political Party
1932 to 2023

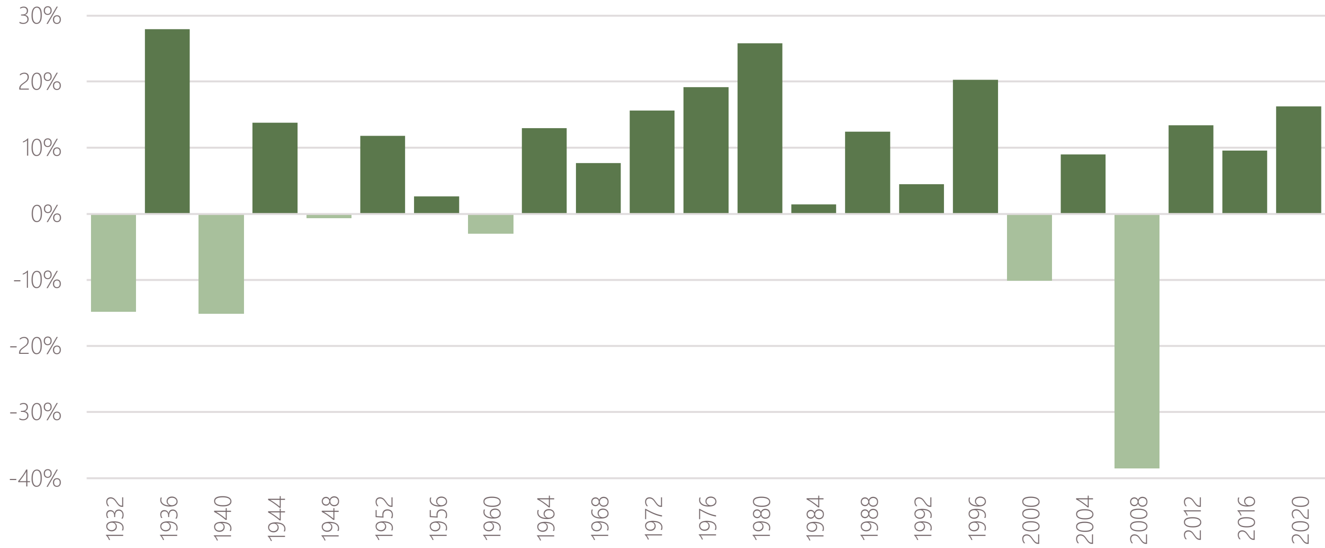


Source: S&P/Crescent Grove Advisors. As of Dec 31, 2023.

But these numbers don't tell the full story. When removing outlier periods from the averages—the boom years under Bill Clinton and the subsequent dot-com bust and Global Financial Crisis under George W. Bush—the difference in returns between parties is practically zero, suggesting investors interpret historical relationships with a healthy skepticism.

Stocks Have Been Positive 20 Out of 24 Election Years (83%)

S&P 500 Index: Election Years, Since 1932

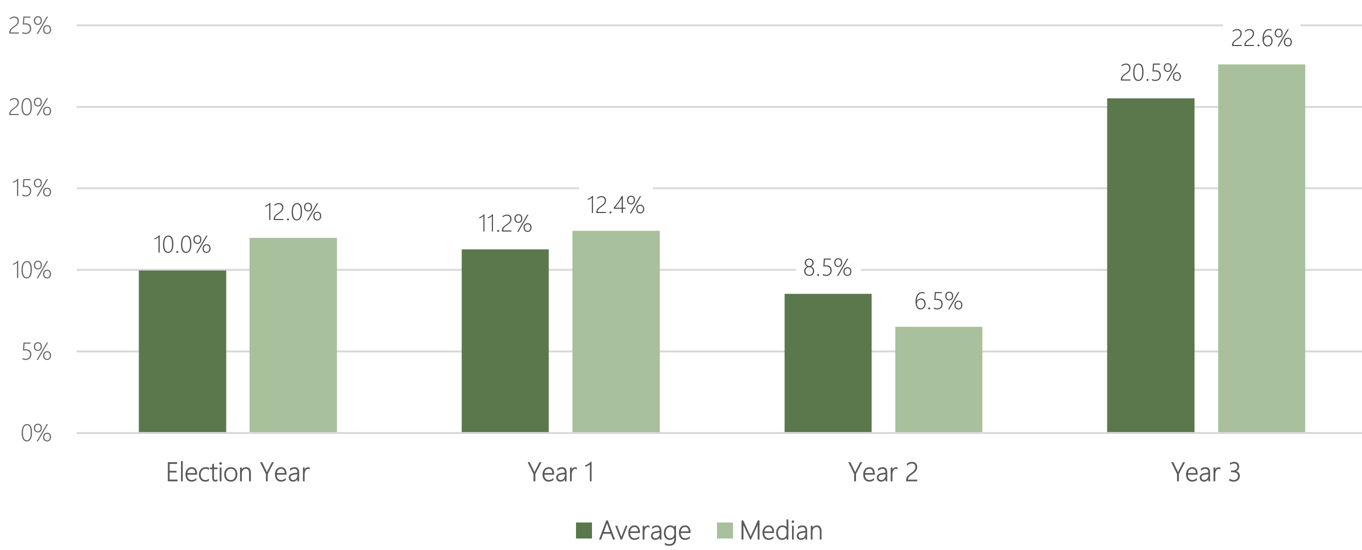


Source. S&P, Crescent Grove Advisors. As of December 31, 2023. Past performance is not a guarantee of future results.

Furthermore, the stock market has typically performed well during presidential election years, despite all the uncertainty and media chatter. The S&P 500 has delivered positive annual returns in 20 out of 24 presidential election years between 1932 and 2020. During the 24 presidential election years that occurred in that 88-year period, the S&P 500 delivered an average of 10% annual returns during an election year, and on average, continued to produce positive returns for each of the three years following an election year.

S&P 500 Index: Returns by Presidential Year

Since 1932



Source. S&P, Crescent Grove Advisors. As of December 31, 2023. Past performance is not a guarantee of future results.

Checks and Balances

Contrary to popular belief, the stock market actually does better when the White House and Congress are controlled by two different parties. According to S&P data, stocks delivered an average of 12.9% annual returns between 1932 and 2023 when Republicans were in charge of both the White House and Congress, and 9.0% during that time when Democrats were in power of both branches of government.

However, when there was a Democratic president and a Republican-controlled Congress between 1932 and 2023, the S&P 500 delivered higher annual returns—of 14.0%. And, stocks have delivered average annual returns of 13.6% when there was a Democratic president and control of the House of Representatives and Senate were split.

In other words, political gridlock can actually be good for investors because it makes it harder to pass sweeping policy changes that could negatively affect the economy. When policy is stable, corporate executives have greater certainty when planning new investments and cash flows. In the same way, it's important to note the US economy is big, resilient, and dominated by the private sector, meaning the vast majority of economic activity is outside the direct control of politicians.

What Really Matters

While it's easy to attribute stock price action to one party's politics, the reality is more nuanced, and market performance is not so easily tied to election cycles or political agendas. Political headlines may drive performance narratives in the near term, but over the long term, returns are driven much more by underlying fundamentals. The path of monetary policy, the ebb-and-flow of the economy, and the strength of corporate earnings are all more important factors than policy decisions emanating from the White House. In the end, it's the economic backdrop, not the political party in control of the White House, that's more relevant to understanding why stocks go up or down.

Key Takeaways

It's natural to be concerned about elections, but history suggests they have minimal impact on portfolios and markets over the long-term. In the long run, it's a fool's game to try to predict how the US economy and markets will respond to election cycles or political outcomes. Instead, investors should allow their long-term goals and needs to guide their investment decisions. Ultimately, data says the American economy and stock market are not drastically affected by the outcome of presidential elections—and in fact, all that uncertainty can be much ado about nothing.

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