Insights
Geopolitics

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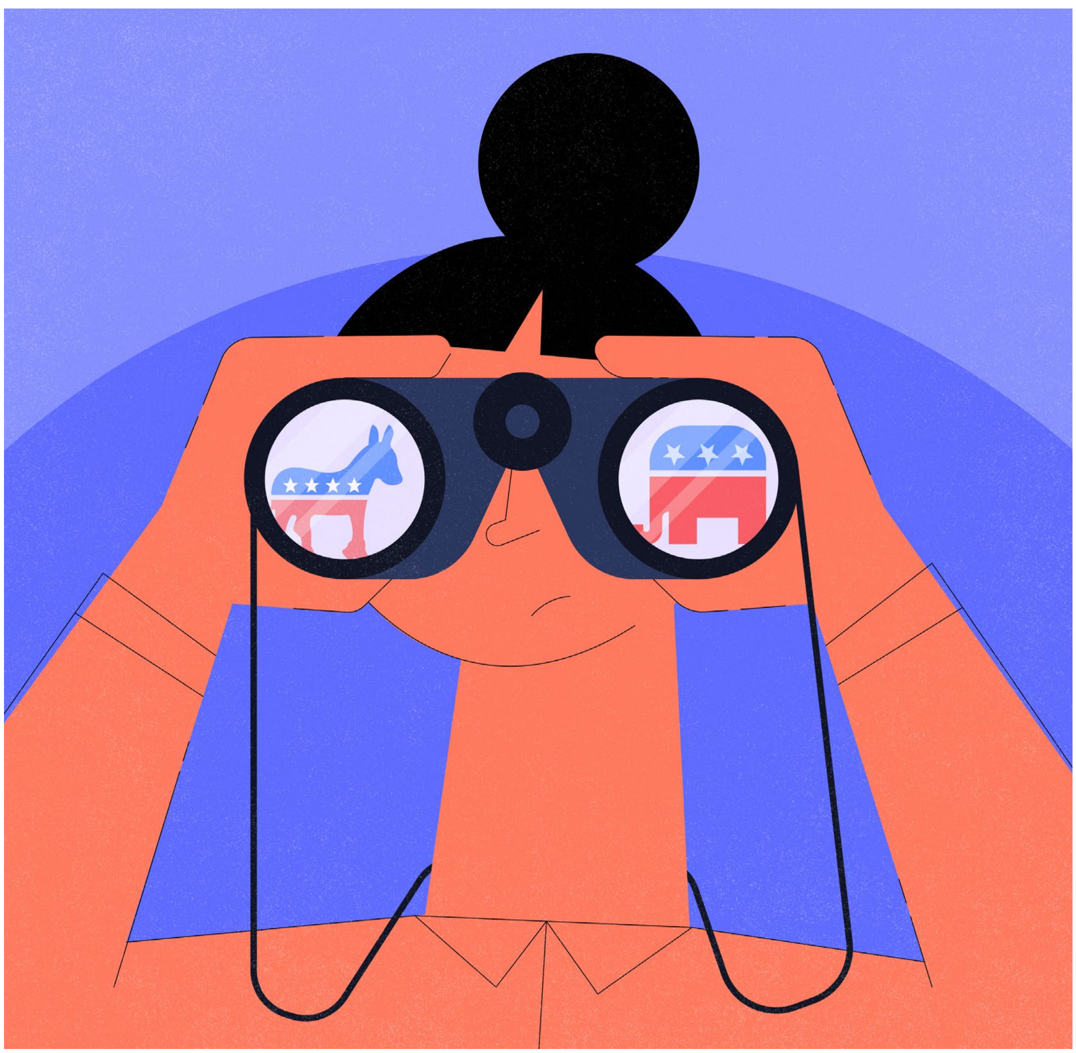
5 Reasons to Stick to Your Plan During Election Season



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If You're Feeling Anxious About the US Presidential Election, You're Not Alone

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A recent Yahoo News/YouGov poll found that when survey respondents were asked to select the emotion that best described their attitude toward the 2024 election, "dread" topped the list at 40%.[1]

Maybe you've even thought about making changes to your portfolio. You may want to reconsider. Our analysis of returns during US election cycles since the late 1940s suggests that staying committed to your long-term asset allocation plan and financial goals is the better choice.

That's because while elections matter deeply to voters, they don't seem to matter all that much to markets.

Here's what our analysis found.

1

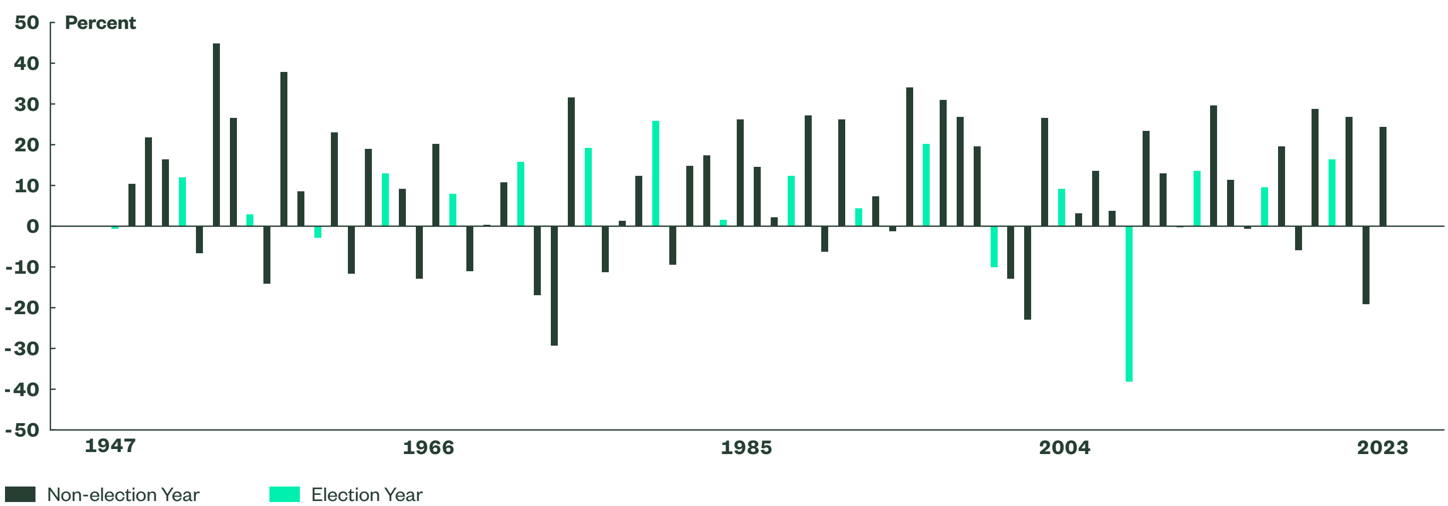
There is just a modest difference between election year and non-election years returns.

Since 1947, the S&P 500 Index has returned an average of 7% in election years and 10% in non-election years. Note though that election years' 7% is significantly impacted by the -38% drawdown in 2008 during the Global Financial Crisis (Figure 1).

Without that outlier, the election year average is 9.4%, closer to the non-election year average that covers far more years.[2]

Figure 1

S&P 500 Index Annual Price Return: Election Years vs. Non-election Years



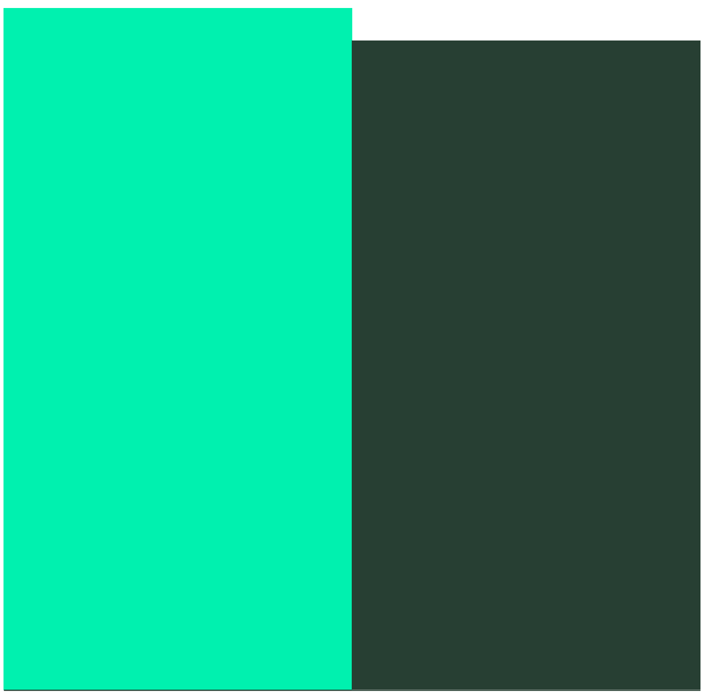
Source: Bloomberg Finance L.P. as of December 31, 2023. State Street Global Advisors. **Past performance is not a reliable indicator of future performance.**

2

If elections create volatility, it's typically short-lived.

Election year market volatility seems to be related to the uncertainty leading up to Election Day, as volatility tends to subside after the election.[3] And our analysis shows the S&P 500's average volatility in election years is quite similar to non-election year volatility (Figure 2).

Figure 2
Average S&P 500 Volatility in Election Years versus Non-election Years



Election Year
14.8%

Non-election Year
14.1%

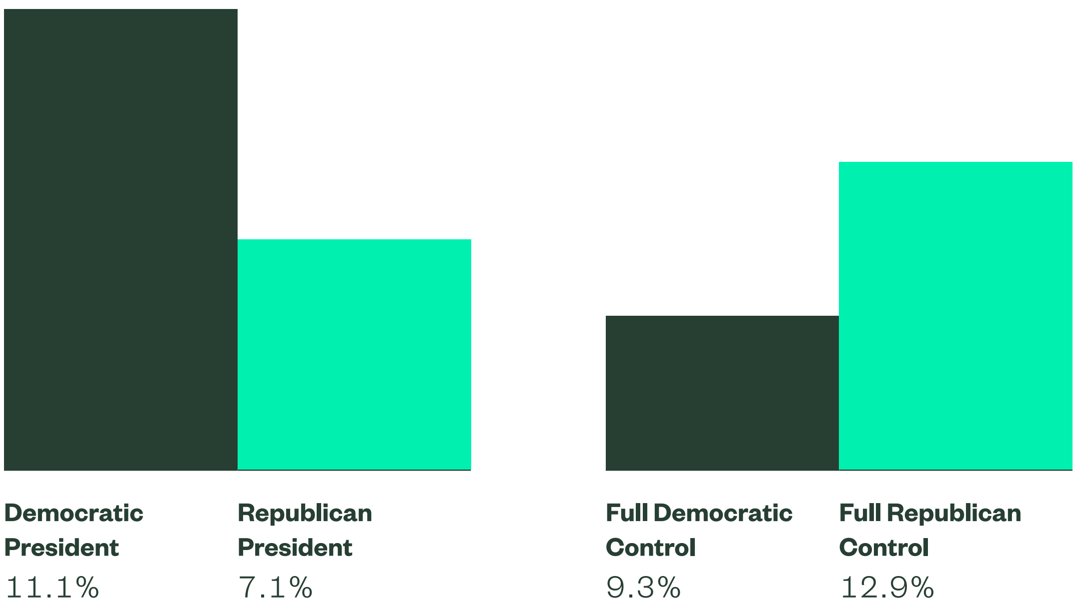
Source: Bloomberg Finance L.P., as of December 31, 2023. State Street Global Advisors. **Past performance is not a reliable indicator of future performance.** The standard deviation of returns is the annualized volatility of daily returns, and averaged for the calendar year.

3

Party affiliations inconsistently impact returns.

Annual average returns with a Democrat as president (11%) are greater than under a Republican president (7.1%). But full Republican control of the White House and Congress has produced a higher average return (12.9%) than full Democratic control (9.3%) (Figure 3).

Figure 3
Average S&P 500 Index Annual Price Return Based on Party Affiliation



Source: Bloomberg Finance L.P., as of December 31, 2023. State Street Global Advisors. **Past performance is not a reliable indicator of future performance.** Full Democrat Control = Democrat President, Democrat-led Senate, and Democrat-led House of Representatives. Full Republican Control = Republican President, Republican-led Senate, and Republican-led House of Representatives.

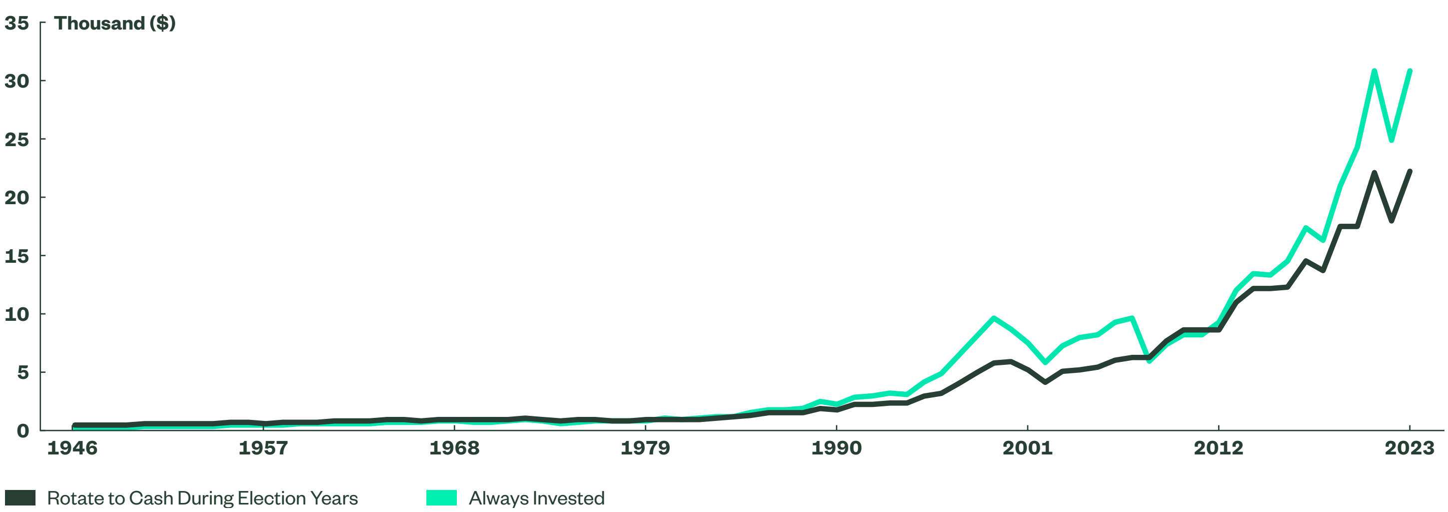
4

Timing elections can erode long-term returns.

If you're really feeling uneasy about the election and its impacts, you may be tempted to pull out of the market — especially if you're close to retirement.

But before you act, consider what would have happened if an investor had rotated into cash at the start of each presidential election calendar year and then bought back into the market at the end of that election year. That investor would have cumulatively underperformed the investor who stayed in the market by 9,000%, since 1947 (Figure 4). You read that right, 9,000%. As always, time in the market is a better tactic than timing the market for long-term wealth creation.

Figure 4
Growth of $1 Always Invested Versus Timing Election Years



Source: Bloomberg Finance L.P., as of December 31, 2023. State Street Global Advisors. **Past performance is not a reliable indicator of future performance.** Always invested is the price return on the S&P 500 Index. Cash return as measured by the annual yield on the US 3-Month T-Bill. Portfolio would move to cash on the first day in the year of an election and go back into the S&P 500 on the first day of the next year. S&P 500 Index return is price return only and does include the reinvestment of dividends.

5

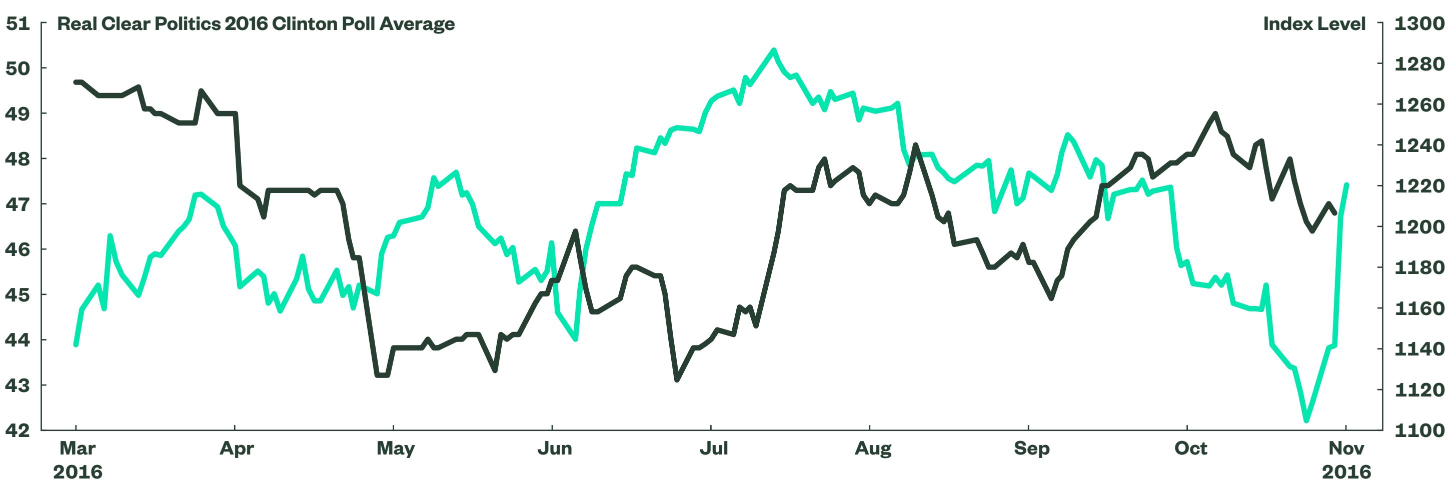
Policy shifts may create sector opportunities.

If a candidate campaigns on tax breaks for energy producers, lowering drug prices, or increasing national defense spending, companies in those sectors could be positively or negatively affected. So, election season can be a time to consider new opportunities at the sector level.

For example, remember how the biotech and pharmaceuticals industry rallied significantly after Donald Trump defeated Hillary Clinton in the 2016 presidential election? During that campaign, Clinton had discussed capping drug prices, and the industry's returns trended with her poll numbers (Figure 5).

Figure 5

Biotech & Pharma Followed Clinton's Poll Numbers in 2016



Real Clear Politics 2016 Clinton Poll Average
S&P 500 Pharma, Biotech, and Life Sciences Index (Industry Group)

Source: Bloomberg Finance L.P., as of December 31, 2023. State Street Global Advisors. **Past performance is not a reliable indicator of future performance.** Election date was November 8, 2016.

Resources to Support Your Long-term Goals

Voters are likely to have strong feelings about the 2024 election. But in the most uncertain environments, sticking with your financial or investment plan can help you avoid emotional investing mistakes and keep your long-term goals of capital preservation, wealth creation, and income generation in focus.

Look to our election resources, macroeconomic trends coverage, and sector thought leadership, for continued insight leading up to decision day in November.

Election Resources

Examine various aspects of the election and their market implications.

Macroeconomic Trends Coverage

Stay updated on the latest macro trends and how they affect markets.

Sector Thought Leadership

Learn how to diversify risk and implement sector investing strategies with ease.

Endnotes

1 "Yahoo News/YouGov poll: 'Dread' tops list of Americans' feelings about 2024 election — but 'optimism' is growing", Yahoo March 13, 2024

2 Bloomberg Finance L.P. as of December 31, 2023. State Street Global Advisors.

3 The average pre-election rolling 100-day daily return volatility is 12.72% (11.7% ex-2008) versus average post-election rolling 100-day daily return volatility is 12.71% (11.07%) per Bloomberg Finance L.P. as of December 31, 2023. State Street Global Advisors.

About State Street Global Advisors

For four decades, State Street Global Advisors has served the world's governments, institutions and financial advisors. With a rigorous, risk-aware approach built on research, analysis and market-tested experience, we build from a breadth of index and active strategies to create cost-effective solutions. As pioneers in index, ETF, and ESG investing, we are always inventing new ways to invest. As a result, we have become the world's fourth-largest asset manager* with US $4.13 trillion† under our care.

* Pensions & Investments Research Center, as of December 31, 2022.
† This figure is presented as of December 31, 2023 and includes approximately $64.44 billion USD of assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated.

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Because of their narrow focus, sector investing tends to be more volatile than investments that diversify across many sectors and companies.

Unless otherwise noted, all data and statistical information were obtained from Bloomberg Finance, L.P. Morningstar and SSGA as of March 19, 2024. Data in tables have been rounded to whole numbers, except for percentages, which have been rounded to the nearest tenth of a percent.

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Investing involves risk including the risk of loss of principal.

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