COUNTRY Trust Bank

Financial Planning Insights – Elections, Markets, and Your Money

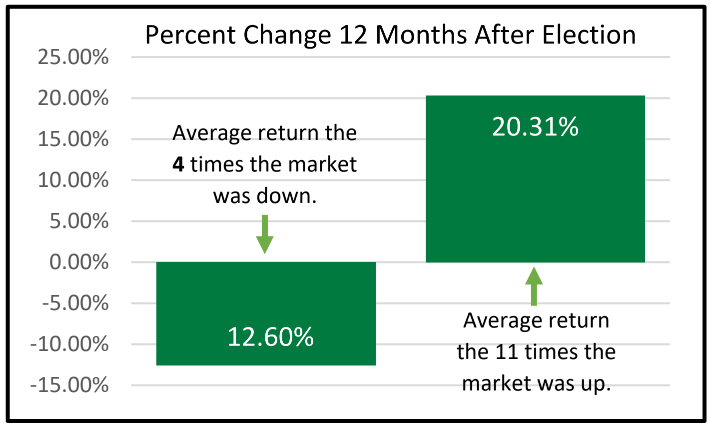
Timely insights that you can use.

With almost every election we hear questions about the potential impact on the markets and the money we have saved for our future goals. Regardless of political leanings, it's easy to see why so many people wonder how their money might be impacted by election outcomes. In this edition of *Financial Planning Insights* we'll explore some of what history may have to say about these questions.

How have the outcomes of past presidential elections impacted the stock market in the short-run?

We can all agree that the stock market is a volatile investing environment. Seemingly endless influences cause it to rise and fall on a minute-to-minute basis. Looking back to the election won by Lyndon Johnson in 1964, 4 out of 15 times the S&P 500 Index was negative over the 12 months following the election. Of course, that means that 11 out 15 times it was positive. The average loss for the four negative events was -12.60%. The average gain for the eleven positive events was 20.31%. Keep in mind that if you're investing in the stock market you really should have a much longer investment time horizon than just 12 months.

Figure 1



How have the outcomes of past presidential elections impacted the stock market in the long run?

Investors in the stock market have the potential to be rewarded for the risk they take with a better chance at positive returns when choosing to stay invested for long periods of time. Looking at the same 15 elections as before, as indicated in the chart below, investors who stayed invested for the 10 years following a presidential election experienced positive returns in each instance, with the average of these 10-year annualized returns (including dividends) being 9.61%. This ranged from a low of 1.24% as the annualized return over the 10 years following Johnson's 1964 election, to a high of 19.21% over the 10 years following the election of George. H.W. Bush in 1988. Returns depended more on economic activity than presidential influence.

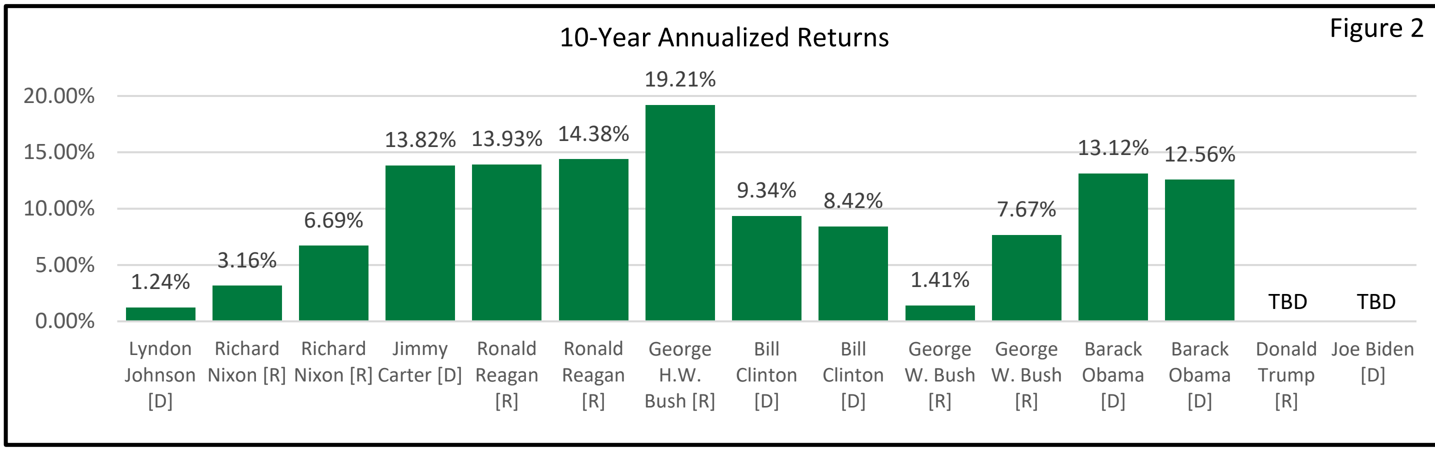


Figure 2

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Does it tend to matter which party wins a presidential election?

The outcome of elections can be very important to society but tends to be far less important to the financial markets. Historically speaking, when we look at a portfolio comprised of 60% stocks and 40% bonds, it doesn't seem to matter much which party wins an election. Positive returns were still experienced most of the time. That's even more true if we look at the 4-year period associated with each president's term in office. Looking at the same group of elections beginning in 1964 with Lyndon B. Johnson's service as president, we see the following outcomes.

Figure 3

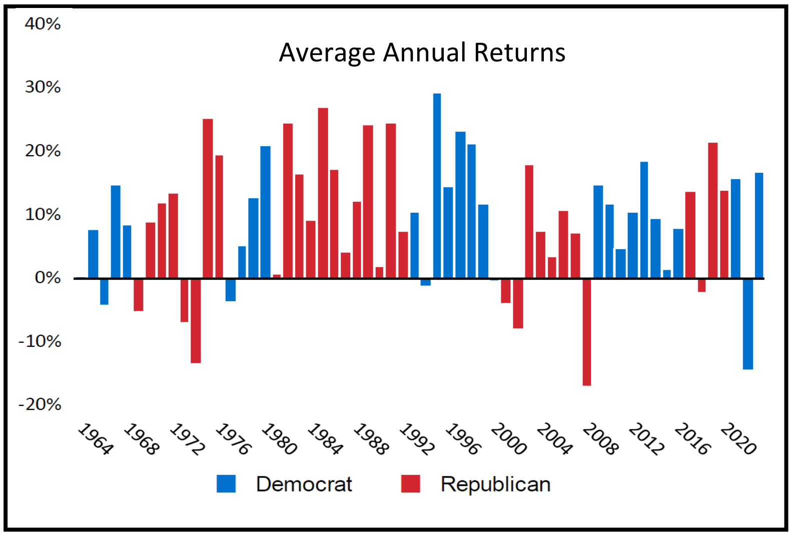
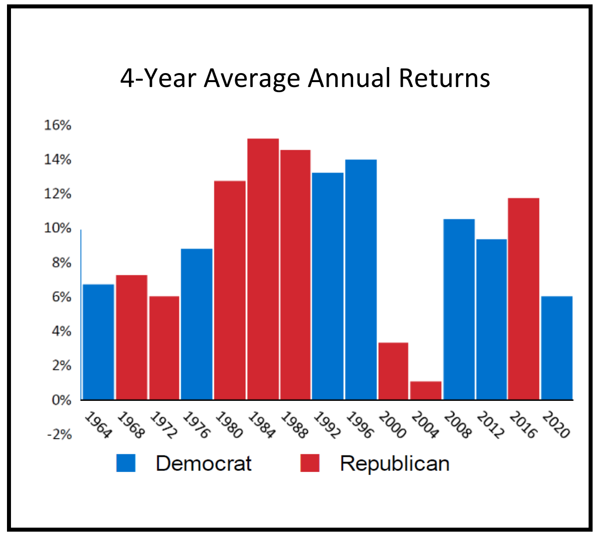


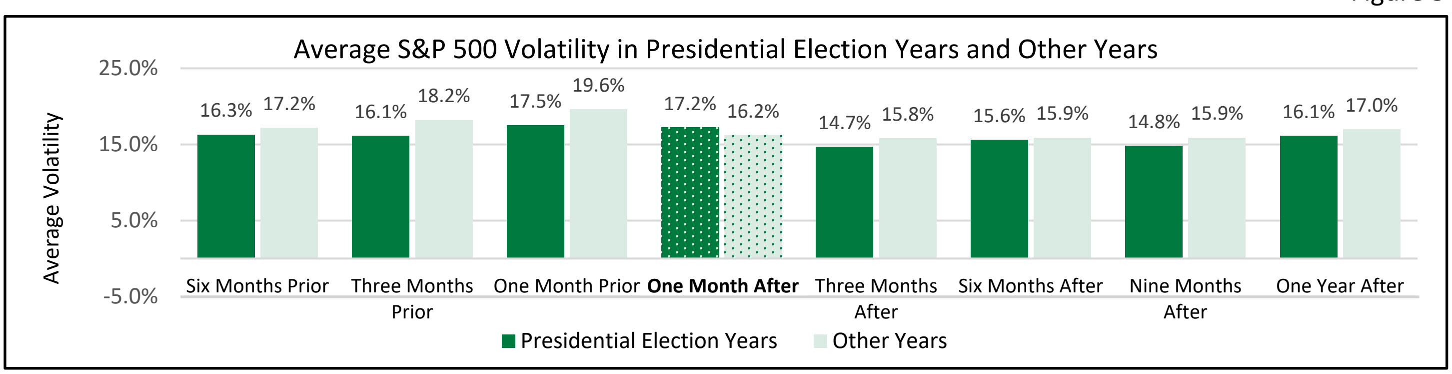
Figure 4



Should I just sit things out on the sidelines until everything is over? Won't the election make things riskier?

It would be natural to assume that elections might introduce more risk into the markets. However, from a historical perspective, the evidence does not support this conclusion. In fact, when observing stock market performance, as measured by the S&P 500, from December 31, 1927 to December 31, 2023, we see that, with the exception of the month immediately following a presidential election, volatility (a common way to measure risk) is actually ***lower*** on average in the months leading up to and following presidential elections when compared to other years.

Figure 5



So, while it may be tempting to ride things out on the sidelines, history suggests that when measuring risk by volatility, on average we have *less* to be worried about during presidential election years than we do the rest of the time.

Summary

Investing in the markets always involves some measure of risk, and it is extremely difficult to predict how things will perform in the short run. The historical evidence suggests that basing investment decisions on presidential elections is an ineffective approach. While elections absolutely matter to society, their short and long-term influence on the financial markets is very minimal. Broader economic influences, including the profitability and management of the companies whose stocks comprise the stock market, are far more significant factors influencing the investment success.

Prudent investment principles and processes should be followed, regardless of it being a presidential election year or not. Here are some things to keep in mind as you approach your investment goals.

- **Building and maintaining an emergency reserve is important**. Most people should have three to six months of their day-to-day spending needs in a safe, liquid, accessible account at your local bank or credit union. Interest rates are higher today than they've been for many years, so your emergency fund may actually grow a little too!
- **Remember that the asset allocation of your investment portfolio will have far more impact on your investing experience than will the elections**. Your portfolio should be properly diversified to help mitigate risk. If you're unsure how to do so, reach out to your COUNTRY Trust Bank® Financial Advisor to talk about appropriate asset allocations for your goals and risk profile. The goal is a diversified portfolio, not just a hodge-podge collection of different investments.
- **Allow dollar-cost averaging to take some of the potential edge off the pain**. By systematically investing on a regular basis, you'll have a smoother investing experience with less risk of being on the wrong side of market volatility.
- **Keep your eye on the goal**. For many people that might be a retirement goal that is still years, if not decades away. In the short term, the financial markets jump around a lot. In the long term, they are powerful instruments for accumulating assets and helping to produce retirement income. If your goal is short-term in nature, consider alternative investing strategies that don't expose you to the ups and downs of the stock market. Your COUNTRY Trust Bank® Financial Advisor can help you identify those investing approaches which make the best sense for your goals.
- **Have a plan**. Investments are simply tools to help you accomplish your goals. The financial markets are simply some means to deploy your investment dollars to help you reach those goals. Having a financial plan helps bring context to your investments and can illuminate the consequences of different investing approaches on your goals. A plan also helps keep you grounded and able to understand whether a short-term event creates any long-term disruption to the attainment of your goals. Talk with your COUNTRY Trust Bank® Financial Advisor about how they can help you analyze your financial situation and formulate some plans to achieve the goals that are important to you. As Sir Francis Bacon is credited with saying over 400 years ago, "Knowledge is power." Having a financial plan brings you understanding and knowledge that are difficult to attain without one, and which put you in a position of power to make well-informed decisions, regardless of the outcomes of presidential elections.

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Figures 1 & 2	Source: Slickcharts, S&P500 Historical Annual Returns. https://www.slickcharts.com/sp500/returns. 2024. Notes: Total returns include two components: the return generated by dividends and the return generated by price changes in the index. The site's research and commentary on the financial markets is based upon information thought to be reliable and is not meant as investment advice or does not imply investment advice. Information and historical data is obtained from sources which the site believes reliable, but the site does not guarantee its accuracy.
Figures 3 & 4	Source: The Vanguard Group. *A historical perspective on investing and politics*. 2024. Notes: A 60% stocks/40% bonds model portfolio consists of: 60% IA SBBI US Large Stock Total Return Index and 40% IA SBBI US Intermediate-Term Government Total Return Index.
Figure 5	Source: T. Rowe Price. *How do U.S. elections affect stock market performance.* May 2024. https://www.troweprice.com/en/us/insights/how-do-us-elections-affect-stock-market-performance

Special thanks to Emily Meldrum and Kent Anderson, CFA, and the rest of the dedicated professionals of the COUNTRY Trust Bank® Wealth Management team who helped obtain and assemble some of the historical market data in this report.

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