Taking Stock of Election Year Markets

The presidential election is certain to dominate the news in 2024. But how might it affect the stock market?

On average, stocks have underperformed long-term averages in the year leading up to an election, but there are many exceptions.*

Just when you thought you had your fill of politicians and politics, another presidential election year is upon us. The coming year promises to be dominated by primaries, debates, conventions, rallies -- and politics, politics, politics. But there is another side of election years to consider: the stock market. Are stocks likely to outperform or underperform in an election year?

The Theory

Much research has centered on this subject. In fact, there is a *presidential election cycle theory* asserting that stock market returns follow a predictable pattern with every four-year presidential election cycle. The theory posits that markets perform the worst in the first year, better in the second year, best in the third year, and then moderate in the fourth year -- the election year.

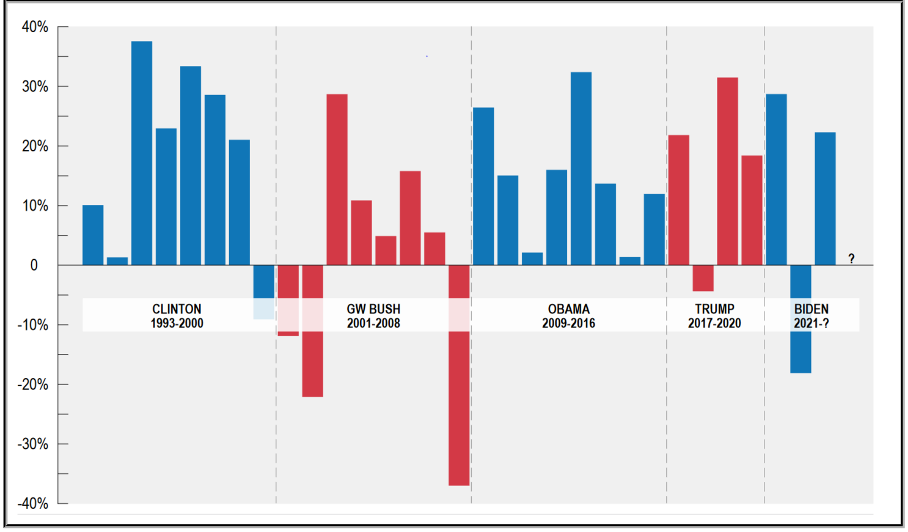
The reasoning behind the pattern is straightforward. A newly elected president will typically spend the first year trying to fulfill election promises, which may not be favorable to the market. In the second year, he or she will hit their stride, and investors will get more comfortable with their policies. In the third year, the president will start campaigning again, prioritizing programs that aim to heat up the economy and have a positive effect on the election -- and stocks. The fourth year is dominated by the election, and investors, uncertain of the outcome, remain cautious.

The Reality

While some past administrations have adhered to this pattern, many have not. A look at returns for the past eight presidential election cycles (see chart) shows no statistically significant pattern. During this time period, election-year returns averaged 4.9%, but they were as high as 23% (1996) and as low as -37% (2008).[1] Other studies that look back much further have also varied. A lot depends on what time period is being looked at. There is also the fact the many administrations run eight years, not four. So some of the reasoning behind the four-year election cycle theory may not apply.

In reality, many factors impact the performance of the stock market in a given year, most of which have nothing to do with the president or Congress. Over the past 30 years, events such as the dotcom boom, the digital revolution, the financial crisis, the housing bust, and international crises have influenced markets far more than elections. Inflation, interest rates, and the economy have historically demonstrated a much stronger, more consistent relationship with market returns than election timing.

Annual Stock Returns by President 1993-2023[1]



So if you are looking to get a read on what lies ahead for stocks in 2024, you may be better off looking at economic trends than election timing. Wars in Ukraine and Israel may also impact markets. And keep on mind that 2023 is a tough act to follow -- all three major stock indices recorded strong gains, with the S&P 500 closing out the year just short of a record high.

Above all, always remember that past performance is no guarantee of future results.

*Forbes, *How Do Elections Affect The Stock Market?*, October 17, 2023.

[1]Source: ChartSource®, SS&C Retirement Solutions, LLC. For the period from January 1, 1993, through December 31, 2023. Stocks are represented by total returns of the S&P 500 index. It is not possible to invest directly in an index. Index performance does not reflect the effects of investing costs and taxes. Actual results would vary from benchmarks and would likely have been lower. Past performance is not a guarantee of future results. © 2024 SS&C. Reproduction in whole or in part prohibited, except by permission. All rights reserved. Not responsible for any errors or omissions.

