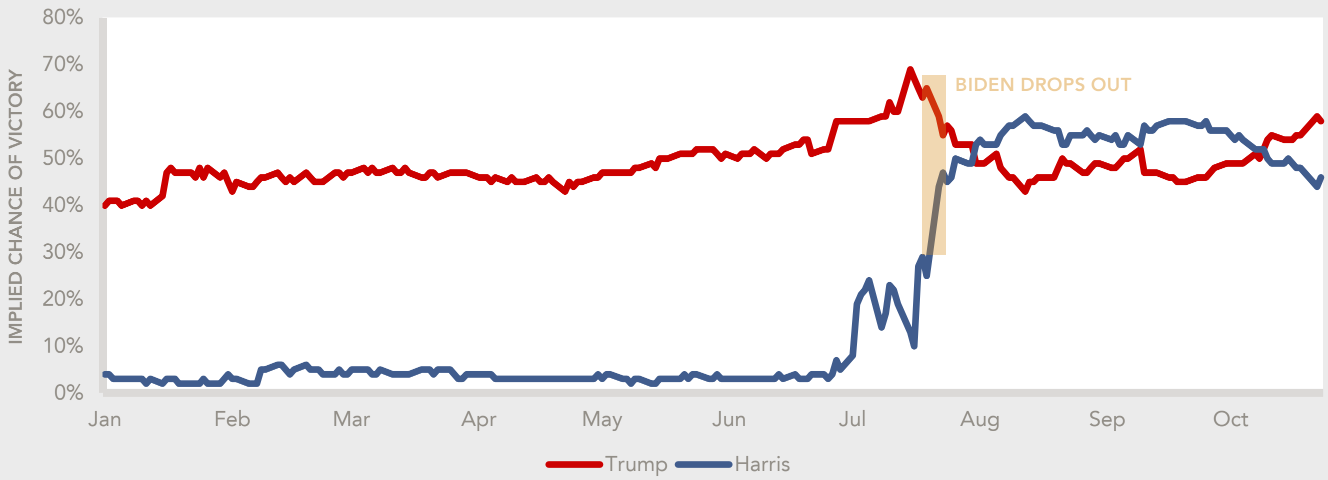
The Market Doesn't Care

OCTOBER 2024

QUARTERLY LETTER FROM THE DIRECTOR OF RESEARCH

With the election less than two weeks away, polls indicate a very tight race not only for president but for control of the House and Senate as well. Given that margins in some of the swing states are likely to be razor thin, final election results will not be determined until several days after November 5th. There is no debate that the candidates and their expected policies are vastly different, but as investors, should we care who wins? Does the market care?

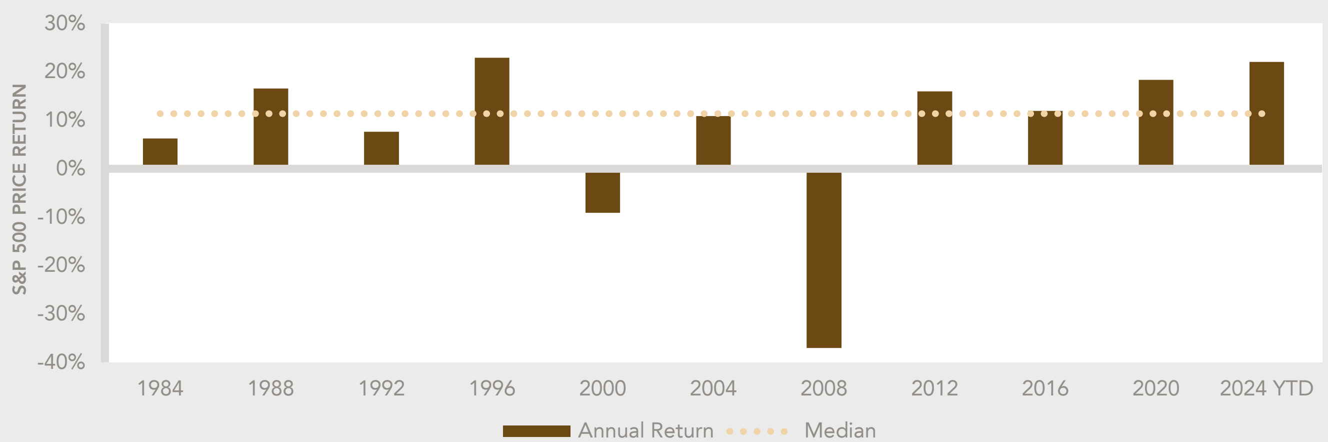
TIGHT RACE FOR PRESIDENT



Source: PredictIt, Bloomberg as of October 23,, 2024

To answer the question, we can look at a variety of data cuts, with the usual caveat that past performance does not guarantee future returns and also recognizing that it is impossible to isolate the president's party affiliation as the sole driver of market returns. First and foremost, we have previously shared that election years tend to be positive for equities, and through September 30, the S&P 500 is up 22%.

ELECTION YEARS TEND TO BE POSITIVE



Source: Bloomberg as of September 30, 2024

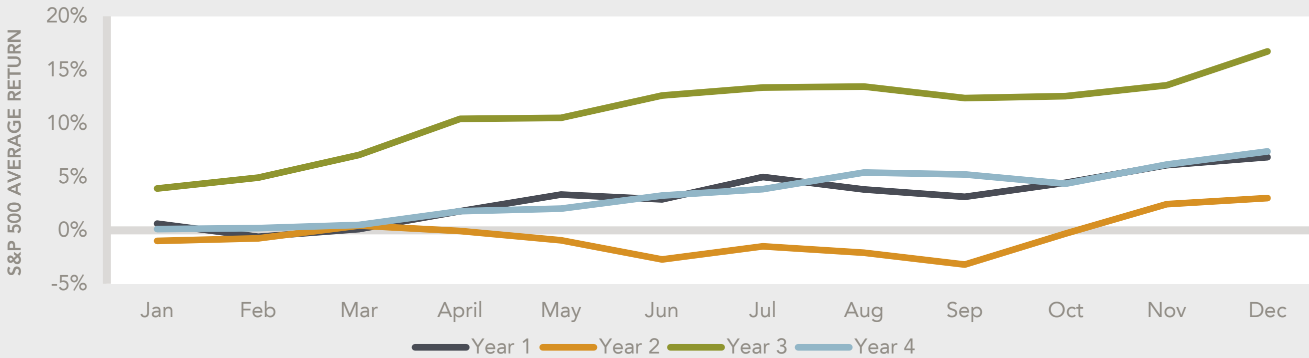
But what about after the actual election year? If we break out returns by each year of the presidential cycle, a few patterns emerge. First, the average return for all four years of a presidential cycle is about 9%, using data back to 1953. Notably, the second year is typically the weakest on record due to mid-term election uncertainty. And finally, the third year tends to be the strongest as there is the least amount of uncertainty compared to other years.

PRESIDENTIAL CYCLE EQUITY PERFORMANCE: S&P 500 PERFORMANCE DURING PRESIDENTIAL CYCLES SINCE 1953

	ALL PERIODS	YEAR 1	YEAR 2	YEAR 3	YEAR 4
Average Return	9.1%	7.9%	3.7%	17.2%	7.8%
Variation	16.7%	18.1%	20.4%	11.2%	14.7%
% of Positive Years	72.2%	61.1%	55.6%	94.4%	83.3%
Worst Years		1957 1969 1973 1977 2001	1962 1966 1974 2002 2022		2000 2008

Source: Bloomberg S&P 500 Price Return as of September 30, 2024. Worst years are calendar year returns of -10% or less.

MIDTERM YEARS FEATURE THE LOWEST AVERAGE RETURN



Source: Bloomberg S&P 500 Price Return January 1, 1953–September 30, 2024. *Year 2 is midterm years, (e.g., 2022) and Year 4 is election years (e.g., 2024).

Astute readers may argue that it's not just about the president, but Congress as well since the two have to work together to pass impactful legislation, including corporate laws and tax policies that can affect profitability and growth. Perhaps not surprisingly, there is not a strong correlation between branch control and equity performance. The only deviations from that claim — the two right-hand columns in the table below — can offer the following caveats:

- RDR profile featured mixed control during 2001–2002 and only reflects two years of data;
- The RDD combination reflects 22 years' worth of data but is not an expected outcome in this election.

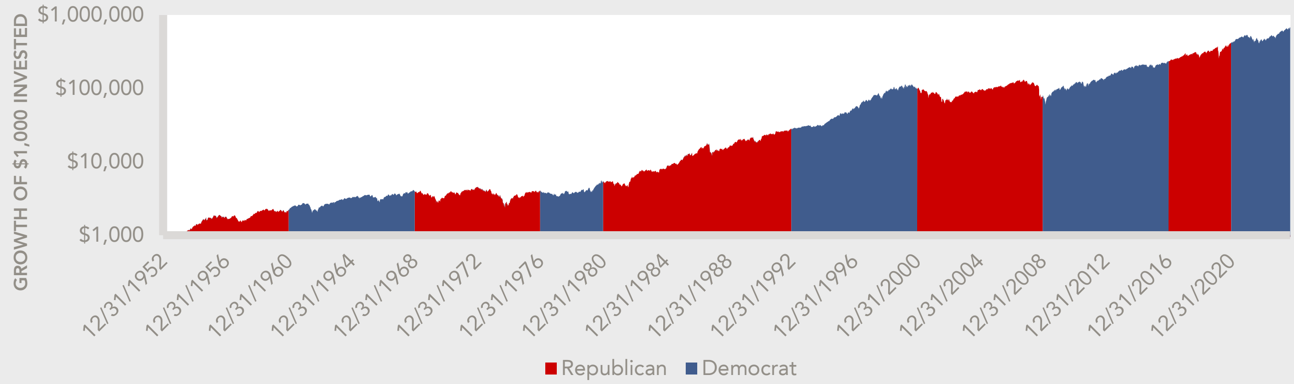
EQUITY MARKET PERFORMANCE AND PARTY CONTROL: S&P 500 PERFORMANCE DURING PRESIDENTIAL CYCLES SINCE 1953

PRESIDENT/SENATE/HOUSE	DDD	DDR	DRD	DRR	RRR	RRD	RDR*	RDD
Average Return	8.0%	16.6%	--	16.3%	12.9%	13.7%	-18.2%	4.9%
Variation	14.5%	10.6%	--	15.6%	17.4%	12.6%	7.3%	19.6%
# of Years	18	6	--	8	8	8	2	22
% Positive	72%	83%	--	75%	75%	88%	--	68%

Source: Bloomberg as of September 30, 2024. *Senate had mixed control during 2001–2002 but was Democratic-led the majority of the time. DRD combination of control has not happened 1953–2024.

At this point, it seems logical to conclude that the market doesn't care who wins the election. Perhaps the best way to further that claim is to see what the market — as measured by the S&P 500 — has done over the last 70 years, broken out by presidential party affiliation. Regardless of who was in office, equities have trended higher.

THE MARKET DOESN'T CARE WHAT PARTY IS IN THE WHITE HOUSE



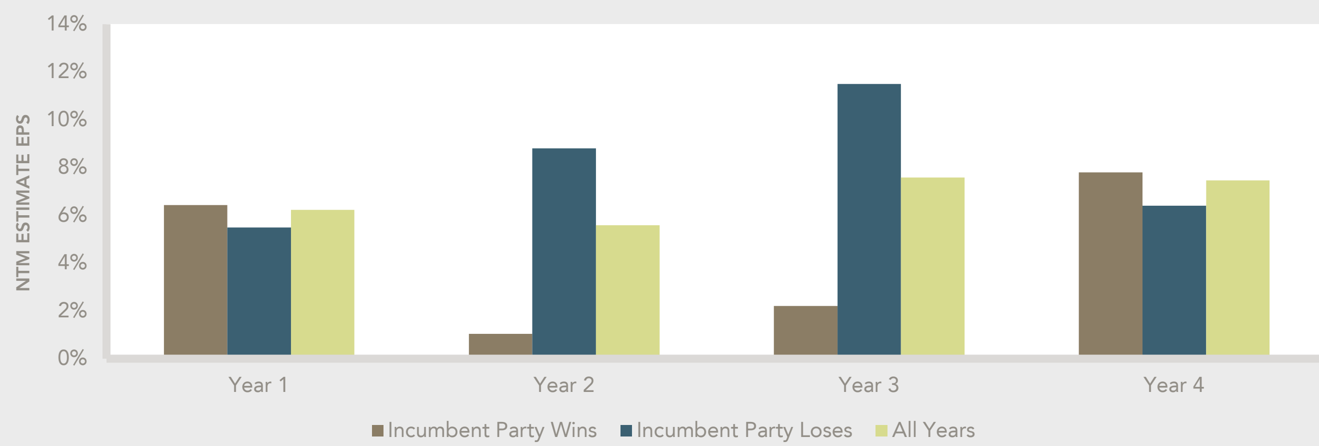
Source: Bloomberg S&P 500 Total Return 1952–2024

SO WHAT SHOULD INVESTORS CARE ABOUT?

For a lot of you, these findings are probably not surprising. We have shared this message over the past year across our deliverables so for those of you who have been reading or listening, none of this is a shock. That said, what does bear watching as election results shake out?

On the equity market front, earnings estimates tend to be more volatile when the incumbent party wins. Granted, this year could be considered an outlier since if Harris wins, she would represent the incumbent party but not the incumbent president. Nonetheless, current valuations and index concentration combined with more volatile earnings estimates could make 2025 more difficult to predict (we will have much more on this with our 2025 Market Preview in January).

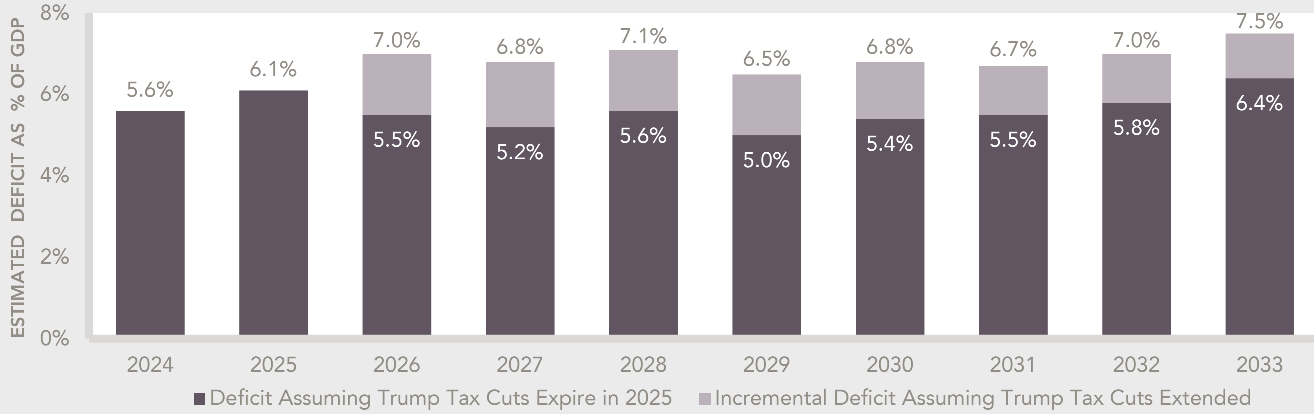
ELECTION IMPACT ON FORWARD 12-MONTH EARNINGS ESTIMATES: WHEN THE INCUMBENT PARTY WINS, ESTIMATED EARNINGS ARE MORE VOLATILE



Source: Neuberger Berman, FactSet from 1953–2025

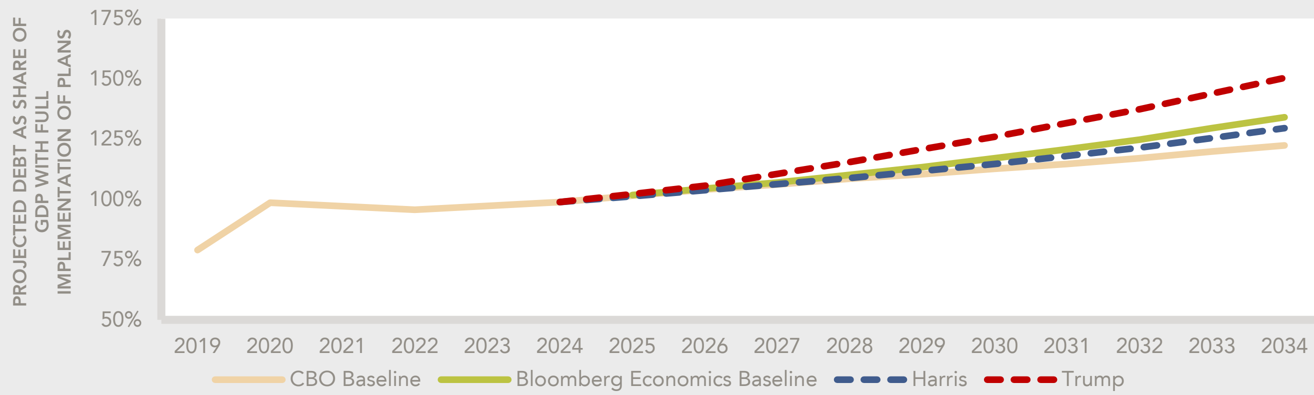
Regardless of who wins, the next president will face a mounting deficit as a result of higher Medicare, Social Security, and interest expenses. Neither candidate has expressed an interest in lowering the deficit, instead focusing on shorter-term tax issues.

PROJECTED DEFICIT SPENDING



Source: PIMCO, Congressional Budget Office Budget & Economic Outlook as of April 2024

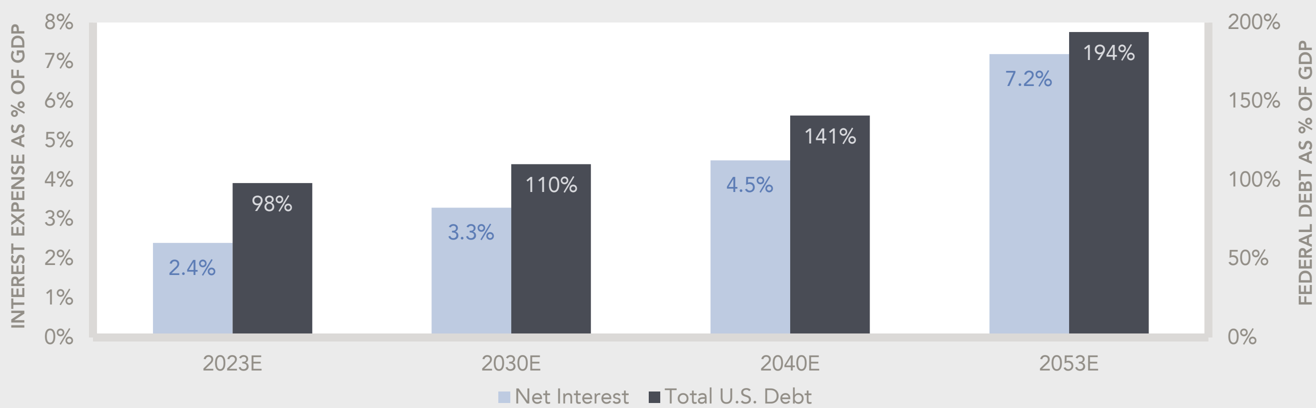
HARRIS AND TRUMP IMPACTS TO THE NATIONAL DEBT



Source: Bloomberg Economics, Congressional Budget Office as of September 30, 2024. Projections do not include impact of proposed tariffs on revenue or growth.

A climbing deficit figures to drive interest expenses higher and should steepen the yield curve as a result of higher back-end rates. Such a dynamic will impact not only the fixed income markets but the equity markets; we will have much more to say about those expectations in our market preview.

FEDERAL DEBT AND INTEREST EXPENSE EXPECTED TO RISE



Source: PIMCO, Congressional Budget Office as of March 2024

CONCLUSION

The closeness of the election will almost certainly lead to a delayed announcement of not only the next president but control of the House and Senate. Volatility may surge while we await results to be finalized. That said, the actual winners of the election do not figure to materially impact the direction of financial markets. At some point the growing deficit will need to be addressed by lawmakers in Washington — and those solutions may look different based on the election winners — but the ultimate outcome of the election should not be a reason to adjust portfolio allocations.

Until next time,

Greg Leonberger, FSA, EA, MAAA, FCA
Director of Research, Managing Partner
gleonberger@marquetteassociates.com

PREPARED BY MARQUETTE ASSOCIATES

180 North LaSalle St, Ste 3500, Chicago, Illinois 60601
CHICAGO BALTIMORE MILWAUKEE PHILADELPHIA ST. LOUIS

PHONE 312-527-5500
WEB marquetteassociates.com

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