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Election 2024: The “Big Picture” for Equities

Investors face uncertainty around U.S. presidential elections, driving market volatility. How might companies be affected? Have elections affected equity returns long term? Allspring’s Ann Miletti provides perspective.

Authors	Date	Topic
Ann Miletti	10/8/2024	Equities

Key takeaways

- As a U.S. presidential election approaches, equity investors tend to worry about the outcome’s potential impact on their investments, driving volatility in the market.
- Ann discusses the two parties’ differing policy views in two areas plus four of each party’s priorities and types of companies that may benefit if the party prevails.
- Has the U.S. equity market been affected over the long term by previous elections? We reviewed historical returns over earlier presidential cycles to find out.

Every four years, investors deal with preelection pressure that tends to intensify in the months leading up to a U.S. presidential election. The concern stems from more than just which candidate will win—there are other big questions to worry about, too: How will the market react before and after the outcome? How might policies change, and what types of companies could be affected? Uncertainties like these fuel anxiety and fear, driving volatility in the equity market.

As with every presidential election, the Democratic and Republican parties’ views differ in a number of policy areas. We take a look at two key categories and at several of each party’s priorities that certain types of companies may benefit from if the party prevails.

Also, we reviewed historical total returns during earlier election cycles with this question in mind: Have previous elections actually affected the U.S. equity market over the long term? (Spoiler alert: not much. The past does *not* reliably predict the future, however, so it’s important to focus on managing risk, especially when volatility is high.)

Each party’s desired tax and regulatory policy changes lean toward an overarching theme.
Overall, the Republican party’s proposals emphasize lower taxes and streamlined regulations. The party’s stated objectives include cutting the corporate tax rate and the corporate alternative minimum tax. The party also seeks to reduce regulations substantially across the board.

The Democratic party’s proposals, overall, emphasize reducing inequality, supporting working families, and advancing sustainability. The party’s stated objectives include raising the corporate tax rate, adding tax credits to promote clean energy, and providing tax incentives to construct affordable housing. Regarding regulations, the party seeks changes such as raising the federal minimum wage and expanding student debt relief as well as antitrust enforcement.

There’s clear support from both parties on one important initiative: onshoring.
Bringing manufacturing and production activities back to the U.S. from overseas locations is a focus for both parties for a number of reasons, including:

- **Supply chain consistency**—addressing glaring risks, revealed during COVID-19 pandemic, of global supply chains of essential materials
- **Geopolitical risks**—reducing dependence on locations outside the U.S.
- **Product integrity and protection**—maintaining oversight/control of production processes and protect intellectual property/innovation

Party priorities may prove beneficial for companies in certain areas.
Priorities each party has presented may lead to potential investment opportunities if the party prevails, including those identified in the table below.

STATED POLICY PRIORITIES SUGGEST BUSINESSES IN THESE AREAS COULD BENEFIT IF NEXT ADMINISTRATION IS:

DEMOCRATIC

KEY POLICY PRIORITIES:

DEFENSE
Seeks increase in national defense spending, continued financial/arms support of Ukraine, and strong support of NATO

HEALTH CARE
Seeks to expand Americans' access to health care and medications by reducing drug prices, increasing the number of drugs subject to Medicare price negotiations, and working with states to reduce qualifying Americans' medical debt

HOUSING
Seeks to address shortages by building 3 million new housing units, providing $40 billion to support "innovative" affordable housing, and backing bills targeting predatory investing and inflated rents

CANNABIS
Seeks cannabis legalization and decriminalization

REPUBLICAN

KEY POLICY PRIORITIES:

ENERGY
Seeks to offer incentives for oil/gas drilling, expand carbon capture credits, and reduce/roll back fuel efficiency requirements

FINANCIALS
Seeks less regulation of the banking industry, including allowing large banks to opt out of Basel III capital requirements

MERGERS & ACQUISITIONS
Seeks to reduce barriers and lengthy waits for approval

CRYPTO
Seeks legislation to set up a U.S. regulatory structure for crypto (the industry has donated nearly half of all corporate political contributions this cycle)

Throughout election cycles, the U.S. equity market has kept on delivering.
We calculated U.S. equity total returns during presidential cycles, starting with Dwight D. Eisenhower's election in 1953. This table shows the results: Over time, the U.S. equity market has delivered primarily positive results over presidential cycles, through both Democratic and Republican administrations.

U.S. EQUITY MARKET HAS AVERAGED 16.9% ANNUAL TOTAL RETURN OVER PRESIDENTIAL CYCLES

PARTY	PRESIDENT	PRESIDENCY START DATE	PRESIDENCY END DATE	TOTAL RETURN DURING PRESIDENCY (%)*
Democrat	Joe Biden	20-Jan-2021	Data thru 24-Sep-2024	57 (as of 24-Sep-2024)
Republican	Donald Trump	20-Jan-2017	20-Jan-2021	83
Democrat	Barack Obama	20-Jan-2009	20-Jan-2017	235
Republican	George W. Bush	20-Jan-2001	20-Jan-2009	-31
Democrat	Bill Clinton	20-Jan-1993	20-Jan-2001	263
Republican	George H.W. Bush	20-Jan-1989	20-Jan-1993	72
Republican	Ronald Reagan	20-Jan-1981	20-Jan-1989	208
Democrat	Jimmy Carter	20-Jan-1977	20-Jan-1981	57
Republican	Gerald Ford	08-Sep-1974	20-Jan-1977	41
Republican	Richard Nixon	20-Jan-1969	8-Sep-1974	-4
Democrat	Lyndon B. Johnson	22-Nov-1963	20-Jan-1969	73
Democrat	John F. Kennedy	20-Jan-1961	22-Nov-1963	27
Republican	Dwight D. Eisenhower	20-Jan-1953	20-Jan-1961	218

Republican
AVERAGE ANNUAL TOTAL RETURN UNDER REPUBLICAN PRESIDENTS: 14.9%

Democrat
AVERAGE ANNUAL TOTAL RETURN UNDER DEMOCRATIC PRESIDENTS: 19.3%

Sources: Allspring and Bloomberg Finance LP
*S&P 500 Index total returns inclusive of dividends measured from inauguration to transition (per presidency start and end dates noted). Average annual total return = total returns sum/number of years.

Past performance is not a reliable indicator of future results.

Expect some volatility with presidential elections—it's OK.

As we mentioned earlier, volatility picks up around presidential elections—and when political rhetoric heats up, investors can become even more nervous. However, once the election is over and a winner is named, the U.S. equity market historically has readjusted, smoothed out, and moved resiliently forward—no matter which party was successful.

This pattern is similar to what we've seen transpire in the equity market in the aftermath of unexpected, extreme events that were nonpolitical—for example, the COVID-19 pandemic and the Global Financial Crisis. Following each of these shocks, the U.S. equity market recovered and subsequently delivered positive results. Companies have repeatedly demonstrated that they will adjust.

Position for pursuing financial goals *and* controlling risk: an all-weather equities approach

Diversification is critically important.

The term *diversification* is most often used in the context of spreading investments across a variety of asset classes with the goal of reducing overall portfolio risk. We believe it's just as crucial to diversify *within* an asset class—especially within equities as they often represent a significant segment of investors' portfolios.

An equities portfolio can be diversified across a variety of categories—including market capitalizations, geographic regions, sectors, industries, and styles. Beyond its primary goal of minimizing losses, diversification can also uncover potential opportunities in categories that might not have been included in a less diverse portfolio.

Focus on quality.
We believe quality is key to uncovering companies capable of success in any environment. Below are essential characteristics we look for to identify quality companies:

- **Fluid cash flow:** Sustainable cash generation through all parts of the economic cycle
- **Well-structured balance sheet:** Modest financial leverage, elongated maturity profile, margin of safety versus debt covenants
- **Competitive advantage**: A differentiated product or service with strong customer demand
- **Proven management team:** Skilled capital allocators who have experience navigating through an economic cycle

Businesses with the four qualities listed above are well positioned to succeed at clearly differentiating themselves via competitive, sustainable results in the marketplace. Note that when pursuing quality, it's also critical to evaluate whether a specific company is an appropriate holding for the portfolio. This is especially important during times when the equity market tends to be more volatile—such as around presidential elections.

Diversification does not ensure or guarantee better performance and cannot eliminate the risk of investment losses.