MARCH 2024

"The whole trick in life is to get so that your own brain doesn't mislead you."
- Charlie Munger

When it comes to misdirection, the stock market and politics often play a leading role in keeping our brains spinning. Whether it's the volatility inherent in stock investing, or the increasingly adversarial nature of modern-day politics, it is easy to be tricked into focusing on the short-term rather than embracing the long-term perspective. This is especially the case in an election year, with interest rates at multi-year highs, and the perpetual fear that a recession is just six months away. While our annual outlook made the case that we do not see a recession on the immediate horizon, the question of how Presidential politics factor into stock market movements remains a question at the forefront of investor's minds.

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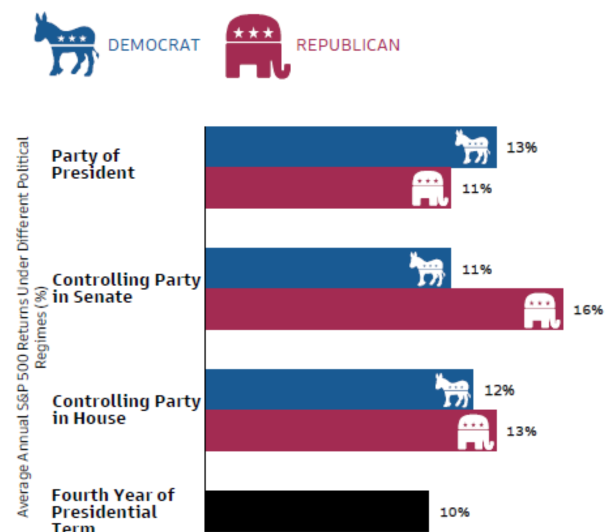
The refrain we usually hear in election years is "If this guy gets/stays in office, we should get out of the market!" This is then followed up by a number of salient points about political policy, whether it relates to taxes or social endeavors, and given the breadth of our client's knowledge, they are usually very well made. *However, we often see that the brain can mislead us to vote with our portfolio rather than our ballots.* History has shown us that a multitude of factors – the political party of the President, Senate, and House – all have little statistical bearing on how the market performs. Democrats have slightly higher average returns of 13% when holding the Presidency, but Republicans are close behind at an average return of 11%.

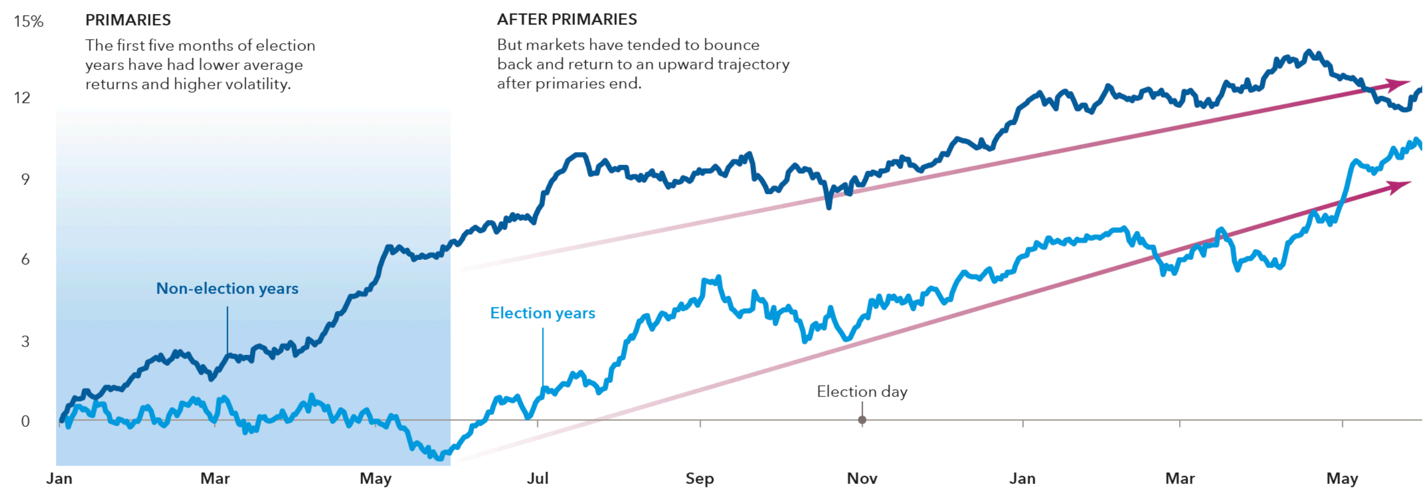


When Republicans controlled the Senate or the House, they experienced higher average returns, which is an interesting twist to the Presidential statistic that would seem to indicate a mixed government is best for stocks. Read into that what you will but a charitable interpretation would seem to say that gridlock serves the markets best as there is less uncertainty about broad sweeping legislative changes. Even the fact

MARCH 2024

that it is an election year has no statistical bearing on overall market returns. Stocks were up an average of 10% in the fourth year of a Presidential term.[1]

With respect to uncertainty over the candidates jockeying for power, that has resulted in some volatility during the primary season. Research from the Capital Group shows that returns during the first five months of an election year have had lower returns and higher volatility.[2]



SOURCES: Capital Group, RIMES, Standard & Poor's. Includes all daily price returns from January 1, 1932 through December 31, 2022. Non-election years exclude all years with either a presidential or midterm elections. Past results are not predictive of results in future periods.

However, after the dust has settled in the primary season, markets have trended upwards into election day and thereafter. "But this time is different! Donald Trump and Joe Biden are going to face each other in the general election!" Wait, we've seen this story before... history has indicated that politicians often take too much credit when the market goes up and too much blame when the market goes down. Regardless of where your political affiliations reside, we encourage our clients to vote in the upcoming elections to make their voice heard, but to view their portfolio on the direction of its fundamental merits, rather than the political winds.

MARCH 2024

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1: Chart and data via Goldman Sachs Asset Management as of 12/31/2023 -
2: Chart via Capital Group