Beyond the Ballot: The 2024 Election's Impact on Your Investments

Presented by Christopher R. Collins, CFP®, AIF® and Scott McCaffery, CFP®, AIF®

When reviewing your investments and financial planning, it's hard to ignore that this is an election year, especially given the global scale of political changes this year. In 2024 alone, 64 countries worldwide are holding or have already held elections. While we've seen headlines about voting in France, the United Kingdom, and Venezuela, there's one election that seems to be on everyone's mind: the U.S. presidential race set for November 5.

You might be wondering how these political shifts could affect your investment portfolio, retirement plans, or overall financial strategy. It's a valid concern, and you're not alone in asking these questions. In times like these, it's crucial to step back and look at the bigger picture. As you navigate this election year, it's helpful to gain some perspective on recent events, insights from past elections, and practical advice on how to approach your finances during this potentially turbulent time.

Let's start by examining the current political landscape and what it might mean for your financial goals.

The Election Season Rollercoaster

The first presidential debate took place on June 27, with President Biden's performance coming under scrutiny from the media and the Democratic Party. This was followed in short order by an assassination attempt on former President Trump, then the Republican National Convention, and the nomination of the Trump-Vance ticket. Three days later, President Biden announced that he would not seek reelection. The party quickly rallied around Vice President Harris as the presumptive nominee. She chose Minnesota Governor Tim Walz as her running mate, and the Harris-Walz ticket was officially nominated at the Democratic National Convention in late August. Through it all, the polls at the national level and in some of the key toss-up states have shown considerable volatility.

Of course, no one knows who will prevail in this presidential contest. But there are several things we do know. Recent history dating back to 2000 suggests the race will be tight, with vote counting taking time. Ultimately, the election will likely be decided by a handful of swing states. That said, there are still two months until Election Day. The post-Labor Day nine-week sprint is sure to bring more news and daily headlines. And as we have just seen, a lot can change in a matter of weeks.

Will the Election Affect Your Portfolio?

You may wonder how a Democratic or Republican winner could ultimately affect the markets and economy. Indeed, there are policy differences between the two candidates, most notably in their views on the expiration of the Trump tax cuts.

WWA
Warren Wealth Associates

The Tax Cuts and Jobs Act (TCJA). The TCJA, which became law on January 1, 2018, was the largest change to the tax system in three decades. There are many different pieces to this legislation, but the biggest provisions set to expire at the end of 2025 are:

- Lower individual tax rates
- A higher standard deduction
- An increase in the child tax credit

Despite being signed into law by former President Trump, some of these issues are also important to Democrats.

Here's the bottom line: Regardless of who ends up in power, it's unlikely that all of these tax benefits will completely go away. The impact on the market and economy will depend on which issues the new Congress and the administration prioritize. Still, it's important to remember that big changes require one party to have control of both the White House and large majorities in Congress. Even with one party in charge, there are many different views within the party that can make passing new laws difficult in today's political environment.

International conflicts. There are also differences in how each candidate might handle some of the international conflicts currently happening around the world. Perhaps the biggest difference is in how they view China and trade policy—especially when it comes to tariffs and the future of technology investments, access, and availability. Who wins in November could also affect funding and potential solutions for the ongoing wars between Russia and Ukraine and between Israel and Hamas.

Now, all of this may sound like the election result will have a major impact on our day-to-day lives and the U.S. economy, potentially creating ups and downs in the stock and bond markets. We might think there are things to worry about that could lead to big changes in how we manage our investments in response to the potential political risk. But will it really have such a big impact? And do we need to change our investment strategies?

Portfolio Changes Ahead?

As investment managers, we get paid to worry about unknown risks and how they could affect portfolios. And we spend a lot of time doing just that. But even if we had a crystal ball that would reveal the election results, what investment changes would we make?

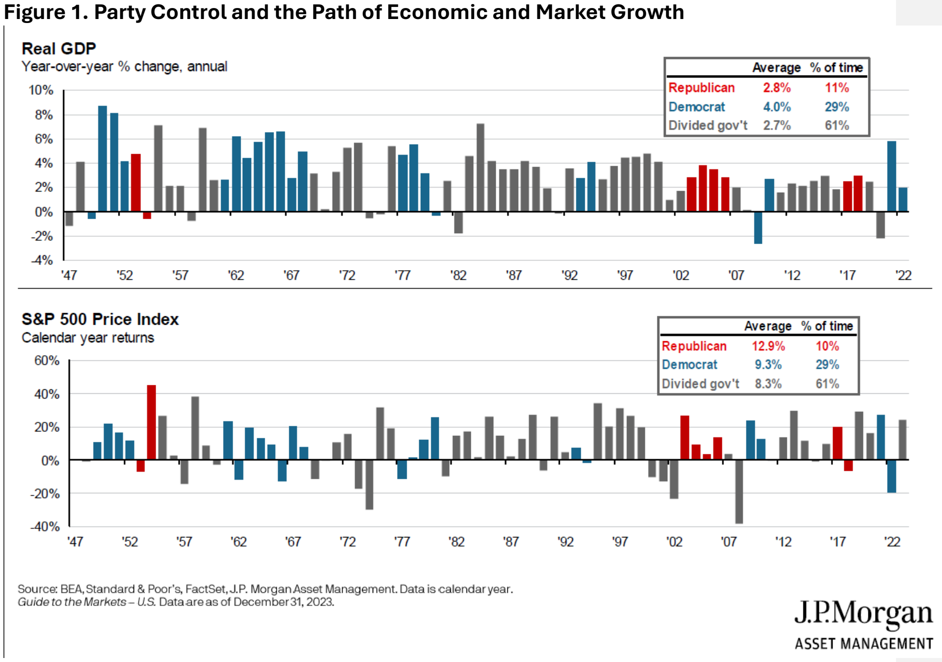
We will certainly watch closely once a new administration is in place and pay attention to its policy proposals and how they progress through the House and Senate. New laws could have different effects on various types of investments and sectors of the economy. Corporate tax rates affect different types and sizes of companies in different ways, while laws about health care or defense spending will only affect certain parts of the economy and markets. And we will make investment changes accordingly at that time. But as mentioned earlier, *a lot* must happen for a candidate's policy to become law. Further, many compromises will occur that will change the original proposal along the way.

At a high level, we wouldn't suggest any major changes to a balanced and diversified portfolio if we knew the election results ahead of time. In the meantime, we may watch for short-term market reactions to election news, which might create attractive long-term investment opportunities. Short-term market moves based on campaign headlines tend to be based on emotions, not fundamentals. That could potentially cause short-term sell-offs in various investments that provide good entry points for long-term investors willing to look past the noise. A look back at recent history can help explain.

The Story of Elections Past

Although the president is arguably the most powerful person in the world, they don't singlehandedly determine the path of economic growth or the markets' reaction to the data. Figure 1 illustrates that, over time, the economy has grown. And most years? The markets have also gone up.

Figure 1. Party Control and the Path of Economic and Market Growth



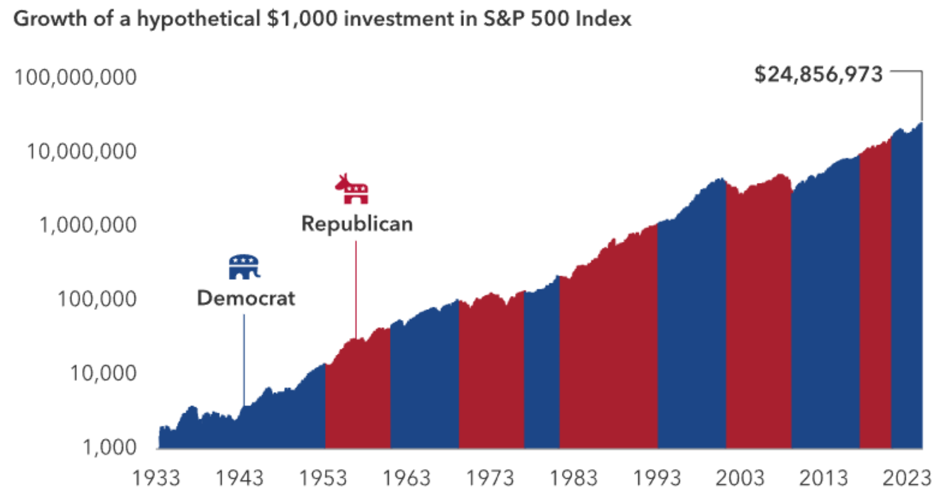
As you can see in the second chart above, dating back to the Truman presidency (1945–1953), every president has been in office during at least one year when the S&P 500 had a negative return. The exception to this is President Obama, who took office in 2009 at the end of the great financial crisis bear market.

Warren Wealth Associates

Market timing studies have consistently concluded that knowing what will happen over the next three months and investing accordingly is very hard—if not impossible—to do. As such, it is difficult to adjust portfolios based on an event with an unknown outcome, followed by uncertainty as to how the result will be implemented over the next four years.

In the long term, the power-sharing agreement in Washington doesn't matter much to markets and investors. Figure 2 illustrates that a long-term time horizon without regard to the party affiliation of the president in the White House has yielded strong returns for investors.

Figure 2. Growth of a Hypothetical $1,000 Investment in the S&P 500 Index



Sources: Capital Group, RIMES, Standard & Poor's. Chart shows the growth of a hypothetical $1,000 investment made on March 4, 1933 (the date of Franklin D. Roosevelt's first inauguration) through June 30, 2024. Dates of party control are based on inauguration dates. Values are based on total returns in USD. Shown on a logarithmic scale. Past results are not predictive of results in future periods.

This chart covers 90 years of data, which encompasses a wide range of policy priorities, geopolitical events, and economic growth. Stocks have gone up, over the long-term, regardless of who controls the White House or Congress.

Given this data, we believe it makes sense to adhere to a long-term view that achieves a client's investment objective and to stick to a portfolio process that results in balance and diversification. This approach could ride out any potential short-term market volatility that results from election noise.

Warren Wealth Associates

Looking Forward

We fully appreciate that the election will continue to be on many clients' minds over the rest of the year. But despite concerns and potential market volatility, our advice is always and continues to be this: vote in the booth, not in your portfolio.

As always, please feel free to reach out to your advisor to discuss these issues or your financial goals and strategies.

Certain sections of this commentary contain forward-looking statements based on the reasonable expectations, estimates, projections, and assumptions from Commonwealth Financial Network. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Opinions are subject to change without notice. Past performance is not a guarantee or indicative of future results.

This communication should not be construed as investment advice, nor as a solicitation or recommendation to buy or sell any security or investment product. Diversification does not assure a profit or protect against loss in declining markets. Investments are subject to risk, including the loss of principal and there is no guarantee that any investing goal will be met. All indices are unmanaged, and investors cannot actually invest directly into an index. Unlike investments, indices do not incur management fees, charges, or expenses

Commented [DW1]: Apologies here, I didn't mean to bold those when I added them into the piece. Looks like it came from the copy and pasting that I did.

###

Christopher R. Collins, CFP®, AIF® and Scott McCaffery, CFP®, AIF® are financial advisors located at Warren Wealth Associates, 28 Mountain Blvd, Warren, NJ 07059. They offer securities and advisory services as Investment Adviser Representatives of Commonwealth Financial Network®, Member FINRA/SIPC, a Registered Investment Adviser. They can be reached at 908-769-9400 or contactus@warrenwealthassociates.com

Authored by Chris Fasciano, senior portfolio manager, at Commonwealth Financial Network®.

Warren Wealth Associates