CAPITAL GROUP™

Guide to

Investing in a US election year

How to survive the uncertainty and invest with confidence

2024 EDITION

How to invest with confidence in a US election year

US Presidential elections can be divisive and unsettling. At times, the fate of the world seems to hang in the balance. But when it comes to investing, do elections really matter all that much?

US voters will have their say in November 2024, but by maintaining a long-term focus, investors can position themselves for a brighter future regardless of the outcome at the voting booth. In fact, overreacting to short-term volatility during election cycles can be detrimental to investment returns.

In this guide, we address top adviser questions about investing in a US election year, drawing insights from our analysis across US and global equity markets.

Here's what we learned:

Global stocks have trended up regardless of whether a Republican or Democrat won the White House.

A US$1,000 investment in the MSCI All Countries World Index (ACWI) in 1970 would have been worth almost US$150,000 now.[1] During that time there have been six Republican and four Democratic presidents.

Primary season in the US tends to be volatile, but markets have bounced back strongly afterward.

US stocks have returned 11.3% in the 12 months following primaries, compared to 5.8% in similar periods of non-election years.[2]

Investors often get nervous and move into cash during election years.

Net asset flows into money market funds have been more than three times higher in election years than in the year after an election.[3]

Economic fundamentals have a bigger impact on equity markets.

Periods of high or low inflation and growth had a much greater effect on the MSCI ACWI than US elections.[4]

Past results are not a guarantee of future results.

1. As at 29 February 2024. Sources: Capital Group, RIMES
2. Based on daily price returns from 1 January 1932 through 31 December 2023. Sources: Capital Group, RIMES, Standard & Poor's
3. As at 2022. Source: Morningstar
4. As at 31 December 2023. Sources: Federal Reserve Bank of St Louis, Refinitiv DataStream

Which US political party has been better for global investors?

Investing during an election year can be tough on the nerves, and 2024 promises to be no different. Indeed, politics can elicit strong emotions and biases, but investors would be wise to tune out the noise and focus on the long term.

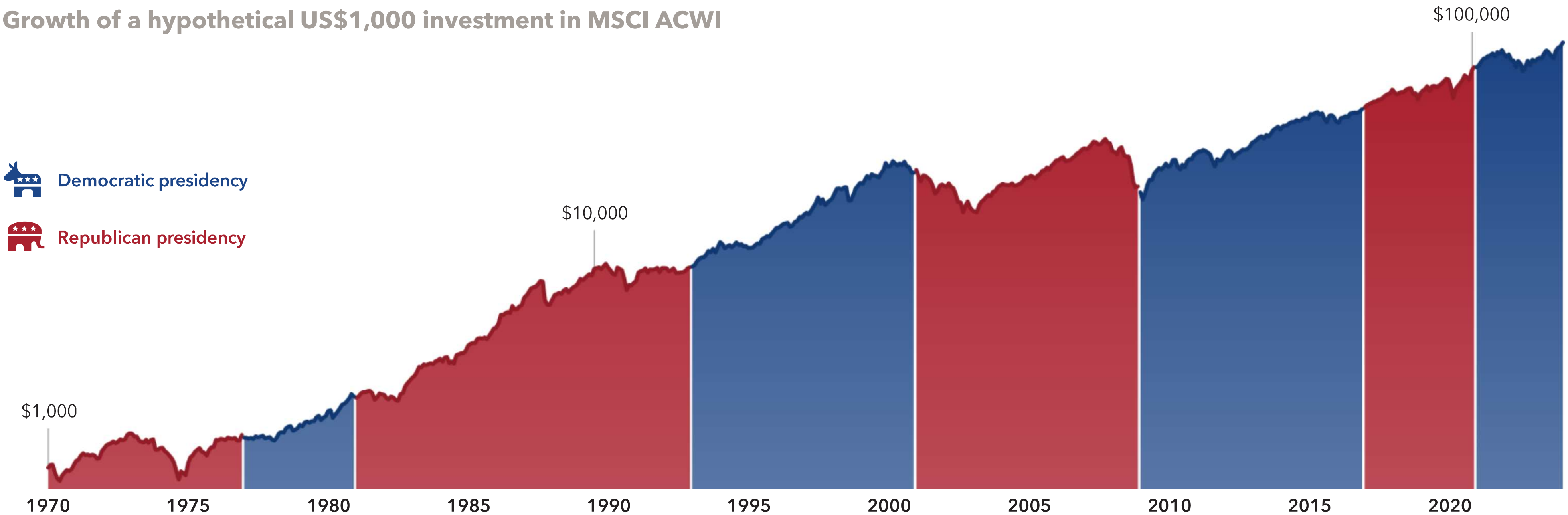
That's because elections have, historically speaking, made essentially no difference when it comes to long-term investment returns.

What should matter more to investors is staying invested. A US$1,000 investment in the MSCI ACWI in 1970 would have been worth almost US$150,000 today. During that time there have been six Republican and four Democratic presidents.

Current economic and political challenges may seem unprecedented but a look at past election cycles shows that controversy and uncertainty have surrounded every campaign. And in each case the market has continued to be resilient over time. Investors that stay the course and rely on time in the market rather than timing the market tend to be more successful over the long term.

Bottom line: Global equities have trended up regardless of whether a Democrat or Republican won the White House.

Growth of a hypothetical US$1,000 investment in MSCI ACWI



Past results are not a guarantee of future results.
Chart shows the growth of a hypothetical US$1,000 investment made on 31 March 1970 through 29 February 2024. Dates of party control are based on inauguration dates. Values are based on total returns in USD. Shown on a logarithmic scale. Sources: Capital Group, RIMES

What typically happens to the stock market during election years?

Markets hate uncertainty, and what's more uncertain than primary season of an election year? With so many candidates on the campaign trail – 14 Republicans had announced their candidacy as of mid-2023 – the range of outcomes can feel daunting.

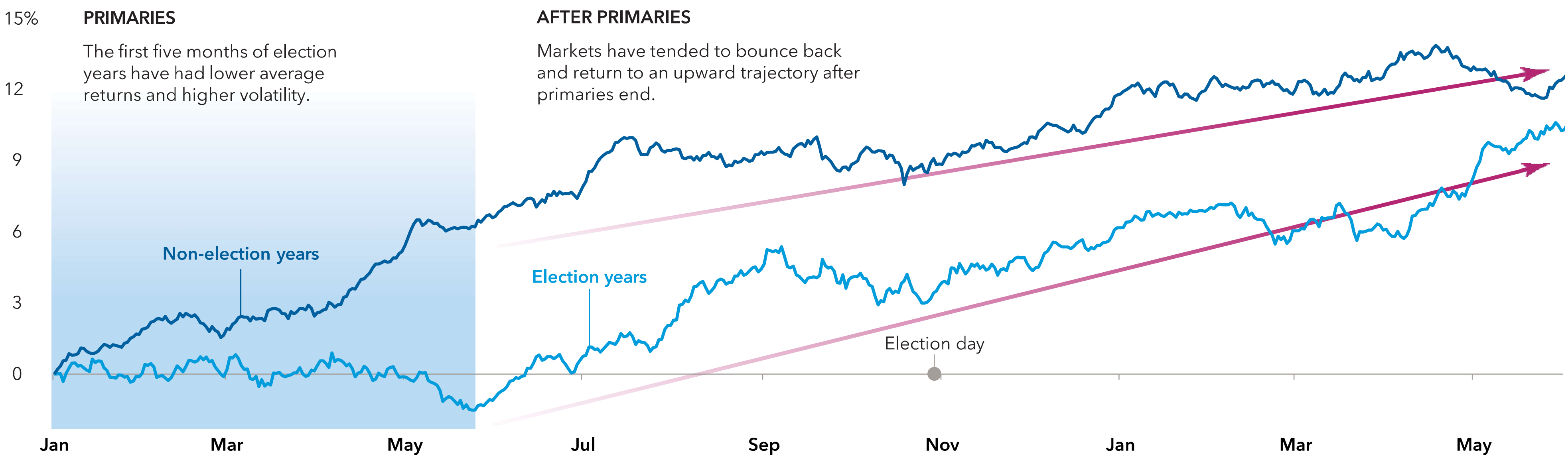
But the volatility is often short-lived. After the primaries are over and each party has selected its candidate, markets have tended to return to their normal upward trajectory.

Patient investors who stay the course have often been rewarded. Since 1932, stocks have gained an average of 11.3% in the 12 months following the conclusion of the primaries (using 31 May as a representative date) compared to just 5.8% in similar periods of non-election years.

~~But K~~Keep in mind, these are just averages. Investors trying to time an entry point into the market can end up disappointed. Instead, a long-term approach can help investors withstand volatility and feel confident that markets have tended to move higher over time, even in election years.

Bottom line: Primary season tends to be volatile, but markets have bounced back strongly thereafter.

S&P 500 Index average cumulative returns since 1932



Past results are not a guarantee of future results.
Includes all daily price returns from 1 January 1932 through 31 December 2023. Non-election years exclude all years with either a presidential or midterm elections. Sources: Capital Group, RIMES, Standard & Poor's

Which sectors have done best in election years?

It would be great if there were go-to sectors to invest in every election year, but unfortunately investing isn't that simple. Every election cycle brings its own parade of candidates with their own policy agendas, so market winners and losers are hard to predict.

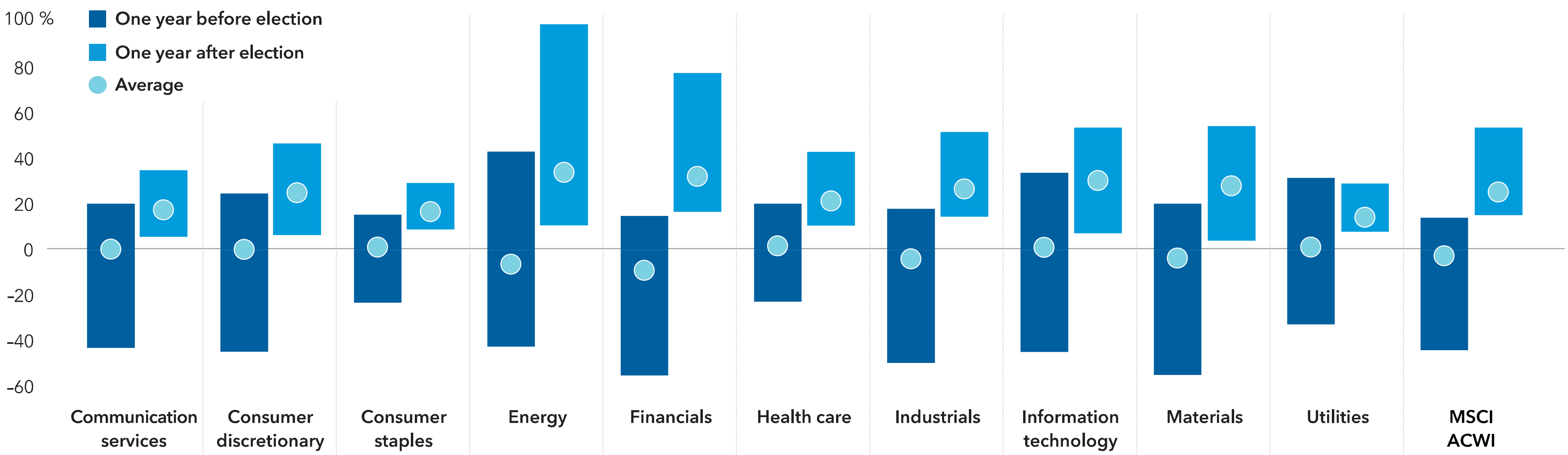
The health care sector has been in the crosshairs for a number of US election cycles. Heated rhetoric over drug pricing in the US has put pressure on many stocks in the pharmaceutical and managed care industries. Other sectors have had similar bouts of weakness prior to elections.

Does that mean you should avoid a particular sector altogether? Not according to Rob Lovelace, an equity portfolio manager with 37 years of experience investing through many election cycles. "When everyone is worried that a new government policy is going to come along and destroy a sector, that concern is usually overblown," Lovelace says.

Regardless of who wins, stocks with strong long-term fundamentals will often rally once the campaign spotlight fades. This pre-election market turbulence can create buying opportunities for investors with a contrarian point of view and the resilience to tolerate short-term volatility.

Bottom line: Election year volatility can create buying opportunities for long-term investors.

Range of one-year returns by MSCI ACWI sectors (2003–2022)



Past results are not a guarantee of future results.
31 October used as a representative date for each election date. Sources: Capital Group, Refinitiv Datastream

What mistakes do investors often make in election years?

If you're nervous about the markets heading into 2024, you're not alone. Presidential candidates often draw attention to the country's problems, and campaigns tend to amplify negative messages. So, it's no wonder that investors may start feeling a little pessimistic too. This can become a problem if they allow their mood to affect their investment decisions.

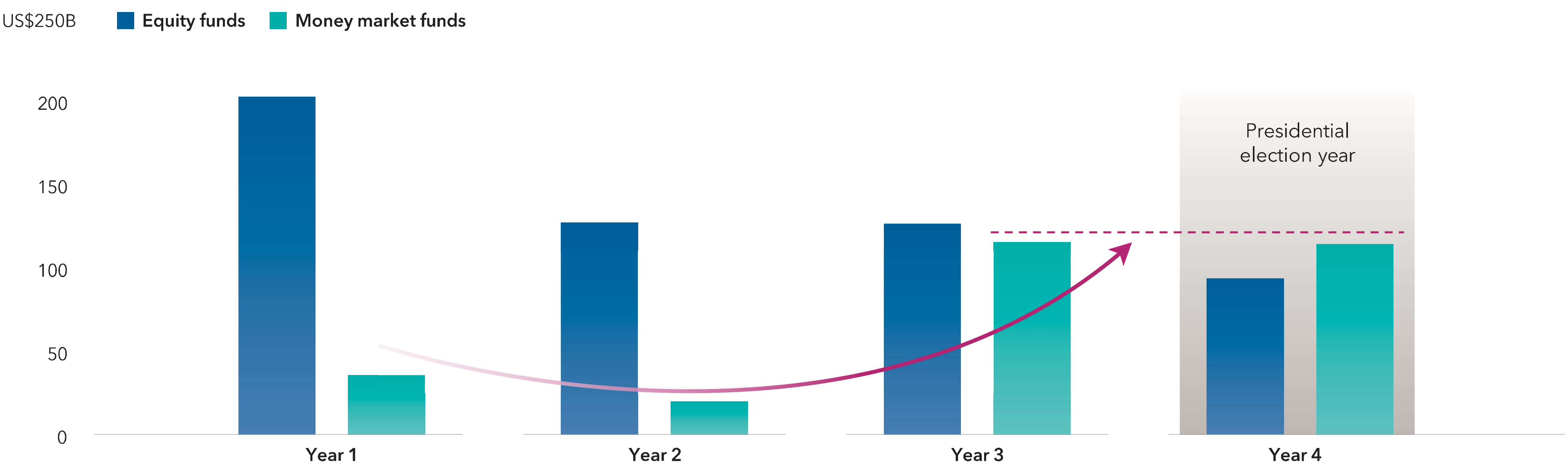
History shows that investors have poured into money market funds – traditionally one of the lowest risk investment vehicles – with greater frequency ahead of elections. By contrast, equity funds have seen the highest net inflows (total deposits) in the year immediately after an election.

This suggests that investors want to minimise risk during election years and wait for uncertainty to subside before revisiting riskier assets like stocks.

But market timing is rarely a winning long-term investment strategy and can pose a major problem for portfolio returns. On the next page, we take a closer look at what factors tend to have a greater impact on equity markets.

Bottom line: Investors often get nervous and move to cash in election years, but that's rarely a winning strategy.

Average net fund flows by year of presidential term (1992–2022)



Values based on USD. Funds include mutual funds and ETFs, a type of fund that generally tracks the performance of an index and can be traded in a stock exchange. Equity funds include funds within Morningstar's International Equity and US Equity categories. Money market funds include funds within Morningstar's Money Market category. Money market: The market for trading short-term debt investments. Source: Morningstar

How do US elections impact global equity markets?

Investing during a US election year can be tough on the nerves, and 2024 promises to be no different. Politics can elicit strong emotions and biases, but it might be wise to tune out the election-specific noise and focus on other areas that may have a more material impact.

US elections have, historically speaking, made only a marginal impact on global equity markets.

Periods of high inflation and low growth had a much greater effect on the MSCI All Country World Index, relative to other periods. Likewise, low inflation and high growth have supported stronger equity returns. In fact, returns in periods where US elections took place have not been significantly different from other periods.

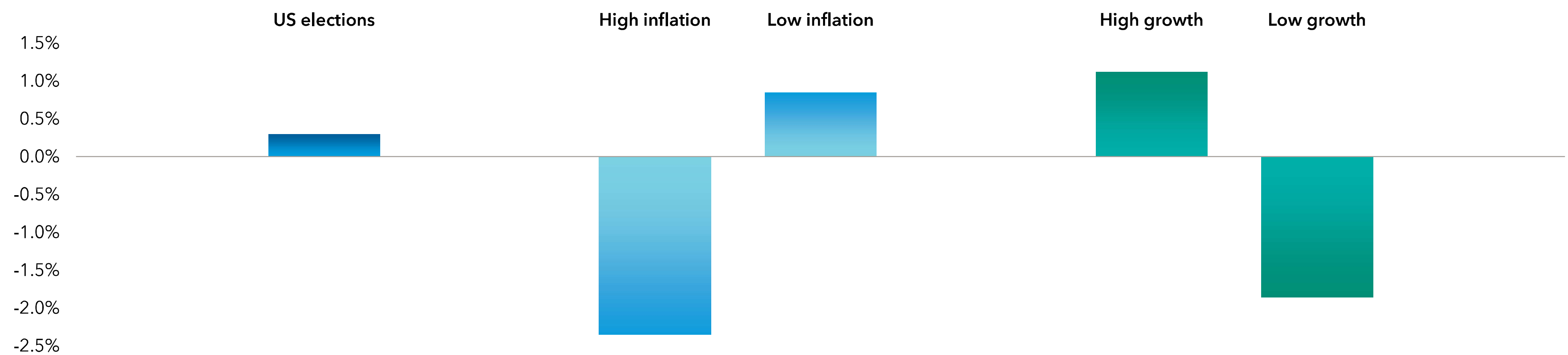
What tends to matter more to markets are economic fundamentals. Current political challenges may seem unprecedented but a look at past US election cycles shows that controversy and uncertainty have surrounded every campaign.

Successful investors look for the real factors that drive returns. A focus on individual companies, their underlying fundamentals and how they are positioned to navigate different economic conditions could be a more rewarding investment strategy.

Bottom line: Economic fundamentals have a bigger impact on markets than US elections

How global equity market respond in different environments

MSCI ACWI average 3-month return relative to all periods



Past results are not a guarantee of future results.

As at 31 December 2023. Returns in US dollar terms. Inflation based on US Consumer Price Index seasonally adjusted year-over-year. Growth based on seasonally adjusted US real GDP, percentage change from quarter one year ago. Low inflation/growth: 0-2% and high inflation/growth: >4%. Sources: Federal Reserve Bank of St Louis, Refinitiv DataStream

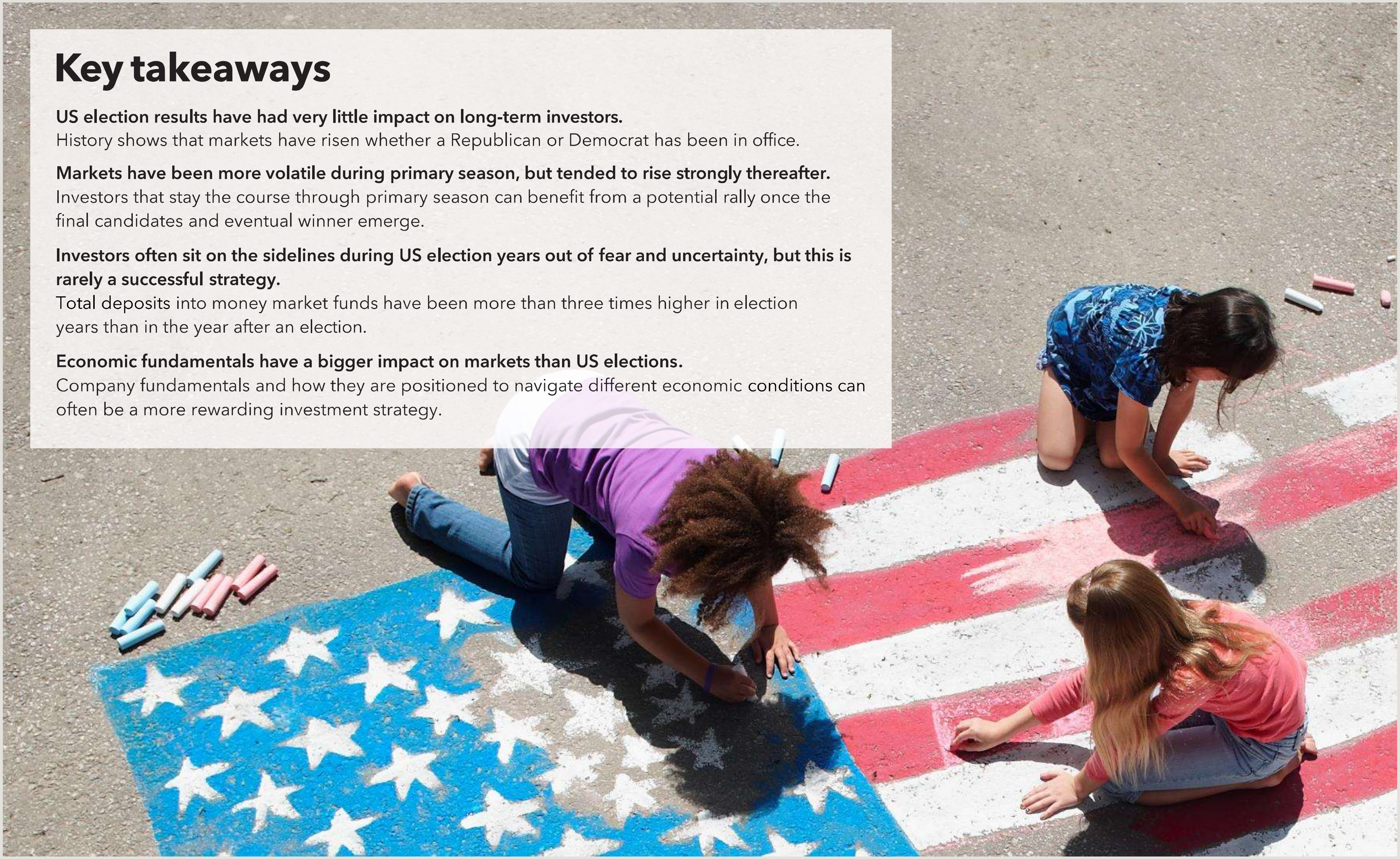
Key takeaways

US election results have had very little impact on long-term investors.
History shows that markets have risen whether a Republican or Democrat has been in office.

Markets have been more volatile during primary season, but tended to rise strongly thereafter.
Investors that stay the course through primary season can benefit from a potential rally once the final candidates and eventual winner emerge.

Investors often sit on the sidelines during US election years out of fear and uncertainty, but this is rarely a successful strategy.
Total deposits into money market funds have been more than three times higher in election years than in the year after an election.

Economic fundamentals have a bigger impact on markets than US elections.
Company fundamentals and how they are positioned to navigate different economic conditions can often be a more rewarding investment strategy.



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