CAPITAL GROUP®

Guide to investing in an election year

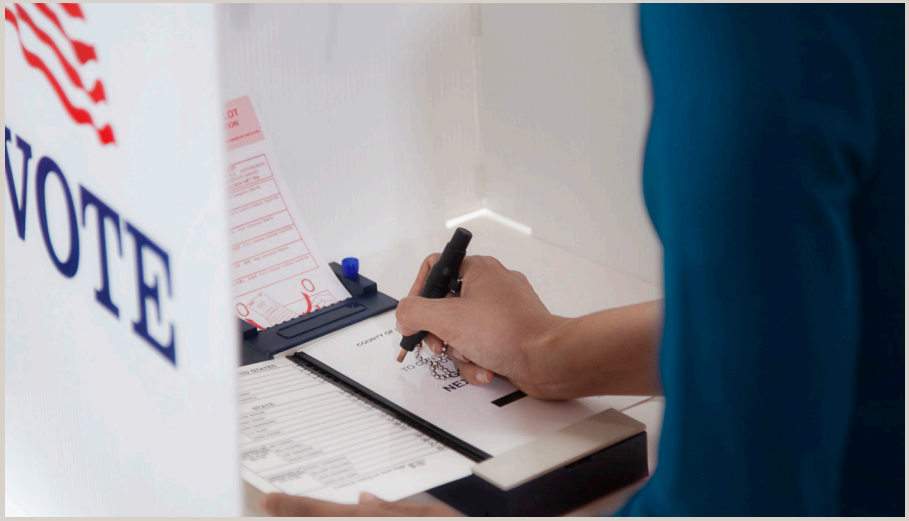
How to survive the uncertainty and invest with confidence

How to invest with confidence in an election year

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?

U.S. voters will have their say on November 3, 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 advisor questions about investing in an election year, drawing insights from our analysis of over 85 years of investment data across 22 election cycles.



Here's what we learned:

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

A $1,000 investment in the S&P 500 Index when FDR became president in 1933 would have been worth over $14 million today. During that time there have been seven Republican and seven Democratic presidents.

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

Stocks have returned 10.2% in the 12 months following primaries, compared to 5.8% in similar periods of non-election years.

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 non-election years.

But staying on the sidelines has rarely paid off. It's time, not timing, that matters most.

Stocks have had negative returns in only two of the last 20 election years (2000, 2008), and both declines were largely attributed to asset price bubbles rather than politics.

To download this full guide, go to www.guidetoelections.com

Which political party has been better for investors?

Investing during an election year can be tough on the nerves, and 2020 promises to be no different. Indeed, politics can bring out strong emotions and biases, but investors would be wise to tune out the noise and focus on the long term.

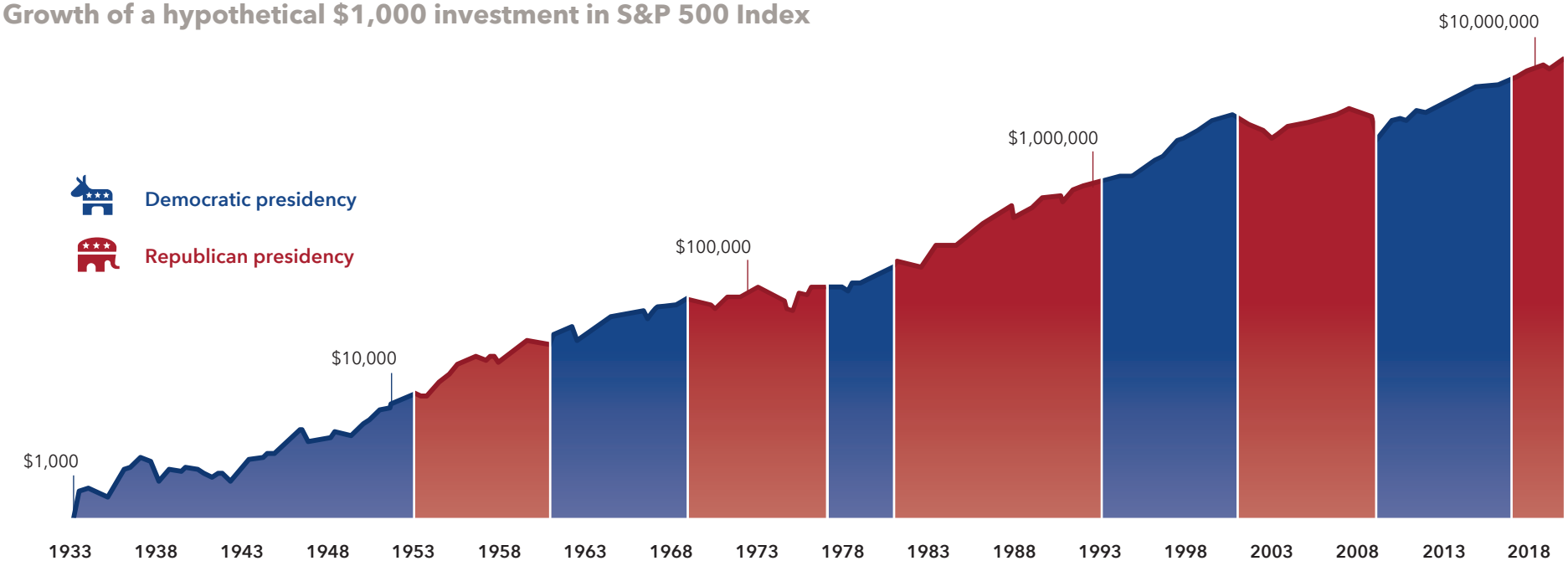
That's because elections have, historically speaking, made essentially no difference when it comes to long-term investment returns.

What should matter more to investors is staying invested. A $1,000 investment in the S&P 500 made when Franklin D. Roosevelt took office would have been worth over $14 million today. During this time there have been seven Democratic and seven Republican presidents.

Current economic and political challenges may seem unprecedented – political gridlock, the coronavirus outbreak and rising tensions around the globe – 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. Successful investors stay the course and rely on time in the market rather than timing the market.

Bottom line: U.S. stocks have trended up regardless of whether a Democrat or Republican won the White House.

Growth of a hypothetical $1,000 investment in S&P 500 Index



SOURCES: Morningstar, Standard & Poor's. As of 12/31/19. Dates of party control are based on inauguration dates. Values are based on total returns in USD. Shown on a logarithmic scale.

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 Democrats were still running at the start of 2020 – the range of outcomes can feel daunting.

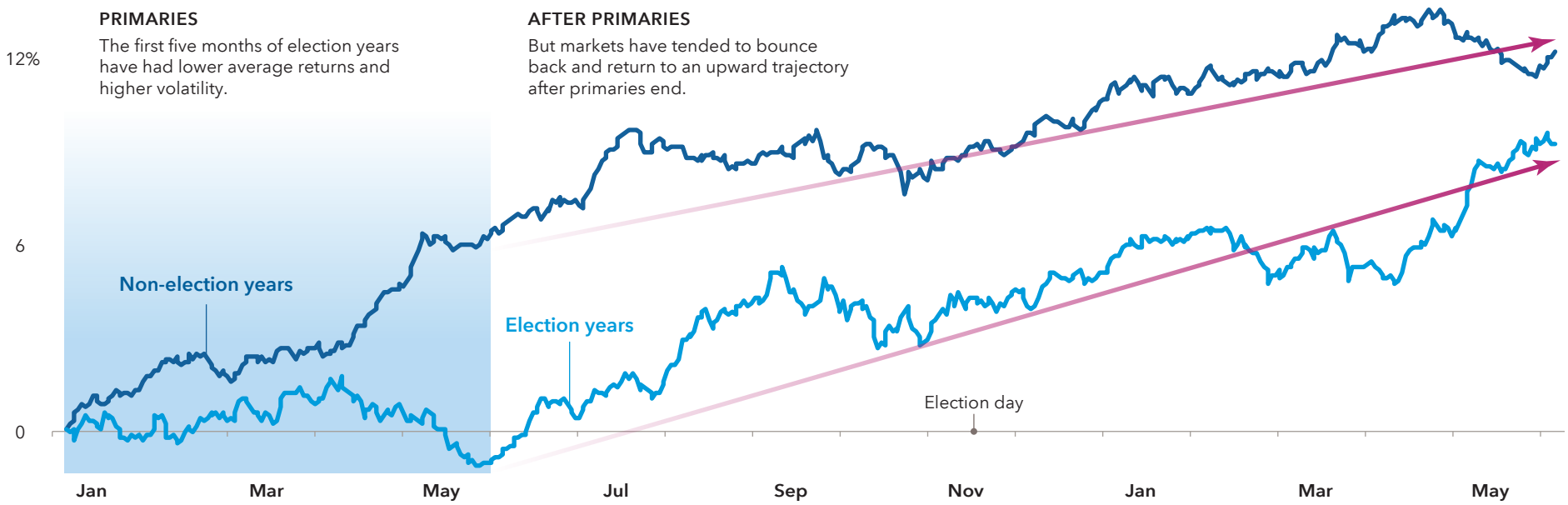
But the volatility is often short-lived. After the primaries are over and each party has selected its candidate, markets have tended to return to their normal upward trajectory.

Patient investors who stay the course have often been rewarded. Since 1932, stocks have gained an average of 10.2% in the 12 months following the conclusion of the primaries (using May 31 as a proxy) compared to just 5.8% in similar periods of non-election years.

But keep in mind, these are just averages. Investors shouldn't try to time an entry point into the market. 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



SOURCES: Capital Group, RIMES, Standard & Poor's. Includes all daily price returns from 1/1/32–12/31/19. Non-election years exclude all years with either a presidential or midterm elections.

Which sectors have done best in election years?

It'd 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.

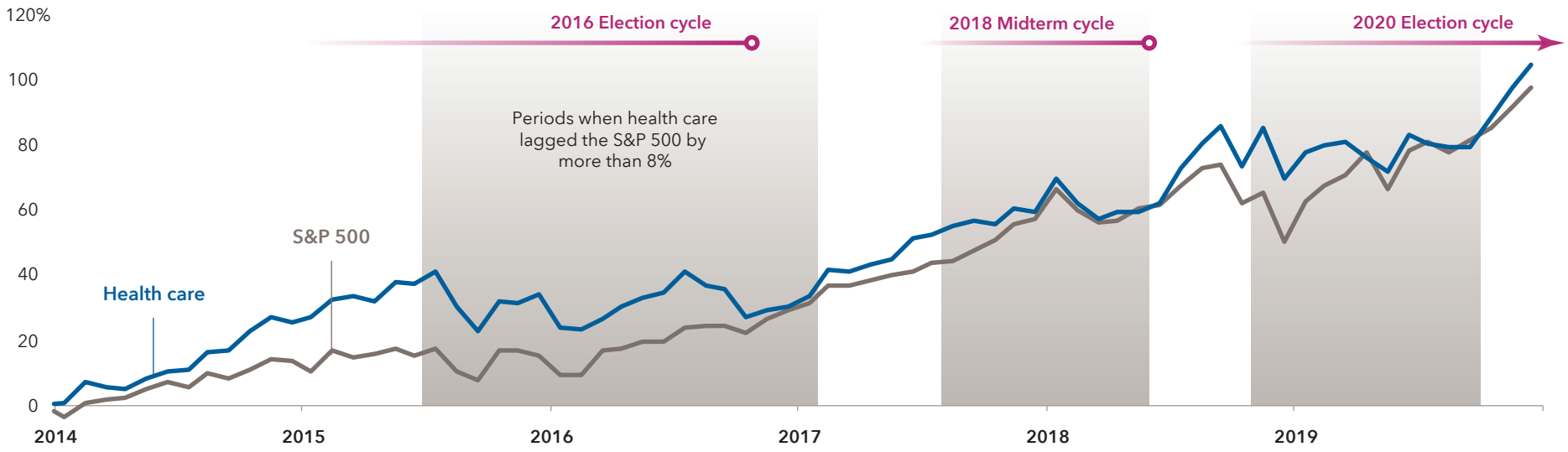
This time, it's the health care sector that's in the spotlight. Heated rhetoric over drug pricing has put pressure on many stocks across the pharmaceutical and managed care industries.

Does that mean you should avoid this sector altogether? Not according to Rob Lovelace, an equity portfolio manager with 34 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. "Companies with good drugs that are really helping people will be able to get into the market, and they will get paid for it."

Health care stocks rallied after the campaign spotlight of the 2016 presidential and 2018 midterm election cycles faded away. And it was the top-returning sector in 4Q19 after being the worst for the first nine months of the year. Other sectors have had similar post-election rallies in the past. This can create buying opportunities for investors with a contrarian point of view and the ability to withstand short-term volatility.

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

Cumulative returns of S&P 500 and S&P 500 Health Care



SOURCES: RIMES, Standard & Poor's. Includes periods from 12/31/13–12/31/19. Highlighted periods reflect when the health care sector lagged the S&P 500, in part due to negative sentiment caused by policy proposals during election campaigns. All returns in USD.

What mistakes do investors often make in election years?

If you're nervous about the markets in 2020, 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 money.

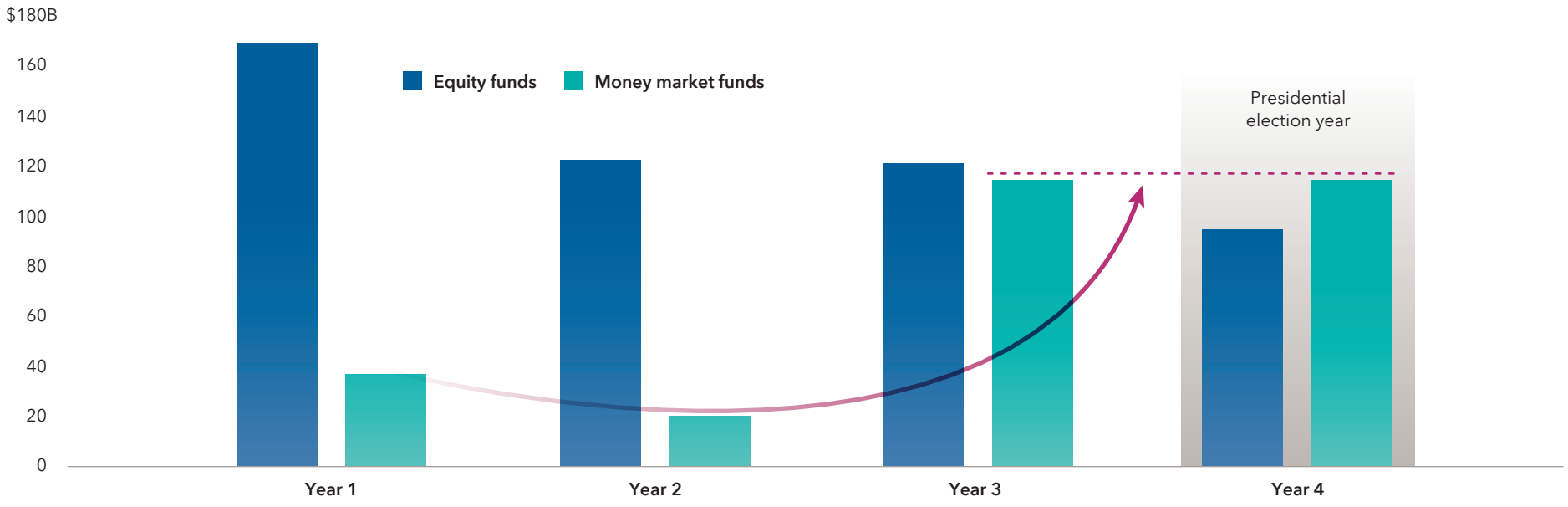
History shows that investors have poured into money market funds – traditionally one of the lowest risk investment vehicles – much more frequently leading up to elections. By contrast, equity funds have seen the highest net inflows in the year immediately after an election. This trend holds true even for international funds.

This suggests that investors want to minimize risk during election years and wait until after uncertainty has subsided to revisit riskier assets like stocks.

But market timing is rarely a winning long-term investment strategy, and it can pose a major problem for portfolio returns. On the next page, we'll take a closer look at how it could negatively impact investor wealth.

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 (1992–2019)



SOURCE: Morningstar. Values based on USD. Equity funds include U.S. and international equity funds.

What have been the best ways to invest in election years?

Spoiler alert: The best way to invest in an election year has rarely been by staying on the sidelines.

To verify this, we looked at three hypothetical investors, each with a different investment approach. We then calculated the ending value of each of their portfolios over the last 22 election cycles, assuming a four-year holding period.

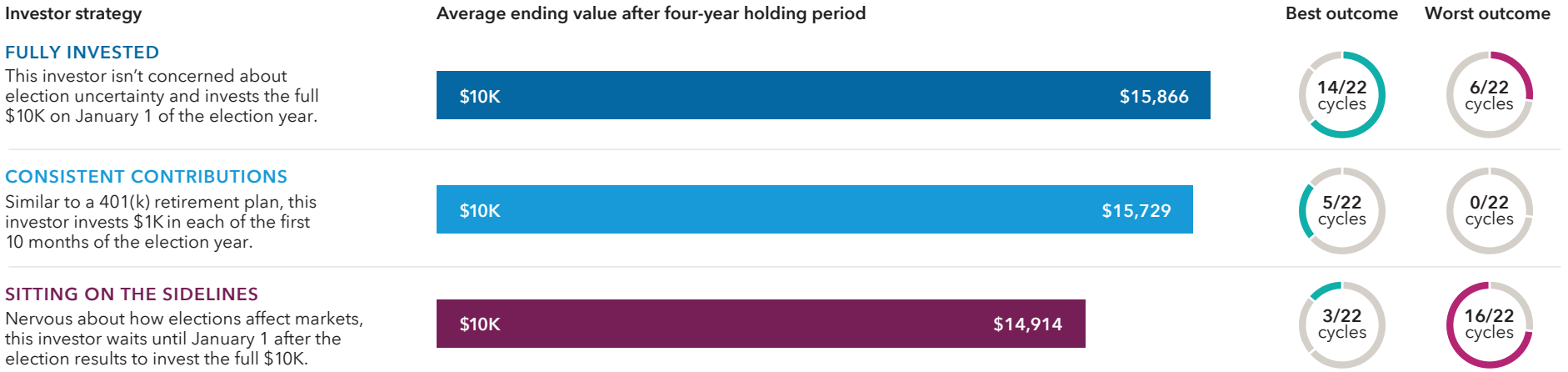
The investor who stayed on the sidelines had the worst outcome 16 times and only had the best outcome three times. Meanwhile, investors that were fully invested or made monthly contributions (like a 401(k) investor) during election years came out on top. These investors had higher average portfolio balances over the full period and more frequently outpaced the investor who stayed in cash longer.

Sticking with a sound long-term investment plan based on individual investment objectives is usually the best course of action. Whether that strategy is to be fully invested throughout the year or to consistently invest through a vehicle such as a 401(k) plan, the bottom line is that investors should avoid market timing around politics. As is often the case with investing, the key is to put aside short-term noise and focus on long-term goals.

Bottom line: Staying on the sidelines has rarely paid off. It's time, not timing, that matters most.

Three hypothetical $10K investment strategies during an election cycle

Analysis of 22 election cycles since 1932



SOURCES: Capital Group, Morningstar, Standard & Poor's. The three hypothetical investors each have $10K to invest during an election cycle and are invested in a combination of equities and cash at all times. FULLY INVESTED is always fully invested in equities. CONSISTENT CONTRIBUTIONS starts with $1K in equity and $9K in cash. At the start of each of the next nine months, this investor reduces cash by $1K and makes a $1K contribution to equities, after which they will have made the full $10K contribution to equities. SITTING ON THE SIDELINES is entirely invested in cash during the first year. At the start of the second year, this investor reduces cash by $10K and makes a $10K contribution to equities. S&P 500 Index used for equity returns, and reflects the reinvestment of dividends. Ibbotson SBBI US 30-Day Treasury Bill Total Return Index used as a proxy for cash returns, and reflects the reinvestment of interest. Returns and portfolio values are calculated monthly and in USD. Analysis starts on January 1 of each election year and reflects a four-year holding period.

Key takeaways

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.

It's important to stay the course through primary season to benefit from any potential rally once the final candidates and eventual winner emerge.

Investors often sit on the sidelines during election years out of fear and uncertainty, but that's rarely a winning strategy.

Net asset flows into money market funds have been more than three times higher in election years than in non-election years.

Investors who were fully invested or made monthly investments did better than those who stayed in cash.

The key is to avoid trying to time markets around politics.

To download this full guide, go to www.guidetoelections.com

Investors should carefully consider investment objectives, risks, charges and expenses. This and other important information is contained in the fund prospectuses and summary prospectuses, which can be obtained from a financial professional and should be read carefully before investing.

Standard & Poor's 500 Composite Index is a market capitalization-weighted index based on the results of approximately 500 widely held common stocks. The S&P 500® Health Care comprises those companies included in the S&P 500 that are classified as members of the GICS® health care sector.

Market indexes are unmanaged and, therefore, have no expenses. Investors cannot invest directly in an index.

Statements attributed to an individual represent the opinions of that individual as of the date published and do not necessarily reflect the opinions of Capital Group or its affiliates. This information is intended to highlight issues and should not be considered advice, an endorsement or a recommendation.

This content, developed by Capital Group, home of American Funds, should not be used as a primary basis for investment decisions and is not intended to serve as impartial investment or fiduciary advice.

American Funds Distributors, Inc., member FINRA.

Lit. No. MFGEBR-121-0320P Litho in USA CGD/CIP/10204-S76436