CAPITAL GROUP®

Guide to

Investing in an election year

How to survive the uncertainty and invest with confidence

2024 EDITION

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 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 advisor questions about investing in an election year, drawing insights from our analysis of over 90 years of investment data across 23 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 $21 million in 2023. During that time there have been seven Republican and eight Democratic presidents.

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

Stocks have returned 11.3% in the 12 months following primaries, compared to 5.7% 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 twice as high in election years as in the year after an election.

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

The S&P 500 Index 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 GuideToElections.com

Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.
Past results are not predictive of results in the future.

Which political party has been better for 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.

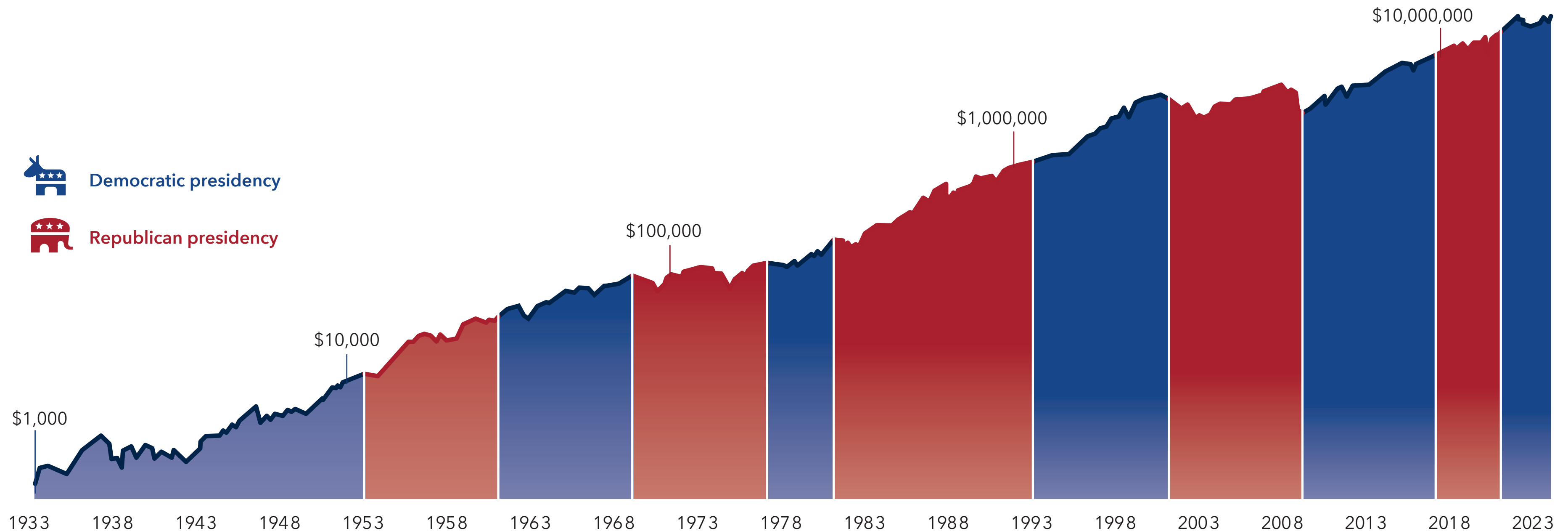
That's because elections have, historically speaking, made essentially no difference when it comes to long-term investment returns.

What should matter more to investors is staying invested. A $1,000 investment in the S&P 500 made when Franklin D. Roosevelt took office would have been worth over $21 million as of December 31, 2023. During this time there have been eight Democratic and seven Republican 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. 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: Capital Group, RIMES, Standard & Poor's. Chart shows the growth of a hypothetical $1K investment made on March 4, 1933 (the date of Franklin D. Roosevelt's first inauguration) through December 31, 2023. 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.

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? As candidates spend months debating key issues, the range of outcomes can feel daunting.

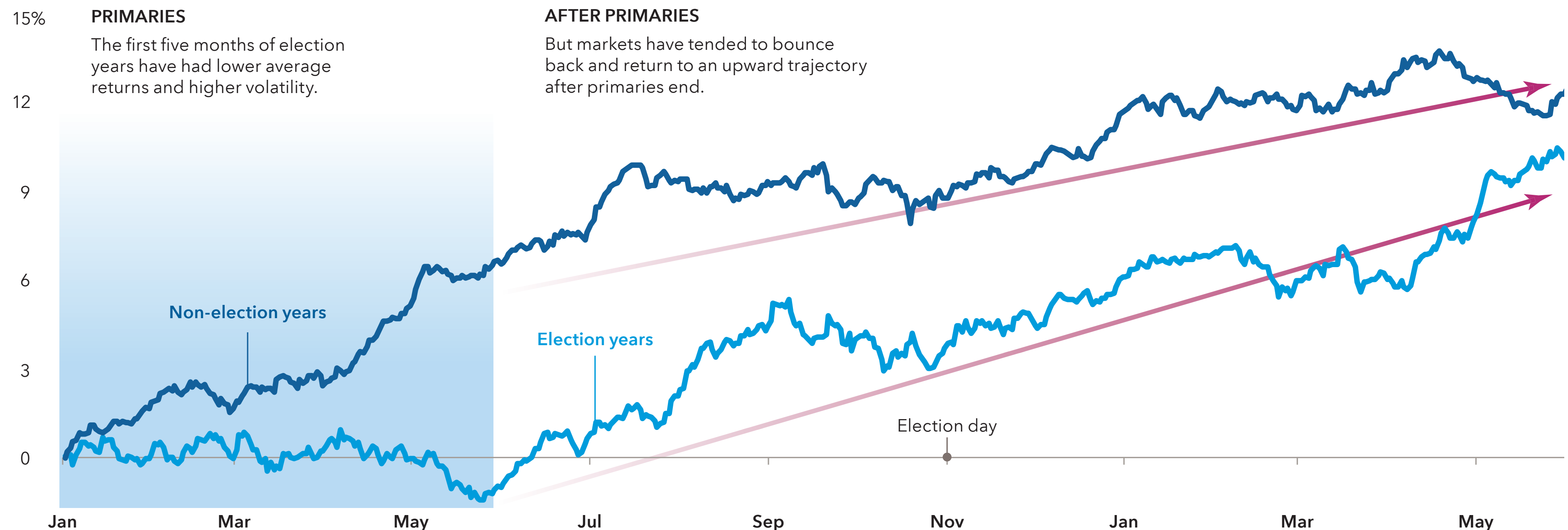
But the volatility is often short-lived. After the primaries are over and each party has selected its candidate, markets have tended to return to their normal upward trajectory.

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 May 31 as a proxy) compared to just 5.7% 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 January 1, 1932 through December 31, 2023. Non-election years exclude all years with either a presidential or midterm elections. Past results are not predictive of results in future periods.

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.

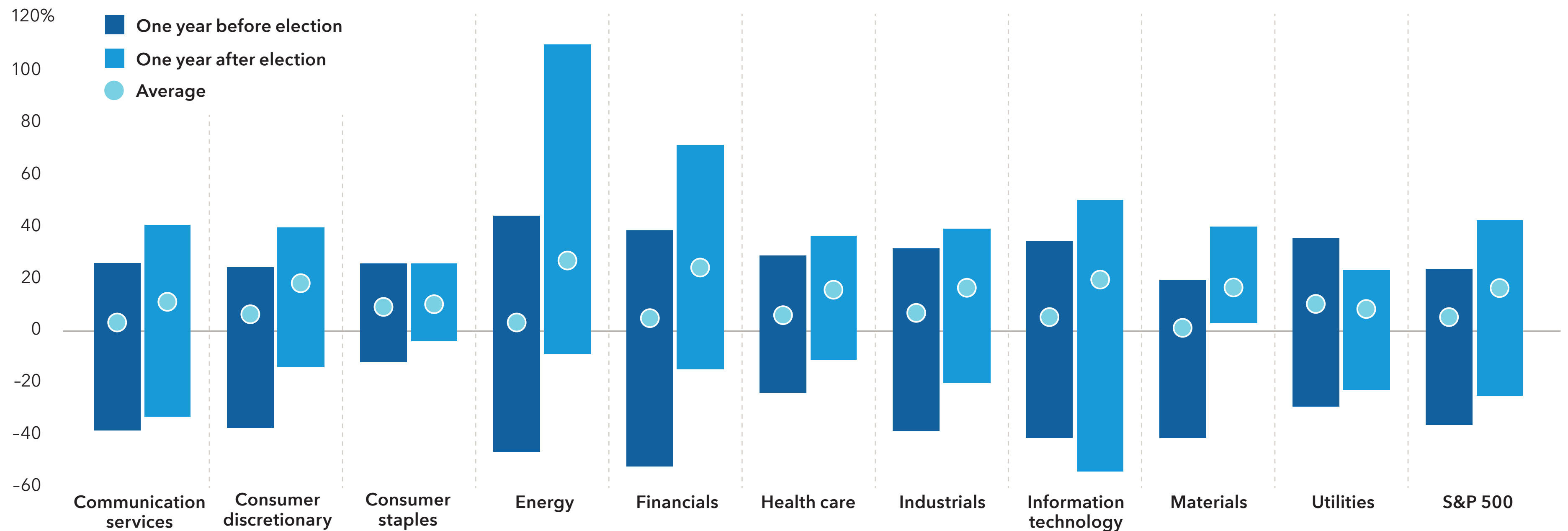
The health care sector has been in the crosshairs for a number of election cycles. Heated rhetoric over drug pricing put pressure on many stocks in the pharmaceutical and managed care industries. Other sectors have had similar bouts of weakness prior to elections.

Does that mean you should avoid a particular sector altogether? Not according to Rob Lovelace, an equity portfolio manager with 38 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 strength to tolerate short-term volatility.

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

Range of one-year returns by S&P 500 sectors



Sources: Capital Group, Refinitiv Datastream, Standard & Poor's. Includes all elections since 1992, as of December 31, 2023. October 31 used as a proxy for each election date in the calculations of returns one year before and after an election. For example, the first year measured before the 1992 election is October 31, 1991-October 31, 1992, and the last year measured after the 2020 election is October 31, 2020-October 31, 2021. Past results are not predictive of results in future periods.

What mistakes do investors often make in election years?

If you're nervous about the markets in 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 money.

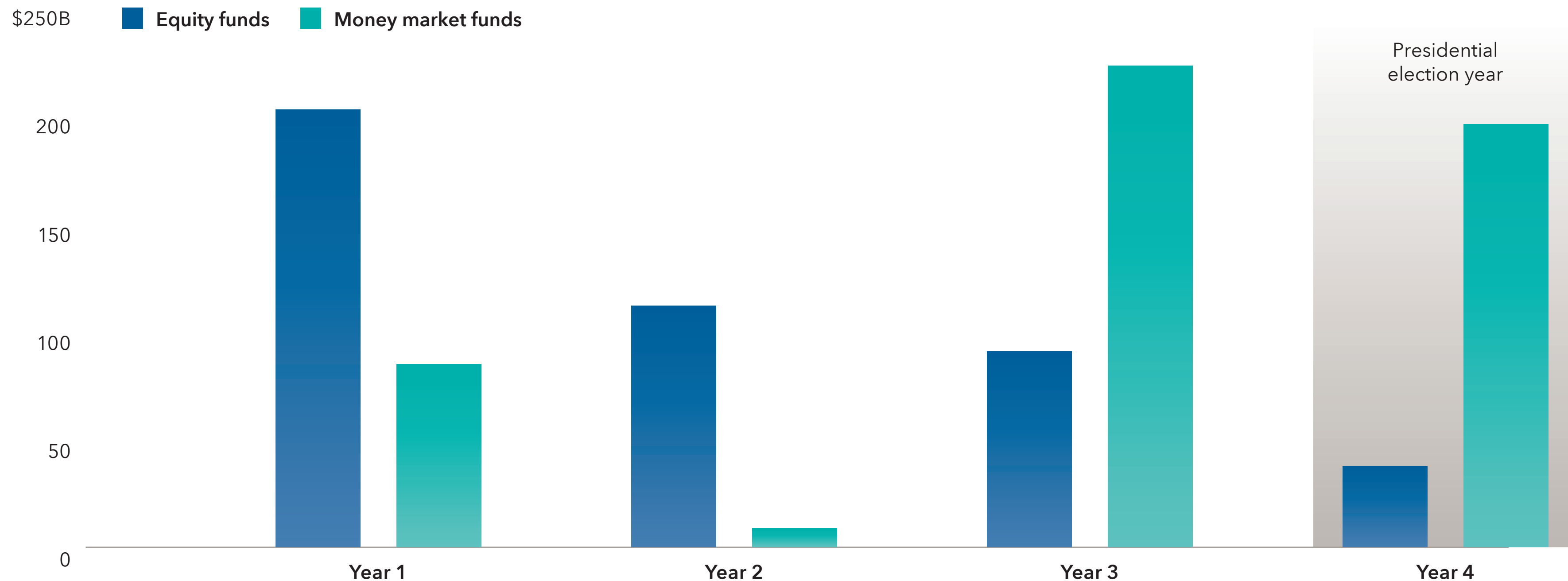
History shows that investors have poured into money market funds – traditionally one of the lowest risk investment vehicles – with greater frequency ahead of elections. By contrast, equity funds have seen the highest net inflows in the year immediately after an election. This trend holds true even for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

This suggests that investors want to minimize risk during election years and wait 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'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 (1992–2023)



SOURCE: Morningstar. Values based on USD. Funds include mutual funds and ETFs. Equity funds include funds within Morningstar's International Equity and U.S. Equity categories. Money market funds include funds within Morningstar's Money Market category.

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 23 election cycles, assuming a four-year holding period.

The investor who stayed on the sidelines had the worst outcome 17 times and only had the best outcome three times. Meanwhile, investors that were fully invested or made monthly contributions to a 401(k), for example, 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 invest on a regular basis, 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 23 election cycles since 1932

Investor strategy	Average ending value after four-year holding period	Best outcome	Worst outcome
FULLY INVESTED This investor isn't concerned about election uncertainty and invests the full $10K on January 1 of the election year.	$10K → $15,860	14/23 cycles	6/23 cycles
CONSISTENT CONTRIBUTIONS Similar to a 401(k) retirement plan, this investor invests $1K in each of the first 10 months of the election year.	$10K → $15,765	6/23 cycles	0/23 cycles
SITTING ON THE SIDELINES Nervous about how elections affect markets, this investor waits until January 1 after the election results to invest the full $10K.	$10K → $14,867	3/23 cycles	17/23 cycles

SOURCES: Capital Group, Board of Governors of the Federal Reserve System (US), RIMES, 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 returns reflect the reinvestment of dividends. 3-month Treasury Bills used as a proxy for cash returns, and returns reflect 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. Past results are not predictive of results in future periods.

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 twice as high in election years as in the year after an election.

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.

Download the full guide: GuideToElections.com

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2019 2020 2021 2023

*Source: Marketing Support: The Advisor View, May 2023, July 2021, June 2020; Fund Intelligence, February 2020. FUSE Research surveys of 500-1,000 advisors identifying the "most-read thought leaders." Survey was not conducted in 2022.

The **S&P 500 Index** is a market capitalization-weighted index based on the results of approximately 500 widely held common stocks.

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