



Election Chartbook | 2024

John Lynch, Chief Investment Officer
Comerica Wealth Management

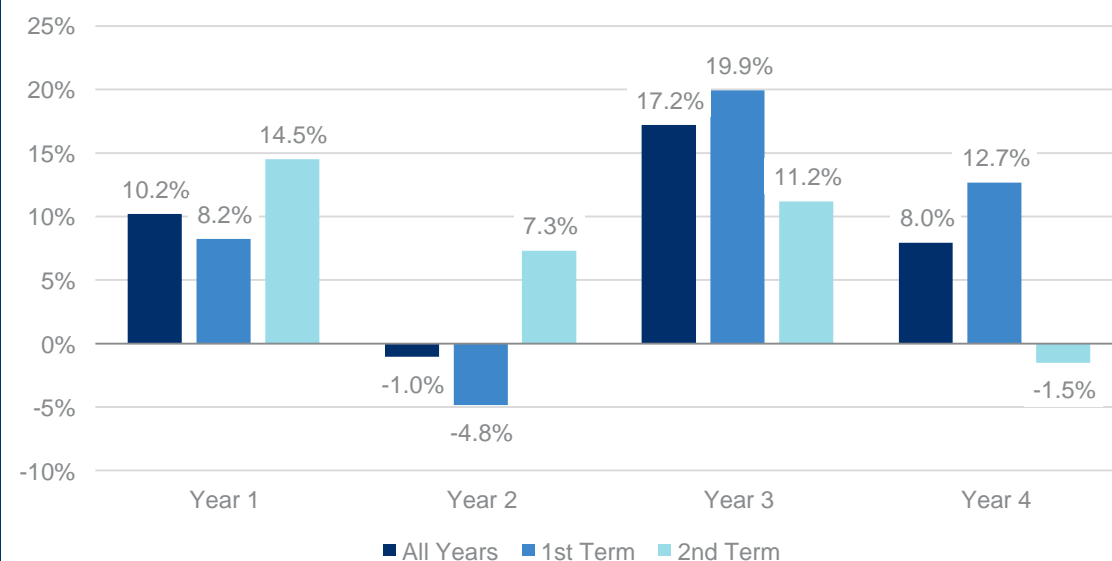
Matthew Anderson, Senior Analyst
Comerica Wealth Management

Presidential Cycles & Equity Returns

Despite uncertainty, surprising consistency

- Historically, election years have delivered ordinary equity returns. Since 1961, the S&P 500® Index has averaged an 8.0% return in the fourth year of the presidential election cycle, which is consistent with the index's long-term average.
- However, there is a significant difference in returns between election years for first-term and second-term presidents. On average, first-term presidents have outperformed second-term presidents by approximately 14% during their fourth year in office.
- While this disparity can partly be attributed to specific events, such as the 2008 financial crisis, which occurred during an election year with a second-term president, we should also note the impact of first-term presidents trying to prime the economy ahead of their re-election effort.
- Investors tend to anticipate these fiscal measures in the third year of a president's term, leading to their implementation in the election year, with effects that spill over into the year following the election.

Presidential Cycle Average S&P 500® Returns (1961-2023)



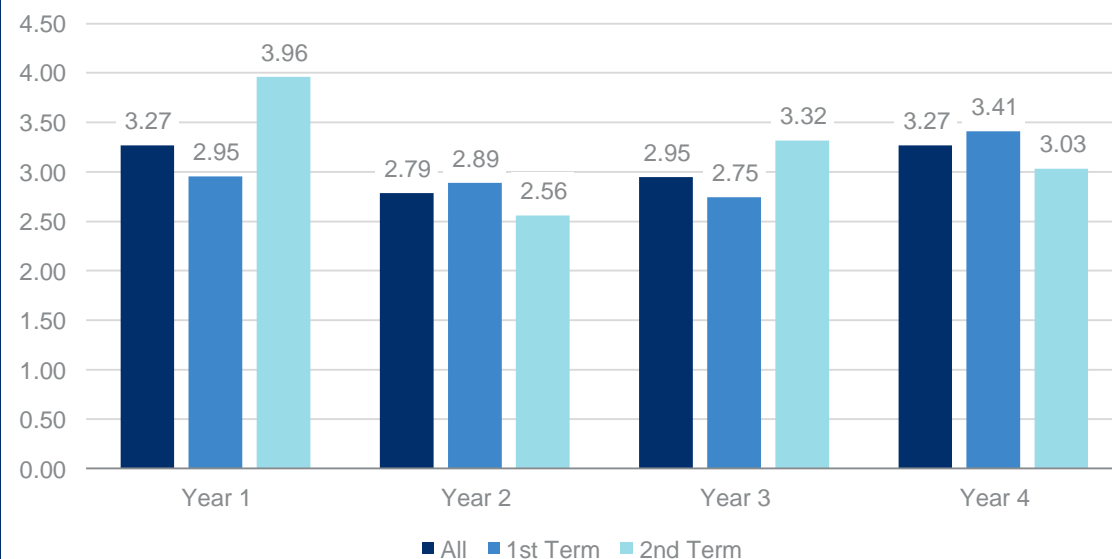
Source: Bloomberg L.P.

Presidential Cycles & Real GDP Growth

The checkbook is a powerful tool.

- Indeed, incumbents commonly use fiscal stimulus to boost economic conditions to aid their re-election efforts. It is a bipartisan phenomenon that has generally bolstered economic growth during election years.
- The effects of these actions are reflected in patterns of Real GDP growth. From 1961 through 2023, U.S. real GDP growth has averaged approximately 3.0% per year. However, in an election year with a first-term president, this average increased by 40 basis points.
- The only period that has produced higher economic growth has been in the first year of a re-elected president, when the full impact of the prior year's fiscal spending has led to real GDP growth that is nearly a full 1% higher than the long-term average.

Presidential Cycle Average Real GDP Growth (1961-2023)

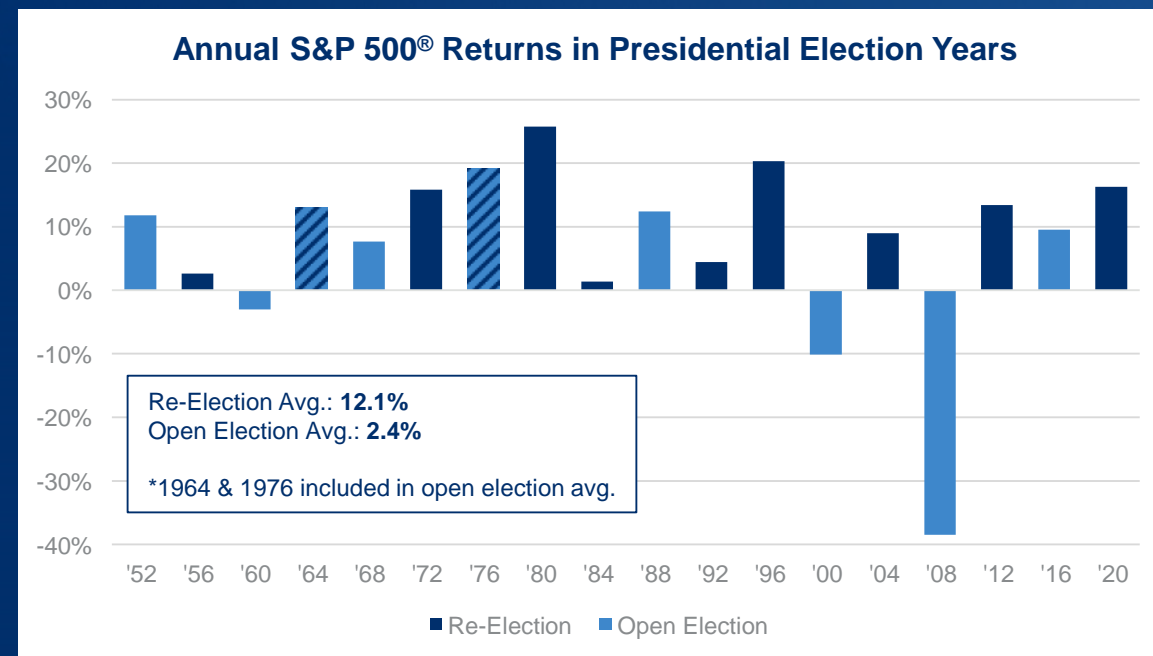


Source: Bloomberg L.P.

Re-Election vs. Open Election Years

Re-election year tailwinds still in place.

- Our thesis coming into the year was that equity markets do very well during presidential re-election years. In fact, the S&P 500® has not declined during a presidential re-election year since 1948.
- *However, with President Biden dropping out of the race in July, this year has shifted from a re-election year to an open election year.* Historically, open elections have produced below-average returns, but the economic tailwinds typically seen during re-election years are still present.
- Much of the fiscal spending has either already occurred or is in the process of being deployed and the usual market weakness seen during primary season of open election years will not be a factor this year.

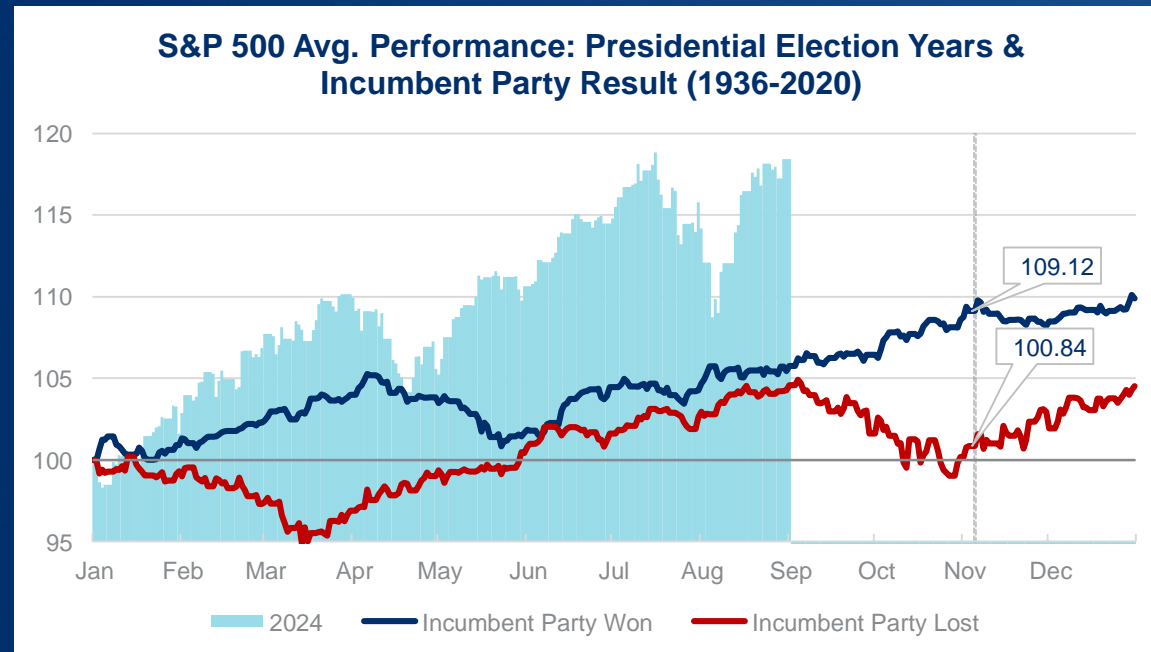


Source: Strategas Research Partners

Equity Returns & Election Results

Incumbent party success is correlated to equity returns.

- There is a strong correlation between equity market returns and the incumbent party staying in power. When the economy and stock market perform well, voters are generally less inclined to seek change.
- So far this year, the S&P 500® Index has risen 18.4%, marking the best eight-month start to an election year since 1936. However, it's noteworthy that two of the next highest returns through August occurred in 1976 (+14.1%) and 1980 (+13.4%)—both years in which the incumbent party lost.
- As we will explore later, equity market performance in the three months leading up to the election has historically been a more accurate predictor of election outcomes.



Source: Bloomberg L.P.

Potential Policy Differences

Clear contrasts in policy stances.

- This election offers a clear contrast in policy approaches between the two parties' platforms. This general comparison provides some of the potential policy differentials and where they could impact financial markets.
- One of the most direct impacts on financial markets will come from policies on corporate taxes, which significantly influence earnings per share. Vice President Harris has proposed increasing the top corporate tax rate from 21% to 28%, while former President Trump has suggested reducing this rate to as low as 15%.
- Thus far equity indexes have not priced in higher corporate taxes, suggesting the possibility that the market consensus believes the Democrats will not secure the majorities needed in Congress to pass this legislation.
- Moreover, despite all the rhetoric, either administration will likely be constrained by Congressional approval in many key policy areas.

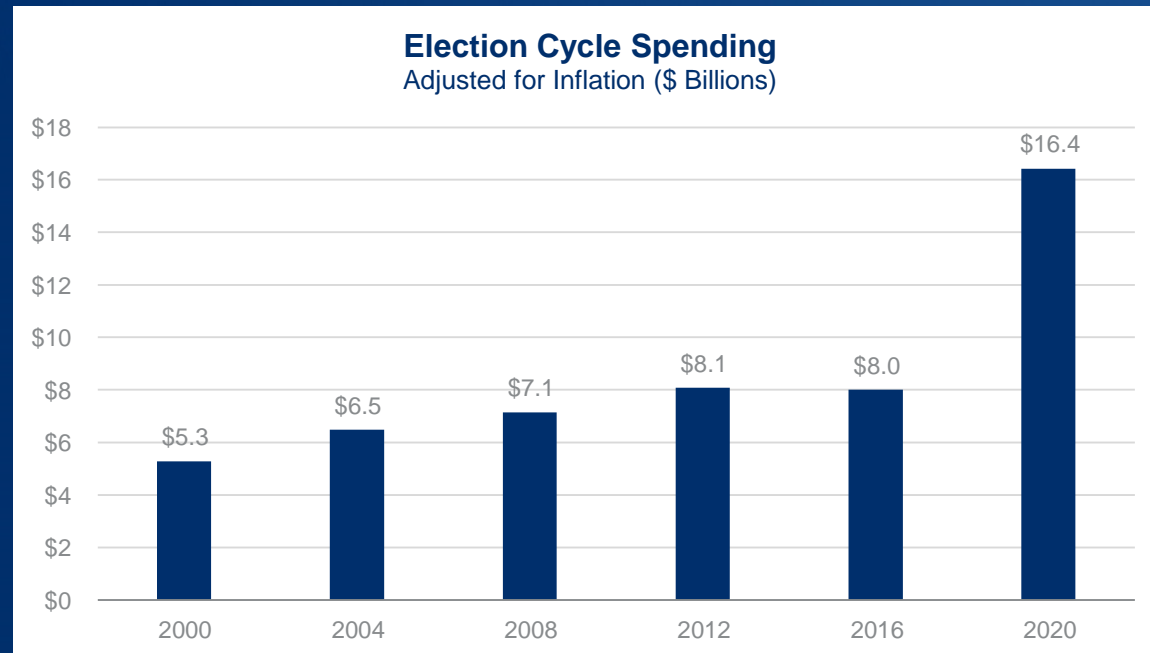
| Issue | Potential Democratic Policy | Potential Republican Policy | Potential Impacts |
|-----------------|---|---|--|
| Taxes | Potential tax hikes on wealthy individuals and corporations. | Reduce top corporate tax rate, Make expiring provisions of the 2017 Tax Cuts and Jobs Act Permanent | U.S. Equities, Muni Bonds |
| Healthcare | Extend expanded ACA health insurance tax subsidies | Allow expanded ACA health insurance tax subsidies to elapse | Heath Insurers |
| Trade | Targeted tariffs on geopolitical rivals, particularly on Chinese technology and sectors tied to national security | Impose 10-20% baseline tariff on all U.S. imports. Impose a 60% tariff on U.S. imports from China | U.S. Dollar, Inflation, Multinational Corporations |
| Monetary Policy | Hands off approach to the Federal Reserve | More interventionist approach to the Federal Reserve | Interest Rates |
| Energy | Continue to invest in renewable energy sources, heightened regulation of fossil fuel industry. | Increase domestic oil and natural gas production. | Traditional Oil & Gas, "Green" Energy |
| Regulation | Heightened regulation on technology and financial services | Reduced regulation on financial services, may support increased scrutiny of technology companies. | Financials, Communication Services |

Source: Strategas Research Partners, J.P. Morgan, Goldman Sachs

Election Year Spending

Year-to-date fundraising suggests new record.

- This election cycle is on track to surpass the record spending seen in 2020. Federal Election Commission data through July reports that \$13.5 billion has been raised so far.
- At this rate, total spending on the presidential and congressional elections is expected to exceed the inflation-adjusted \$16.4 billion spent during the 2020 cycle.
- Approximately \$8.9 billion (65%) of this funding has been raised by Political Action Committees (PACs), with the remaining \$4.6 billion (35%) coming from party committees or the candidates themselves.

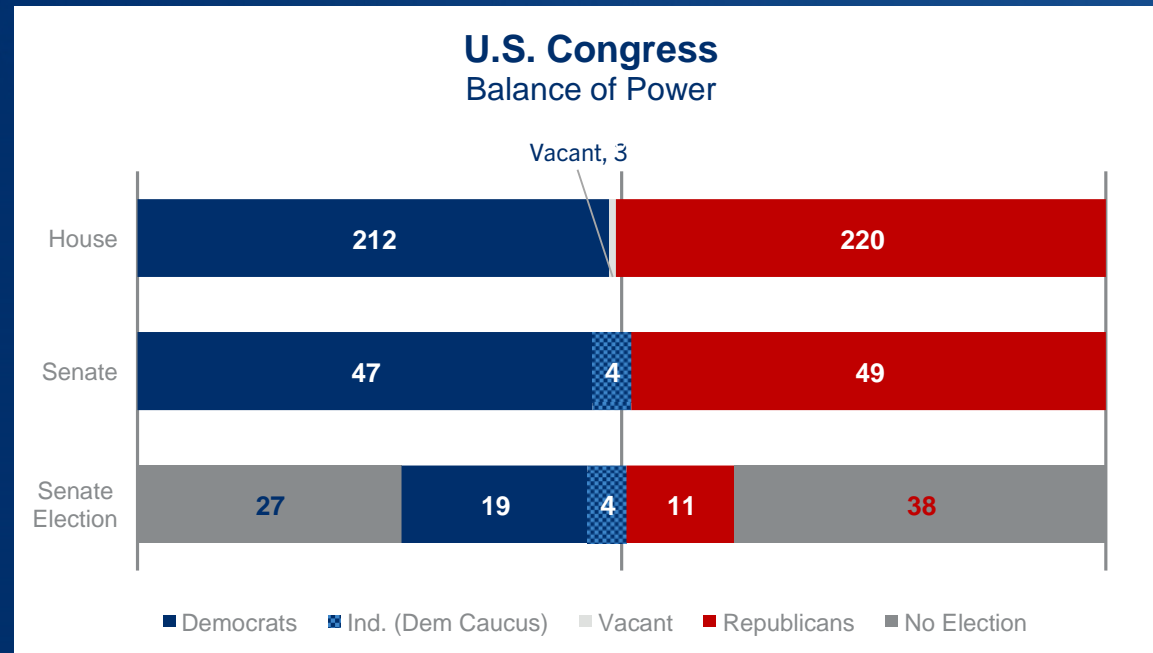


Source: OpenSecrets.org

Balance of Power

Top of the ticket to impact down ballot races.

- With both houses of Congress currently held by narrow majorities, down-ballot races will be critical in shaping the balance of power, which will, in turn, affect the new president's ability to implement their agenda.
- In the House of Representatives, Republicans hold a 200-212 seat majority, with three seats vacant. Democrats need to gain six seats to flip the House. Historically, the party that wins the presidency gains an average of 14 House seats dating back to 1936, which suggests that the winning party at the top of the ticket could also control the House.
- In the Senate, the odds favor Republicans, who are defending only 11 seats, compared to the Democrats' 23, including four independents who caucus with them. Republicans need a net gain of two seats (or one plus the Vice President) to secure a majority.
- Given this landscape, the most likely outcome is either a unified government under Republican control or a divided government with a Democratic president.



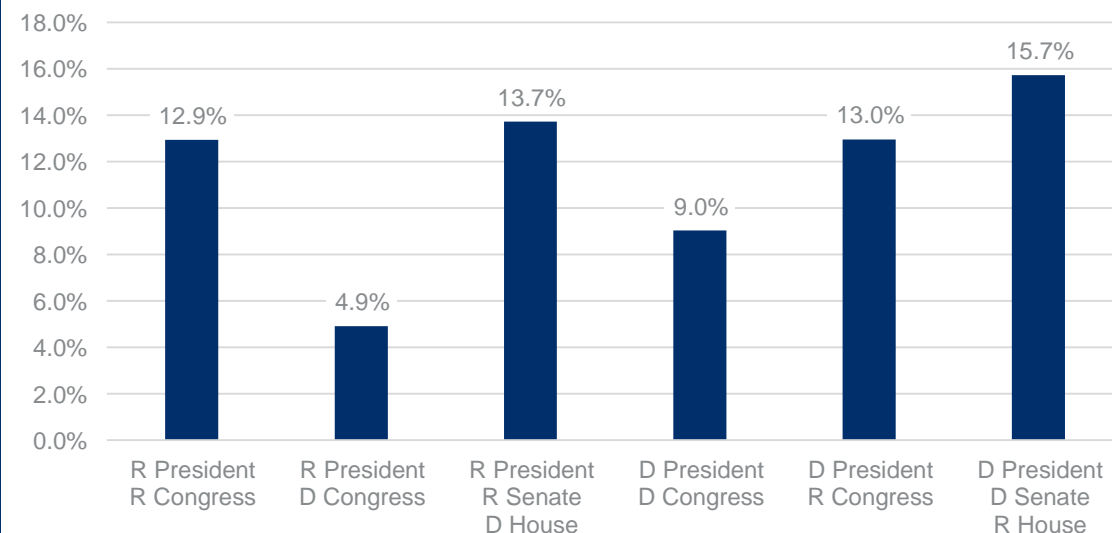
Source: House.gov, Senate.gov

Equity Returns & Partisan Control

Markets perform under most configurations.

- Historically, equity markets have performed well under both unified and divided government scenarios. Since 1933, the S&P 500® has averaged a 12.9% return in years when Republicans controlled both the presidency and Congress and a 13.0% return when Democrats held the presidency while Republicans controlled both houses of Congress.
- It's worth noting that the combination of a Democratic presidency and Democratic control of the House, with Republicans holding the Senate, has not occurred since Grover Cleveland's first term (1885-1889), so historical data for this configuration is unavailable.
- In addition to affecting the president's ability to implement their agenda, a divided government could bring renewed focus to the debt ceiling debate, which is projected to reach its "X-date" in August 2025.

S&P 500® Price Returns, Partisan Control
1933-2023 (ex. 2001)



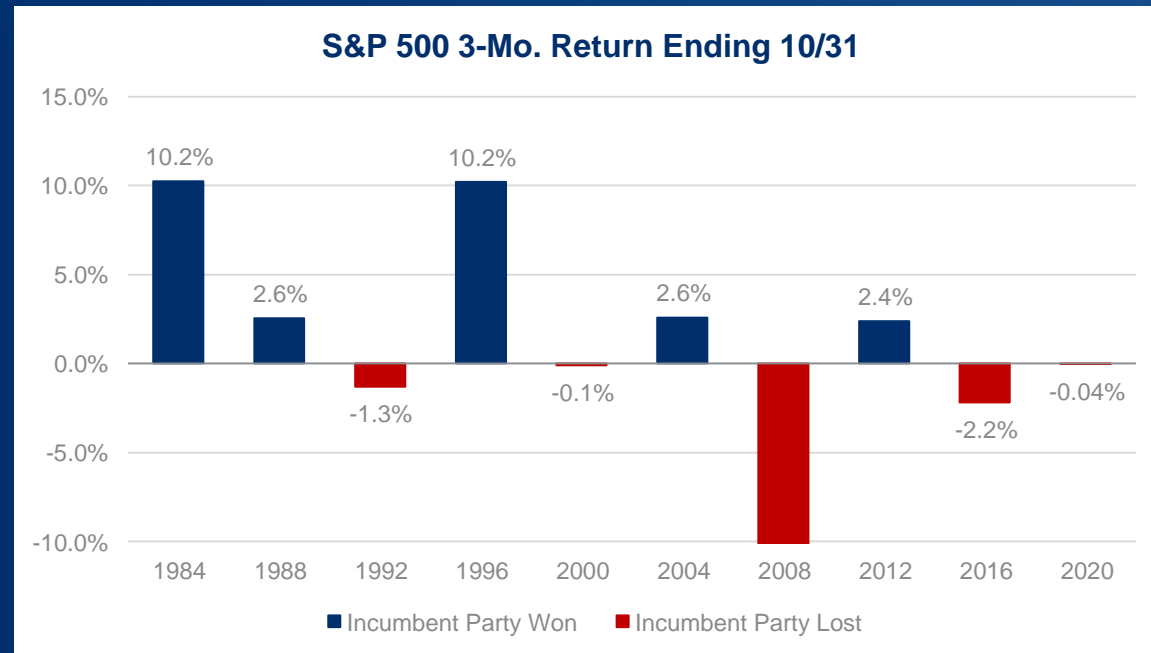
*In 2001, Sen. Jeffords (VT) switched parties, shifting the senate majority mid-year

Source: Bloomberg L.P.

3 Month Equity Returns a Reliable Forecaster

Despite YTD gains, focus on 90-days leading up to the election.

- The S&P 500's performance from August to October has been a reliable forecaster of presidential elections, correctly predicting each presidential election since 1984.
- In years when the S&P 500® Index is positive in the three months ending October 31st, the incumbent party has won. Conversely, when the index was negative the incumbent party has lost. There are a couple of ways of looking at this relationship.
- One explanation for this correlation is that uncertainty around elections creates market volatility. When investors anticipate significant policy shifts, markets may react by repricing in response to these potential changes.
- Another explanation is that equity performance reflects broader economic sentiment. When voters are satisfied with the economy's direction, they tend to support the status quo and when they are dissatisfied, they are more inclined to vote for change.



Source: Bloomberg L.P.

Misery Index

Jobs and prices can determine the outcome.

- The Misery Index has also been an accurate predictor of presidential elections. The index measures how the average person is doing in the economy by *combining the seasonally adjusted unemployment rate and the annual inflation rate into one indicator.*
- Since 1980, if the three-month average of the Misery Index gets worse (increases) year-over-year through October before the election, the incumbent party has lost. Conversely, if the Misery Index improves (decreases) from the prior year, the incumbent party wins.
- As of the last reading in July, the indicator stands at 7.178, slightly below last October's reading of 7.335. If the rule holds this election, Democrats have about 15 basis points of wiggle room before October. However, the unexpected rise in the unemployment rate in July poses a potential threat to Vice President Harris's chances.
- This also suggests that voters hold presidents accountable for the Federal Reserve's dual mandate of controlling inflation and maximizing employment.

| Misery Index 3-Mo. Moving Average (October) | | | | |
|---|------------|---------------|-----------|------------------------|
| Year | Prior Year | Election Year | Direction | Incumbent Party Result |
| 1980 | 17.990 | 20.313 | Higher | Lost |
| 1984 | 11.923 | 11.673 | Lower | Won |
| 1988 | 10.358 | 9.615 | Lower | Won |
| 1992 | 10.304 | 10.613 | Higher | Lost |
| 1996 | 8.257 | 8.125 | Lower | Won |
| 2000 | 6.651 | 7.404 | Higher | Lost |
| 2004 | 8.240 | 8.227 | Lower | Won |
| 2008 | 7.420 | 10.888 | Higher | Lost |
| 2012 | 12.655 | 9.848 | Lower | Won |
| 2016 | 5.143 | 6.321 | Higher | Lost |
| 2020 | 5.308 | 8.954 | Higher | Lost |
| 2024 | 7.335 | 7.178* | | |

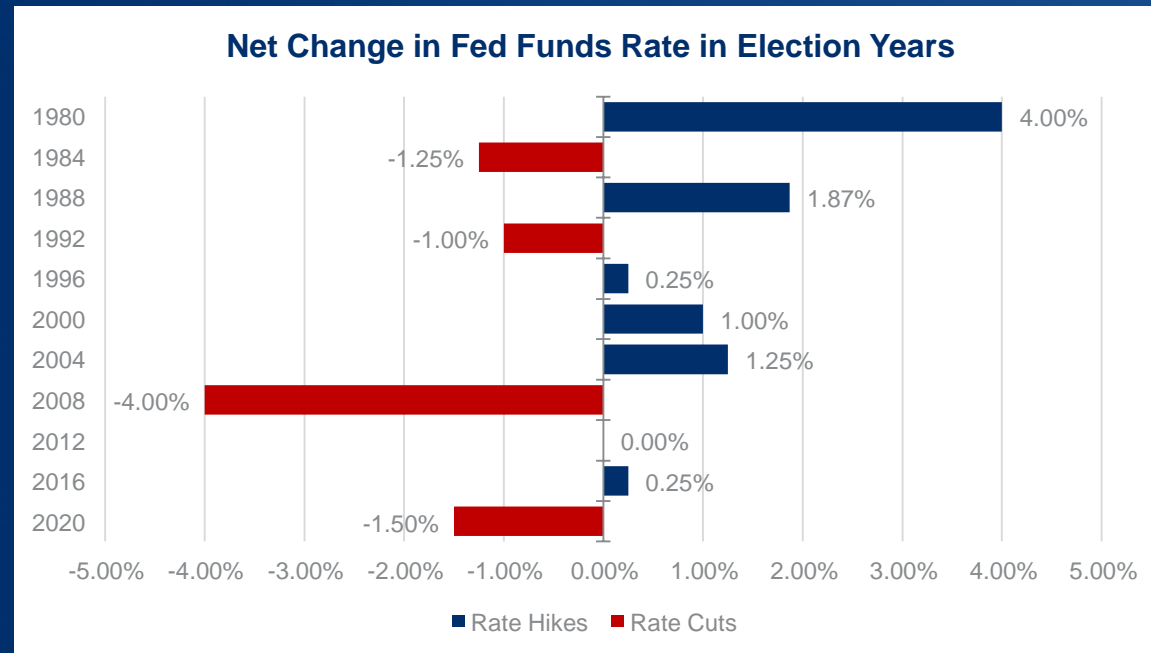
*Through 7/31/2024

Source: Bloomberg L.P., Strategas Research Partners

Federal Reserve & Election Years

Political considerations won't dissuade the Fed.

- While the FOMC is expected to cut interest rates later this month, it's worth noting that rate changes during election years are not uncommon.
- In fact, the Fed has altered interest rates in 10 of the last 11 presidential election years. In 2012, the Fed maintained the rate but initiated QE3, as rates were already zero-bound.
- While some might suggest that rate cuts benefit the incumbent by stimulating the economy, evidence suggests the opposite may be true. There tends to be a lagged effect of rate cuts on the economy, known as the "J-curve" effect, where economic activity initially slows as savers earn less income and potential borrowers delay borrowing in anticipation of further rate cuts.

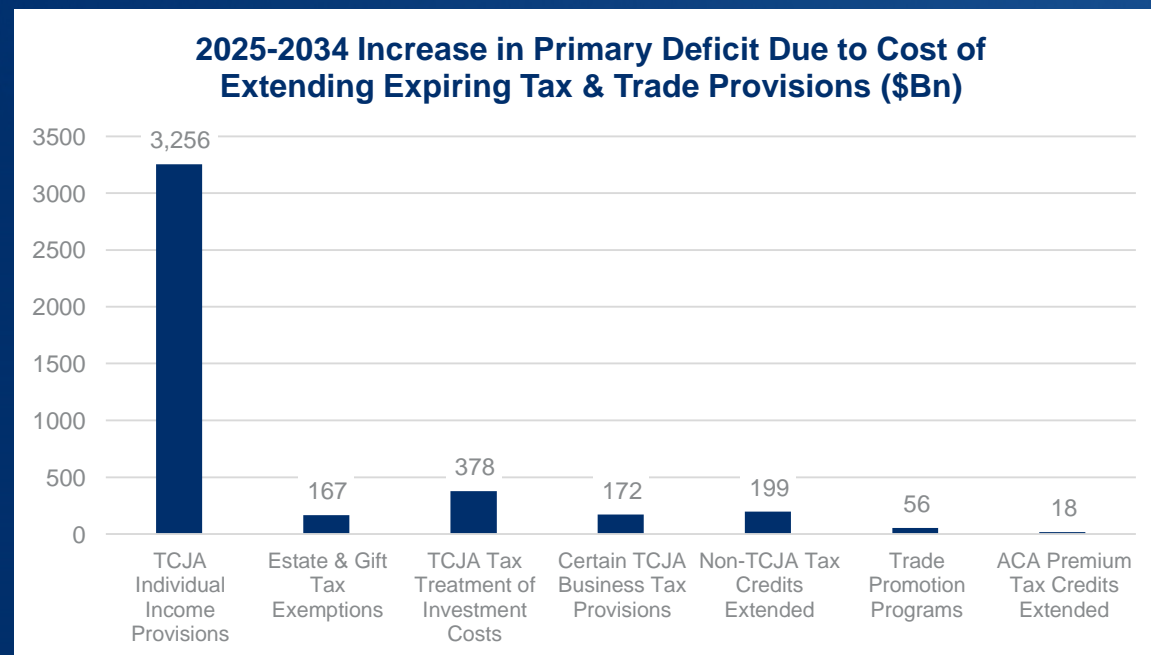


Source: Bloomberg L.P.

Tax Policy

The new president will have the opportunity to reshape tax policy.

- Next year could be pivotal for tax policy, potentially the most significant since the inception of income tax in 1913. The Congressional Budget Office (CBO) projects that expiring provisions of the 2017 Tax Cuts and Jobs Act will amount to roughly \$4 trillion over the next decade. The potential resolution will also depend on the balance of power within Congress.
- In a Republican sweep, the GOP likely try to make the expiring provisions permanent, tax large private university endowments and impose new tariffs on U.S. imports.
- Conversely, a Democratic administration may let some provisions of the Tax Cuts and Jobs Act expire, while expanding the child tax credit. Should Democrats also gain control of Congress, they would likely pursue higher corporate taxes, although not to pre-2017 levels, along with tightening estate tax rules and raising the top tax rate for high earners.

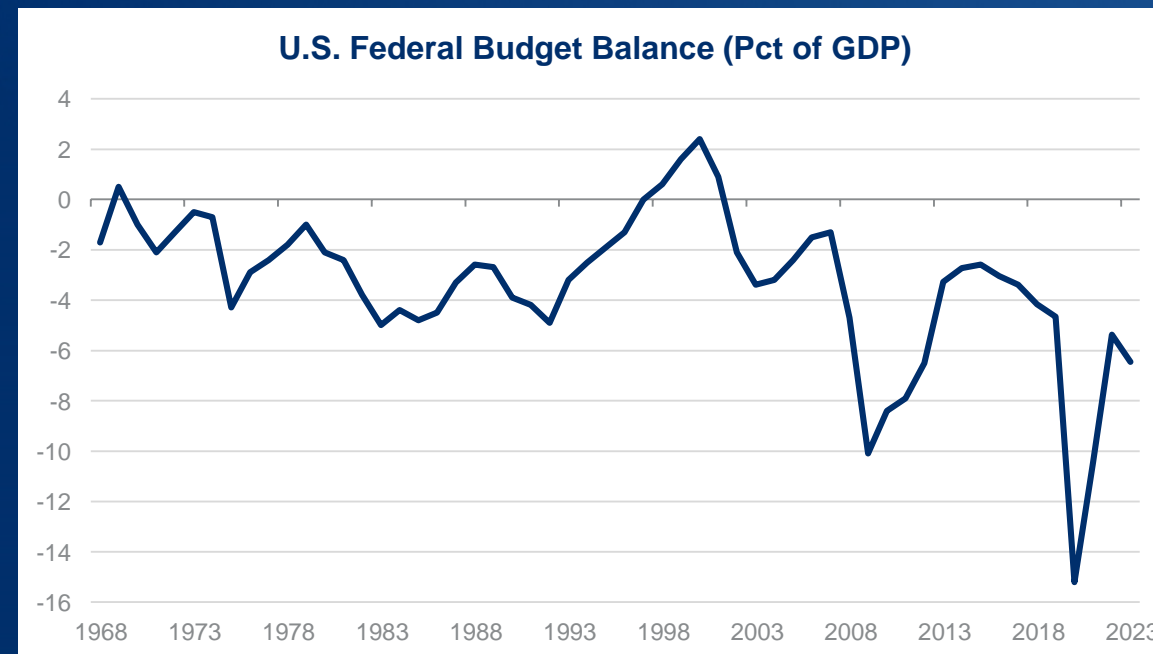


Source: OpenSecrets.org

Budget Deficits

Fiscal situation continues to deteriorate.

- While both parties vary substantially on policy stances across several key issues, neither candidate has been willing to champion fiscal prudence. Regardless of the result in November, the election is likely to lead to the further erosion of federal finances.
- U.S. budget deficits are running above 6% of GDP, an astounding figure considering solid economic growth and full employment.
- The national debt has ballooned to more than \$35 trillion and is increasing at an alarming rate. It took 232 years to accumulate the first \$10 trillion in debt and only 16 years to more than triple that amount.

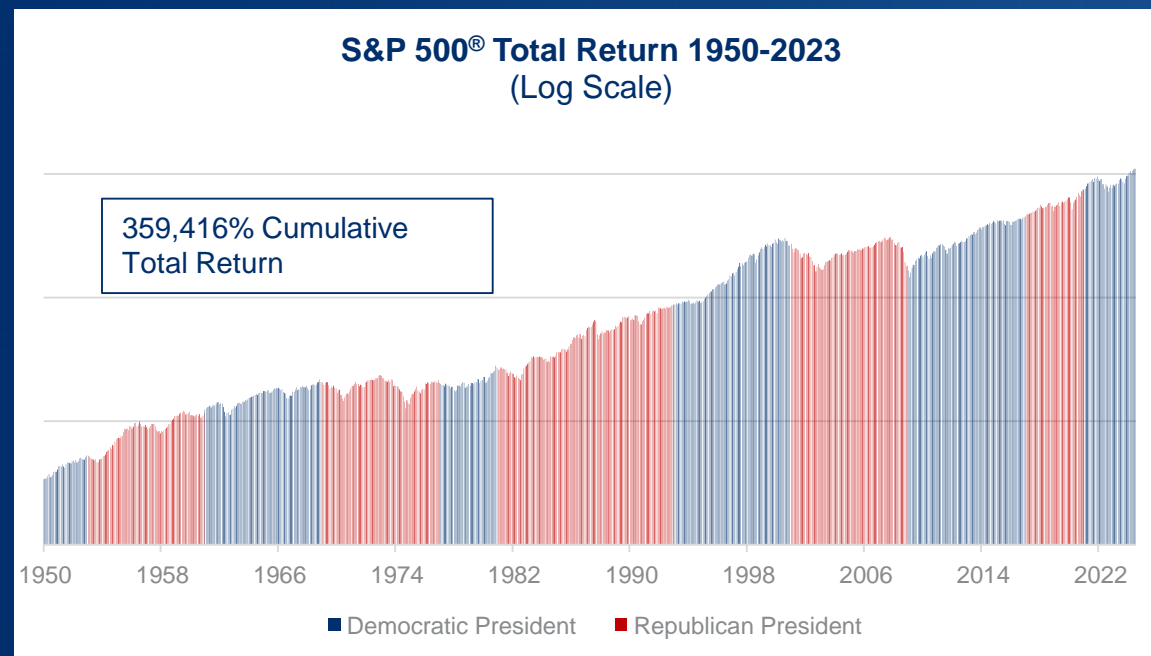


Source: Bloomberg L.P.

Focus on the Long-Term

Time in the market is better than timing the market.

- We recognize that it can be difficult at times to separate your investments and politics, but investors often run into trouble when they place too much importance on the outcome of elections.
- The fact is that election outcomes have little impact on long-term investment returns. Despite the alarming rhetoric that surrounds presidential campaigns, markets tend to do well regardless of which party is in the Oval Office.
- A picture is worth a thousand words, or 359,416 of them. The S&P 500® has produced a 359,416% cumulative return (dividends reinvested) since 1950, a span that covers 14 presidents, seven Republican and seven Democratic.
- Stated another way, if you invested \$1,000 in the S&P 500® index on January 1st 1950 and reinvested the dividends, it would be worth about \$3,594,160 today.



Source: Bloomberg L.P.



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