White Paper Report
Do Presidential Elections Matter?

This is a historic election year, and we are not just referring to the unprecedented events surrounding this year's U.S. Presidential election. In 2024, a record number of voters accounting for nearly 50% of the global population in over 60 countries will or have already headed to the polls to vote for their country's leadership.[1] Some of the elections that have taken place have resulted in snap elections (e.g., France and UK), social democrats in Germany suffering their worst results ever, a highly contentious election in Venezuela and a shocking shift to a reformist President in Iran in the aftermath of the prior President's unexpected death.

In less than a month, the U.S. gets their moment in the spotlight, and an unprecedented spotlight it is! It is the first time we have a President who has been indicted and convicted of a crime. It is the first time in history that a Presidential candidate has withdrawn from the race as close to the election as President Biden did (only closest comparisons were Truman and Johnson's decisions to not run for re-election). Should she win, Vice President Kamala Harris would be the first multiracial and female President as well as the first President elected without winning a primary. We also cannot forget to mention the two failed assassination attempts on President Trump.

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We are sure there are many other shocking firsts with this Presidential election, but Americans may also be getting immune to the Washington drama. In this white paper, we will not endorse either political candidate. Instead, we will outline what is up for grabs in this election aside from the Presidency and how polls look nearly one month from the election. We will use history as a guide as to how the economy and equity markets have reacted surrounding a Presidential election, the Presidential term and if the makeup of Congress matters. We will outline what we know at this point about each candidate's policies. Lastly, we will aim to ease any unnecessary anxiety over the upcoming election and emphasize that based on historical precedent, underlying economic fundamentals are more important when looking at long-term investment success than who takes the seat in the White House.

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What is up for Grabs November 5, 2024?

Aside from electing the 47th President of the United States, the makeup of Congress could shift this year as well. All 435 House seats and 33 Senate seats are up for election. Currently, the Republicans control the House while Democrats hold the majority in the Senate.[2] There is a strong chance that Republicans can regain control of the Senate in the upcoming election. If Republicans pick up Joe Manchin's seat in West Virginia, the White House or one more Senate seat they can win the majority. Aside from West Virginia, the other states likely to shift to Republicans include Montana and Ohio. Other notable states to monitor include Michigan and Arizona.[3] Regarding the House, Republicans hold this by a small margin and according to a recent Cook Political Report, there are 24 districts that are considered "toss ups" and split evenly between Republicans and Democrats. Two states that could have meaningful impact include California and New York. Another focus for Republicans includes Colorado, Michigan, North Carolina and New Mexico.[4]

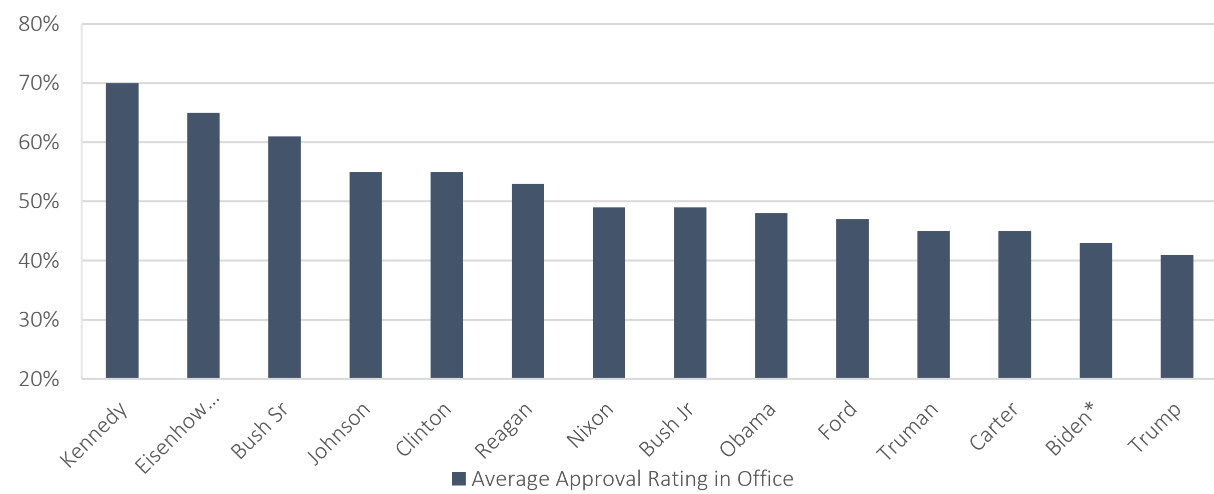
According to the polling site 270towin.com, at the time of writing the Republicans will control the Senate by 51 to 48 (Ohio is still the only toss up).[5] The same polling site is less clear for the House, it shows an even split (Republicans 207 and Democrats 207) but 21 toss ups at this time.[6]

Vice President Harris and President Trump are in a tight race with Harris having a small lead according to fivethirtyeight.com.[7] Both candidates also have less than a 50% favorable rating according to the poll. In fact, Biden and Trump have the worst average ratings in office of all Presidents since Truman. **(Chart 1).** Harris is not much better, according to fivethirtyeight.com, as less than 50% of American's approve of Kamala Harris. It is unclear if this will affect voter turnout or inspire voters. In the last election there was a record turnout when 67% of the voting population cast a vote for either Trump or Biden. If a similar voter turnout occurs again, with 244 million Americans eligible to vote, we could see ~160 million Americans vote this year. Of this there will be ~8 million new young people reaching voting age.

Chart 1

Historical Presidential Approval Ratings

Data for Biden is the average through September 15, 2024. Source: Gallup Poll, Statista, Verdence Capital Advisors



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Past performance is not indicative of future returns

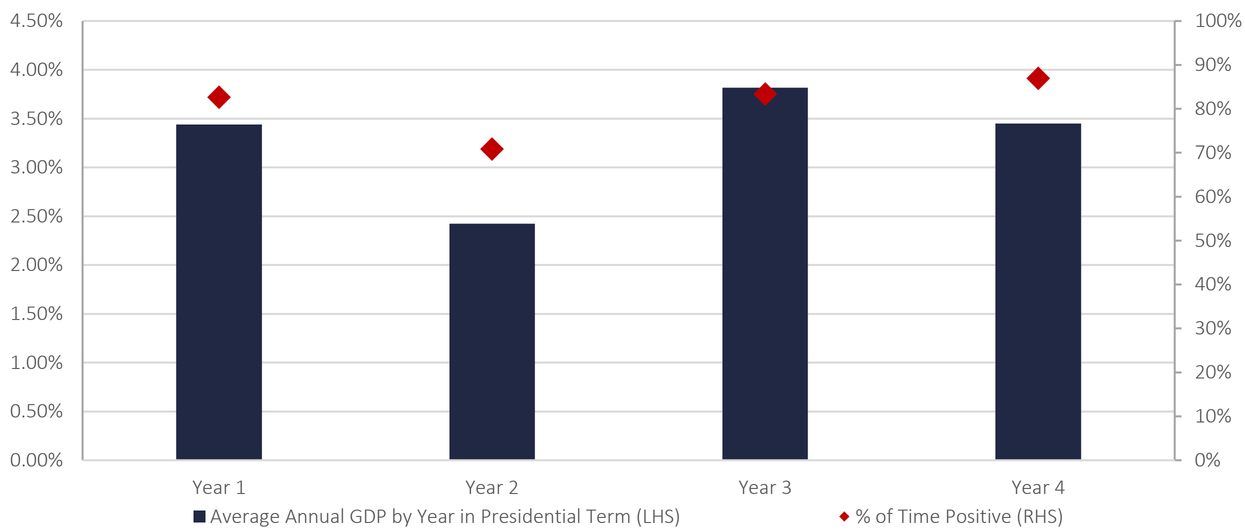
What Does History Tell us About Economic Growth and Election Years

Historically, the economy performs well in election years. This may be due to the party in office attempting to uplift the economy to win re-election. Going back to 1930, years three and four of every Presidential term produce the best average GDP. In fact, in year four, GDP has been positive ~90% of the time. **(Chart 2).** With the economy expected to grow 2.6% in 2024, it is slightly lower than the historical average seen in year four (3.5%) but it has been surprisingly resilient. Especially since there was ~50% probability of a recession this year at the start of 2024.

Chart 2

Economic Growth is Typically Good in Election Year

Time period includes 1930 - 2023. Source: Bloomberg Finance LP, Verdence Capital Advisors



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Is There a Better Party for the Economy?

Historical statistics will tell you that Democrats have seen better annual GDP than Republicans and even have done better if you exclude the Great Depression which was overseen by Republicans and then exclude the benefit Democrats received with double digit economic growth coming out of the Depression. **(Chart 3).** What we do know about this analysis is that it can be misleading. It is important to remember that Presidential elections occur every four years and the average business cycle since the Great Depression has lasted approximately four years. Therefore, a new President or party can benefit from an economic cycle that is moving into expansion territory after a downturn or be at a disadvantage due to policies administered from a prior political party that cause the economy to move into recession.

Where history is relatively consistent is in the timing of recessions in a Presidential term. Going back to 1929, 60% of the U.S. recessions have started in the first year of a Presidential term (regardless of whether first or second term) **(Chart 4 – next page).** This is because most Presidents, regardless of their first or second term, want to make the tough choices as soon as possible so that it hopefully can translate into a better environment for the midterm elections and then be far enough away from the re-election campaign in the event it causes economic disruptions.

Chart 3

Democrats Historically Produce Better Economic Growth

Time period includes 1930 - 2023. Source: Bloomberg Finance LP, Verdence Capital Advisors

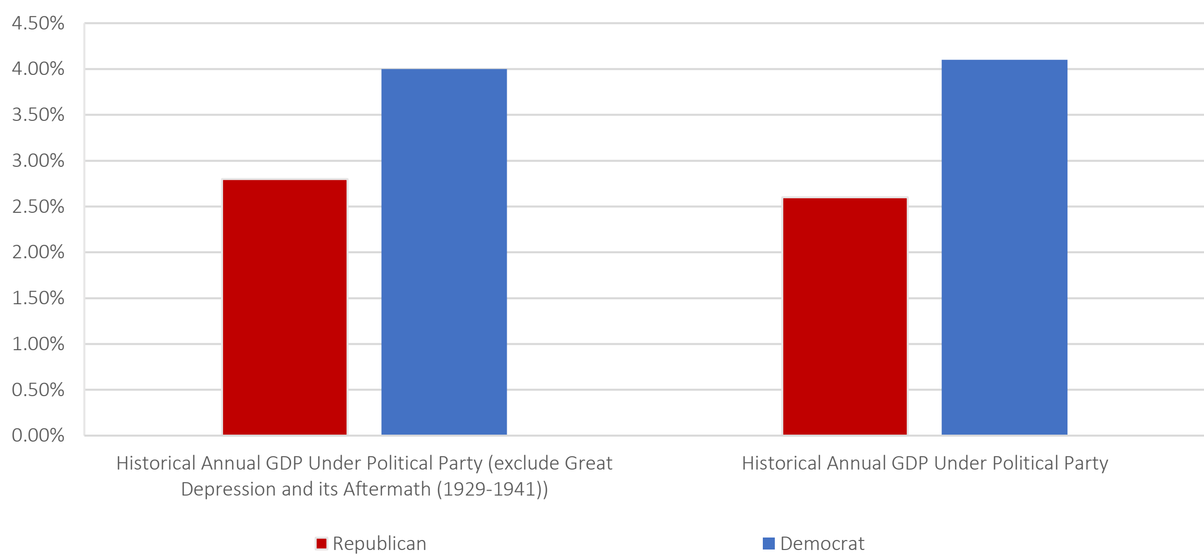

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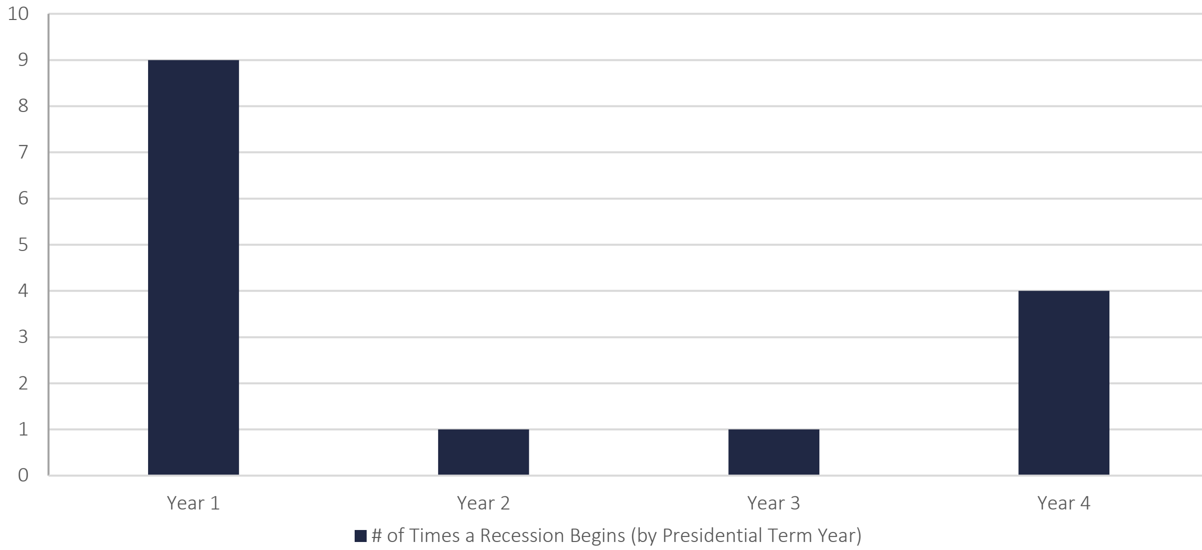
Chart 4

Recessions Tend to Occur in First Year of Presidential Term

Source: NBER, Verdence Capital Advisors



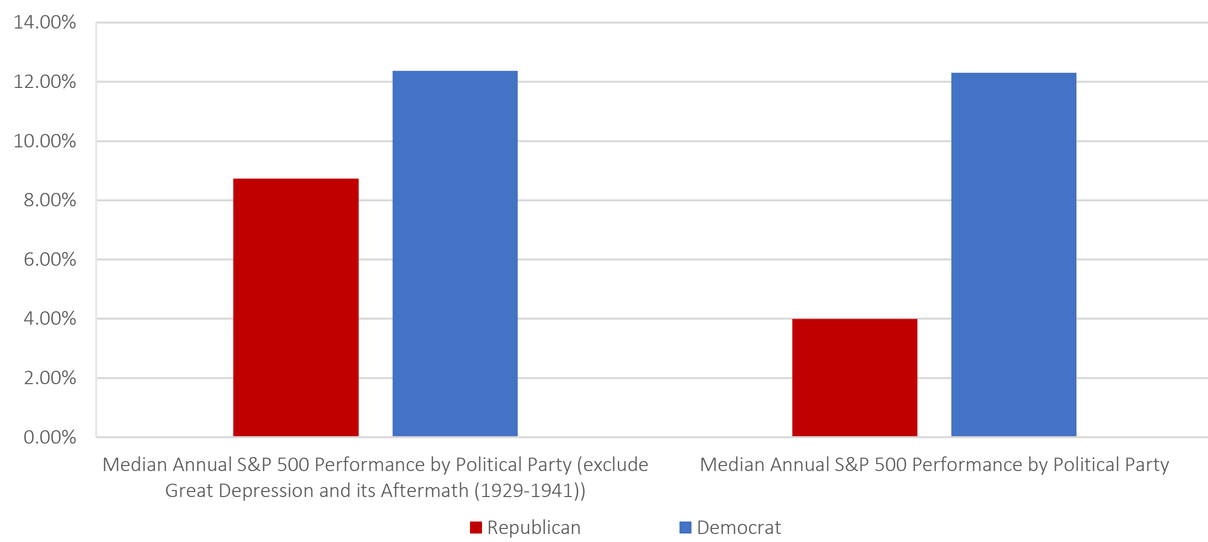
What do we Know About Which Party is Better for the Equity Markets?

The performance of the equity market is connected to the performance of the economy so it is not surprising that our historical study would show us that Democrats tend to deliver better annual returns for equity investors. **(Chart 5).** Like the analysis on the economic environment and the party in the White House, the return analysis for the S&P 500 can be distorted by massive volatility due to the Great Depression, the Great Recession and several wars. The one key takeaway from this analysis is that regardless of the party in control, the median average annual return of the S&P 500 since 1929 has been ~10% and it is similar regardless of including or excluding the Great Depression. This confirms our view that returns in the equity market are much more tied to economic and earnings fundamentals than the party that sits in the White House.

Chart 5

S&P 500 Returns by Party

Time period is from 1929 – 2023. Source: Bloomberg Finance LP, Verdence Capital Advisors



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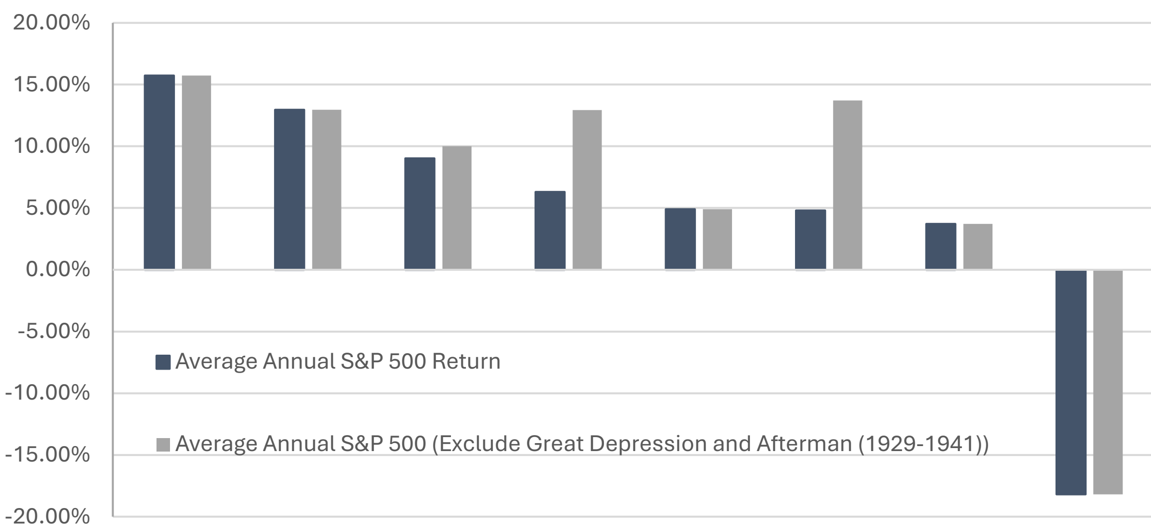
Does the Makeup of Congress Matter?

While looking at history may be an interesting exercise to decipher if there is a consistent make up of Congress and the White House that is good for the equity market, it is also misleading. One could look at **(Chart 6)** and decide that a full sweep by either Democrats or Republicans is a safe bet. However, these can also be isolated to very specific economic and market events. For example, the full Republican sweep was boosted by double digit gains coming out of the dotcom bubble. The full sweep of Democrats benefitted from the aftermath of the Great Depression and World War II. Even the combination of a Republican President, Democratic Senate and Republican House has showed a nearly 20% decline in the S&P 500, it is important to understand that this has only occurred twice, and it was the period during the dotcom bubble. Psychologically, investors feel better if there is gridlock. With a gridlock in Congress, it makes the odds of sweeping legislation unlikely changes. However, that can also be misleading if you look back at Bill Clinton, and his "full sweep" but his failure to pass his highly campaigned for comprehensive health care plan.

Chart 6

What Makeup of Congress and White House is the Best?

Time period is from 1929 – 2023. Source: https://media.spokesman.com/frontpage/2020/06/200625_ControlOfCongress.jpg, Bloomberg Finance LP, Verdence Capital Advisors.



President	D	D	D	R	R	R	D	R
Senate	D	R	D	R	D	R	R	D
House	R	R	D	R	D	D	D	R

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What we Know About the Key Differences in Each Candidate's Agenda

At this point we have seen plans from both candidates. The main differences surround taxes, trade and immigration. Taxes are a focus since the Trump tax cuts from 2017 are set to expire at the end of 2025. Trump wants to extend the majority if not all the tax cuts, while Kamala Harris wants to repeal them and add new taxes including those on unrealized capital gains. According to the Tax Foundation neither of their tax plans would be good for long-term GDP. While Kamala Harris' plan may reduce the deficit, it comes at the expense of GDP and jobs.[8] The Foundation believes Trump's plan may be good for long run wages and better for GDP than Harris' plan, but it comes at the expense of the deficit.[9]

The two most important issues to voters according to a recent Gallup poll are the economy and inflation. Unfortunately, both candidates' policies are inflationary. In a time when we have just done the hard work of bringing inflation down, excessive spending is the wrong policy to adopt currently. In addition, with the budget deficit becoming a growing concern and net interest costs surging, Congress will be looking for policies that can reduce the deficit and not add to it.

What Sectors May Benefit Each Candidate?

We would not recommend buying specific sectors in anticipation of who may be in the White House because some policies require Congressional approval so while campaigns may win votes, it may not win when it comes to the floor. Instead, we believe it is prudent to focus on valuations and earnings expectations given the current economic environment. If we had to point out a few winners or losers, renewable energy may do better with a Harris win while fossil fuels may benefit from a Trump win. Industrials could do well with either candidate as they both favor more infrastructure spending. Another sector that tends to be volatile around Presidential elections is healthcare. Harris has campaigned for lower premiums and prescription drug costs; this may help Americans but squeeze margins for drugmakers and insurance companies.

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Verdence View

We realize that with the highly divisive political environment in the U.S. and unstable political environment in parts of the world, elections can bring fear and anxiety. From an equity perspective, it is important to consider that over time stocks do well under the control of either political party. In addition, political parties will swing multiple times and taxes will even change at some point in an investor's long-term investment cycle. Therefore, it is dangerous to let emotions drive you to make short-term investment decisions until we know what changes will or will not take place and how they will impact your individual financial situation. We have historically seen that a candidate will campaign with aggressive plans only to move to the middle to satisfy more Americans and boost their approval ratings going into the midterm elections. In addition, we have often seen investors mistakenly make short-term emotional moves in their portfolios in anticipation of what the market will do given a predicted outcome and then prove to be painfully wrong as the market reaction was wildly different than was expected.

We empathize with those who believe that the current state of our country is discomforting. Inflation is better but necessity items such as food are 20% higher than they were coming into the last election, confidence is weak, the labor market is softening, and many Americans think we are in a recession. In addition, the concerns are growing regarding taxes, not only at the personal level but at the corporate level and the potential for taxes on unrealized capital gains. While some changes in taxes are needed and likely, we are not concerned at this time, especially since some changes require a majority and what we have shown is that even if Republicans win back the Senate and the Democrats retake the House, the margins will be small. This is a headwind to any major tax legislation.

We will closely monitor any developments from a tax perspective and will make recommendations on a client-by-client basis IF they are needed. However, at this time it would be careless to speculate about changes in policies and what those policies may ultimately look like IF and WHEN they make their way through Congress. This is regardless of who wins the election.

Instead, we remain disciplined with long-term investment objectives in view. History has shown that economic fundamentals are more important than in the occupant of the oval office. We are coming into the election within our model accounts with a healthy cash position to capitalize on periods of volatility. However, we will use the outlook for the economy as an overriding factor in making portfolio changes.

If you have any questions or comments, please feel free to reach out to your financial advisor.

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[1] https://time.com/6550920/world-elections-2024/
[2] https://ballotpedia.org/United_States_Congress_elections,_2024
[3] https://www.cnn.com/2024/08/25/politics/senate-race-rankings-august-2024/index.html
[4] https://www.usatoday.com/story/news/politics/elections/2024/09/11/house-senate-congress-control/75071847007/
[5] https://www.270towin.com/polls/latest-2024-senate-election-polls/
[6] https://www.270towin.com/2024-house-election/
[7] https://projects.fivethirtyeight.com/polls/president-general/2024/national/
[8] https://taxfoundation.org/research/all/federal/kamala-harris-tax-plan-2024/
[9] https://taxfoundation.org/research/all/federal/donald-trump-tax-plan-2024/

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