



2024 presidential election update: Key things to know about U.S. elections and the market

Tylar Lunke:

Hello everybody and welcome to an update from RBC Wealth Management. We are recording this on Tuesday, March 12, 2024. My name is Tylar Lunke, and I lead the Managed Portfolio Strategies team. I'm joined today by Kelly Bogdanova, co-chair of RBC's Global Portfolio Advisory Committee. Well, thank you all for taking the time to join us today. Kelly and the team have been doing a lot of work around elections as we prepare for the run into the fall. So we thought it would be a good time to address some of the common topics and themes. So, over the next 10 minutes or so, we'll touch on what we can learn about returns from past elections, the campaign issues Wall Street is watching as well as which factors are bigger equity market drivers than the election.

So, Kelly, with the table set, thanks for the time today, and let's start by looking back a bit. What does the past tell us about market returns under the control of each party, as well as during different types of presidencies, whether that be more controversial or more "plain vanilla"?

Kelly Bogdanova:

When we look back at historical data, it's evident that the market rose under both Democratic and Republican presidencies, and substantially so at times, including even during some controversial presidencies. There's also an interesting pattern associated with what we call the four-year presidential cycle. The market historically has been strongest in the third year of the presidential term, and second-strongest during the presidential election year. And in previous presidential election years since 1928, the market ended the year in positive territory almost 75% of the time; that's a good track record. When it comes to political party control there are some interesting patterns as well. Since 1953, that's the period when divided party control started to take root in America, since that time, the market performed best in three different combinations: when there was a Democratic president and Republicans controlled the House and the Senate; also, when there was a Democratic president and there was a divided Congress, meaning Republicans held one chamber and the Democrats held the other; and the market performed well under full Republican control. There are some interesting charts in an article we wrote about this that illustrate these points.

Tylar Lunke:

Well, thanks for the context and the patterns that we've seen in the past. And, so onto the next question. There is such a wide spectrum of topics in the news these days, especially during the election season, but oftentimes Wall Street is focused on different issues than the voting public. In our view, what are the key issues markets tend to prioritize?



Kelly Bogdanova:

Typically, Wall Street pays close attention to economic issues, obviously, and also issues that could directly impact sectors and industries within the market. And by the latter, I mean things that could impact, for example, the Energy sector or green initiatives along with issues that might pertain to the Technology, Health Care, Defense, and Financial sectors. And as it gets closer to the election and after the candidates provide their specific policy agendas, RBC Capital Markets analysts will likely weigh in on how the proposals of the candidates could impact the industries that they cover. And we'll highlight that for clients when the time comes. Now within economic policy, I think that this election cycle there will be a lot of focus on individual tax rates, especially as the presidential campaign heats up and also in the Senate and House races. And this is because many of the tax cuts that were passed in the Tax Cuts and Jobs Act, that's often referred to as the Trump tax cuts, they're scheduled to automatically expire at the end of 2025. So this concerns numerous tax cuts and benefits that were directed at individuals.

And in the article that's linked to this, we've listed some of those. If nothing is done to address these, tax policies would revert to higher pre-TCJA levels.

Tylar Lunke:

Okay, well those issues are a little bit more U.S.-centric. How about foreign policy with this election?

Kelly Bogdanova:

Foreign policy issues, I think, will get much more attention this election season than usual. And this is not only due to the military conflicts in Eastern Europe and the Middle East, but also because tariffs, trade barriers, and economic sanctions have played greater and greater roles in the current and previous two presidential administrations. And it seems like to me that this will continue regardless of who is elected president in 2024. And on this score, Wall Street will be listening closely for any signals about U.S.-China policy. This concerns the two largest economies in the world, and trade relations have deteriorated over the years.

Tylar Lunke:

So let's dive a bit deeper into the election topics and policies. Can you discuss a bit the difference in market impact between policies out of Washington, and some of the factors that more directly impact equity returns, including the Fed, our economy, and corporate profitability?

Kelly Bogdanova:

Well, whether we think about this on a domestic or a global scale, it's difficult to downplay the significance of the Federal Reserve and its reach. The Fed tends to be more important for markets than even the president. The Fed's decisions, especially when they're raising interest rates or lowering interest rates, play meaningful roles in shaping stock and bond market returns. Another big factor that



directly impacts equity returns is the economy, but specifically it's the natural ebb and flow of the business cycle—meaning the movement of economic activity from the start of a business cycle to mid-cycle, then toward recession and back again. And if you think about it, innovation has been a key factor over the years for stock prices.

Think back to the previous major leaps we've had in technology, from the advent of personal computers decades ago, to wide internet usage, to more recently artificial intelligence. Innovation often drives profit growth and stock prices. And this isn't only the case for technology stocks. Many sectors and industries, whether it's Health Care, Industrials, Energy, Utilities, Transportation, Shipping, even Financial Services, and many more, they've benefited greatly from innovation, and their stock prices have too. So corporate earnings profits are really tied to innovation and the economic cycle. And from our vantage point, it's profits that drive stock market returns the most.

Tylar Lunke:

Well, thank you for the perspective on what to watch out for here. To wrap things up, we did start the conversation by looking at historical election data. While certainly useful for everybody to look for the various patterns, there are some caveats. Would you please share a few of those with us?

Kelly Bogdanova:

It's important to consider that when we look back at election data, since the S&P 500 has been a relevant market index, and that's really going back to the 1920s, there are not a lot of data points. That's a long time ago certainly, but from a data perspective, especially when we're segmenting out market performance during presidential election years and then we slice and dice the annual return data into various categories of political party control and other segments, there just aren't a lot of data points. And this matters because one very good year or one very bad year of market performance can change the average performance data notably. Also there tend to be wide variations around the averages. So from our perspective, historical election data are useful to consider—there are definitely some interesting patterns, important patterns that have been persistent over the years—but there are also these caveats about the data.

Tylar Lunke:

Certainly some good reminders. And thank you Kelly for sharing your perspective with us today. We do want everybody to know we'll continue to provide updates and real-time thoughts as we get closer to the election. But do want to note the article, which Kelly referred to, "Key things to know about U.S. elections," which also includes some of the charts she mentioned as well, is linked from the audio player for this recording, so take a look at that. And keep an eye out for additional articles published within the Global Insight suite, as well as from across RBC. And of course, as a reminder, if you have questions about your investments, we would encourage you to stay in touch with your RBC financial advisor. Thank you all for your time. Take care, and have a great day.



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