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Don’t Vote with your Portfolio: 2024 Edition

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Here we are in the second half of an election year, and I am once more compelled to write about why investors should not consider changing their investment portfolio in light of the upcoming presidential election. I’ll start by saying that Grimes & Company is politically neutral. We are trying to build portfolios to provide clients with the smoothest ride so that they do not feel tempted to do anything drastic with their investments during good times or bad. We want to make investing – and staying invested – as easy as possible for clients. We measure and react to what markets actually do, and we do not position accounts on behalf of predictions. This includes guessing what the future will bring based on who could win political office.

Politics, and especially Presidential elections, dominate the news cycle for months. The back and forth between candidates, parties, and pundits make it seem as if there is not only a big gap between the potential future each outcome presents, but also “if the other side wins, we’re all in trouble”. This heavy coverage paired with dire predictions can make elections seem like a big deal, and they certainly are. The impact on taxes and regulations can have very important implications on tax and estate planning strategies for families and finance department decisions at companies. Tactics for positioning for these things are a case-by-case basis that can be discussed as new laws come to life. However, election results should not impact investment portfolios.

Studies of market and economic data show little differentiation between either returns or growth under either political party. Results can vary based on when you start (1900? 1940? 1970?) and how you attribute the data (Do you start measuring on election day or inauguration day? Do you lag the economic data?), but in any study the difference is minor, if any. The same analysis holds when looking at sectors. Just because a candidate’s rhetoric sounds like it would help or hurt a sector, these themes rarely present true opportunity in actuality.

Given the apparent stakes, why is this? First, there is typically a big gap between campaign rhetoric and policy implementation. Every candidate has their wish list, but once they go through the reality of legislation, impacts are watered down by tradeoffs.

Second, while many political issues are important to voters, not every political issue is important to the markets. Outside of economic policy issues like regulation, taxes, and trade, most political issues have little impact on the markets.

Third, fiscal policy is just one of many factors that drive the markets. The primary drivers of the market are demographics and technological progress, then business and credit cycles. In fact, markets are impacted more by monetary policy ("the Fed") than fiscal policy, both in normal times and times of market crisis. Technologies evolve, business cycles flow, and occasionally bubbles occur and get popped.

And regardless of who wins, they face the same global economy upon entering and, more importantly, will have to face the same surprises once in office. One person, even if in a position as powerful as the President of the United States, can only have so much impact on policy, let alone the economy. After all, are we really going to pin the worst part of the Great Depression on Herbert Hoover, who was in office between 1929 and 1933? Were the Tech Wreck and September 11th really George W. Bush's fault, just months into his term? These people came into office at the very top of the market when the seeds of crisis had been sowed for some time and the price bubbles already formed.

So then what does matter? Three things. First is net government spending: is the government a net fiscal spender or not? Net spending is a boost for growth, but can increase debt, which can push rates up. Higher growth helps stocks, while higher rates would hurt fixed income.

Second is single versus split party government. Single party means the party in office can pass more of its agenda, whereas split party means more compromise. Markets tend to like split parties, as it means less spending and, more importantly, fewer big policy shifts, which can drive uncertainty.

This brings us to the third thing markets care about: certainty. One consistent election pattern is that markets often rally after the election. Why? Because as the election approaches, investors and businesses will start to postpone decisions. Once the election has passed, regardless of the winner, markets tend to rally as investors and businesses see certainty on the policy front and can return to making decisions on other, more important, factors.

We live in a polarized world. Politicians trying to earn a vote, pundits trying to gain a following, and news media trying to get eyeballs all have an incentive to make elections seem like important market events. Some people may feel like shifting their investment strategy as a way to protest, protect, or profit. That is foolish. Election outcomes are hard to predict. Presidents do not determine stock market returns. Vote at the polls. Don't vote with your portfolio.