

Strategy Insights | Fourth Quarter 2024

# An Investor's Guide to the 2024 U.S. Election



**Financial markets, already clouded by uncertainty surrounding high inflation and the path of monetary policy, are gearing up to contend with another potential force — November 2024 U.S. elections. The momentum of political rhetoric and discord is likely to only accelerate from here, and with it, perhaps market volatility as well.**

As we expect the election to dominate the near-term news cycle, we thought it would be helpful to revisit the historical effects of presidential election cycles on markets and consider how investor portfolios could be affected — for better or worse.

Undeniably, the biggest challenge since the beginning of 2024 has not been the election cycle, but the choppy path of inflation. The Consumer Price Index has been above the Federal Reserve (Fed's) 2% target for more than three years, which has contributed to a challenging macro backdrop, characterized by the highest interest rates in 15 years, restrictive monetary policy and slowing global economic growth. While the stock market might appear to be producing another year of exceptional returns, market leadership thus far has been dominated by mega-cap companies focused on artificial intelligence innovation. We believe inflation will play a key role in the upcoming election, which could have important ramifications for the economy and markets over the long term.

In this edition of *Strategy Insights*, we take a look at the impact of election outcomes on markets, historical election predictors, and share our views on the potential market and investment implications of the 2024 election. While there is no shortage of data to review, we hope this serves as a useful guide in the eventful months to come.



**While every election cycle is unique, each has two defining characteristics for markets; the composition of party control and legislative support for persistent investment trends.”**

**Daniel J. Brady**  
Managing Director, Investment Strategy

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## Real talk: Do markets even care about the election?

In the long run, we believe markets are most significantly driven, not by political elections, but by earnings growth. However, in the short run, there have been many instances in which politics and election results have impacted markets — for better or worse.

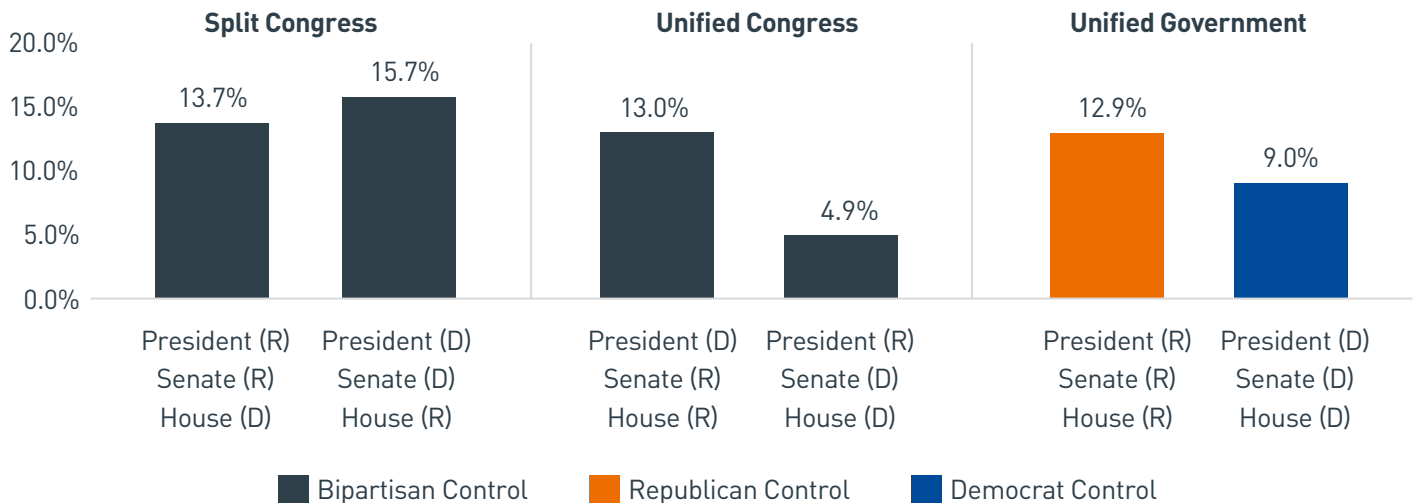
Overall, our analysis tells us markets tend to focus on the broader composition of government in Washington, and less on the individual occupying the Oval Office. Historically, market performance has been strongest under a divided government, or when no one political party has control over the White House, Senate and House of Representatives (**Figure 1**). In our view, this makes sense as a divided government theoretically limits policy action to only the most supported,

bipartisan legislation, which introduces less uncertainty for markets. As such, even in scenarios in which one party technically maintains control over both the executive and legislative branches of government, if the margin of victory is small, markets may interpret the outcome similarly to if control was divided.

Regardless of party outcome, equity markets seemed to have followed a presidential cycle pattern (**Figure 2, page 2**). Since 1948, in the first year of an administration, the S&P 500®'s price return has averaged more than 8%, while falling to 4.6% in the second year. During the first two years of a four year-term, campaign policies theoretically begin to make their way into economic and earnings growth, and ultimately, equity prices. By far, year three has been the best year for returns, with an average of more than 17%.

**Figure 1. Partisan Control, Average Annual S&P 500 Performance (1933 - 2023)**

Markets have historically performed best under a split Congress scenario

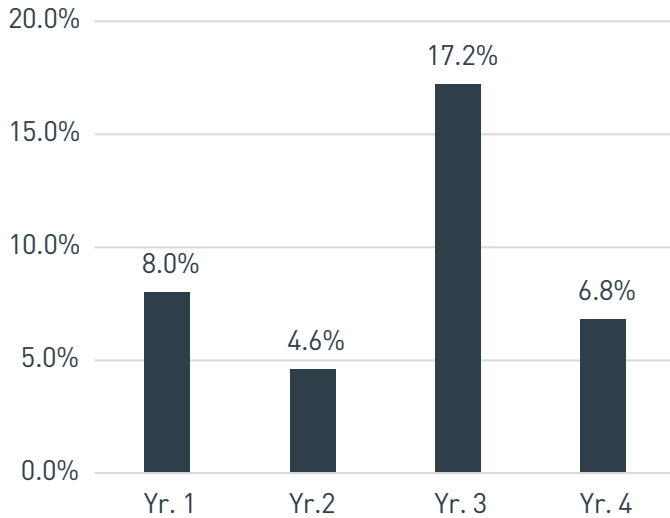


As of 7/31/2024 Source: Strategas Research Partners, Inc. Data excludes 2001-2002 due to Sen Jeffords changing party mid-2001.

Indices are unmanaged, not available for direct investment, and not subject to management fees, transaction costs or other types of expenses that an account may incur.

**Figure 2. S&P 500 Price Return by Term Year (1948 - 2023)**

Markets have historically performed best during the third year of a presidential term



As of: 7/31/2024. Source: Bloomberg L.P.

We believe the higher returns in year three result from investors looking forward to the next presidential election cycle and the potential for greater economic growth and prosperity to come. Term-year four has seen the market return to mid-single-digit price appreciation as the impact of the election transitions from expectations to reality.



Regardless of party outcome, equity markets seemed to have followed a presidential cycle pattern

Additionally, since 1928, every presidential election that was not preceded by a recession in the previous two years has resulted in the reelection of the incumbent administration (including elections in which the incumbent did not seek reelection, but the party maintained control of the White House). While this relationship is noteworthy, correlation is far from causation.

## What can economic and market indicators tell us about the 2024 U.S. presidential election?

When it comes to the relationship between markets and elections, there is no clear predictor as each election is influenced by unique factors. We can only examine outcomes through a historical lens and with the benefit of hindsight.

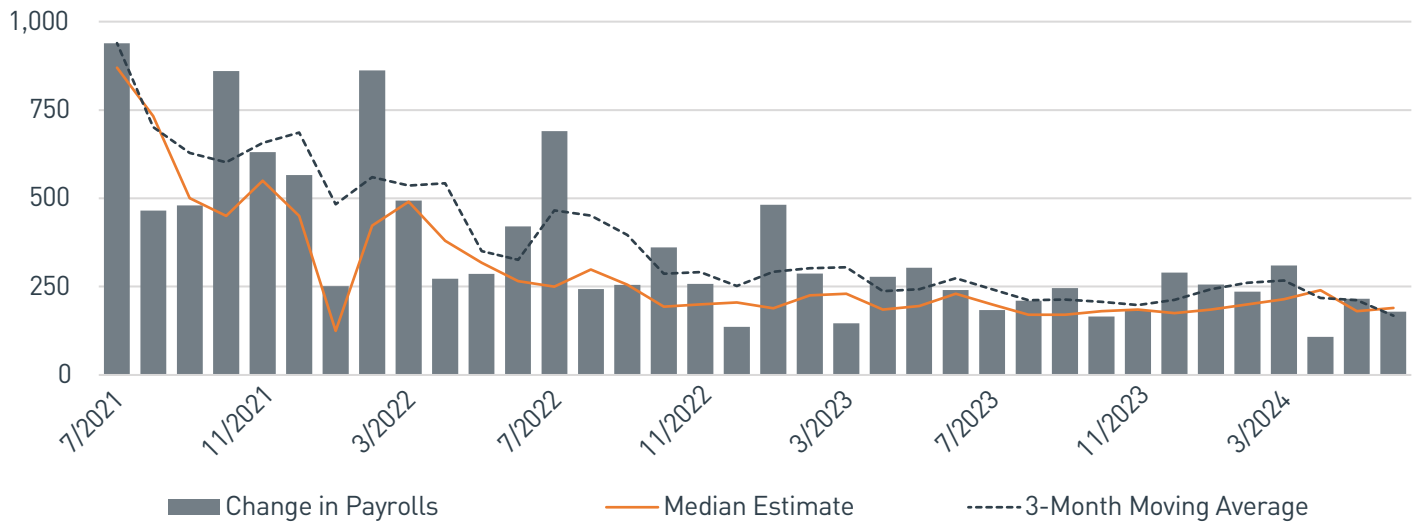
However, from an economic and market perspective, there are several datapoints that have correlated with outcomes over time. For example, real disposable personal income has been positively correlated with presidential elections, with higher income growth favoring the incumbent administration. According to the Bureau of Economic Analysis, over the last 20 years, year-over-year growth in real disposable income per capita has averaged about 1.5%. Since the pandemic, that measure has become more volatile, and its most recent reading was a paltry 0.9%.

Nonfarm payrolls — specifically the jobs number, not the unemployment rate — and real GDP growth also appear to be correlated with election outcomes. Like real disposable income, when the measures convey a favorable economic environment, they tend to be positive for the incumbent administration. Most recently, the market took note of the surprise softening in the July payroll report, including a large negative revision to the prior two months' hiring (**Figure 3, page 4**). Conversely, the first estimate of second quarter GDP showed economic growth accelerated to 2.8%, driven by higher consumer and business spending (**Figure 4, page 4**). The growth rate is both well above the long-term trend of 2.0% and two times the first quarter estimate of 1.4%.

Persistent inflation, which has remained elevated over the past two years, and its influence on non-discretionary spending may hold greater sway on voter sentiment than in past election cycles. Spending on items such as groceries, gasoline, housing, insurance

**Figure 3. U.S. Non-farm Payroll Report (thousands)**

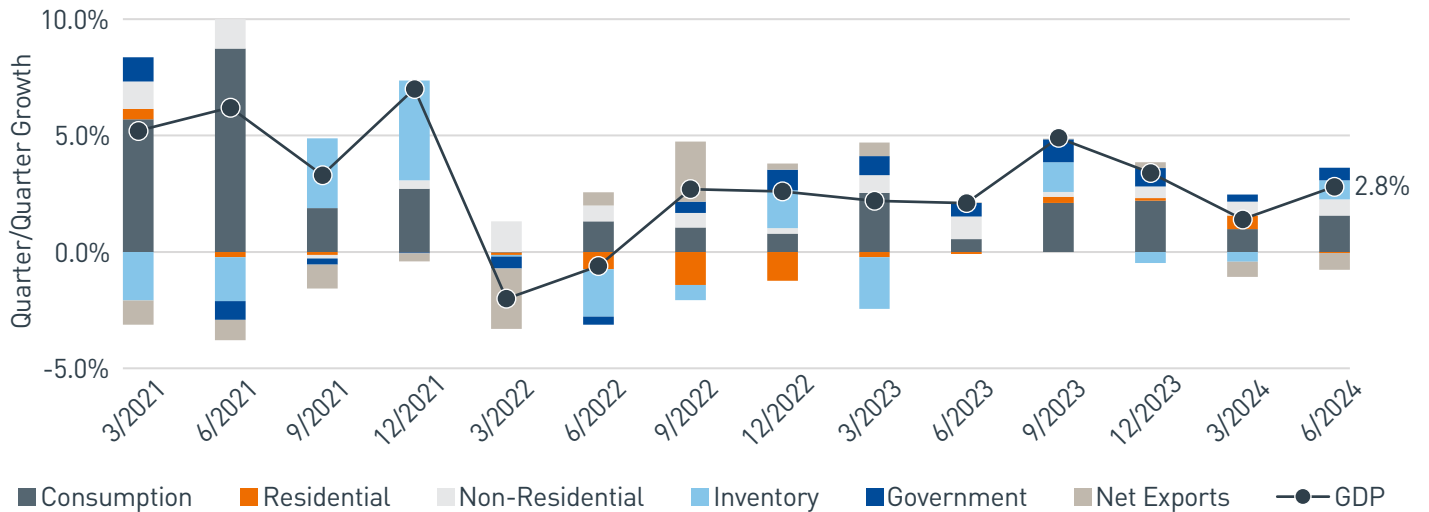
Labor market has softened, but remains resilient



As of 7/31/2024. Source: Bloomberg L.P.

**Figure 4. Real U.S. GDP Growth**

Economic growth accelerated in the second quarter driven by higher consumer and business spending



As of 7/31/2024. Source: Bloomberg L.P.

and utilities, is not easily forgone. Thus, the cost of these items will be important leading up to the election, in our view. While most of these items have seen price growth slow meaningfully since inflation peaked in 2022, they remain well above levels during the 2020 election period.



Persistent inflation and its influence on non-discretionary spending may hold greater sway on voter sentiment than in past election cycles.

Another inflation-related metric with some historical accuracy in aligning with election outcomes is the so-called “Misery Index,” or the sum of the unemployment and CPI growth rate. In the last 15 of 16 elections, if the three-month average of the Misery Index was lower on a year-over-year basis by the time of the election, it resulted in a positive outcome for the incumbent party. Last year’s three-month moving average in October was 7.3%. While CPI has been falling in more recent readings, it currently sits at 2.9%. The August 2 payroll report included an unemployment rate of 4.3%, the highest level since 2021. Combined, the Misery Index of 7.3% may cross above that 7.3% threshold as we approach November.

One market-based relationship that appears to have a strong association with presidential elections is the S&P 500 return for the three months leading up to the election. According to Strategas Research Partners, dating back to 1928, if the S&P 500 posted a positive price return in the three months before the election, the incumbent party remained in the White House (**Figure 5**). If the index posted a negative return, the incumbent administration lost the election. There are four occasions over the study period when this relationship did not hold: 1956, 1968, 1980 and 2020.

### Figure 5. S&P 500 Price Return for the Three Months Prior to the Election

The S&P 500 has historical correlations with election outcomes

Election Year	Price Return (%)	Incumbent Party Won/Lost
1928	14.91	Won
1932	(2.56)	Lost
1936	7.92	Won
1940	8.56	Won
1944	2.29	Won
1948	5.36	Won
1952	(3.26)	Lost
1956	(2.58)	Won
1960	(0.74)	Lost
1964	2.63	Won
1968	6.45	Lost
1972	6.91	Won
1976	(0.09)	Lost
1980	6.73	Lost
1984	4.80	Won
1988	1.91	Won
1992	(1.22)	Lost
1996	8.17	Won
2000	(3.21)	Lost
2004	2.16	Won
2008	(19.48)	Lost
2012	2.45	Won
2016	(1.90)	Lost
2020	2.26	Lost

As of 7/31/2024. Source: Strategas Research Partners, Inc

While there are a multitude of factors that investors can use to try to predict the outcome of the election, with so many permutations, a definitive conclusion from any one measure is dubious. Furthermore, the 2024 election marks the first time Millennial voters will outnumber the Boomer generation, which could render conclusions from past data less reliable. Given the current economic environment is defined by the highest interest rates in 15 years and an extended period of elevated inflation, we believe these factors could also have a greater influence on voter sentiment than in prior cycles.

## Election outcome aside, are there any bipartisan issues that may impact markets?

It likely comes as no surprise that the American political landscape seems to have become increasingly partisan. Since 2021, there have only been three significant fiscal measures passed with bipartisan

support: the \$1.2 trillion Infrastructure Investment and Jobs Act in November 2021, the \$800 billion Inflation Reduction Act (IRA) and the \$280 billion Creating Helpful Incentives to Produce Semiconductors (CHIPS) and Science Act.

While there is a plethora of hypothetical expectations about which sectors, industries or investment themes will benefit or be challenged under different election outcomes, we prefer to look at trends that may occur regardless of which party wins in November.

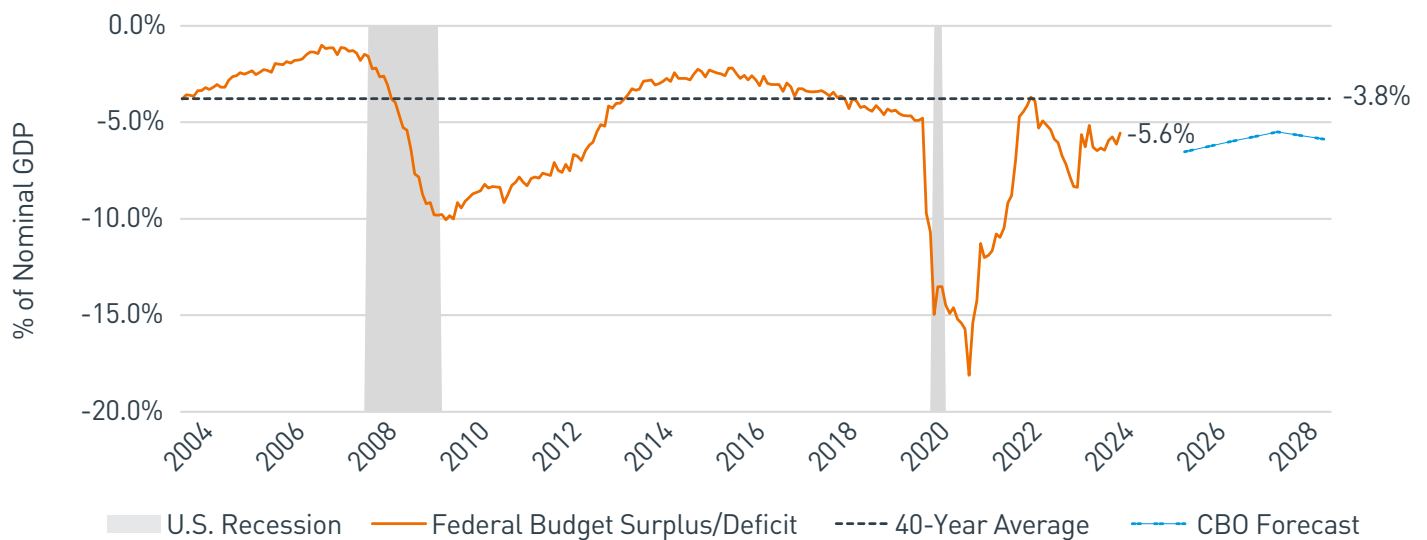
We believe three key issues could impact markets regardless of election outcome:

- the significant fiscal deficit;
- rebuilding U.S. industrial capacity; and
- U.S.-China trade relations.

Through the most recent reading in July 2024, the federal deficit was -5.6% of U.S. GDP, whereas its 40-year average is -3.8% (Figure 6). Additionally, the deficit currently sits at a level historically found either

**Figure 6. U.S. Federal Budget Surplus/Deficit**

The outsized deficit is projected to continue over the next four years



As of 7/31/2024. Source: Bloomberg L.P.



during, or shortly after, a recession. As the business cycle continues to moderate, we expect any additional large-scale fiscal spending to increase the deficit and consequently pressure economic growth and push long-term interest rates higher.

That said, we have identified two areas we expect to benefit from renewed investment under either administration — auto manufacturing and the electrical grid. With the combined fiscal support of the IRA and CHIPS Acts, there is significant funding to continue the development and manufacturing of electric vehicles (EVs) in the U.S.



We expect auto manufacturing and the electrical grid to benefit from renewed investment under either administration

In our view, the rise of China as the world's leading EV manufacturer has long-term implications as it may shift the center of auto manufacturing away from the U.S., Europe and Japan. The manufacturing of EVs requires a different labor skillset among workers and different "refueling" infrastructure, a challenge that may help explain the lack of widespread EV adoption in the U.S. Should domestic EV production and infrastructure build-out proliferate, it could be a material tailwind for U.S. manufacturing, possibly on an economic scale similar to that of U.S. shale oil fracking.

From a U.S. industrial capacity perspective, technological innovation stemming from artificial intelligence advancements and large language model development could continue to pressure lawmakers across the aisle to protect the U.S. semiconductor industry. To this end, we expect the encouragement of nearshoring trade activities within North America, and specifically reshoring semiconductor production, through government incentives, to likely continue to be supported by either administration.

This phenomenon would most likely benefit the United States' direct neighbors — Canada and especially,

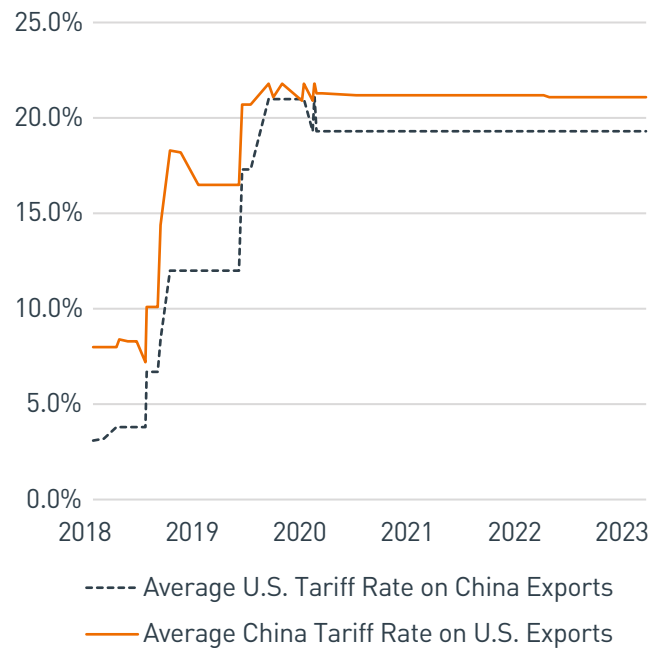
Mexico — to the detriment of Taiwan and South Korea, where the majority of chip making currently takes place. We note, however, that such manufacturing processes will likely take years to shift and considering they involve advanced technology, will also require investment to hire a specialized labor force.

As it relates to U.S.-China relations, both parties have enacted trade barriers through tariffs (**Figure 7**) and limited China's access to key U.S. technologies for national security reasons.

Given campaign mentions of proposed taxes on U.S. imports to China, reciprocal trade taxes and taxes on goods from China, we would not be surprised if additional, similar measures were to follow under either administration. If implemented, we believe this could create headwinds for international equities and add inflationary pressure in the United States given domestic prices would likely increase and ultimately send long-term interest rates higher.

**Figure 7. Average Tariff Rates**

Tariff policies have remained in place since 2020



As of 7/31/2024. Source: Bloomberg L.P.



## November, 2024 (Oh, what a night)

Amid several unprecedented events that already occurred during this election cycle, another wildcard investors may have to contend with is the possibility that the election is too close to call on election night.

We believe investors may already anticipate volatility around the actual date of the election. Expectations for future market volatility have already increased from fairly low year-to-date levels, which have come despite widespread uncertainty about inflation, the path of monetary policy and the narrow concentration of equity market leadership.

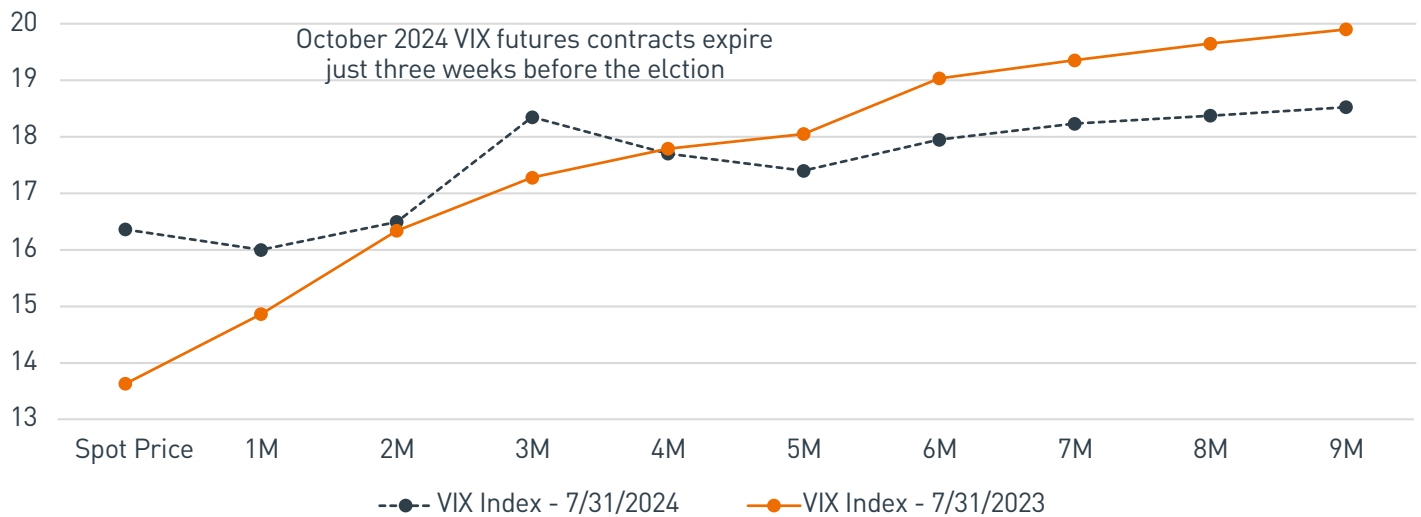
The ICE BofAML MOVE Index, a proxy for fixed income market volatility, reached a 12-month low in May, and as of July 31, the CBOE Volatility Index (VIX) — often referred to as the equity market “fear gauge” — was

three points below its 20-year average. However, the VIX futures market, particularly the shape of the VIX futures curve, offers a contrasting view.

A typical VIX futures curve is upward sloping; the further a point in the future is from “time zero,” the more it should correspond with a higher degree of uncertainty, and thus a higher price level for those futures. However, as of July 31, the VIX futures curve is “hump” shaped, as prices in the middle of the curve (representing the October-November period) are higher than both early and later-dated futures. In our view, the most likely explanation for this atypical pattern, is that volatility traders are hedging for potentially higher market volatility around the election. While this phenomenon is not entirely unique to 2024, as the last three presidential election years (2020, 2016 and 2012) saw a similar pre-election VIX futures curves spike in that October period, this year’s curve is peaking sharply higher (**Figure 8**).

**Figure 8. VIX Futures Price Curves**

Investors are bracing for a spike in volatility around the time of the election



As of 7/31/2024. Source: Bloomberg L.P.

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While any major election can introduce uncertainty, we believe there are unique factors in 2024 that could be behind the heightened market uncertainty including the post-pandemic uptick in absentee and mail-in ballots, which could delay the tabulation of final results. Therefore, it comes as no surprise to us that the VIX futures that correspond with the election time period reach the highest point on the curve, and that longer-dated futures are well above levels seen in prior election years.

Should the election outcome take days, or even weeks, to resolve, we would anticipate market volatility to remain above average. For example, the 2000 presidential election was not decided on election night — the first instance in more than 100 years — and took over a month for a final decision. The average level of the VIX in the three months prior to the election was 21.3, while in the period during which ballots were being recounted, it jumped to an average level of 26.4. In contrast, during the 2020 election, the composition of Washington, D.C. was not determined until the Georgia Senate election held on January 5. During that period, the VIX actually declined from 35.6 to 25.3. We believe these two similar events with contrasting

market reactions are a reminder that markets are too complex to be driven by a single event. Against the current backdrop of the U.S. stock market minting numerous new highs in 2024, we highlight the risk of a delayed election outcome as another variable investors have to consider alongside a highly uncertain path of global monetary policy and choppy inflation.

## E pluribus unum

The 2024 presidential election season is underway, and given mixed polling data and economic indicators, we believe investors ought to recognize there is no way to reliably forecast what happens in November. From a market perspective a sweep of the White House and Congress by either party could be the scenario in which markets would react most strongly. Investors will have to stay tuned until November 5 — and possibly even later — to know the final results. Until then, we expect the market's path to be volatile. Over the long term, we expect the market to be less influenced by who ends up residing in the White House for the next four years and more so, by the long-term outlook for earnings growth.



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