

FACTS OVER FEAR:

How to Think About Finances This Election Season

You can't escape it. From now until November 5th, our news cycles, homes, clubs, and friend groups are abuzz with speculation and anxiety around what will happen after the election. Many people are nervous about potential changes to their finances. In fact, 80% of Americans say they are planning for a change to their retirement plan based on the outcome of the election (Lin, 2024).

What should you pay attention to? What are the probable short-term and long-term impacts of this election on your finances? In this article, we'll cut through the noise and give you the simple facts so you can protect your finances and make informed decisions.

KEY ISSUES

There are some key uncertainties as we approach election day. Here is a quick summary of major changes that could come as a result of the election.

Tax Code - Many provisions from the Tax Cuts and Jobs Act (TCJA) are set to expire in 2025. This will impact taxation on private individuals and corporations, and the candidate who wins will likely influence the extension or expiration of this act.

Social Security and Medicare - A major concern for both candidates is that the Social Security Trust Fund (which funds both Social Security and Medicare) is projected to be depleted by 2035 and 2036, respectively.



What is the TCJA?

The Tax Cuts and Jobs Act is a federal law passed in 2017 that significantly overhauled the tax code, reducing corporate and individual tax rates, while also changing deductions and credits for businesses and individuals.



Why is social security running out?

Approximately 10,000 people enter the Social Security system each day (Pomroy, 2024). In recent decades, lower birth rates and an aging population are demographic realities that are impacting our nation as a whole (Christian, 2024). This essentially means more people are entering the system, and fewer people are paying into the system.

While you may be worried about changes to social security, medicare, or tax law, ultimately, we don't know what will happen when the new president takes office. Regardless, it's crucial to remember that ultimately Congress, not the president, gets to make changes to Social Security and Medicare (Christian, 2024). Though the president has influence, members from both parties in the House and Senate will have to agree before any new legislation is passed. Thirty-three Senate seats and all 435 House seats are up for reelection this year, which is why voting in November is important for many reasons, not just choosing a new president!

HOW DO MARKETS PERFORM IN ELECTION YEARS?

Many people worry existentially about the condition of the market depending on the outcome of the election. In a recent survey, 49% of people say that they're very concerned about the impact of the election on their investments compared to only 35% who worry about the impact of inflation (Sommer, 2023).

This is where history can help us. Over the past 95 years (1928–2023), average annual returns in the S&P 500 for election years have been 11.57%, while average annual returns overall were about 10.01%. In that same period, 83% of election years have had positive returns.

The best advice when it comes to your investments, especially your retirement, is to stay the course. It can be tempting to pull money out when you see the market drop, but it's important to remember that time in the market is always better than timing the market. It's nearly impossible to correctly time when to pull your money out *and* when to reinvest, so most experts agree, that it's better to simply stay invested while you wait for the uncertainty to pass.

A host of factors affect markets, including interest rates, inflation, geopolitical instability, and the global economy! The impending administration has some impact on these things, but it isn't everything. What matters most is a diversified portfolio, whether it is an election year or not (Burns, 2024).

The bottom line is simply don't panic. While the market may suffer temporarily from instability, these results aren't likely to have a long-term impact. Avoid rash decisions and stick to your long-term plan. This will serve you well, no matter which party takes office.

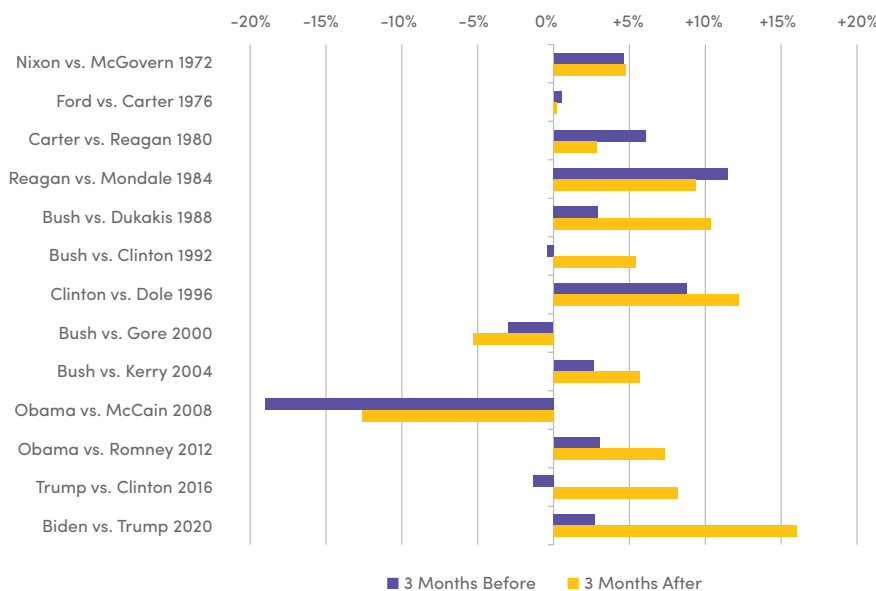
DO MARKETS CARE WHO WINS?

While the markets don't perform preferentially for one party or another, they do like certainty. Going back to 1972, markets have seen an average 1.5% gain 3 months before election day and a 5% gain 3 months after election day (Hartford Funds, 2024). This demonstrates that regardless of who wins, the markets typically perform better when the uncertainty is resolved. Notable exceptions (as seen in the chart below) are in 2000, when the Supreme Court handed down a decision in the contested Bush v. Gore election, and of course, in 2008, when the market sold off due to the Great Recession.

Figure 1

Market Performance Before and After Presidential Elections (1972–2020)

S&P 500 Index (% Returns)



Going back to 1972, the stock market has averaged

★★★★★★★★★★★★★★

1.5% GAIN
THREE MONTHS **BEFORE**
ELECTION DAY

5.0% GAIN
THREE MONTHS **AFTER**
ELECTION DAY

★★★★★★★★★★★★★★

Note. Data from Hartford Funds (2024).

When looking at the compound annual growth rate of the S&P 500 during Democratic and Republican presidencies, the results show an average annual growth rate of 9.8% for Democratic presidents and 6.0% for Republican presidents. However, the median growth rate is 8.9% for Democrats and 10.2% for Republicans (Jennewine, 2024). As you can see, depending on which metric you use, it would be pretty easy to argue that the market does better under one or the other party, and in some sense, you'd be right.

As has already been said, Congress plays a huge role in what legislation gets passed, and historically, markets perform better in the case of a divided Congress, when one party controls the Senate and another controls Congress, or one party is in the White House and another controls Congress. This is an extension of the “markets like certainty” principle we discussed earlier. A gridlocked government means that legislative change will be slow or non-existent, which leads to stability in the markets.



What is a compound annual growth rate?

The compound annual growth rate is the average rate of annual growth for a compounding value, across a set number of years, assuming a constant growth rate each year. This formula uses only the end and beginning values to calculate the average growth rate, so though it won't tell you by which percentage a sum (like an investment or stock price) grew in a single year, it will tell you the average amount that it's grown over several years. Because it gives you an average rate, it is usually a more helpful measure of overall growth than just looking at individual years.

WHAT IF I'M RETIRING IN 2025?

If you're younger in your career and just starting on your retirement journey, a dip in the market may be a good opportunity to buy more stocks while the price is down, and let them increase in value over time. But if you're retiring next year, or shortly after, you may be wondering what the best strategy is.

The next administration won't take office soon enough to enact any new legislation that could impact Social Security and Medicare in 2025, and once you know the outcome of the election, you'll be able to consider what impending changes could affect you in the years to come (Lisa, 2024). Typically, major changes will take into account people who are nearing retirement, to protect them under the current rules and/or take several years to go into effect. For example, In 1983, congress passed legislation to gradually increase the full retirement age—but that was over a 20+ year period.

You should reevaluate your plan regularly—new president or not. Especially now, it's important to evaluate your portfolio and avoid any unnecessary risk. Consider meeting with a financial advisor to adjust your investment and distribution plans in order to safeguard your savings.

WHAT DO I DO NOW?

Put simply, when it comes to your retirement and investment strategy it may be best to do nothing. Continue saving in your workplace retirement plan if you have one, or start if you haven't yet! Focus on what you can control: stay the course, save and invest consistently, and of course, make sure you get out to vote!

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