Investing during an uncertain election year

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Viewpoint from Fidelity

5 takeaways for investors navigating the markets right now.

Key takeaways

• With the shape of the 2024 US presidential election still in flux, it would be natural to assume that election-year uncertainty could substantially impact market sentiment and performance.

• However, historical data does not back up this intuition. Rather, markets have historically generally continued to rise in election years.

• It's important to remember that markets are nonpartisan.

• Portfolio positioning should generally be dictated by a long-term plan rather than by current events.

Whenever a US presidential election rolls around, it's not uncommon to hear it described as 'unprecedented.'

With the 2024 US presidential election experiencing so much flux in recent weeks, it would be understandable for investors to be wondering what impact so much uncertainty might have on markets.

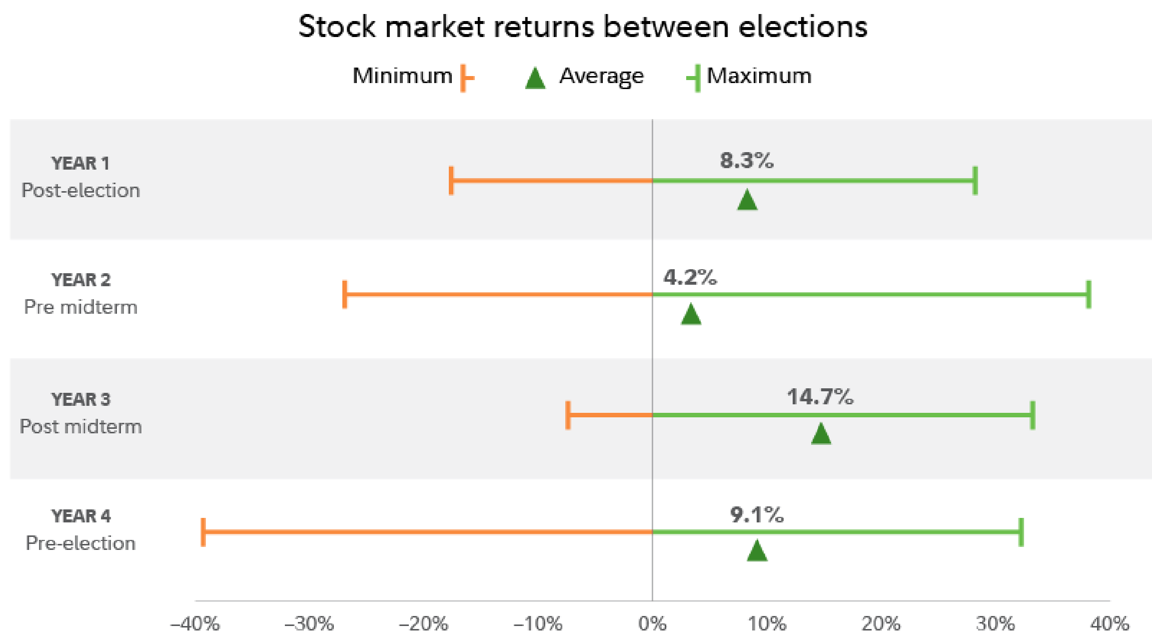
To be sure, changes in the political order can impact policy and society. Given the intensity of feelings on both sides of the aisle, it's natural for investors to assume that these news developments, and the election's eventual outcome, could have major impacts on sentiment and prices in financial markets.

But the news-cycle volatility of election years has often had less impact on markets than voters might assume, and history shows the challenges of trying to make investment decisions timed to an election year.

Here are 5 takeaways for investors looking to navigate their portfolios through this year's pre-election uncertainty—and beyond.

1. Historically, US markets have generally risen in election years.

Since 1950, US stocks have averaged returns of 9.1% in election years, according to research by Fidelity's Denise Chisholm, director of quantitative market strategy.



Of course, it's important to bear in mind that US stocks have historically risen over the long term, so it's not surprising to see an upward trend in the data.

Looking at the historical data, it appears that while the 12 months preceding a presidential election have had the widest range of possible market outcomes relative to other parts of the election cycle, the average return isn't substantially better or worse. This points to the presidential election not being a notably 'market-moving' event, Chisholm says. The election cycle is usually not the dominant theme of the market.

Some investors or voters may wonder if this upward trend is due to the party in power trying to 'juice' the economy and markets right before an election. But the historical data doesn't support this notion, says Anu Gaggar, vice president of capital markets strategy at Fidelity, particularly when looking at developed markets with strong institutions and an independent central bank, such as the US.

2. Down-ballot races may be highly consequential.

While the news cycle has predominantly focused on uncertainty at the top of the ballot, perhaps just as important are the congressional races, where control of the House and Senate is up for grabs, says Alice Joe, vice president of federal government relations at Fidelity.

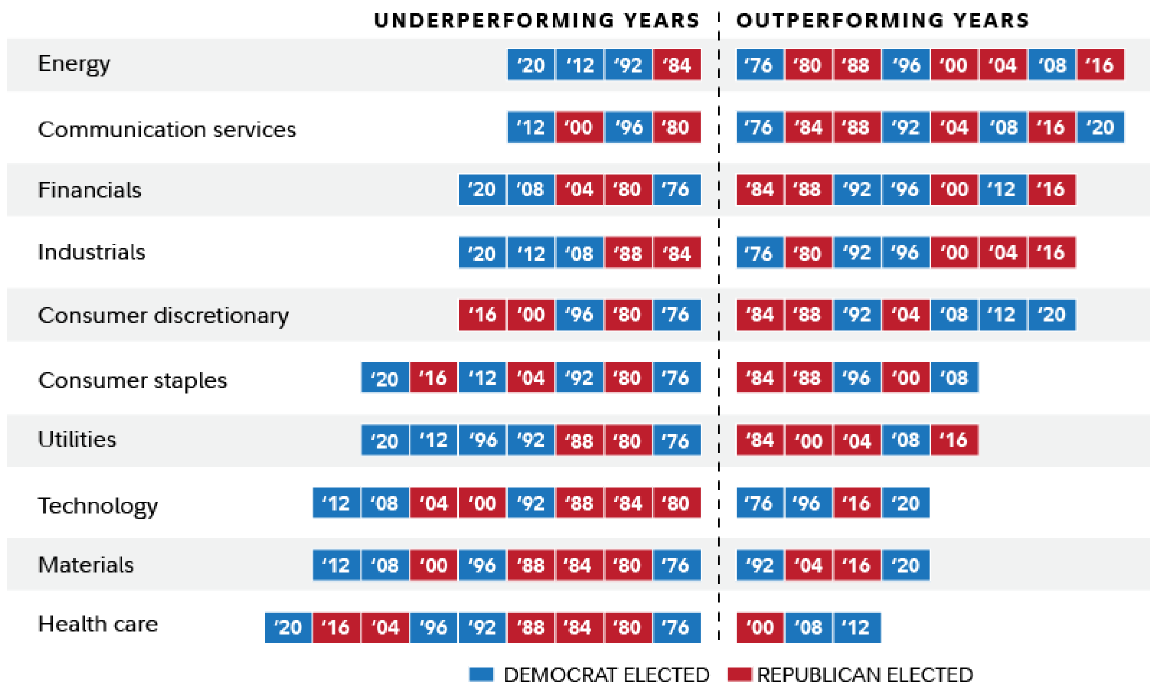
While both the House and Senate could be competitive this year, Joe notes that 'ticket-splitting'—such as when voters choose a presidential candidate from one party but a Senate candidate from the other—has become increasingly rare, which could impact outcomes.

Those down-ballot races will help determine whether the next 2 years are spent under divided or unified government, and will likely impact how much of its agenda the next administration is able to accomplish.

3. Betting on specific policy or sector impacts can be highly risky.

While it's possible to anticipate potential policy impacts at a very high level, the reality is that at this stage no one can predict with any certainty which party will win certain institutions, let alone what sectors, industries, or stocks may benefit from the next administration's policies.

Gaggar notes that this unpredictability is backed up by the historical data on sector performance. 'There are very few consistent patterns of relative sector returns in election years,' she says, which makes placing sector bets around partisan outcomes very risky.

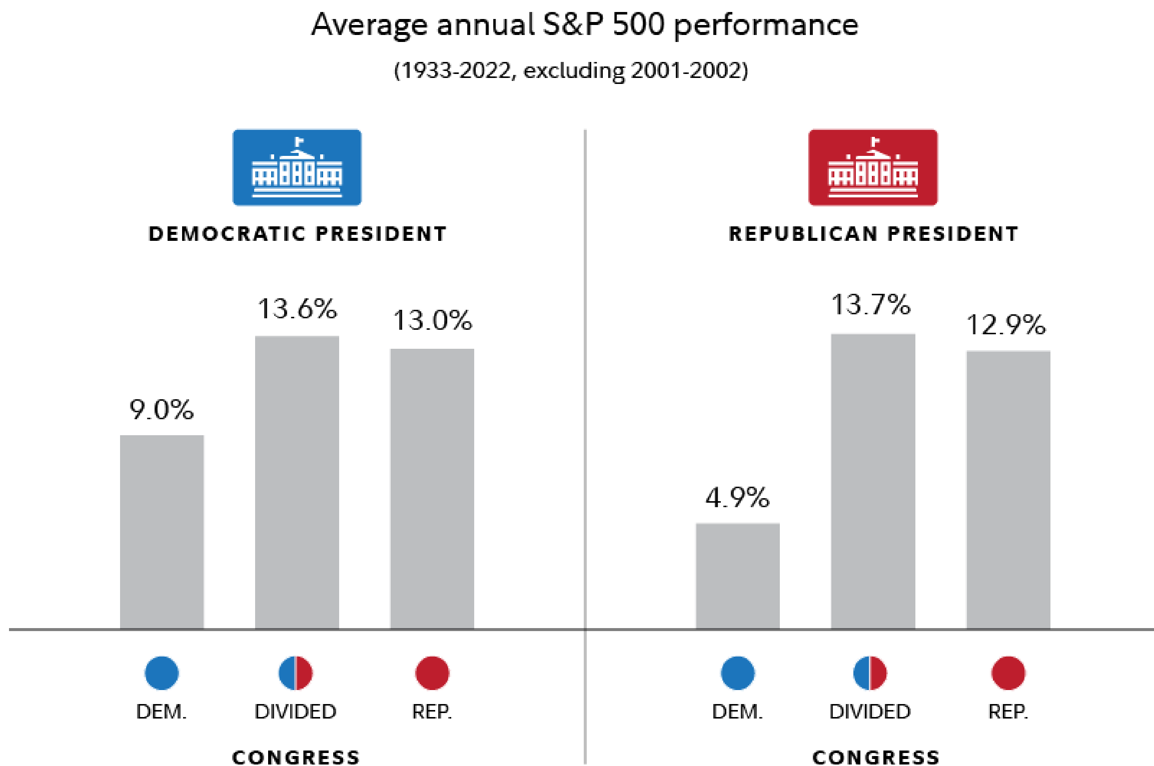


4. Markets are nonpartisan.

Although popular myths sometimes suggest that one party or the other is 'better' for market returns, the historical data does not bear out these theories.

“Markets are nonpartisan,” says Gaggar, 'so it’s very important not to base your investment strategy on the outcome of elections.'

The S&P 500 has historically averaged positive returns under nearly every partisan combination. And in fact, there’s some evidence that divided government has historically correlated with stronger market returns.



5. Investors should focus on fundamentals and stick with their plans.

No matter which side of the aisle investors sit on, this election cycle is likely to bring more surprising news headlines, along with emotional ups and downs. And it can be tempting to put your money where your convictions are—whether you feel optimistic or pessimistic about November 2024.

Historically, however, financial markets have largely been unbothered by both presidential and midterm elections, and trying to adjust your investment strategy in the hopes of capitalizing on an anticipated post-election swing in the markets could end up backfiring on you.