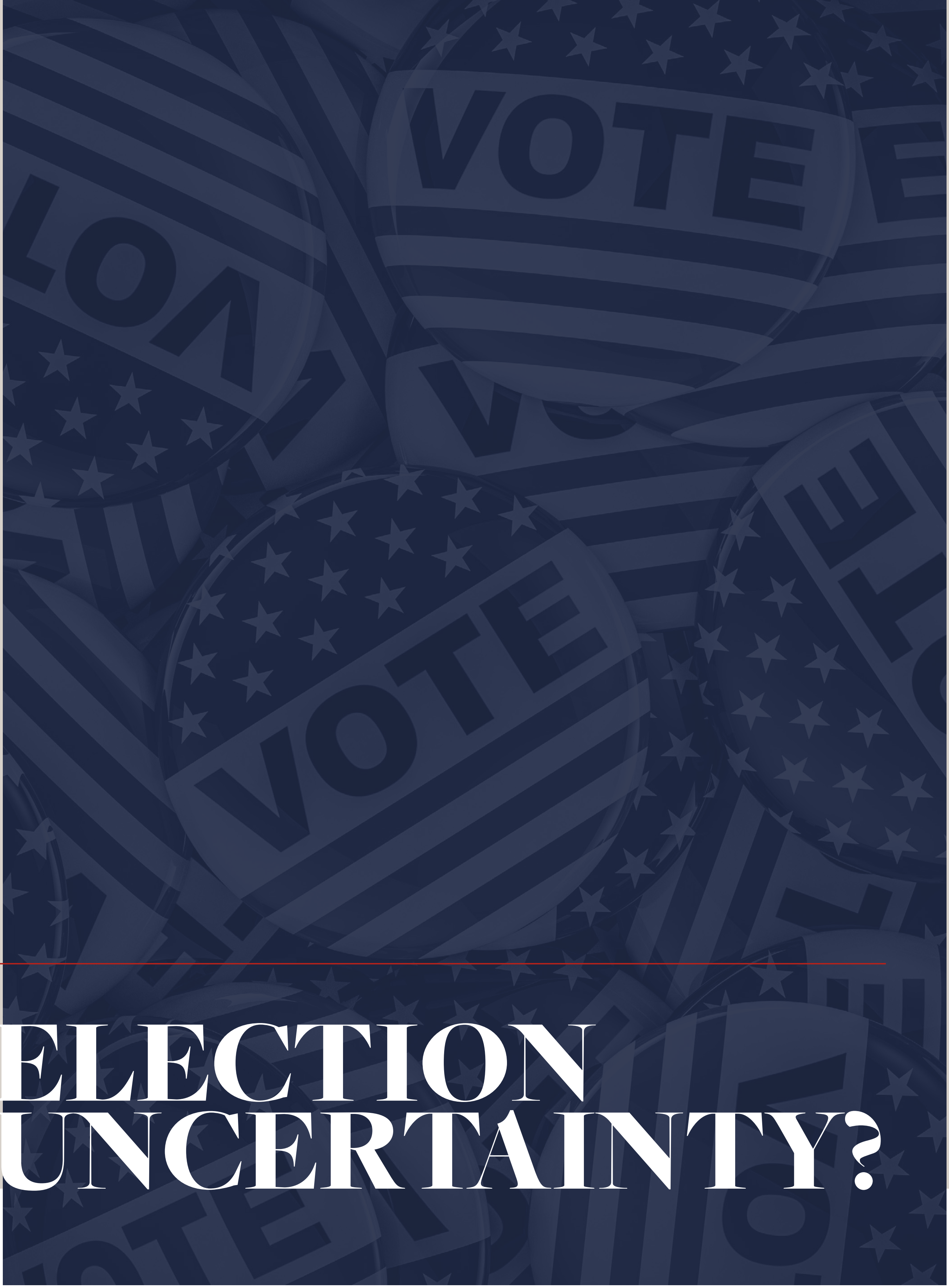


ELECTION UNCERTAINTY?

Don’t let the election rattle your retirement outlook.

COULD THE PRESIDENTIAL ELECTION IMPACT MY RETIREMENT?

While predicting which candidate will win the next presidential election is a little like forecasting the weather, one thing is for sure: Elections tend to shake things up — for a little while at least.

It's no secret that uncertainty heading into presidential elections can affect the stock market and cause economic fluctuations — but did you know that the effects can sometimes be felt as early as the year leading up to a general election and last well into the following year?

Read on to learn more about how presidential elections can potentially affect your finances and if there's anything you might want to consider to avoid a potential dip in your retirement nest egg.

WHO WILL WIN?

Instead of gazing into a crystal ball or watching the never-ending television news cycle, you may have better luck at guessing our next president by looking at our country's history. Market strategists and economists tend to ignore election polls and personal characteristics of candidates. Instead, they focus on models using historical trends and then add in key economic data, including growth rates, wages, unemployment, inflation and gas prices to predict voting behavior and election outcomes.[1] If history repeats itself, the incumbent stands a decent chance of reelection if the economy is strong.

In 2020, former President Donald Trump banked on the classic strategy of "peace and prosperity" to argue for his second term. The economy was thriving, with record highs in the stock market and historically low unemployment rates.

However, the advent of COVID-19 dramatically disrupted this strategy. Beyond the tragic death toll, government-imposed lockdowns aimed at curbing the pandemic led to widespread closures of restaurants, retail stores, schools and public events, as well as a drastic reduction in travel. These measures contributed to a rapid and severe downturn in the American economy. Notably, the Dow Jones Industrial Average witnessed its swiftest plunge in history, dropping 2,997 points (13%) on March 16. In just 22 trading days, the S&P 500 plummeted by 30%.[2]

This economic collapse culminated in the official declaration of a recession on June 8, 2020, effectively undermining a critical component of Trump's reelection narrative.[3]

Similarly, President Joe Biden is relying on a robust economy to bolster his reelection prospects. With high employment, decreasing inflation and sustained consumer spending, the indicators might seem promising. Yet, many economists point to the lingering issue of inflation — though significantly reduced from its 2022 peak, it remains at levels not seen in over a decade — as a potential hurdle. Additionally, predictions of slowed economic growth could detract from Biden's appeal to voters. Therefore, despite current strengths, the economy may still present a significant challenge in Biden's bid for reelection.

Historical trends generally favor the reelection of sitting presidents. When Biden was announced the victor in 2020, Trump became only the second incumbent president since 1984 not to secure a second term. The first was George H.W. Bush.[4] In fact, an incumbent president has never failed to win a second term if the economy avoids recession in the lead-up to the election.[5]

Aside from the political interest, understanding these trends is important because reelecting a sitting president tends to have a positive effect on the markets. That means there may be less volatility that could affect your retirement accounts. Nevertheless, what happens in the economy and the stock market may surprise us after the 2024 election.

THE PARTY DIFFERENCE

Republicans and Democrats have widely different views on how to boost economic growth. Stances on job creation, minimum wage, taxes, immigration, health care, climate change, the national debt and trade (among others) vary so much that you'll see vastly different agendas with each party's candidate.

Yet, changes to policy and the effects those policies have on the economy may take years to realize fully.

Looking at historical data dating back to 1950, the stock market has performed better under a Democratic president with a Republican Congress.[6] But regardless of whether a Republican or Democrat wins the White House, experts say it's what happens in all three levels of our government that can best determine how the markets perform. Although it's easier to get laws passed when one party controls the presidential seat and both chambers of Congress, the stock market generally performs better under a divided government.[7]

EXPENSIVE CAMPAIGN PROMISES

If you're worried about the toll a candidate's campaign promises could have on your pocketbook, taxes or even your future retirement savings, you're not alone. While it sometimes feels like candidates are just telling us what we want to hear, generally, politicians do try to accomplish the things they say they'll do when elected to office.

However, due to America's system of checks and balances, no president can singlehandedly accomplish all of their goals, and occasionally, compromises have to be made. While presidential candidates usually have big dreams of changing the world, it is usually difficult for a sitting president to achieve all of their goals unless their political party controls both chambers of Congress. Consequently, even as shifts in policy and direction are inevitable with any new administration, the intricate nature of law-making means that seeing immediate, large-scale effects is not typical.

FEAR OF THE UNKNOWN

One of the biggest things you can do to help protect your retirement nest egg is to make sure you're comfortable with the levels of risk you have in your current portfolio. When investing in the market, it's important to keep volatility in perspective. Market corrections — a decline of at least 10% of a stock, bond, commodity or market index from its highest recent point — are common and don't always indicate a bear market. Corrections are generally temporary and typically end when the price of a stock or bond "bottoms out" and investors start buying again.

Many things can lead to a market correction, including profit selling, technical analysis and corporate earnings. A broad sense of fear based on a negative event in the news or perception about the economy can trigger a sell-off, and in turn, a correction — some believe that the same is true with presidential elections.

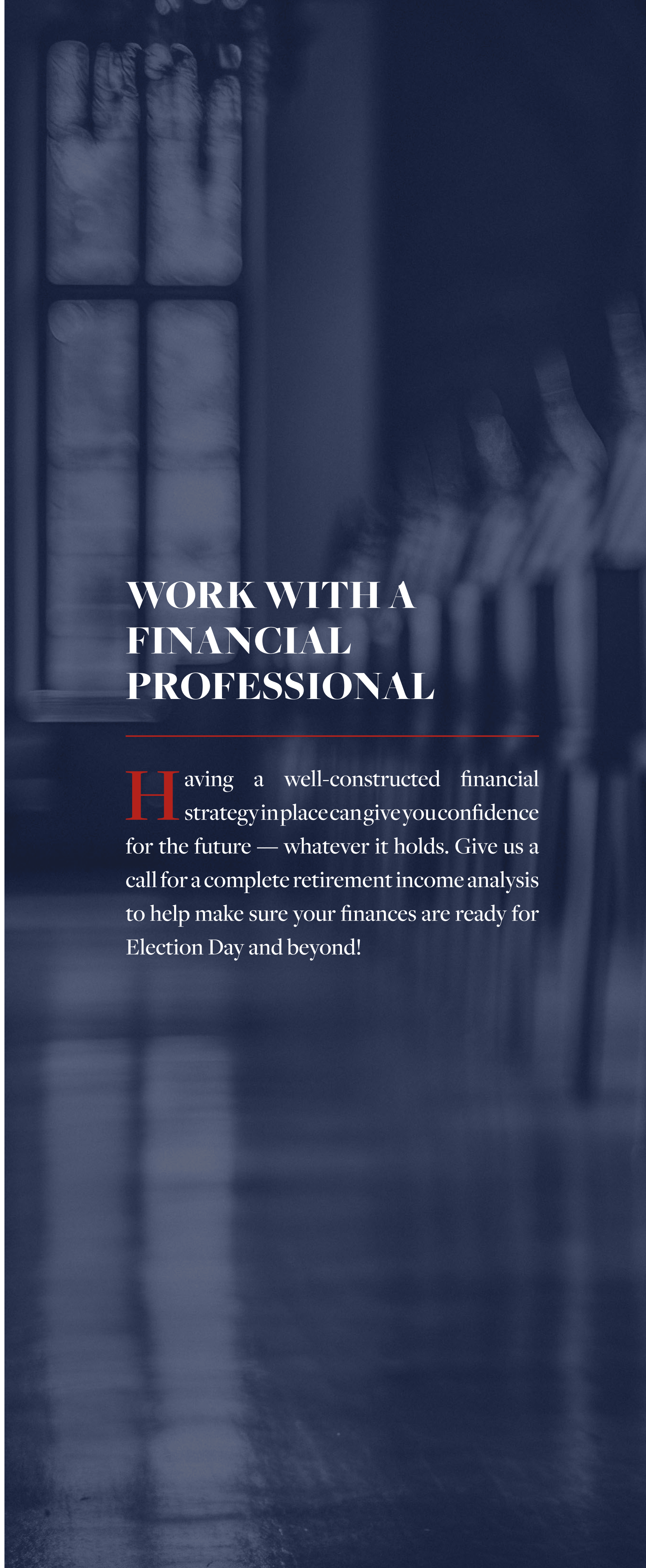
But the fact is, government policy or political control of different branches of government have negligible impacts on the direction of the financial markets. What drives market performance most of all is economic and business fundamentals.[8]

When heading into election season, it's important to remember that the stock market — while fairly volatile on a short-term basis — has a strong track record of long-term success. Since 1980, market corrections have averaged about 14%.[9] However, looking at the overall picture each year, the positive years outweigh the negative years, with negative returns occurring approximately one out of every four years.[10] As history has shown, those who choose to stay the course are rewarded for their patience more often than not.

Considering all of the unknowns and the uncertainty of what the markets could do come election time, one of the biggest things you should remember is to be patient and not to panic. Consider the adage of "time in the market, not timing the market." If you're comfortable with the amount of risk you are currently exposed to and have the time to ride out whatever may come, you're likely best to stick it out and see what happens. On the other hand, if you're within three to five years of retirement, it may be a good idea to review your financial strategy to make sure you're comfortable with the level of risk in your portfolio.

GOING TO THE POLLS

A Gallup poll conducted from April 3-April 25, 2023, found that 55% of Americans rated their personal finances as either "only fair" or "poor." More also report that their financial situation is worsening (50%) rather than improving (37%). This is nearly identical to what Gallup found a year ago but contrasts with 2021, when Americans were generally upbeat about their financial circumstances.[11]



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Having a well-constructed financial strategy in place can give you confidence for the future — whatever it holds. Give us a call for a complete retirement income analysis to help make sure your finances are ready for Election Day and beyond!

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