



Beyond the Ballot Box; Aligning Your Investments with your Plan, Not Elections

QUICK HITS



Quick Hits

- Analyzing S&P 500 data since 1927 we find no meaningful difference in long-term annualized returns when the office of the President is held by a Democrat or Republican. This reinforces looking beyond short-term election outcomes and separating politics and planning.
 - Corporate management rarely considers Presidential elections significant enough to merit discussion on earnings calls. Companies innovate and adapt to the business environment, not to election cycles.
 - That every Presidential election is widely considered the most important is a feature of our great country, not a bug. Still, time and historical perspective ultimately determine history's most impactful elections.
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Presidential Elections and Misdirected Commentary

The upcoming election will surely be hotly contested with emotions running high on both sides. The implication of the next president runs deep for many of the key issues facing our economy, and it is natural to be concerned about the implications of your portfolio.

It turns out if you used politics to govern your investment timing in the stock market, a one-party investment strategy would have equally devastating long-term return outcomes.

MAKING YOUR INVESTMENT DECISIONS BASED SOLELY ON POLITICS IS A LOSING PROPOSITION

Growth of \$1,000



Regardless of the political stakes that accompany presidential elections, stock market performance tends to be strong: investors who have stayed the course have seen the stock market average an 11.5% total return since 1949, regardless of which party comes out on top.

The stock market is represented by the S&P-500 Index. Data is from Morningstar. The time period for this study was from 1949 - 2023. All returns are total returns. You cannot invest directly in an index. This chart is for illustrative purposes only and is not intended as a recommendation. All investments carry some level of risk, including the potential loss of principal invested. No strategy can assure a profit or protect against loss. Northwestern Mutual is the marketing name for The Northwestern Mutual Life Insurance Company, Milwaukee, WI (NML) and its subsidiaries. Investment brokerage services are offered through Northwestern Mutual Investment Services, LLC (NMIS), a subsidiary of NML, broker-dealer, registered investment adviser, and member FINRA and SIPC. Investment advisory and trust services are offered through Northwestern Mutual Wealth Management Company® (NMWMC), Milwaukee, WI, a subsidiary of NML and a federal savings bank. Products and services referenced are offered and sold only by appropriately appointed and licensed entities and financial advisors and professionals. Not all products and services are available in all states. Not all Northwestern Mutual representatives are advisors. Only those representatives with "Advisor" in their title or who otherwise disclose their status as an advisor of NMWMC are credentialed as NMWMC representatives to provide investment advisory services. (REV 0324)

Long-Term View

Most election commentary will profile market performance in the short run or what happens to markets during or following election years. One challenge to this analysis is most reliable stock market data started in 1927, and since then there have only been twenty-four Presidential elections. The sample size is simply too small to draw any meaningful or predictive interpretations.

As you zoom out, however, it turns out there is no discernable difference in market returns over 10-, 20- and 30-year periods.

In our quarter client investment call, we profiled rolling 30-year annualized returns for the S&P 500, noting that virtually all our clients have planning horizons or legacy goals that extend three decades or beyond. Taking a cue from this profile, we sorted every month going back to 1927 by which party was in office. We calculated forward 10, 20 and 30-year annualized returns on a rolling monthly basis. The table below shows the average annualized return across each rolling monthly period starting with the party in the office.

On a 30-year basis, annualized returns are statistically the same. Furthermore, there are no differences in the percentage of positive outcomes, as all 30-year annualized outcomes are positive. Finally, there is no difference in volatility since 1946, although the volatility for Republicans from 1927 is a little higher due to the volatility associated with the Great Depression.

Bottom Line. There is no statistical difference in results!

Forward S&P 500 Returns From Every Month Each Party Held Office

	10YR			20YR			30YR		
	D	R	Diff	D	R	Diff	D	R	Diff
Average from 1927	6.71%	6.47%	0.24%	7.34%	6.33%	1.01%	7.04%	7.17%	-0.13%
Average Since 1946	7.28%	7.88%	-0.60%	7.08%	7.17%	-0.09%	6.99%	7.64%	-0.65%
No.	543	491		480	434		399	395	
% > 0%	88%	90%	-1.95%	100%	93%	7.14%	100%	100%	0.00%
Std Dev from 1927	4.8%	5.6%	-0.77%	2.8%	3.3%	-0.51%	1.0%	1.8%	-0.77%
Std Dev from 1946	5.1%	4.1%	0.99%	3.1%	2.3%	0.76%	1.1%	1.3%	-0.16%

S&P 500 Price Return, monthly close, from beginning of listed period to 3/31/2004

Source: Bloomberg and Park Avenue Capital

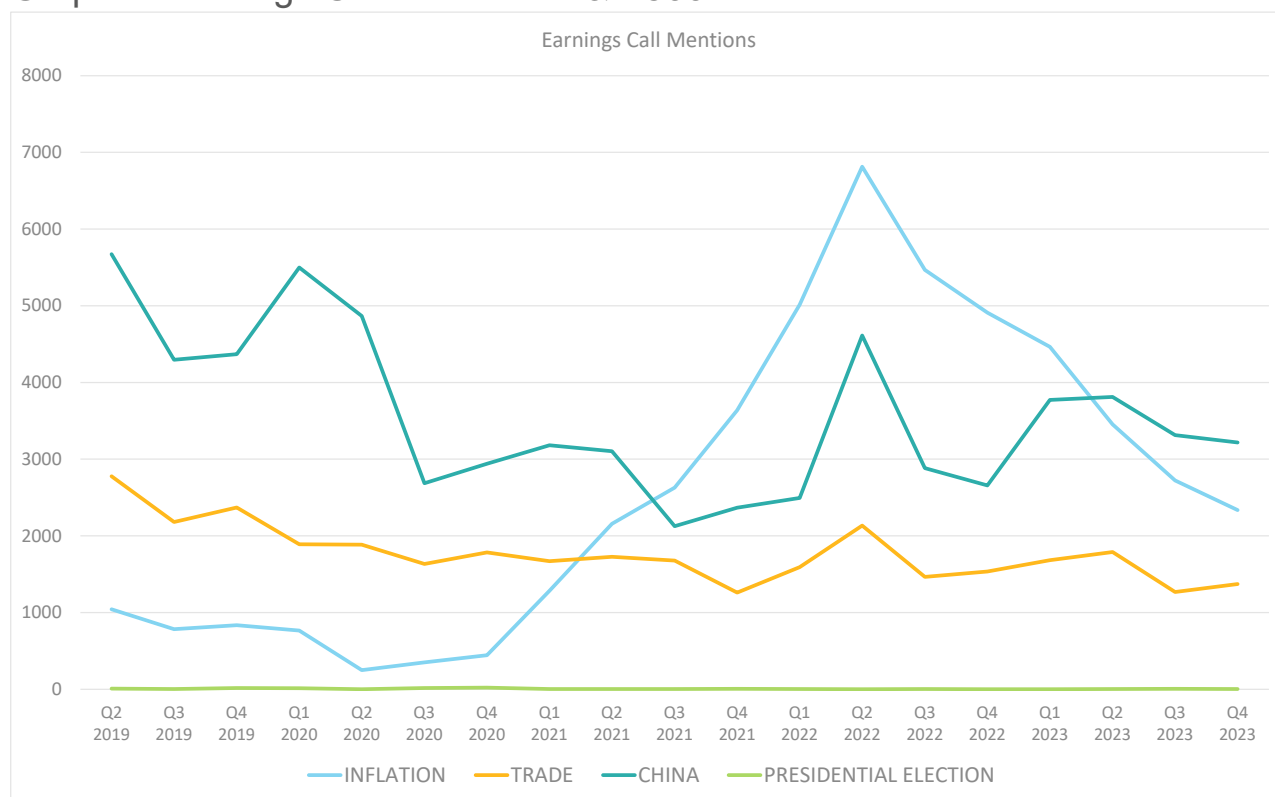
Corporate Management

The S&P 500 index includes the most dynamic and innovative companies in the world and represents the foundation of equity exposure in your portfolios. These companies have appreciated in value throughout history because they have demonstrated dynamic adaptation to the political and economic environment in stewardship of shareholders.

How much do corporations use potential political outcomes in decision-making? Using Bloomberg's AI-powered Research Analytics, we set out to discover how much corporate management factors in the impact of elections on business strategy. This powerful analytics tool enables us to search through all S&P 500 quarterly earnings transcripts going back to 2019. We searched for mentions, discussions, and questions on elections (excluding corporate board elections), Presidential elections, parties, and candidates.

Note the key issues below queried in this search engine.

Graph 1. Earnings Call Mentions S&P 500.



Source: Bloomberg and Park Avenue Capital

In a recent mention of the Presidential election in the 4Q 2023 earnings call from Eaton Corp., senior management gave some insight.

“given the upcoming elections and in many ways it's kind of an unknowable, in terms of how the election is going to turn out and then, quite frankly, even with the change in the administration difficult to know what position they will take with respect to a lot of the stimulus spending that is essentially underlying and supporting these mega projects. I will tell you what gives us a fairly high level of confidence is that it's not going to change materially is that a lot of these projects are growing into red states and these are despite what may happen and kind of on the political front, the benefactor of a lot of these projects are actually those red states. And so we'll have to wait and see how it plays and we don't think today it's going to have a material impact. **Today, we are looking at more demand than we have capacity to serve.** So even if

there was a little bit of give back, *the business is still in great shape to support the long-term growth assumptions for the company.*”

Bottom Line. Corporate management gives Presidential elections very little attention in the board room.

CONCLUSION



Presidential elections can have a powerful impact on the direction of our country, on federal policy, and on the collective psyche of partisans and those who carry strong political beliefs. When it comes to your financial plan and investment portfolio, however, data tells us politics should not inform investment decision making.

The beauty of American enterprise is regardless of the politics, dynamic businesses are rational actors and adjust. A long-term investor buys companies, not governments or their politicians.

- The Park Avenue Capital Team

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With fixed income securities, such as bonds, interest rates and bond prices tend to move in opposite directions. When interest rates fall, bond prices typically rise and conversely when interest rates rise, bond prices typically fall. This also holds true for bond mutual funds. When interest rates are at low levels there is risk that a sustained rise in interest rates may cause losses to the price of bonds or market value of bond funds that you own. At maturity, however, the issuer of the bond is obligated to return the principal to the investor. The longer the maturity of a bond or of bonds held in a bond fund, the greater the degree of a price or market value change resulting from a change in interest rates (also known as duration risk). Bond funds continuously replace the bonds they hold as they mature and thus do not usually have maturity dates, and are not obligated to return the investor's principal. Additionally, high yield bonds and bond funds that invest in high yield bonds present greater credit risk than investment grade bonds. Bond and bond fund investors should carefully consider risks such as: interest rate risk, credit risk, liquidity risk and inflation risk before investing in a particular bond or bond fund.