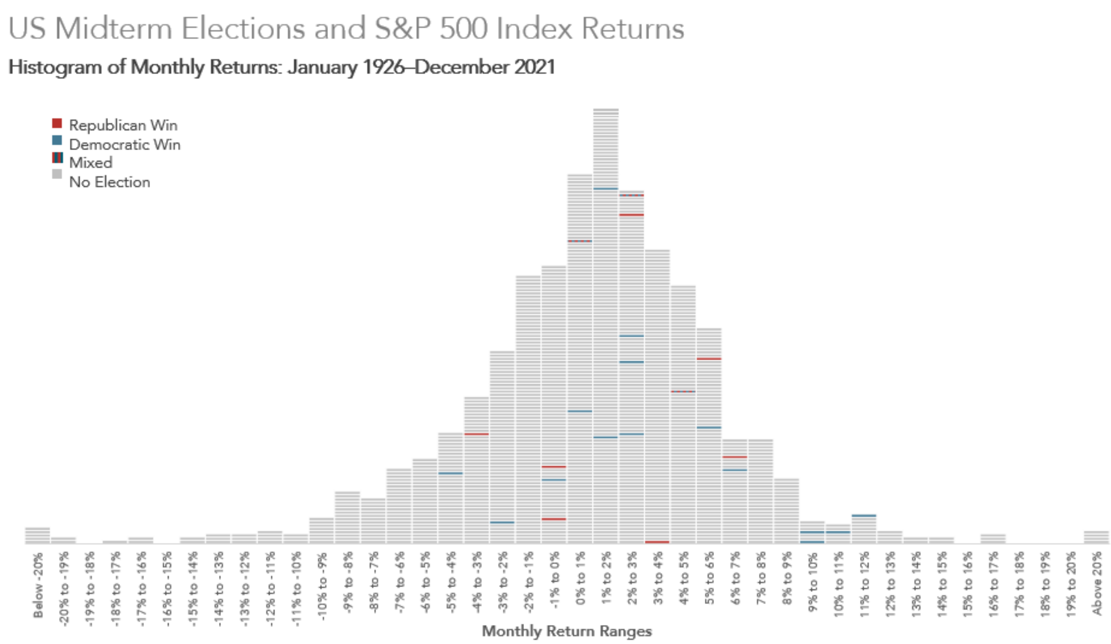
CLIENT QUESTION OF THE MONTH: How will the upcoming midterm elections impact the market and investor portfolios?

- Midterm elections in the US are once again on the horizon. Every two years the full US House of Representatives and one-third of the Senate are up for re-election.
- There will surely be plenty of forecasts in the coming months about how a particular party's control of congress will impact government policies and in turn the financial markets. Will markets rise? Will they fall? Who will be the winners and who will be the losers?
- Should investors make portfolio changes based on the predicted outcomes? We would certainly caution against making changes to a long-term plan in an attempt to profit (or avoid loss) from short-term changes in the political landscape.
- As seen in the exhibit below, historical data for the stock market as measured by the S&P 500 Index indicates that returns during months with a midterm election were well within the typical range of returns for all months, regardless of the election outcome.

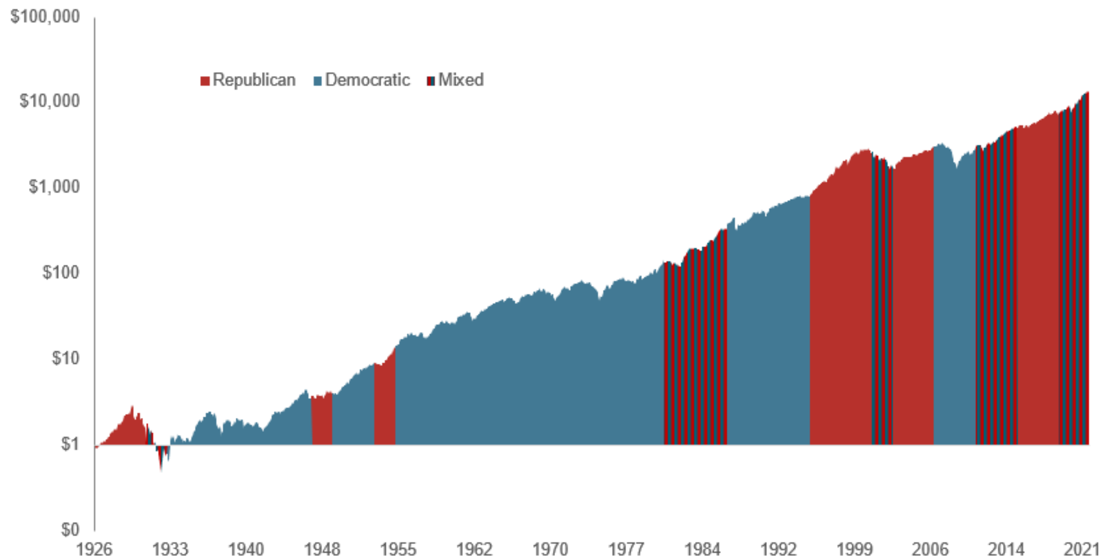


Past performance is not a guarantee of future results. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio. Source: S&P data
Dashes representing returns for a given month are stacked in ascending order of return within each column, with highest return within that range on top.

- What about the long-term impact of election results? Does the successful campaign of a particular party lead to better outcomes for the financial markets over longer time periods?
- The exhibit below shows the hypothetical growth of $1 dollar invested in the S&P 500 Index in January 1926 overlayed with party control of congress. There does not appear to be a pattern of stronger returns when any specific party is in control or when control is mixed.

Hypothetical Growth of $1 Invested in the S&P 500 Index and Party Control of Congress

January 1926–December 2021



Past performance is not a guarantee of future results. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio. Source: S&P data © 2022 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.
In US dollars. Growth of wealth shows the growth of a hypothetical investment of $1 in the securities in the S&P 500 Index. Data presented in the growth of wealth chart is hypothetical and assumes reinvestment of income and no transaction costs or taxes. The chart is for illustrative purposes only and is not indicative of any investment.

- Trying to make investment decisions based on the outcomes of elections is unlikely to result in reliable excess returns. At best, any positive outcome based on such a strategy is likely the result of random luck, and at worst, it could lead to costly mistakes. Markets have rewarded long term investors irrespective of midterm election results and party control of congress. Rather than making changes based on upcoming elections, investors can put themselves in a better position to meet their goals by sticking to the long-term plan.