

The Impact of Elections on the Markets and Tax Policy

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With Labor Day behind us, we're in the final stretch of the 2024 presidential election race. As we follow the news and parse the most recent polls, some may ask, "How might what happens on November 5 impact my finances?"

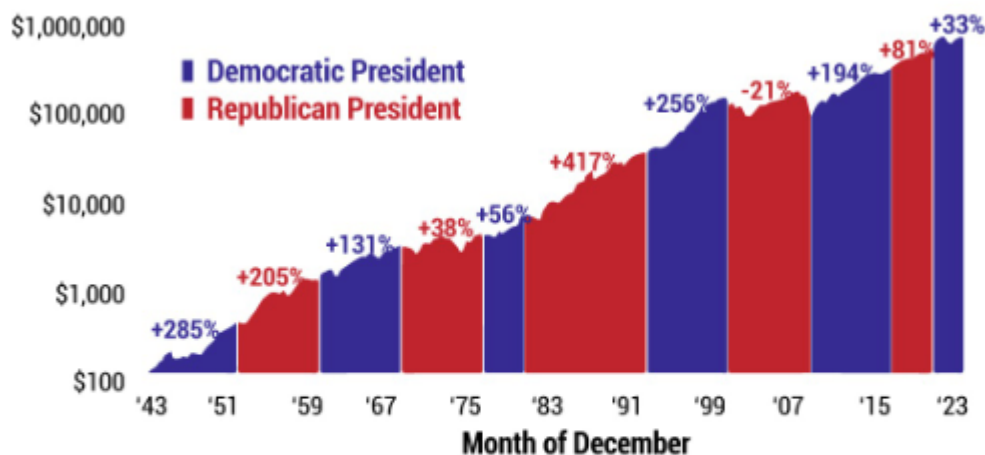
As financial professionals, we've done some homework and come to the following conclusion: you may care passionately about who wins, but your investment portfolio probably doesn't.

Markets Over the Long Term

Consider how the stock market has performed under Republican and Democrat presidents throughout history. As the accompanying chart shows, the stock market has fluctuated under the leadership of both parties. However, the long-term trend suggests that the stock market's performance may have more to do with the overall strength and resiliency of the U.S. economy than the person who sits in the Oval Office.¹

The market's trend is apolitical

Growth of \$100 in the S&P 500 since December 1943



Source: Strategas, Factset

Stocks are measured by the Standard & Poor's 500 Composite Index, an unmanaged index considered representative of the overall U.S. stock market. Index performance is not indicative of the past performance of a particular investment. Past performance does not guarantee future results. Individuals cannot invest directly in an index. Stock price returns and principal values will fluctuate as market conditions change. Shares, when sold, may be worth more or less than their original cost.

Is a Split Government Better for the Financial Markets?

While stock market performance has not historically depended on who wins the presidency, history shows that the market tends to like split control between the two major parties.

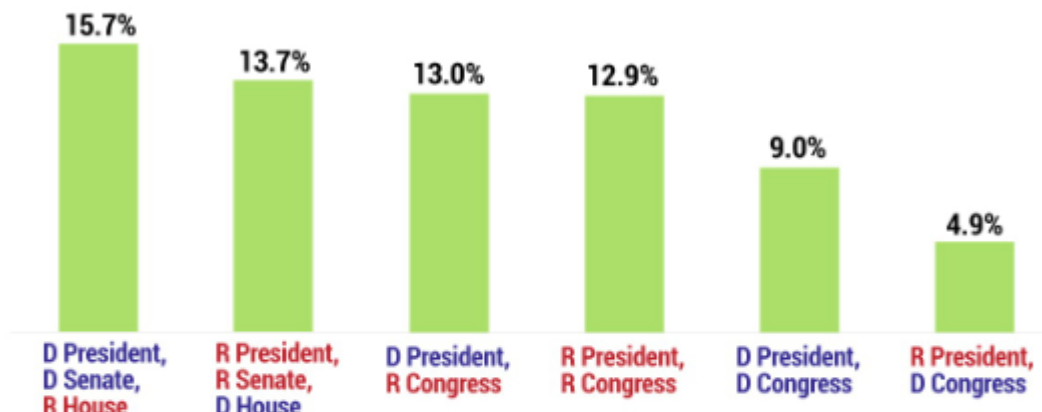
As the chart below illustrates, Democratic control of the White House and Senate, with Republican control of the House, has produced the highest average annual return.

However, the runner-up is the opposite—a Republican president and Senate and a Democratic House. While mixing and matching control of the levers of power in Washington, D.C., produced comparable results, the low results for the Republican president and Democratic Congress

combo may be attributed to the 1973 oil crisis and 2008 global financial crisis bear markets.¹

Financial markets are NOT partisan

Average annual S&P 500 performances by partisan control



1933-2023, excluding 2001-02 (due to Sen. Jeffords changing parties in mid-2001)

Source: BairdWealth.com, March 14, 2024

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What Matters to the Markets

Following how election results have affected the stock market over time is fascinating. Still, data suggests economic trends tend to have a more consistent relationship with market performance than who wins in November. Improving economic conditions (which can include falling inflation) tends to create a more favorable business environment.²

Tax-Policy Differences

What also can have more of an impact on your personal finances is tax policy. And while there may be some bipartisan common ground, this year's election does present two competing visions on taxes for

individuals and families. Let's look at where each party's candidate stands.³

Keep in mind this article is for informational purposes only and is not a replacement for real-life advice. The tax policies outlined are based on assumptions and will be subject to revisions during the legislative process. We encourage you to consult your tax, legal, and accounting professionals before modifying your tax strategy.

The Fate of the Tax Cuts and Jobs Act

The Tax Cuts and Jobs Act (TCJA) of 2017 was designed to overhaul the federal tax code by reforming individual and business taxes.

Although some of the provisions were permanent, most individual tax changes are not. Unless extended, many of the changes implemented are scheduled to "sunset" on December 31, 2025. At that time, rates will revert to pre-2017 levels.

There has been some speculation that many of the provisions of the TCJA would be allowed to expire. However, based on the announced tax policies of both candidates, the lower rates may remain for the vast majority of taxpayers – those with incomes less than \$400,000. The significant difference between the two proposals is the tax treatment for those making more than \$400,000. Keep in mind that the president can lay out a tax policy, but it is up to Congress to pass any tax legislation into law.⁴

Higher-income individuals should be aware of potential changes that may impact their tax situation depending on the future of the TCJA. By being diligent, you may be better prepared for whatever comes down from Washington.

We always welcome collaborating with your tax professional to help align your financial and tax strategies.

Staying the Course

While elections can trigger some market volatility, it's critical to keep short-term events in perspective and not allow them to distract you from long-term financial strategy. The best approach is often to create a portfolio that reflects your goals, time horizon, and risk tolerance.

We're Here If You Have Questions

We're here to help. If you are a current client and want to discuss your strategy, please contact us anytime. If you are working with another financial professional and would like us to review your overall approach, please consider reaching out.

¹Baird.com, March 14, 2024. The S&P 500 Composite Index represents the stock market, which is an unmanaged index considered representative of the overall U.S. stock market. Index performance is not indicative of the past performance of a particular investment. Past performance does not guarantee future results. Individuals cannot invest directly in an index. The return and principal value of stock prices will fluctuate as market conditions change. And shares, when sold, may be worth more or less than their original cost.

²U.S. Bank, June 21, 2024.

³Tax Foundation, June 2024.

⁴CNBC.com, June 13, 2024.