

MARKET MINUTE

With McGAREL



Dave McGarel, CFA, CPA

Chief Investment Officer

August 2024

Past performance is no guarantee of future results.

The **S&P 500 Index** is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance. The **Russell 1000 Value Total Return Index** measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values. The **Russell 1000 Growth Total Return Index** measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

Index data is for illustrative purposes only and not indicative of any actual investment. Indices are unmanaged and investors cannot invest directly in an index. Index returns do not reflect any fees, expenses, or sales charges. These returns were the result of certain market factors and events which may not be repeated in the future.

The information presented is not intended to constitute an investment recommendation for, or advice to, any specific person. By providing this information, First Trust is not undertaking to give advice in any fiduciary capacity within the meaning of ERISA, the Internal Revenue Code or any other regulatory framework. Financial professionals are responsible for evaluating investment risks independently and for exercising independent judgment in determining whether investments are appropriate for their clients.

The presidential race for the White House has already had tremendous drama and we are still 96 days from Election Day! Who knows what may transpire next? Many investors attempt to tactically “play” the expected result of the presidential election prior to the actual vote.

In our view, positioning portfolios based on a candidate’s policy views and an expectation of that candidate’s victory are misguided. Even if you get the right candidate, the portfolio positioning may be incorrect or superseded by other concerns.

History does provide some guide to markets in the months after a presidential candidate is chosen. Since 1980, value stocks have outperformed growth stocks in the six months following each of the last 11 presidential elections (Chart 1). Every time. Regardless of which party wins the White House, the Senate, and the House of Representatives.

It is also interesting to note that financials is the biggest weight in the most common value indexes from S&P and Russell. Since 1993, when the S&P 500 Index began tracking sectors, the financials sector has outperformed the S&P 500 Index 7 of the 8 years after a presidential election (Chart 2). No sector has outperformed more often. Additionally, the financials sector has received positive earnings revisions over the last quarter while sitting at valuation levels that are still historically cheap.

If earnings and valuations become more meaningful to investors as the big momentum trade slows down as we expect, history suggests overweighting both financials and value is a prudent way to invest as we enter the fall and election season.

It’s sure easier than trying to figure out who the next President is going to be!

Chart 1: Value vs. Growth: Performance Following Presidential Elections | Since 1980

Months After Election Day	Value	Growth	Value Beat Growth By
1 Month	1.93%	0.53%	1.40%
2 Months	6.78%	4.72%	2.05%
3 Months	5.84%	3.52%	2.32%
4 Months	6.34%	1.82%	4.52%
5 Months	7.44%	1.81%	5.63%
6 Months	10.82%	5.76%	5.06%
Average	6.52%	3.03%	3.50%

Source: Bloomberg. As of 6/28/2024.

Chart 2: How Stocks Have Fared in the First Year of a Four-Year Presidential Term

S&P 500 Index & Sector Index Total Returns

	1993	1997	2001	2005	2009	2013	2017	2021
White House	Democrat	Democrat	Republican	Republican	Democrat	Democrat	Republican	Democrat
Senate	Democrat	Republican	Democrat	Republican	Democrat	Democrat	Republican	Democrat
House of Representatives	Democrat	Republican	Republican	Republican	Democrat	Republican	Republican	Democrat
S&P 500 Index	10.00%	33.32%	-11.89%	4.91%	26.45%	32.37%	21.82%	28.68%
Communication Services	14.34%	41.25%	-12.24%	-5.63%	8.93%	11.47%	-1.25%	21.57%
Consumer Discretionary	14.64%	34.34%	2.78%	-6.36%	41.30%	43.08%	22.98%	24.43%
Consumer Staples	-3.87%	32.87%	-6.42%	3.58%	14.89%	26.14%	13.49%	18.63%
Energy	15.87%	25.21%	-10.39%	31.36%	13.78%	25.05%	-1.01%	54.35%
Financials	10.59%	47.97%	-8.94%	6.47%	17.15%	35.59%	22.14%	34.87%
Health Care	-8.19%	43.72%	-11.96%	6.46%	19.70%	41.46%	22.08%	26.13%
Industrials	18.56%	26.97%	-5.74%	2.30%	20.93%	40.64%	21.01%	21.10%
Information Technology	21.71%	28.56%	-25.87%	0.99%	61.72%	28.42%	38.81%	34.52%
Materials	13.46%	8.41%	3.40%	4.39%	48.58%	25.60%	23.84%	27.28%
Real Estate	N/A	N/A	N/A	7.36%	20.79%	-1.53%	10.85%	46.14%
Utilities	13.64%	24.68%	-30.40%	16.83%	11.91%	13.21%	12.10%	17.67%

Source: Bloomberg and The Spokesman-Review. The 11 major S&P 500 Sector Indices are capitalization-weighted and comprised of S&P 500 constituents representing a specific sector.