



7 Things to know about Midterm Elections

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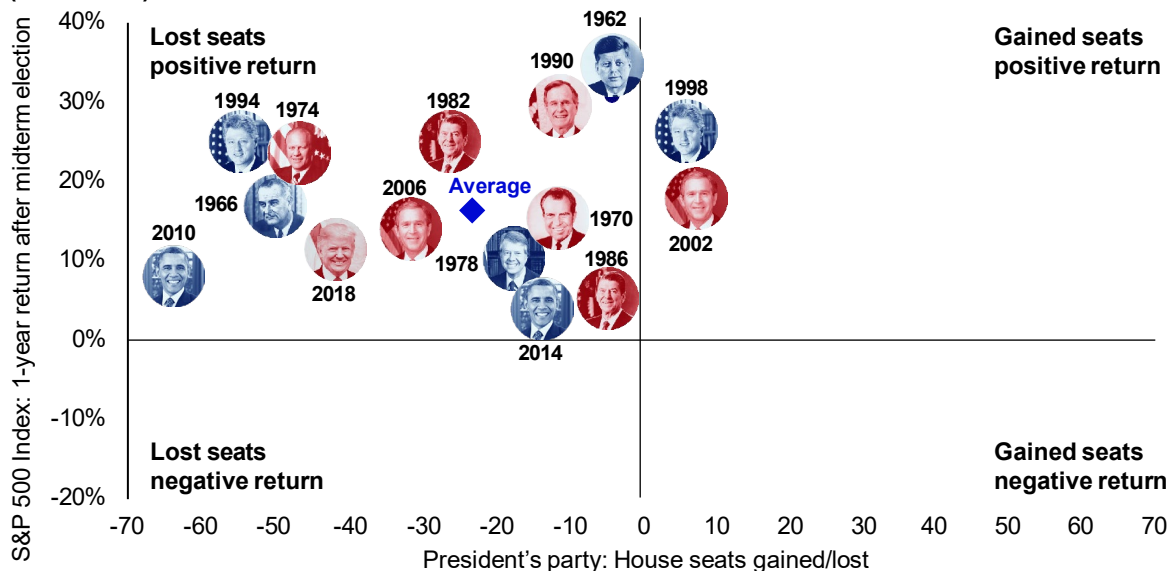
THE EQUITY MARKET HAS BEEN POSITIVE THE YEAR AFTER MIDTERMS

The White House occupant's party has tended to not perform well in midterm elections.

- The president's political party, over the past six decades, has lost on average 23 seats in the US House
- In fact, the only presidents who led their party to gained seats in the House were Bill Clinton in 1998 and George W. Bush in 2002

The stock market has posted positive returns in the calendar year following midterms for more than six decades, regardless of the election outcome.

President's party House seats gained/lost and S&P 500® Index 1-year post-midterm return (1960-2021)



Source: Bloomberg and US Congress 12/31/21. The S&P 500® Index is a market-capitalization-weighted index of the 500 largest domestic US stocks. Indexes cannot be purchased directly by investors. **Past performance does not guarantee future results.**

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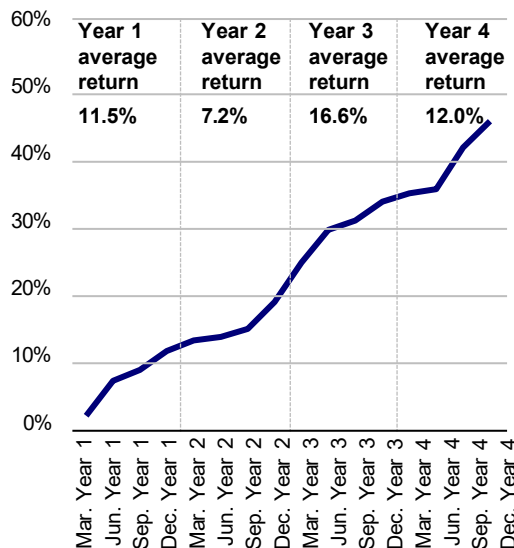
MARKETS HAVE HISTORICALLY BEEN VOLATILE IN YEAR TWO OF A PRESIDENTIAL CYCLE, AND PERFORMED STRONGEST IN YEAR THREE — REGARDLESS OF MIDTERM OUTCOMES

Markets have historically tended to perform the worst in the year ahead of midterms — 2022 appears to be continuing that pattern.

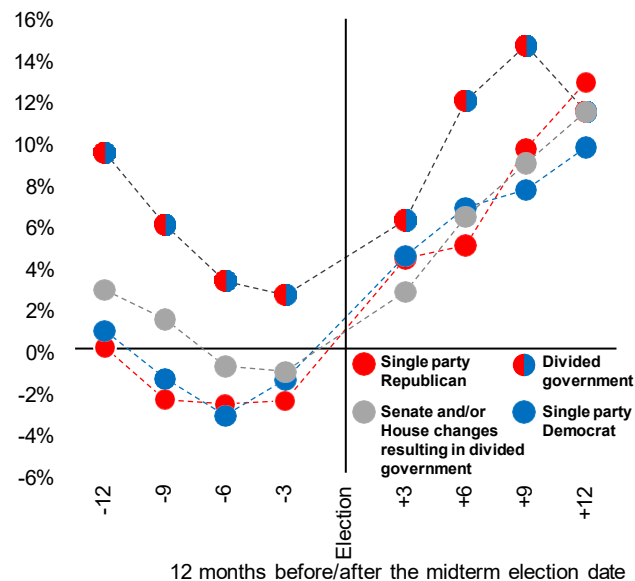
Year three of the presidential cycle, however, has historically posted strong average returns.

Despite the talk of markets preferring divided government, market results in the year after midterms have tended to be strong regardless of the outcome.

Dow Jones Industrial Average presidential cycle pattern (1900-2021)



Dow Jones Industrial Average returns 12 months before/after midterm elections (1900-2021)



Source: Bloomberg, Dow Jones, 12/31/21. The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. Indexes cannot be purchased directly by investors. **Past performance does not guarantee future results.**

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MARKETS HAVE SEEMED TO PREFER DIVIDED GOVERNMENT

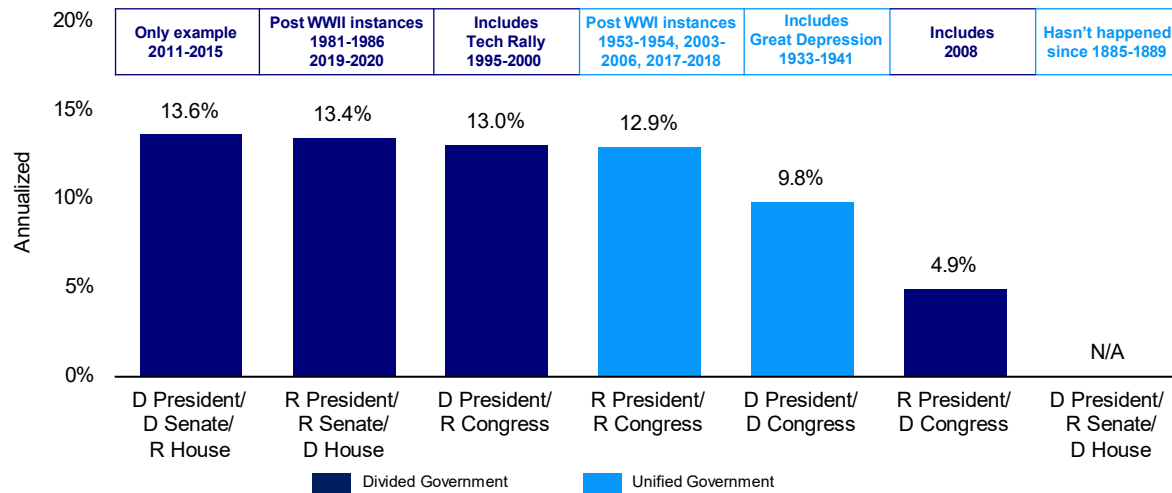
The two most likely outcomes of the 2022 midterm election have historically proven quite good for markets:

- D president and Senate with R House, or
- D president and R Congress

An important caveat: I would argue that the analysis isn't statistically significant. Returns, in most instances, tend to be driven by a handful of notable years:

- D President and Senate with R House only happened once. It was during the 2011-2015 bull market
- D President and R Congress happened during the height of the late 1990's tech boom

Partisan control: Examples of average annualized returns for Dow Jones Industrial Average (1900-2021) during divided and unified government periods



Source: Bloomberg, Strategas Research Partners 12/31/21. Chart is meant for illustrative purposes only and is not meant to depict or predict the performance of any investment strategy. Dates: D President/D Senate/R House – 2011-2015; R President/R Senate/ D House – 1911-1912, 1931-1932, 1981-1986, 2019-2020; D President/R Congress – 1919-1920, 1947-1948, 1995-2000, 2015-2016, R President/R Congress – 1901-1910, 1921-1930, 1953-1954, 2003-2006, 2017-2018; D President/D Congress – 1913-1918, 1933-1946, 1949-1952, 1961-1968, 1977-1980, 1993-1994, 2009-2010; R President/D Congress – 1955-1960, 1969-1976 1987-1992, 2007-2008. *2001 to 2002 is not listed because Jim Jeffords became independent leaving the Senate evenly divided. The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. Indexes cannot be purchased directly by investors. **Past performance does not guarantee future results.**

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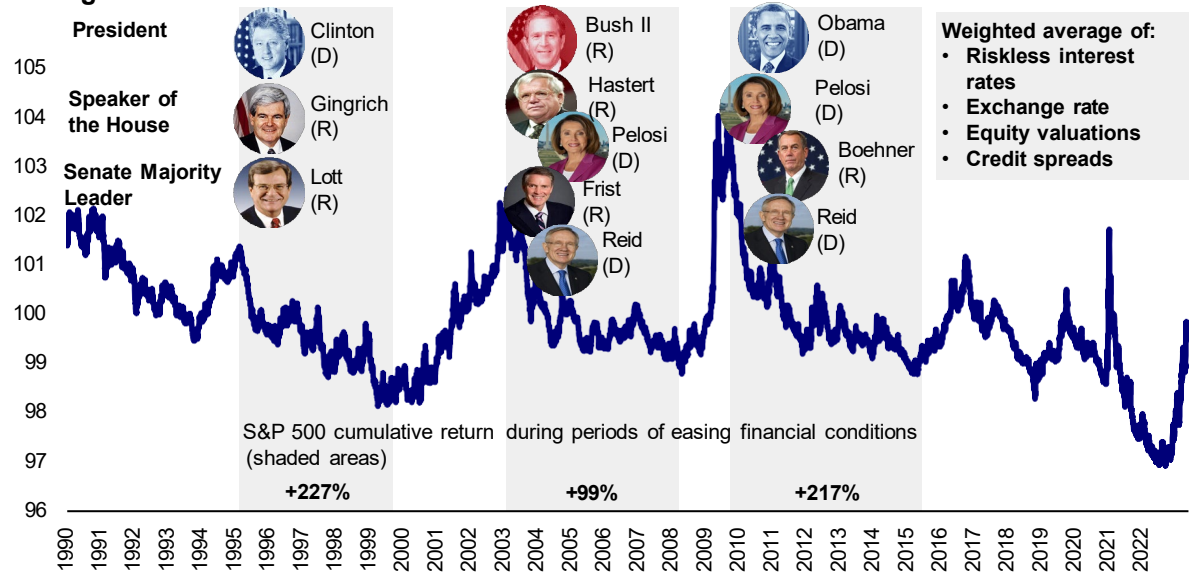
MONETARY POLICY MATTERS MORE

Despite the focus on the midterms, I believe that monetary policy matters more and this adage holds true: Don't fight the Fed.

Presidents have historically been hurt or helped by monetary policy.

- Presidents Clinton and Obama (and for a period Bush II) benefitted from prolonged periods of benign inflation and easy monetary policy
- Strong market returns under President Obama occurred during single-party Democratic rule, as well as during a divided government

Goldman Sachs US Financial Conditions Index and S&P 500® performance during periods of easing financial conditions



Sources: Goldman Sachs, Bloomberg L.P., 6/30/22. The Goldman Sachs US Financial Conditions Index is a weighted average of riskless interest rates, the exchange rate, equity valuations, and credit spreads, with weights that correspond to the direct impact of each variable on US Gross Domestic Product. The S&P 500® Index is a market-capitalization-weighted index of the 500 largest domestic US stocks. An investment cannot be made in an index. **Past performance does not guarantee future results.**

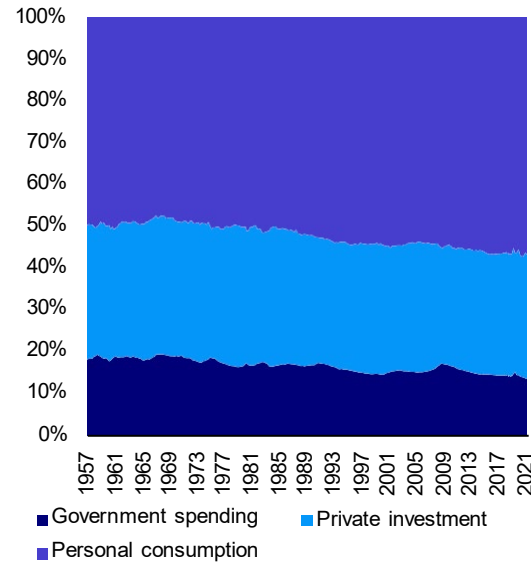
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POLITICIANS DON'T RADICALLY RE-ENGINEER THE ECONOMY OR DRAMATICALLY ALTER ECONOMIC GROWTH

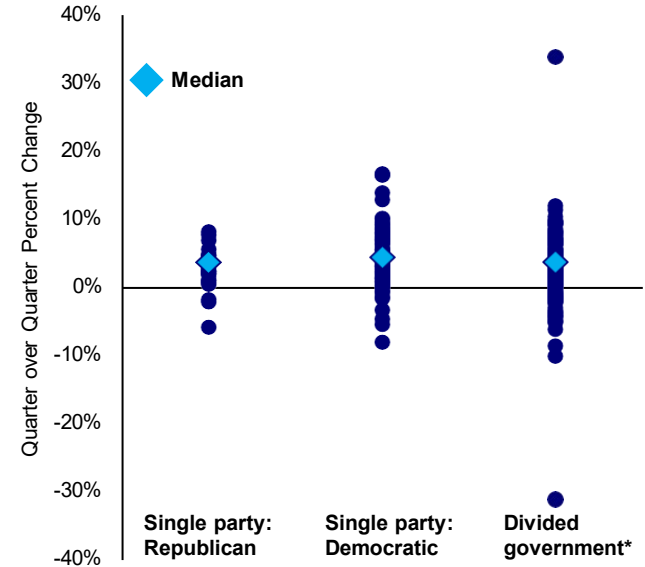
Many investors fear that a political party might radically re-engineer the economy. But consumption, business investment, and government spending have been remarkably consistent as a percentage of gross domestic product (GDP) across multiple iterations of government control.

Economic activity, represented by the median annualized quarterly percent change in US GDP, has been remarkably similar during single party and divided government rule.

Major components of GDP as a percentage of total spending in the US



Range of US quarterly real GDP by composition of Congress since 1946



Source: US Bureau of Economic Analysis, 6/30/22. Gross Domestic Product (GDP) is the total value of goods and services produced in a year. *The outlier GDP growth quarters under divided government were the result of the shutdown and reopening of many segments of the US economy as a result of the COVID-19 pandemic.

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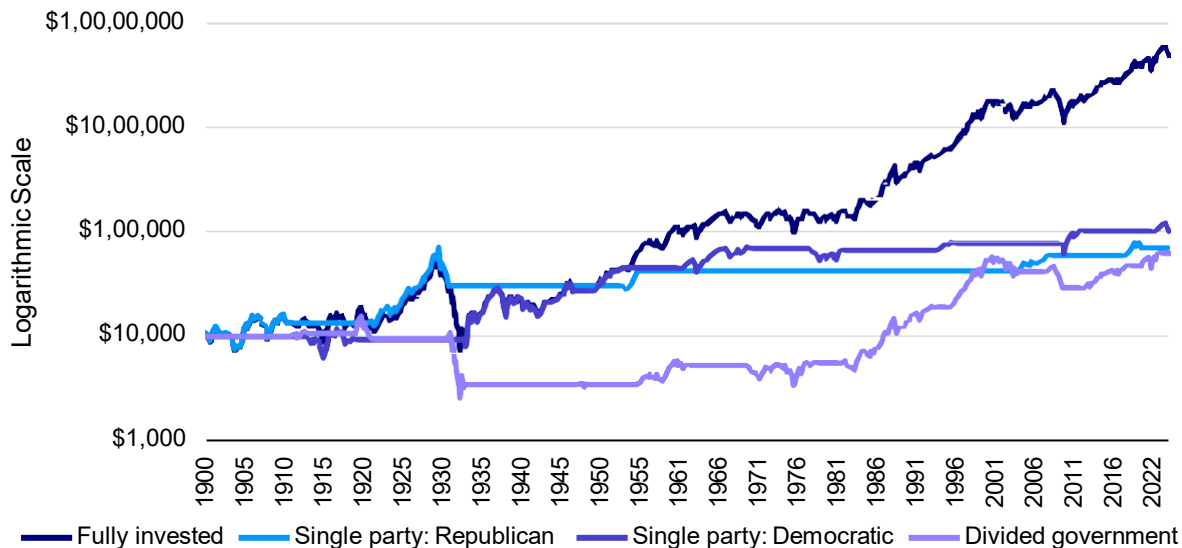
INVESTORS HAVE BEEN BETTER OFF STAYING FULLY INVESTED

The best-performing portfolio over the past 120-plus years stayed fully invested throughout both Democratic and Republican administrations.

Hypothetically, those who only invested during single-party rule by their preferred party or during divided government fared much worse.

The more time investors spent participating in markets, and the less time they spent focusing on politics, the better.

Dow Jones Industrial Average Price: Growth of \$10,000 (1900-Jun. 2022)



Sources: Bloomberg, Invesco, 6/30/22. For illustrative purposes only. The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. An investment cannot be made in an index. **Past performance does not guarantee future results.**

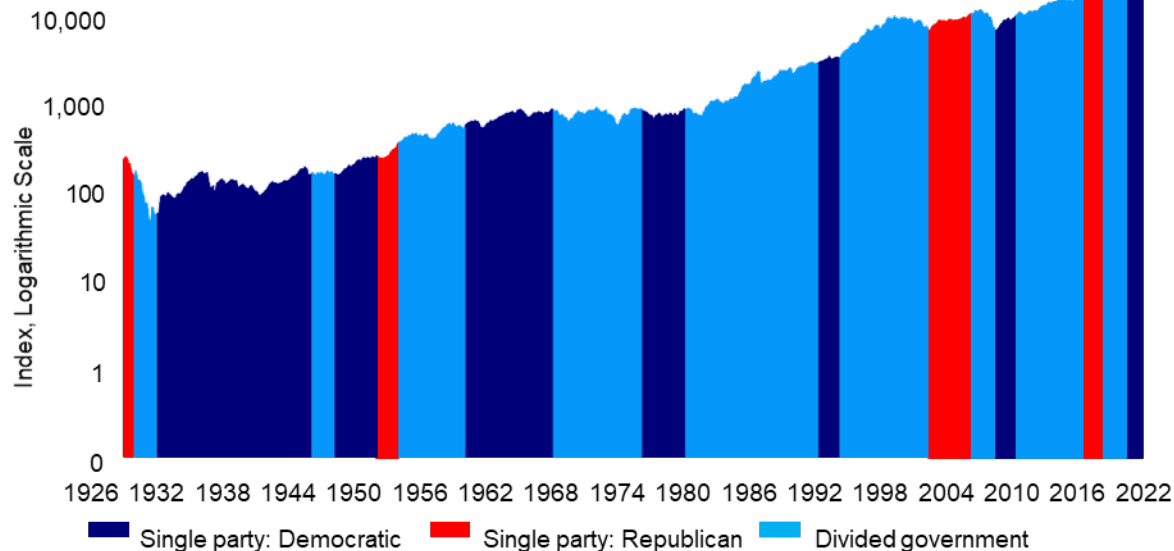
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THE MARKET'S LONG-TERM ADVANCE HAS OCCURRED ACROSS MULTIPLE ADMINISTRATIONS AND COMBINATIONS OF GOVERNMENT

Don't let election outcomes disrupt long-term investment plans — no matter who you favor.

Markets tend to trade on whether the world is getting better or worse, relative to expectations, irrespective of who controlled the White House and Congress.

Dow Jones Total Return Index and Composition of Congress (Dec. 1925-Jun. 2022)



Source: Bloomberg, Dow Jones, 6/30/22. The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. Indexes cannot be purchased directly by investors. **Past performance does not guarantee future results.**

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- In general, stock values fluctuate, sometimes widely, in response to activities specific to the company as well as general market, economic and political conditions
- Fixed-income investments are subject to credit risk of the issuer and the effects of changing interest rates. Interest rate risk refers to the risk that bond prices generally fall as interest rates rise and vice versa. An issuer may be unable to meet interest and/or principal payments, thereby causing its instruments to decrease in value and lowering the issuer's credit rating

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