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The investor's guide to election years: 2024 edition

Lauren Goodwin
Director of Portfolio Strategy

Julia Hermann
Multi-Asset Portfolio Strategist

Michael LoGalbo
Multi-Asset Portfolio Strategist

Summary

- We expect the 2024 election, like its predecessors, to include both political noise and real policy change. While we await specific policy proposals, we encourage investors to stay above the noise as it does not impact economic or market outcomes.
- Key areas of debate can make election years feel more uncertain. Top-of-mind macro issues include the future of federal debt, shifts in government spending, and new international priorities.
- For many investors, the most powerful election year investment strategy is simple: staying diversified rather than chasing tactical bets.

For the past four years, investors have trudged through unprecedented shocks and shifting pockets of volatility. The pitfalls have been plentiful, and allocation has been a challenge — even for the most experienced market participants. What happens when a presidential election enters the mix?

Market conditions, even when they become more demanding, create opportunities alongside risks. Election cycles are no exception. History suggests that when investors distinguish between rhetoric and real policy, investable paths will emerge.

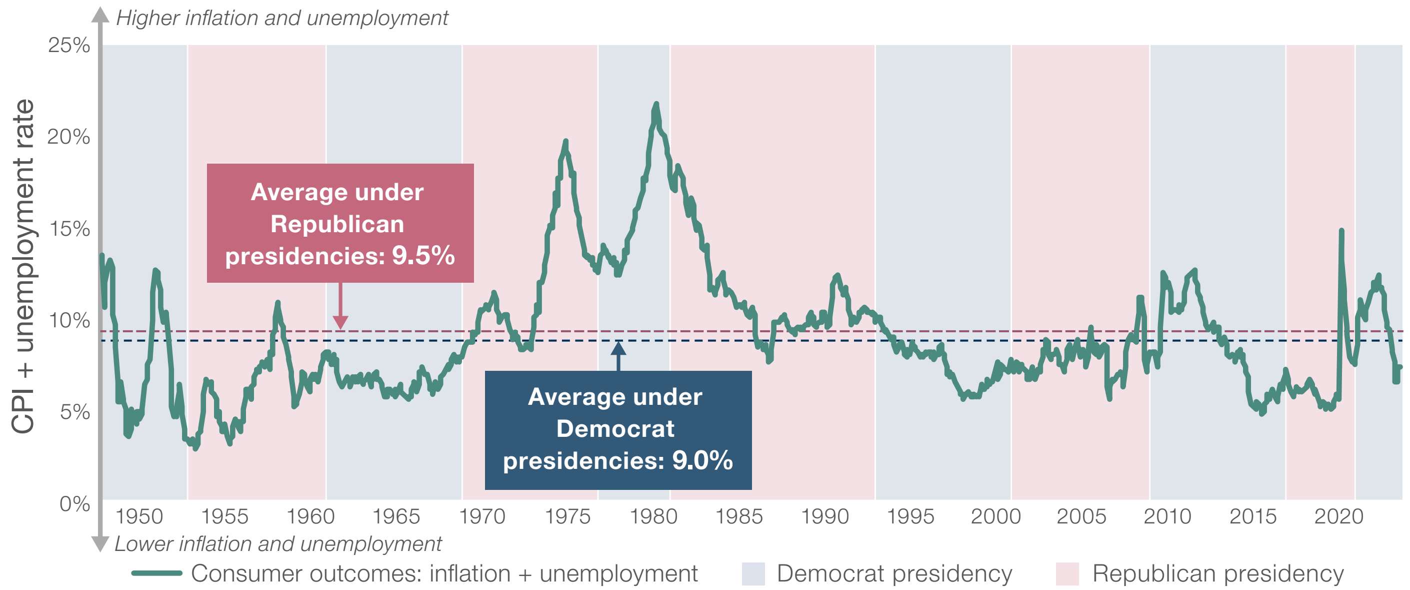
With 12 months to election day, we lay out our fundamental election year principles to help investors stay above the noise, mind the policy gaps, and remain engaged with long-term goals.

Stay above the noise

Elections often spark both interest and reticence from investors—they have the potential to affect both daily life and portfolios. But history has been clear: it's not the political noise that impacts the economy or markets. Overall consumer outcomes and corporate sentiment have been almost identical over the various political regimes of the past several decades.

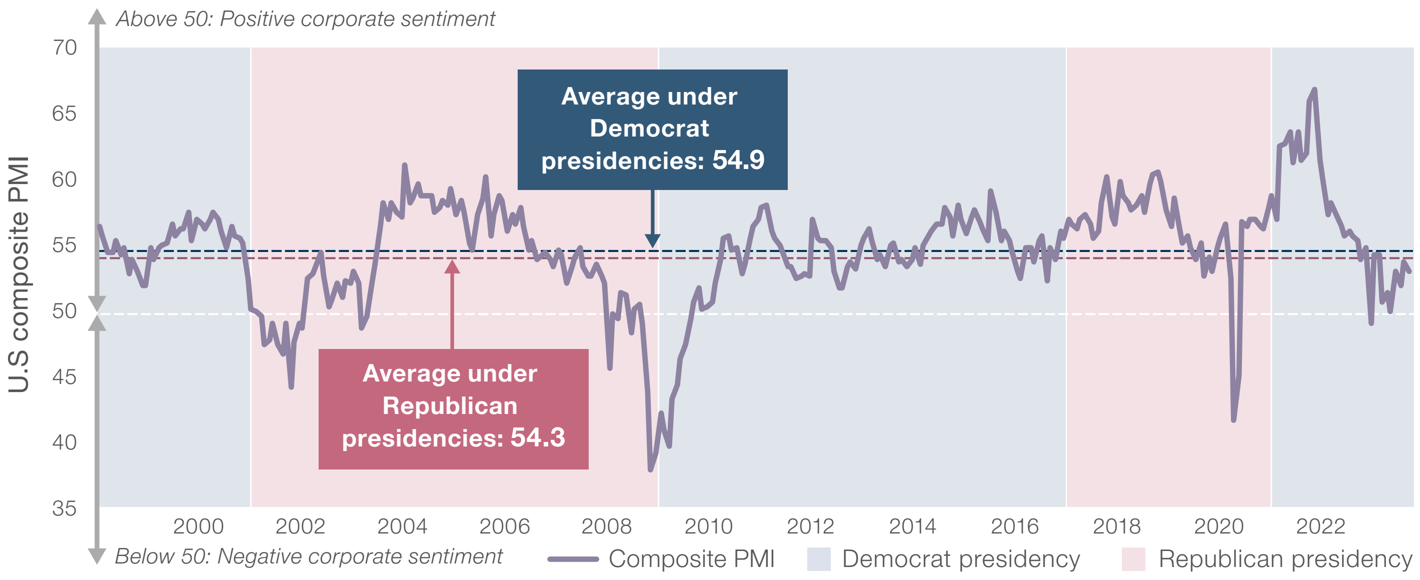
Political leadership has not been a key driver of the ebbs and flows in consumer outcomes or in corporate sentiment

U.S. inflation + unemployment vs. presidential party



Sources: New York Life Investments Multi-Asset Solutions, Macrobond, Bloomberg Finance LP, U.S. Bureau of Labor Statistics (BLS), November 2023.
CPI: Consumer Price Index, measuring inflation in consumer goods and services.

U.S. composite PMI vs. presidential party



Sources: New York Life Investments Multi-Asset Solutions, Macrobond, Bloomberg Finance LP, U.S. Bureau of Labor Statistics (BLS), November 2023.
The Institute for Supply Management's composite manufacturing and non-manufacturing Purchasing Managers' Index is a survey-based indicator that measures sentiment in manufacturing and services portions of the U.S., scaled by weight in the economy.

The relationship between the economy and politics is much looser than many investors expect, for three key reasons:

First, elected officials only control the fiscal side, which is often a result of bipartisan compromise and usually comes with a multi-year lag, smoothing its effects.

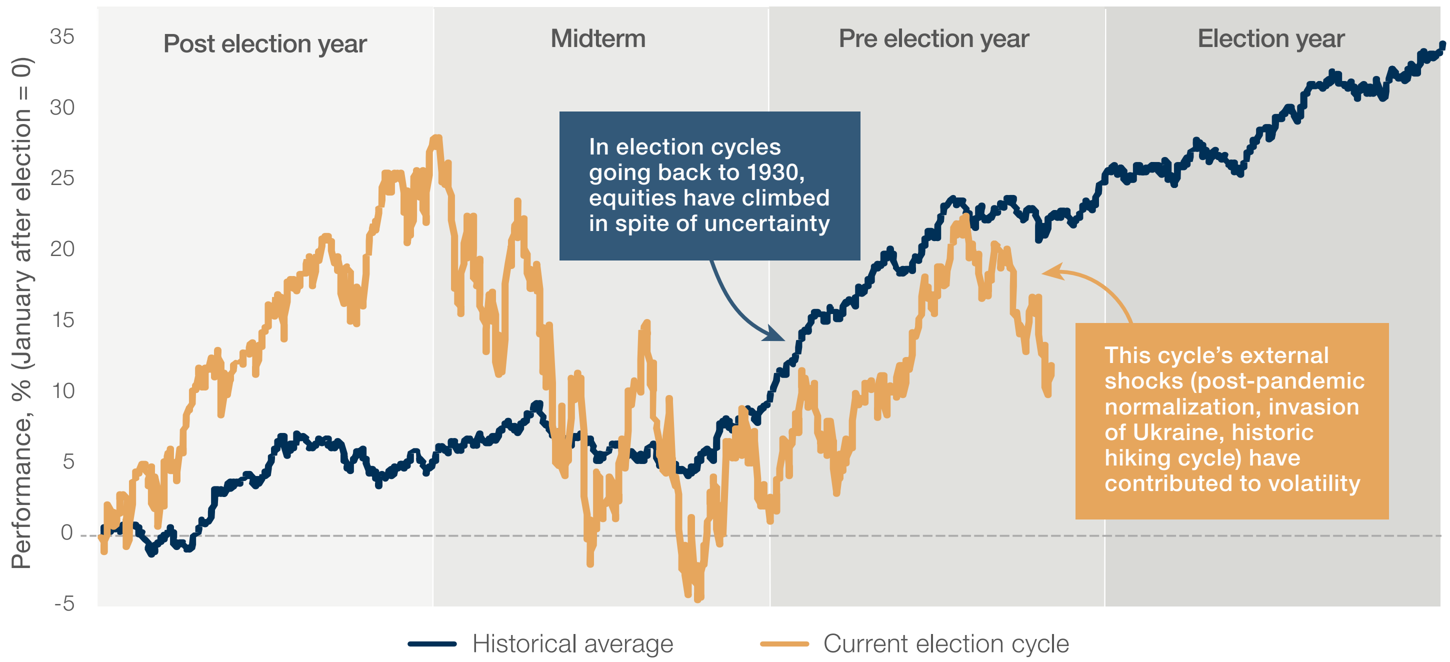
Second, monetary policy is intentionally apolitical; though the Federal Reserve Chairman is appointed by a president, its funding comes from its own investments rather than the federal budget.

Finally, consider the independent nature of the economic cycle itself. Fiscal and monetary policies can create a system of incentives—such as reducing taxes and interest rates to promote economic activity—but these can only encourage, not enforce, certain behaviors for consumers and corporations.

As is true for the economy, market outcomes do not appear to be driven by elections or their results. Regardless of the party in power—and the stage in the election cycle—equities have consistently appreciated over time.

U.S. equities are historically unfazed by election cycles

S&P 500 performance, current 4-year cycle and historic mean since 1930



Sources: New York Life Investments Multi-Asset Solutions, Macrobond, Bloomberg Finance LP, S&P Global, November 2023. The S&P 500 Index measures the performance of 500 large cap, U.S.-listed equities. An investment cannot be made directly in an index.

Mind the gaps

The evidence shows that electoral outcomes are not material drivers of the economy or markets over the medium and long term. But over the next year, we'll see sources of noise—to be ignored—alongside prospects for true policy change—to be captured. When the policy path is at stake, investors may be forced to re-calibrate their view of risks they are familiar with, contributing to market volatility and opportunities. We see three key areas subject to policy change: **federal debt, near-term spending priorities**, and **areas of international focus**.

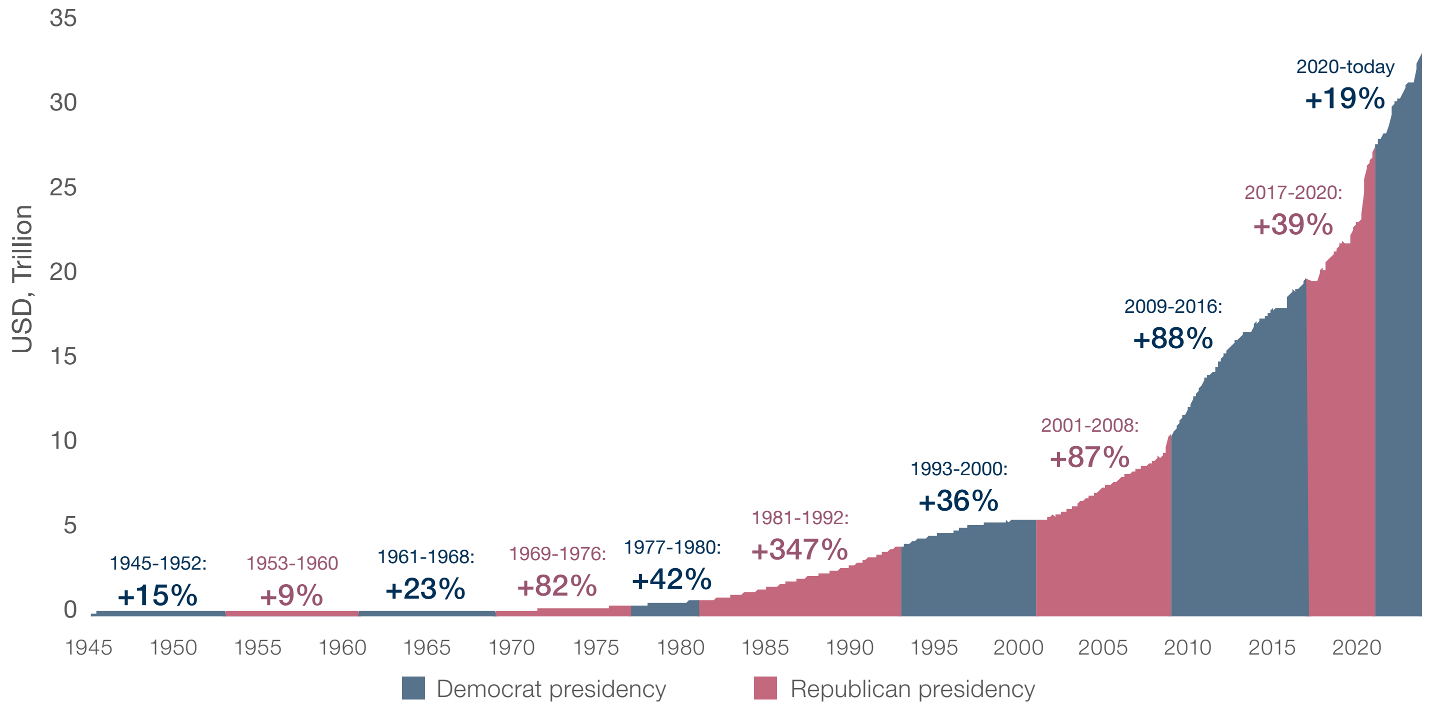
1. Federal debt: pain point or safe haven?

The 2024 election follows several fiscal bumps. So far in 2023, the U.S. has hit its federal debt ceiling, had its sovereign credit rating downgraded, and nearly shut down the government (twice) over budget issues. These pain points are not new: both political parties in the U.S. are big spenders. Both parties agree that long-term debt management matters. Neither party addresses these issues when their own administration is in power.

Treasuries have lived up to their "safe haven" reputation in past presidential election cycles, even as the level of federal debt and cost to service it have mounted. But for the past year, one of the major sources of market volatility has been the Treasury curve itself. The recent rise in yields does not necessarily represent a regime shift—even with the 10-year reaching 5%, rates are still below their long-term historic election cycle average. However, with the cost and sustainability of federal debt in question, investors may need to watch the behavior of this traditional market anchor. If expected yields stay elevated, implying a heightened perception of risk, broader asset allocation decisions may need to adjust (see allocation section on page 6).

The U.S. faces a structural fiscal question in 2024, but we do not expect immediate resolution

U.S. federal debt outstanding vs. presidential party



Sources: New York Life Investments Multi-Asset Solutions, Federal Reserve Bank of Dallas, Macrobond, November 2023.

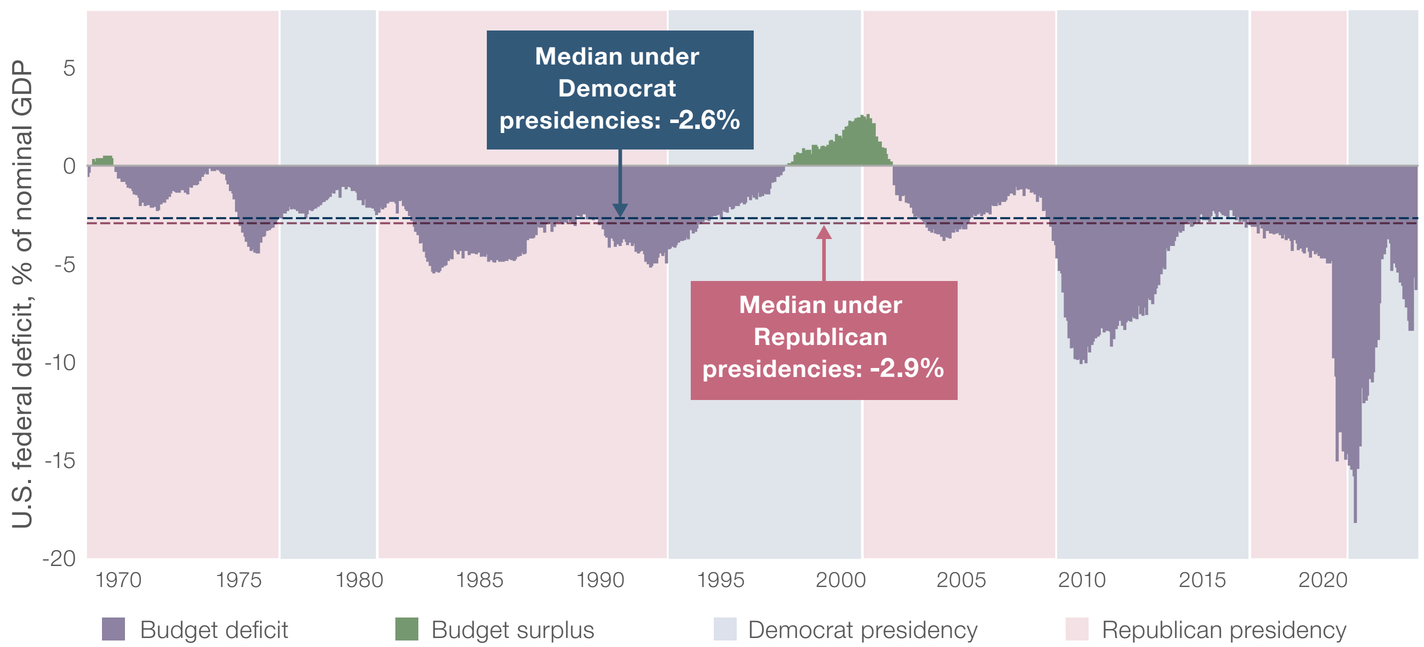
2. Fiscal spending: winners or losers?

Can election results change America's gradual fiscal slide? The composition of government is likely to be a heavy influence here; Congress, not the President alone, ultimately holds the purse strings. We'd expect more spending under a one-party sweep of the White House and Congress, while a split Congress or non-majority presidency could provide more compromise. However, both parties are inclined to provide fiscal support rather than austerity—especially in a recession scenario.

For us, the fiscal question is not if the 2024 winners will address debt sustainability—we do not expect a holistic, near-term solution under either party's leadership. What likely matters more for markets are *where* candidates plan to spend, and *how* they plan to fund this spending. Stay tuned for our analysis as the electoral cycle progresses and candidates share their plans for tax policy and fiscal support. These real policy shifts are likely to create relative winners and losers at the asset class and sector levels.

Administration-specific spending plans can create winners and losers in the short term

U.S. federal deficit/surplus vs. presidential party



Sources: New York Life Investments Multi-Asset Solutions, Macrobond, Bloomberg Finance LP, U.S. Department of the Treasury, November 2023.

3. Global priorities: fear factor or investment opportunity?

U.S. presidential elections are typically focused on domestic policy, but international strategy is arguably the biggest part of the job. For 2024, geopolitical risk may be top of mind, but will likely extend beyond issues such as U.S. influence in the Middle East, economic ties with China, and partnership with Europe. We expect to see these conversations broaden to reflect global priorities that have emerged in the post-Covid era, including energy independence, global technology relationships, climate adaptation, and access to resources, from water to labor. This wider spectrum of debate may be noisy, but as specific proposals emerge, we will focus on those with knock-on effects on government spending and the legislative agenda.

Align your allocation

Though elections are not a macro driver for markets, there are many areas of uncertainty that can make the coming year feel more volatile and drag on investor confidence. These reminders can help investors stay in touch with their long-term goals:

The fundamentals haven't failed. Through elections, wars, cross-border crises, the rise and fall of great companies, and the highs and lows of many economic cycles, the S&P 500 Index has delivered annualized returns of over 10% since its 1957 inception. We caution investors against following the herd, even if to perceived safety: in the past five presidential election years, allocations to U.S. equity funds tapered off, while flows to the money market and taxable bond funds increased, per data from Morningstar. The urge to re-allocate toward risk-off strategies when political noise is at its peak is understandable, but runs contrary to U.S. equities' historically strong election year performance record. Some investors can approach turbulent periods with a disciplined tactical allocation strategy, but a simple, diversified allocation remains the best solution for most investors. This is a prime time for investors to check on their allocation, and ensure their risk tolerance and time horizon conversations reflect expectations for some extra uncertainty in 2024.

Active strategies can help preserve agility. One year ahead of the election, it is not clear which electoral options—and the policy changes that may come with them—will be in play. But as the key debates become clearer, relative winners and losers of policy change are likely to emerge. Every election is different, and strong election year performance has been seen in cyclical and defensive sectors, as well as risk-on *and* risk-off portions of the market. Agile, attentive asset allocation (top down) and security selection (bottom up) may help investors to navigate signal through the noise.

Coming to a ballot box near you: other policies in play for 2024

The future of entitlements: with both Social Security and Medicare facing existential funding issues, replenishing these coffers may become more central to broader budget and debt debates.

Expiration of the Trump tax cuts: changes to individual tax rates enacted in 2017 are set to expire after 2025. An administration of either party would face the choice to renew these tax cuts, likely dependent on consumer health and federal revenue needs.

Infrastructure: the Bipartisan Infrastructure Deal of 2021 has a roughly 10 year timeline, but ample infrastructure needs remain and could be addressed with a supplementary bill in the next administration.

Tech policy: 2022's bipartisan CHIPS Act was likely the first step in the federal government's prioritization of domestic semiconductor capabilities. Will budget constraints allow the next administration to build on this progress?

IMPORTANT DISCLOSURES:

All investments are subject to market risk, including possible loss of principal. Diversification cannot assure a profit or protect against loss in a declining market. Active management typically involves higher fees than passive management.

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