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Ellumination Newsletter

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It's an Election Year, and it's an interesting one

February 13, 2024

There are many factors that influence stock prices. One that gets a lot of attention is that it's an election year. It will be the first time since 1892 that both candidates have already been President. Back then it was Benjamin Harrison vs Grover Cleveland. Harrison was the incumbent. Cleveland was the former President. Cleveland won.

There have been 24 elections since the S&P 500 index began. 20 of the 24 have resulted in positive performance for the stock market. Two of the down years were 1940 and 1932, during the Great Depression. Franklin Roosevelt was elected in those years. 2000 was the third year, just as we were heading into the 2000-2002 recession. George Bush was elected that year. 2008 was the fourth one, during the 2008-2009 recession. Barack Obama was elected that year. (Source: Morgan Stanley)

The four down years have one thing in common. The U.S. economy was either in or about to go into deep recession. That doesn't seem to be likely this year.

There are currently wars in Ukraine and Gaza. They are heartbreaking and potentially scary for markets, but a look back at previous wars shows us that stock markets aren't usually negatively impacted by war. Mitch Conley of Zacks.com recently reported, " *looking back at conflicts since 1925 (when reliable S&P 500 data became available) such as the Korean War, Vietnam, the Cuban Missile Crisis, the Iran/Iraq War, and two U.S. wars in Iraq, it was only World War II and the Russia-Ukraine war that coincided with a bear market. I would argue that World War II was the root cause of that bear market, while inflation and the shock of aggressive monetary policy were the root causes of 2022's bear market—not necessarily Russia's invasion."*

The Fed could be a big player in how both stock and bond markets perform in 2024. Consensus is that they will cut rates in 2024. Zacks.com reports, *"In the past 50+ years, there have only been five instances when the Fed engaged in rate cuts during* *an economic expansion. As seen in the table below, in three of these instances, the Fed cut rates by 75 basis points, which aligns with current projections moving the benchmark fed funds rate from 5% - 5.25% down to 4.25% - 4.5%. In every cycle when the Fed cut rates during an economic expansion, the S&P 500 delivered positive returns—and often very strong returns."*

Rate Cuts During Economic Expansions, i.e., "Soft Landings"

Final Rate Hike	Final Rate Cut	Change in Fed Funds Rate	S&P 500 Performance During This Stretch
August 1971	December 1971	-225	+6%
August 1984	August 1986	-587	+49%
February 1995	January 1996	-75	+35%
March 1997	November 1998	-75	+44%
December 2018	October 2019	-75	+20%
	Average:	**-207**	**+31%**

Source: Zacks.com

There are many challenges facing the market during this election year, but history tells us that some of the most feared ones can be absorbed. That should be made easier if inflation data continues to improve. In the end the direction of the market is determined by economic fundamentals. One of the most important is earnings growth. It's only February but so far it looks like a good year for earnings growth.

All the best,

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Disclosure and Disclaimer - Updated last on December 11, 2019 by Paul Krsek:

All return calculations for the S&P 500 were done using https://dqydj.com/sp-500-return-calculator/unless otherwise noted.

All charts used in this newsletter are from Stockcharts.com and annotated by 5T Wealth, LLC

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Krsek makes frequent reference to strategies called Mendocino, Dividend Diamonds, Global Select and 5T Wealth Partners, LP. Each of these investment strategies have different suitability standards, investment objectives, potential volatility, and minimum investments. It is important to understand each strategy in detail before investing.

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Past performance should not be considered an indicator of potential future performance. If you do not consider yourself suitable, either emotionally or financially, to experience volatility and/or losses in financial markets, you should not invest.

From time to time Krsek lists the simple annual returns of the strategies mentioned in this newsletter. These results are from accounts that are "models" and do not represent the actual results accruing to each clients individual accounts. Simple annual return does not represent "time weighted return" as reported individually to clients in their investment performance reports which are prepared using data and calculations from Orion Advisors.

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