Election 2024: Casting a Vote for Persistence

More than $4 million.

That would have been the cost of playing partisan politics with a $10,000 investment from 1900 through 2023 rather than remaining invested across the 31 US presidential administrations over this period.[1] And while a century-plus may seem like an improbably long investment horizon, an examination of shorter, more recent timeframes leads to the same conclusion: Party control of the White House has not been a reliable indicator of market performance.

And yet, investors have consistently demonstrated a tendency to seek refuge as presidential elections near, often sacrificing the potential upside of risk assets in favor of the perceived "safety" of cash as they await greater clarity on national leadership. This strikes us as ill-advised. In our view, periodically setting aside well-crafted long-term investment plans while waiting for the election dust to settle is not considered investing, but timing the market—a practice that historically has been a source of subpar returns for investors.

This is not to say that there are no reasons for investors to be wary; in fact, we believe there are numerous issues that have the potential to be more directly impactful on markets than the president's party affiliation. These include the Federal Reserve's ongoing efforts to engineer a soft landing for the US economy, massive fiscal imbalances throughout the developed world, and acute geopolitical tensions. But fear of the unknown is a poor trade signal and is unlikely to help build investor wealth over the long term. Instead, we advocate for adherence to a thoughtfully planned allocation across a diverse mix of assets, including those with the potential to provide some cushion against challenging markets while also participating in the market's upside over time.

1. Source: FactSet; data as of December 31, 2023.

KEY TAKEAWAYS

- The US president's party affiliation historically has had little connection to financial market performance, and the same can be said about the balance of power in Congress. The expression of partisan biases in an investment portfolio has proven costly over time.
- Surging market money fund flows in the years of and prior to a presidential election suggest to us that investors may be seeking perceived "safety" amid electoral uncertainty, a form of timing the market with a poor track record.
- While there are a range of fundamental concerns that could trip up financial markets in 2024, sitting on the sidelines is not likely the most effective countermeasure. It's been our experience that maintaining a thoughtfully considered allocation to a diversified basket of what we consider to be resilient assets may be a good way to potentially mitigate markets' downside and build wealth over time.

Noise Annoys

The noise surrounding the 2024 presidential election shows no signs of abating as we hurtle toward what seems destined to be a replay of 2020. From now until well after November 5, pundits will weigh in on what a Democratic or Republican victory—not only in the race for president, but also for the 33 seats up for grabs in the Senate and the biennial turnover of all 435 seats in the House of Representatives—means for the economy and markets. Historically, however, the party ultimately holding power has had little connection with equity market performance, as shown in Exhibits 1 and 2.

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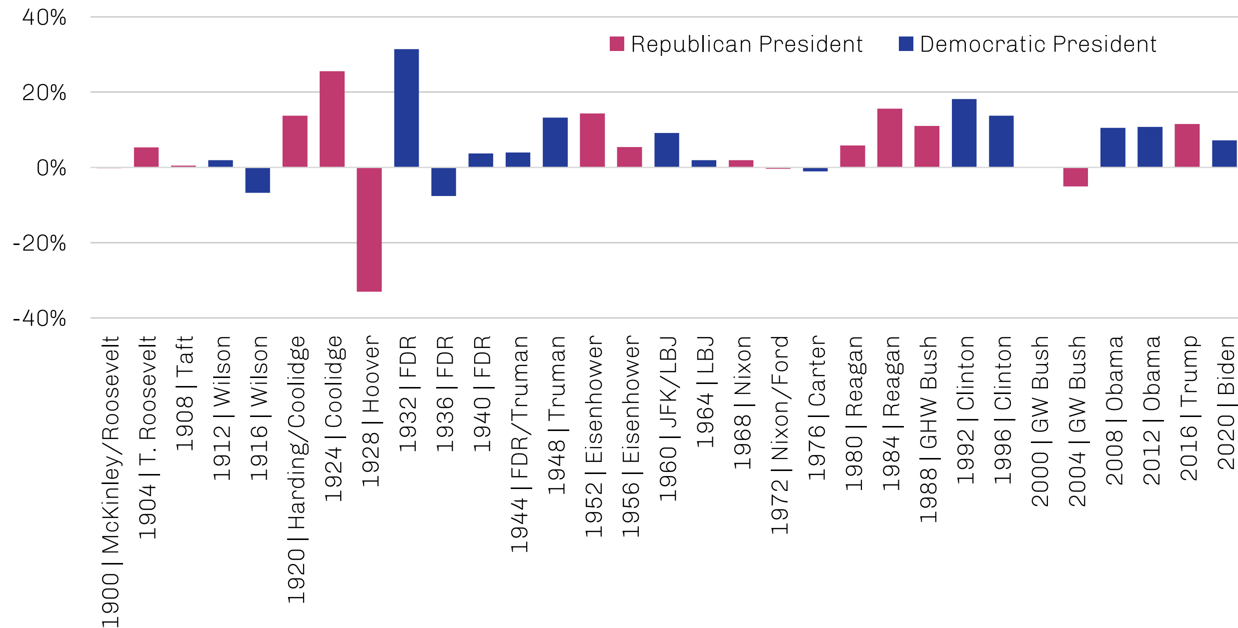
Exhibit 1. Presidents from Both Major Parties Have Overseen Ups and Downs...

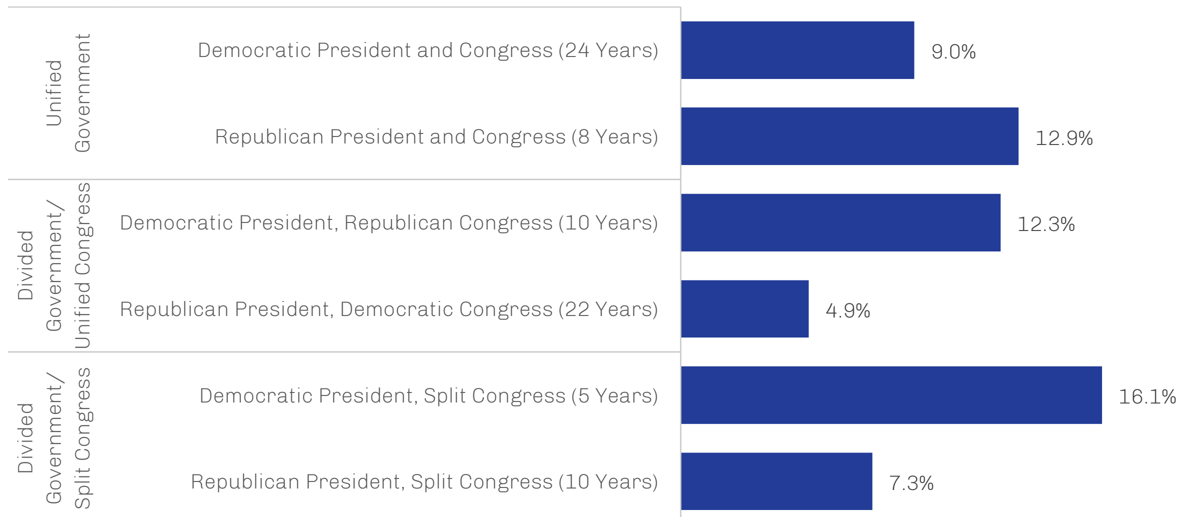
Annualized Price Return of the Dow Jones Industrial Average by Presidential Term, January 1900 through December 2023



Source: FactSet; data as of December 31, 2023.

Exhibit 2. ...And Congressional Party Affiliation Hasn't Mattered Much Either

Average Price Return of S&P 500 Index, 1945 through 2023



Source: FactSet; data as of December 31, 2023.

Despite the inconsequential market influence of political party control, investors have a track record of favoring cash exposures as presidential elections loom. Exhibit 3 depicts equity and money market fund flows during each of the four years comprising a presidential term beginning in 1993, the first year of Bill Clinton's presidency. As shown, flows to money funds dwarf those to equity products in election years and the ones preceding them, while the opposite is true in years one and two of the new administration. Such skittishness can be costly to long-term portfolio returns, as shown in Exhibit 3. Though the magnitude has varied, global equity markets on average have outperformed short-term Treasuries each year of these cycles, suggesting a consistent asset allocation may be a good approach to consider.

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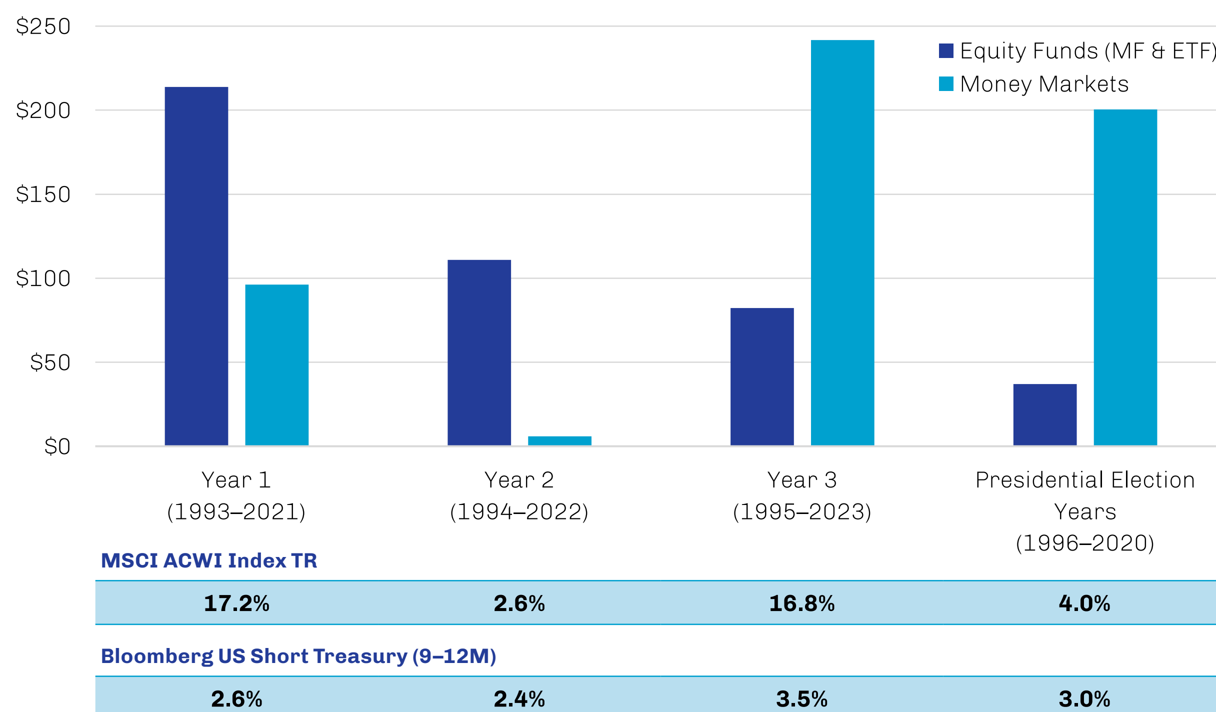
Exhibit 3. Investors Historically Have Grown Cautious as Presidential Elections Neared

Average Fund Flows (US Dollars in Billions) in and Returns by Year of Presidential Term, 1993 through 2023



	Year 1 (1993–2021)	Year 2 (1994–2022)	Year 3 (1995–2023)	Presidential Election Years (1996–2020)
MSCI ACWI Index TR	**17.2%**	**2.6%**	**16.8%**	**4.0%**
Bloomberg US Short Treasury (9–12M)	**2.6%**	**2.4%**	**3.5%**	**3.0%**

Source: FactSet; data as of December 31, 2023.

Meaningful Fundamental Market Risks Persist

While the particulars change over time, risk is omnipresent in equity markets. We believe there are a few key risks today with the potential to inspire a newfound sense of risk aversion, to the detriment of a range of financial assets.

For example, current market valuations suggest complacency about the inevitability of a soft landing; in our view, the risk of an adverse outcome only increases the longer the Fed continues to circle the runway without touching down. We have long been skeptical of the central bank's ability to achieve a soft landing and remain so today. Beyond the scarcity of previous successful attempts, the persistent strength of the domestic labor market makes it hard for us to envision a scenario in which wage growth spontaneously returns to a level consistent with target-level inflation absent a meaningful increase in unemployment.

We're also concerned about the unsustainable fiscal trajectory of the US and other advanced economies. Financial repression via unconventional monetary policies through much of this century kept interest rates artificially low and tempered interest expenses even as debt balances continued to swell. Though the rollback

of crisis-era monetary accommodations has pushed the cost of capital to more normal levels, fiscal discipline has not followed suit and there appears to be little appetite for it on either side of the DC aisle. A path toward meaningful fiscal reform seems nearly incomprehensible at this point, which could have significant near- and long-term implications.

Macroeconomic risks have been further complicated by a new geopolitical theater of uncertainty. Recent years have seen the emergence of a loose coalition of authoritarian countries like China, Russia, North Korea and Iran, a "heartland axis" that control a vast, near-contiguous swath of land rich with natural resources across Eurasia and into the Middle East and northern Africa. At a minimum, these new alliances set the stage for greater friction in economic relations, and there are many ways in which current localized armed conflicts such as Ukraine/Russia and Israel/Hamas could escalate into something more far-reaching. Meanwhile, China's reputed intentions in Taiwan remain vexing to diplomats and investors alike.

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Despite these hazards, the term premium on US Treasuries trended lower since the global financial crisis and spent much of the past five-plus years in negative territory. The lack of a persistently positive term premium suggests markets may not agree with our assessment of the risks—or, at the very least, they are untroubled amid the many potential triggers for a re-rating of US Treasuries. And while we can't speculate about what may finally cause investors to demand meaningful premia for the uncertain long-term fiscal trajectory of issuers, we note that changes in sentiment can happen quickly and reverberate broadly across markets.

Exposure Therapy

Large short-term losses, admittedly, can be difficult for investors to stomach, but trying to time the markets' ups and downs historically has been a costly exercise for those trying to build long-term wealth. Numerous studies over the years have demonstrated that investor behavior—namely, poorly-timed purchases and sales—has been the biggest impediment to performance. For example, Morningstar recently found that the average investor generated an annualized return of about 6% for the 10-year period ended December 31, 2022, compared to the 7.7% return posted by the mutual funds and exchange-traded funds in which they were invested.[2]

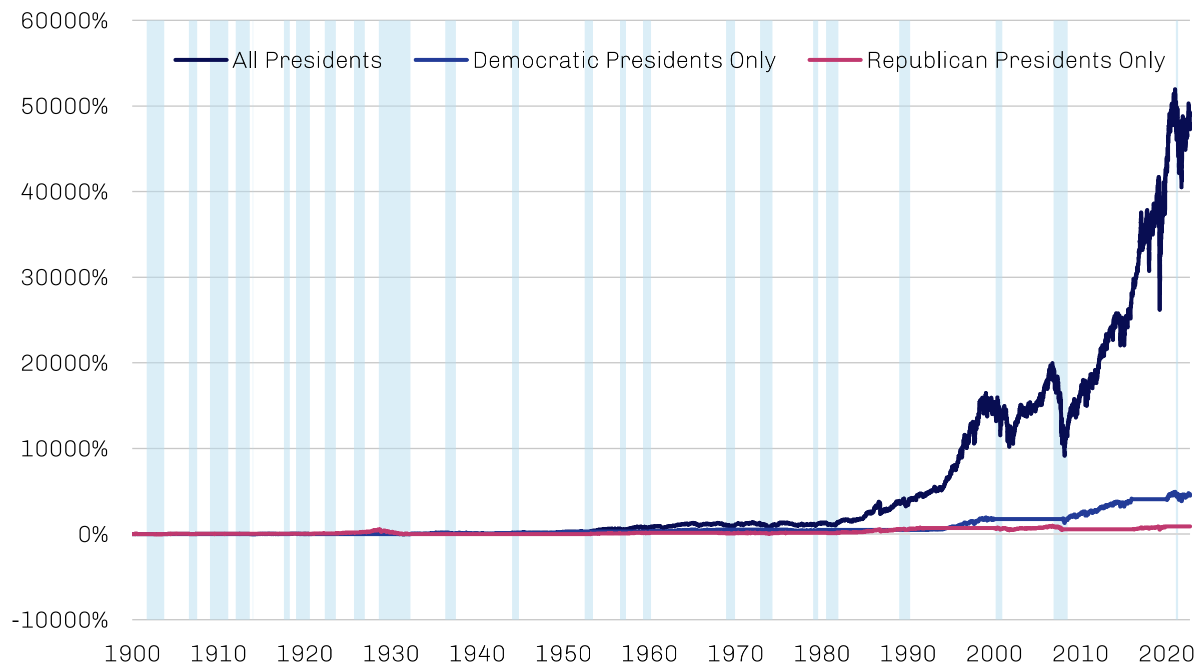
While not all of this shortfall is attributable to active attempts at timing the market, the gap suggests that maintaining consistent exposure to what we consider to be resilient assets has been key to compounding capital over the long term. Exhibit 4 applies this concept to the office of the president, demonstrating that since 1900 the equity market has grown by more than 47,000% in aggregate, far more than it has under either Democratic or Republican leadership alone.

> Maintaining consistent exposure to what we consider to be resilient assets has been key to compounding capital over the long term.

2. "Mind the Gap 2023: A Report on Investor Returns in the United States," Morningstar (July 2023).

Exhibit 4. Staying Invested Historically Has Been the Most Successful Strategy

Total Price Return of Dow Jones Industrial Average, 1900 through 2023



Shaded areas indicate recessions.

Source: FactSet; data as of February 29, 2024.

We recognize that heightened market volatility or even a severe downturn is possible in 2024 regardless of how election season unfolds. That said, First Eagle does not believe that the short-term waxing and waning of portfolio values is the most serious risk investors face. Instead, we think that the biggest threat investors face is the possibility of the permanent impairment of capital, and it's been our experience that maintaining consistent exposure over time to what we believe are quality businesses purchased at discounts to their intrinsic value[3] may be a good way to avoid it.

3. "Intrinsic value" is based on our judgment of what a prudent and rational business buyer would pay in cash for all of the company in normal markets.

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Risk Disclosures

Past performance does not guarantee future results.

Diversification does not guarantee investment returns and does not eliminate the risk of loss.

All investments involve the risk of loss of principal.

One cannot invest directly in an index. Indices do not incur management fees or other operating expenses.

Bloomberg US Short Treasury Index (Gross/Total) measures the performance of the US Treasury bills, notes, and bonds under 1 year to maturity. STRIPS are excluded from the index. A total return index tracks price changes and reinvestment of distribution income.

Diversification is an investing strategy that involves including a variety of investments with the intention to help manage risk.

Exchange-Trade Fund (ETF) is a type of pooled investment security that operates much like a mutual fund.

Dow Jones Industrial Average measures the performance of the 30 largest US companies in all industries except transportation and utilizes. It is a price-weighted index.

MSCI All Country World Index (ACWI) (Net) is an unmanaged index that captures large- and mid-cap representation across 23 developed markets and 23 emerging markets countries. With 2,491 constituents, the index covers approximately 85% of the global investible equity opportunity set. A net return index tracks price changes and reinvestment of distribution income net of withholding taxes.

S&P 500 Index (Gross/Total) is a widely recognized unmanaged index including a representative sample of 500 leading companies in leading sectors of the US economy. Although the S&P 500 Index focuses on the large-cap segment of the market, with approximately 80% coverage of US equities, it is also considered a proxy for the total market. A total return index tracks price changes and reinvestment of distribution income.

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