

The views expressed in these posts are those of the authors and are current only through the date stated. These views are subject to change at any time based upon market or other conditions, and Eaton Vance disclaims any responsibility to update such views. These views may not be relied upon as investment advice and, because investment decisions for Eaton Vance are based on many factors, may not be relied upon as an indication of trading intent on behalf of any Eaton Vance fund. The discussion herein is general in nature and is provided for informational purposes only. There is no guarantee as to its accuracy or completeness.

EQUITIES

Election Cycle is Very Likely to Impact Stocks

By: Aaron Dunn, CFA | & Bradley Galko, CFA | February 14, 2024

KEY POINTS

- 1. During presidential election years over most of the last century, on average both U.S. large- and small-cap value have outperformed their growth peers.
- 2. Value vs. Growth's dominance in election years also correlates with U.S. gross domestic product (GDP) growth and detraction.
- 3. Incumbent candidates and parties keen to win reelection seek to make voters feel financially secure when heading to the polls.

As two thirds of global voters in democratically-elected governments go to the polls in 2024, politics are top of mind and will almost certainly impact the stock market this year. Kicking off the year, there is a major bifurcation in the market that leans heavily on general skepticism for global growth.

To set the stage, we look back at the last century of U.S. presidential elections and highlight a few notable statistics about historical markets during election years:

- On average, during presidential election years, both U.S. large and small-cap value outperform their growth peers<sup>1</sup> - in fact, large cap-value outperformed large-cap growth in 17 of the past 23 election years, dating back to 1932.
- Zooming in on presidential elections between 1944 and 2020, U.S. gross domestic product (GDP) contracted in two of the last three quarters of the five of the six election years that value did not outperform.

Growth vs. Value Performance During Election Years

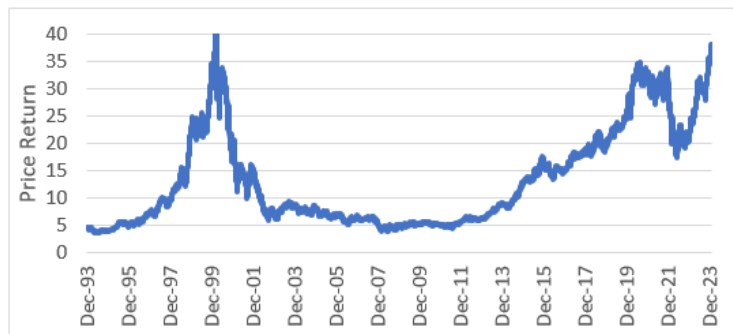
Election Year	Large Growth Stocks (%)	Large Value Stocks (%)	Small Growth Stocks (%)	Small Value Stocks (%)
1932	-6.7	-3.3	-8.8	8.7
1936	26.5	46.5	32.5	84.2
1940	-10.1	-4.6	-3.0	-10.2
1944	15.7	40.1	41.1	47.9
1948	3.3	4.8	-8.1	-2.5
1952	13.0	19.5	8.0	8.4
1956	7.1	3.3	6.7	6.5
1960	-2.6	-7.9	-2.7	-6.2
1964	14.4	19.0	8.4	23.8
1968	3.8	27.0	32.4	46.0
1972	21.4	18.0	0.5	6.9
1976	17.3	44.0	38.4	60.6
1980	35.4	16.4	52.9	21.8
1984	-0.6	16.5	-14.0	8.0
1988	12.7	26.2	14.6	30.8
1992	6.2	24.5	4.5	35.3
1996	21.8	22.8	9.8	25.3
2000	-13.0	29.9	-24.4	24.9
2004	8.3	20.2	15.5	18.5
2008	-34.1	-38.9	-39.9	-34.0
2012	15.1	28.5	15.0	21.5
2016	9.0	26.0	7.9	36.6
2020	36.2	-3.4	58.4	3.4
Average	8.7	16.3	10.7	20.3
Median	9.0	19.5	8.0	21.5

In 13 of the above elections, an incumbent candidate was running for reelection. Large value stocks underperformed large growth stocks only in 1972 and 1980 during those 13 years.

Economic growth is very important in the election cycle. Incumbent candidates and parties keen to win reelection seek to make voters feel financially secure when heading to the polls. Parties in office will, therefore, attempt to stimulate growth as much as possible through fiscal spending and possibly even monetary policy. Historically, this stimulation can be positive for both cyclical and small-cap stocks.

This phenomenon could be impactful for the market in a year such as 2024, potentially driving a broadening of the equity market beyond mega-cap companies. In our view, we are now back to prior extreme peaks in valuation for some of these companies and excessive narrowness in the market. Elsewhere, while there was multiple expansion during 2023, cyclical sectors (such as consumer discretion, energy, basic materials and financials) lacked notable momentum.

#### At An Extreme: Nasdaq 100 Stock Index & Bloomberg Commodity Spot Index



Source: Bloomberg, as of February 12, 2024. The Nasdaq 100 has traded so strongly over the last year (and vice versa for the Commodity Index), and they are at an extreme valuation difference due to narrowness/stretched valuations in growth currently in the market.

While history does not always repeat itself, it typically has some valuable lessons. As we have written in a previous blog about how the Magnificent Seven<sup>2</sup> have indeed lived up to their name, we believe much of this is due to recency bias and hopes for the future potential of artificial intelligence (AI). With the Magnificent Seven now at stretched valuations, and given the history of election years and spending, a balanced allocation likely makes sense.

We do not believe a rising tide will potentially lift all boats here. As earnings revisions fall into place, selectivity and having a well-defined thesis is essential. Our Opportunistic Value investment philosophy focuses on quality, leading companies that are mispriced or misunderstood by the market and are trading at a discount to their intrinsic value.

**Bottom Line:** We believe 2024 has several unique components to it, including a U.S. presidential election and the Federal Reserve's continued balancing act between maintaining inflation and growing the economy. Active management becomes more essential in an environment with many different drivers at play, in navigating and finding true potential opportunities in this unprecedented environment.

<sup>1</sup> "Growth" and "Value" defined by Fama French, which uses attributes that define both elements, rather than index provider definitions. Fama and French Three-Factor Model (or Fama French Model for short) is an asset pricing model developed in 1992 that expands on the capital asset pricing model (CAPM) by adding size risk and value risk factors to the market risk factor in CAPM.

<sup>2</sup> Magnificent Seven refers to Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia, and Tesla.

---

**Risk Considerations:** The value of investments may increase or decrease in response to economic, and financial events (whether real, expected or perceived) in the U.S. and global markets. The value of equity securities is sensitive to stock market volatility. Diversification does not eliminate the risk of loss.

Forecasts and/or estimates provided herein are subject to change and may not actually come to pass.

Correlation is a statistical measure of how two securities move in relation to each other.

Index performance is shown for illustrative purposes only and is not intended to represent historical or to predict future performance of any specific investment or strategy. Past performance is not a guarantee of future results.

Nasdaq 100 Stock Index is a collection of the 100 largest, most actively traded companies listed on the Nasdaq stock exchange.



Aaron Dunn, CFA  
Co-Head of Value Equity  
Portfolio Manager  
Eaton Vance Equity



Bradley Galko, CFA  
Co-Head of Value Equity  
Portfolio Manager  
Eaton Vance Equity

"Incumbent candidates and parties keen to win reelection seek to make voters feel financially secure when heading to the polls. Parties in office will, therefore, attempt to stimulate growth as much as possible through fiscal spending and possibly even monetary policy. Historically, this stimulation can be positive for both cyclical and small-cap stocks."

# Marketing Communication

To report a website vulnerability, please go to [Responsible Disclosure](#).

Eaton Vance is part of Morgan Stanley Investment Management, the asset management division of Morgan Stanley.

This site (<https://global.eatonvance.com>) is operated by Eaton Vance Management (International) Limited ("We"). We are a limited company, registered in England and Wales under company number 4228294 and have our registered office at 125 Old Broad Street, London, EC2N 1AR. Our VAT number is 762717416. Eaton Vance Management (International) Limited is authorised and regulated by the Financial Conduct Authority ("FCA") and is entered on the FCA's register with register number 208634.

Eaton Vance Management (Registration No. 1121368) and Parametric Portfolio Associates LLC (Registration No. 1217626) are the registered trade marks of The Eaton Vance Group.

Information on this website does not constitute an offer to sell, or a solicitation of an offer to purchase, securities in any jurisdiction to any person to whom it is not lawful to make such an offer. It is your responsibility to be aware of and to observe all applicable laws and regulations of any relevant jurisdiction. The information on this webpage is not intended for U.S. residents. To visit our U.S. website please click [here](#). Information on this website does not constitute an offer to sell, or a solicitation of an offer to purchase, securities in any jurisdiction to any person to whom it is not lawful to make such an offer. It is your responsibility to be aware of and to observe all applicable laws and regulations of any relevant jurisdiction. The information on this webpage is not intended for U.S. residents. To visit our U.S. website please click [here](#).

The views expressed are those of the authors and are current only through the date stated. These views are subject to change at any time based upon market or other conditions, and Eaton Vance disclaims any responsibility to update such views. These views may not be relied upon as investment advice and, because investment decisions for Eaton Vance are based on many factors, may not be relied upon as an indication of trading intent on behalf of any Eaton Vance fund. The discussion herein is general in nature and is provided for informational purposes only. There is no guarantee as to its accuracy or completeness.

In the EU this website is operated by MSIM Fund Management (Ireland) Limited (MSIM FMIL). The business of Eaton Vance Global Advisors Limited was transferred to MSIM FMIL on 1 October 2021. MSIM FMIL has been appointed as management company of the Eaton Vance International (Ireland) Funds plc and is responsible for the distribution of the funds together with the distribution of Eaton Vance strategies and strategies of Eaton Vance affiliates. For any queries in respect of the products and strategies referred to on this website, please contact MSIM FMIL at 7-11 Sir John Rogerson's Quay, Dublin 2, D02 VC42, Ireland. MSIM FMIL is regulated by the Central Bank of Ireland with Company Number: 616661.

Outside of the US and EU, this material is issued by Eaton Vance Management (International) Limited ("EVM") 125 Old Broad Street, London, EC2N 1AR, UK, and is which is authorised and regulated in the United Kingdom by the Financial Conduct Authority.

This material is only intended for and will only be distributed to persons resident in jurisdictions where such distribution or availability would not be contrary to local laws or regulations.

This material does not constitute an offer to sell or the solicitation of an offer to buy any services referred to expressly or impliedly in the material in the People's Republic of China (excluding Hong Kong, Macau and Taiwan, the "PRC") to any person to whom it is unlawful to make the offer or solicitation in the PRC.

The material may not be provided, sold, distributed or delivered, or provided or sold or distributed or delivered to any person for forwarding or resale or redelivery, in any such case directly or indirectly, in the People's Republic of China (the PRC, excluding Hong Kong, Macau and Taiwan) in contravention of any applicable laws.

EVM is registered as a Discretionary Investment Manager in South Korea pursuant to Article 18 of Financial Investment Services and Capital Markets Act of South Korea.

Morgan Stanley Investment Management (Australia) Pty Limited ACN 122 040 037, AFSL No. 314182 arranges for Eaton Vance Management International Limited to provide financial services to Australian wholesale clients. This publication is disseminated in Australia by Morgan Stanley Investment Management (Australia) Pty Limited ACN: 122040037, AFSL No. 314182, which accepts responsibility for its content. This publication, and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act.

*We are actively incorporating accessibility practices, such as those outlined in the Web Content Accessibility Guidelines, into our go-forward website design and content development to make information more accessible and user-friendly. In addition, we are developing a multi-year accessibility strategy and content guidelines that further support the use of assistive and adaptive tools. Our ultimate goal is to meet federal guidelines and policies or provide equivalent accommodations and service support for all customers.*