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Macro Musings

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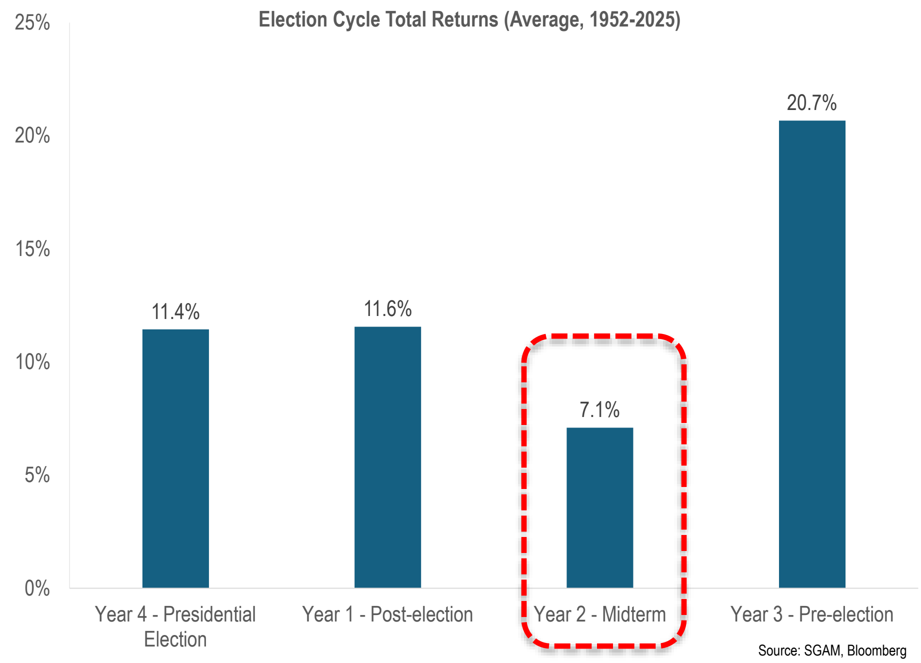
How to Manage the U.S. Election Cycle

We've been recently asked about equity performance around each of the four years of the Presidential cycle (or U.S. election cycle), specifically if weights for stocks should be reduced in midterm election years. "Don't stocks tend to have lower returns during these years?", was the question that was asked. We've published many reports on the election cycle in the past but given that this is again topical in 2026 with the midterm elections ahead, we wanted to reiterate our thoughts on this subject.

If we look at historical data, the midterm year (or Year 2 of the election cycle), typically generates the lowest average return when compared to the other years (**see Chart of the Week**). However, if we look under the hood, the range of returns renders the average rather useless – for example, 1954 falls into the "Year 2" bucket and the S&P 500 returned 52%.

Stay invested. We've been strong proponents of not trying to time the market as this often leads to missing out on potential returns. A simple exercise that illustrates this point is our study of market returns when only the 10 best performance days are missed within a calendar year. Looking at the past 25 years, the S&P 500 has averaged 9.7%. Yet, missing just the 10 best days each year would turn the average return to a -13.9% loss.

Chart of the Week: Midterm Election Years Typically Yield the Lowest Average Returns



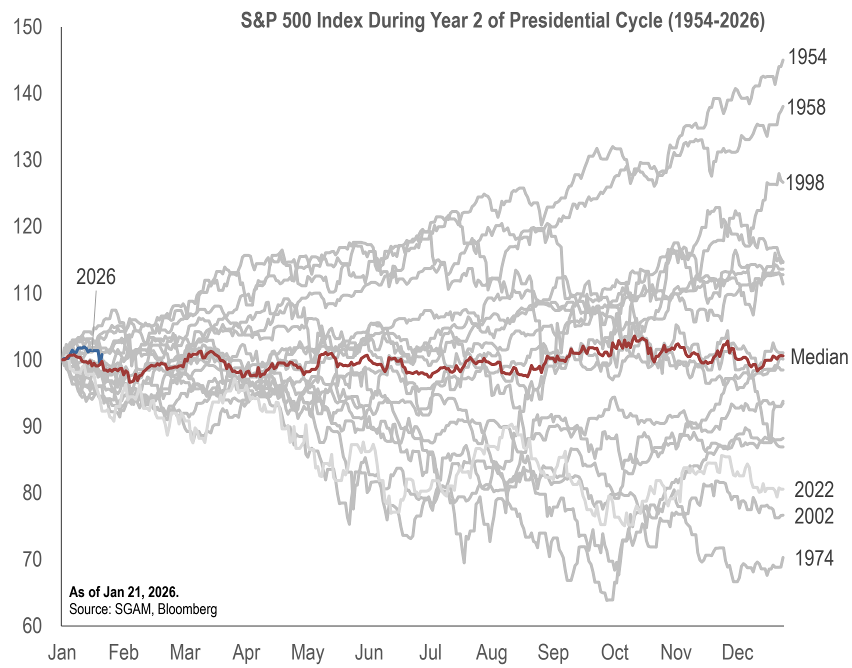
The Characteristics of Each of the Four Years

US Four Year Presidential Cycle (1952-2025)	Average	Median	Max	Min
Year 4 - Presidential Election	11.4%	16.0%	32.4%	-37.0%
Year 1 - Post-election	11.6%	12.5%	33.4%	-14.7%
Year 2 - Midterm	7.1%	5.2%	52.3%	-26.3%
Year 3 - Pre-election	20.7%	22.6%	37.6%	1.4%

Source: Bloomberg, SGAM

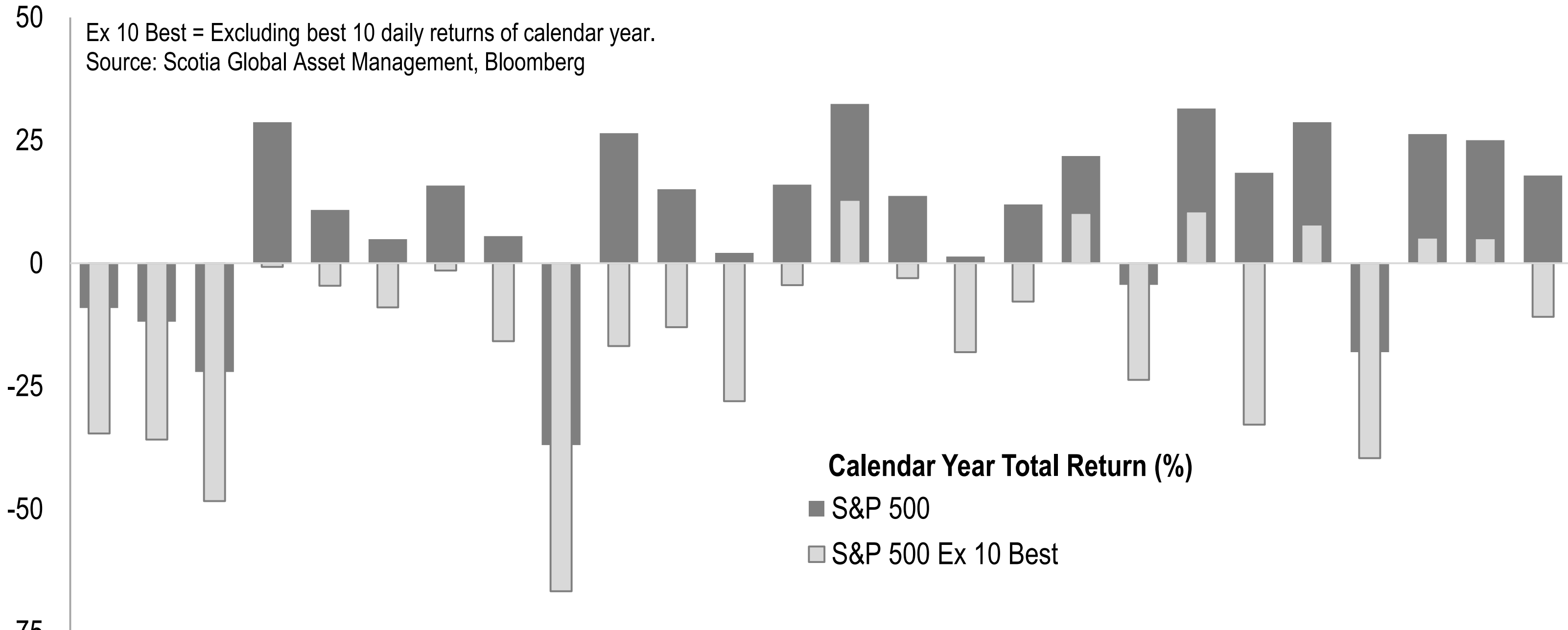
- When we try to define the “typical” performance of each presidential cycle year (i.e., Election Year, Year 1, Year 2, Year 3) based on average or median returns, it seems pretty clear-cut as to which years underperform (i.e., Year 2) and which years outperform (i.e., Year 3). At face value, it seems investors should lighten exposure to equities this year and wait for Year 3 of the election cycle as equities have historically been a “sure bet” for returns.
- So, should investors lighten up their exposure to the S&P 500 based on this analysis? If we take a look at the Max and Min columns of the table, the answer is a pretty clear “No”. Imagine missing out on a 52% return simply because it was a midterm election year?

What does the Typical Return Mean?



- Indeed, the average or median return of midterm election years have been the lowest when compared to the other years. But, what if 2026 turns out to be another 1954, 1958 or 1998 performance year with 52%, 43% or 29% returns, respectively? Conversely, this year's performance could turn out to be closer to the 1974 (-26%), 2002 (-22%) or 2022 (-18%) years.
- We're only three weeks into 2026 and the year-to-date trajectory hasn't tracked the historical norm despite similar returns (blue versus red lines). With over 11 months of trading remaining to this year, the odds are against a full calendar return that turns out be "typical" where the range has been between -26% to +52% on a total return basis.

Don’t Try to Time the Election Year Cycles – Market Timing is Challenging



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
S&P 500	-9.1	-11.9	-22.1	28.7	10.9	4.9	15.8	5.5	-37.0	26.5	15.1	2.1	16.0	32.4	13.7	1.4	12.0	21.8	-4.4	31.5	18.4	28.7	-18.1	26.3	25.0	17.9
S&P 500 Ex 10 Best	-34.6	-35.9	-48.4	-0.7	-4.6	-9.0	-1.4	-15.8	-66.7	-16.9	-13.0	-28.1	-4.4	12.9	-3.1	-18.1	-7.8	10.2	-23.7	10.5	-32.9	7.8	-39.6	5.2	5.1	-10.9

- Just missing out on the 10 best days in a calendar year can flip returns on their heads. The average calendar year return since 2000 has been 9.7%. Missing the best 10 days in each of those calendar years would lead to an average return closer to -13.9%. If we look at this past year, the 2025 return would have been -10.9% without the 10 best days versus +17.9%.
- Our answer to playing the election year cycle? Remain invested. Three quarters of the calendar year returns since the millennium changeover have been positive. Missing the 10 best performance days reduces this to 24% of the calendar years being positive. Focus on the fundamentals instead (e.g., corporate earnings, economic recessions)

High Frequency Data Tracker

N.B. The charts in the following pages are as of January 22, 2025, unless otherwise noted.

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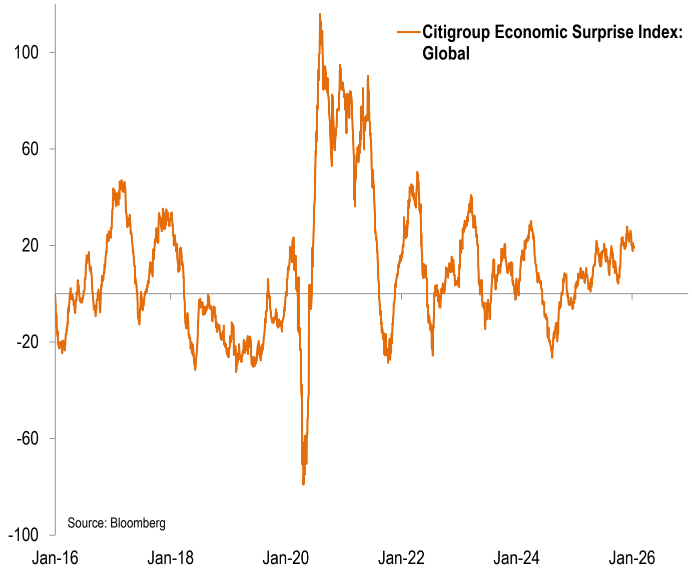
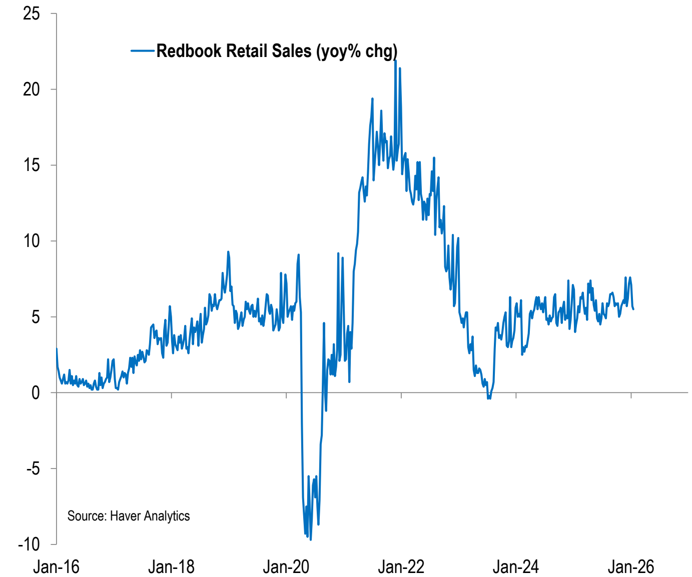
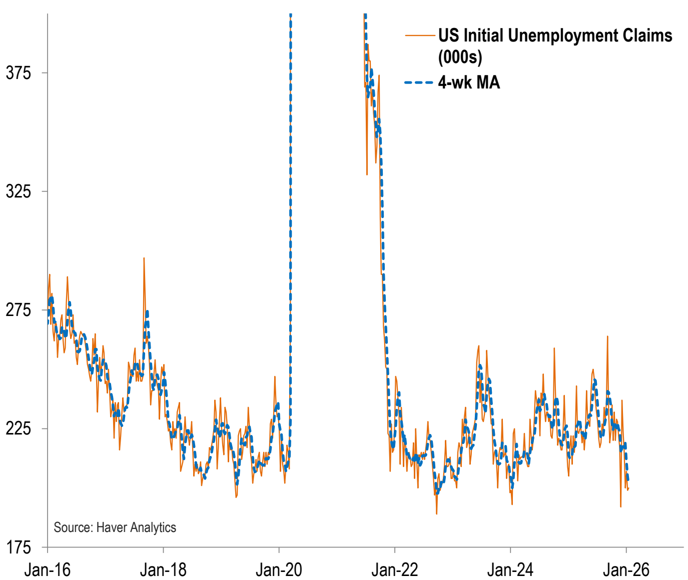
Economics

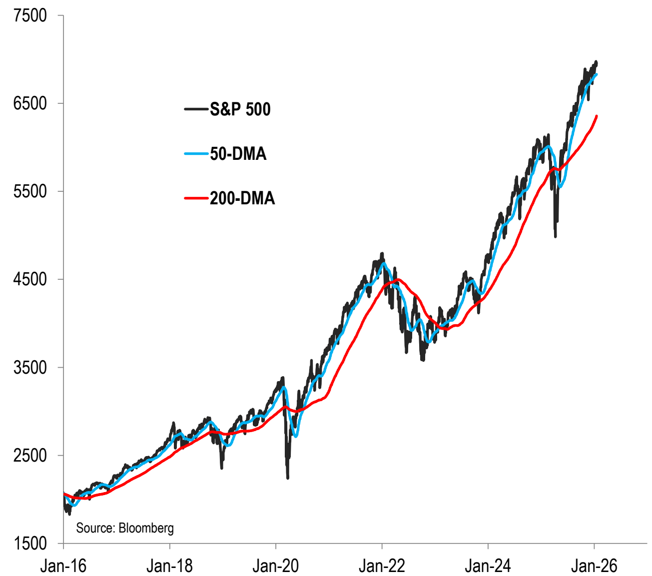


- The Economic Surprise Index has been trending higher and remains well above the zero-line, implying a greater number of positive data surprises versus negative ones.
- Weekly retail sales growth decelerated 20bps to 5.5%, on a year-over-year basis. However, this reading is still within the 2-year upward trajectory.
- Initial jobless claims in the U.S. inched higher by 1,000 from the previous week to 200,000 in the week ending January 17th, holding their recent pullback and firmly below market expectations of a sharp increase to 212,000.

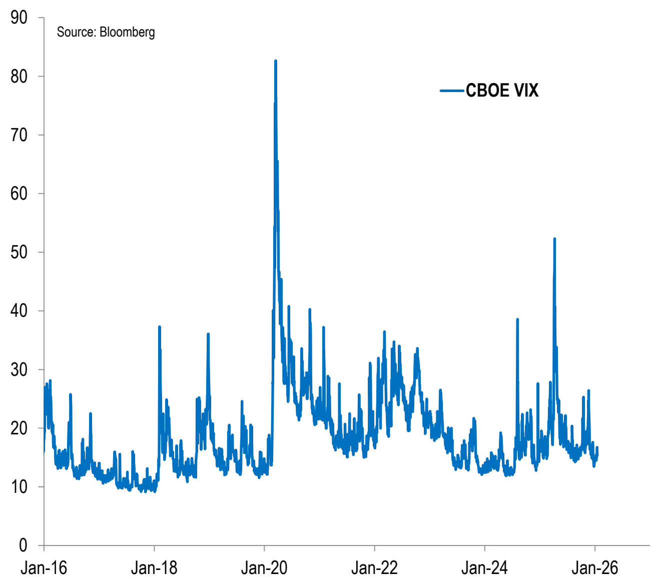




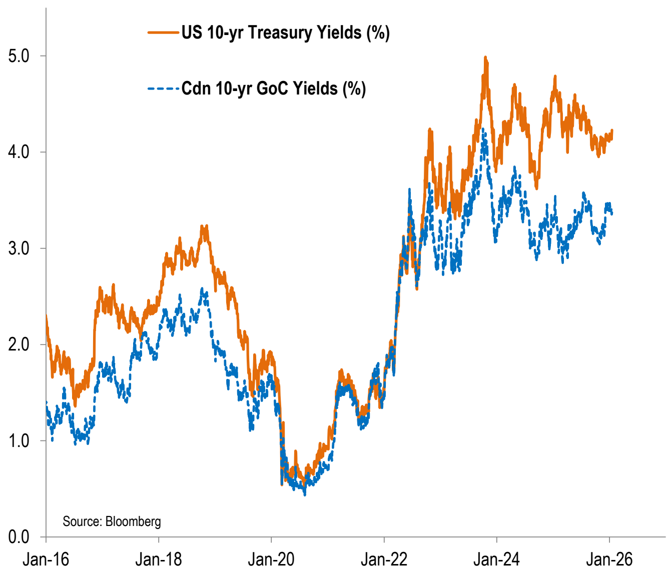
Equities



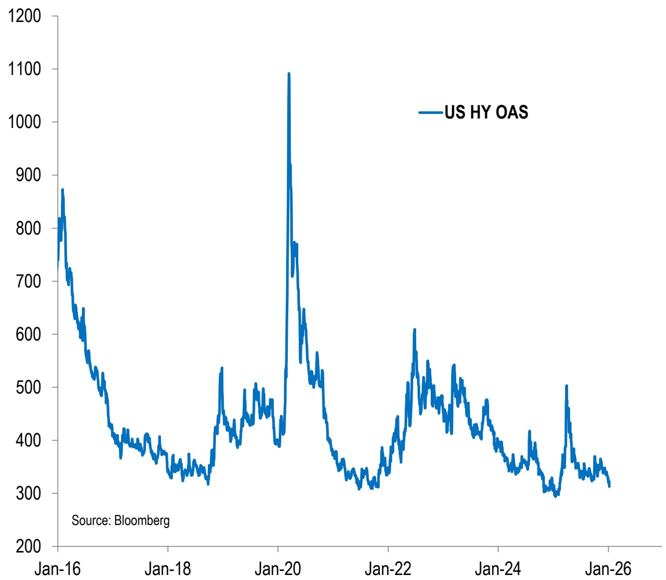
- U.S. and Canadian equities are both near all-time highs though the S&P/TSX is slightly stronger in recent months while the S&P 500 has been more range bound since October 2025.
- The VIX Index has fallen back below 16 level after a brief spike above 20 on heightened tariff and Greenland sovereignty concerns.

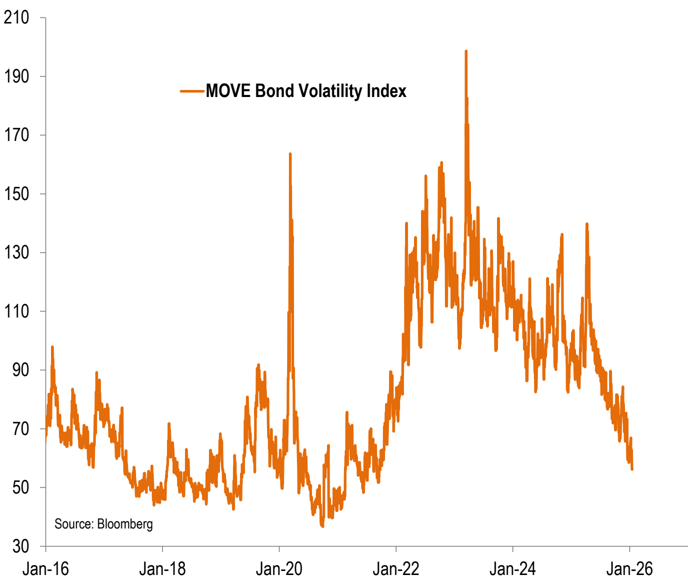


Fixed Income

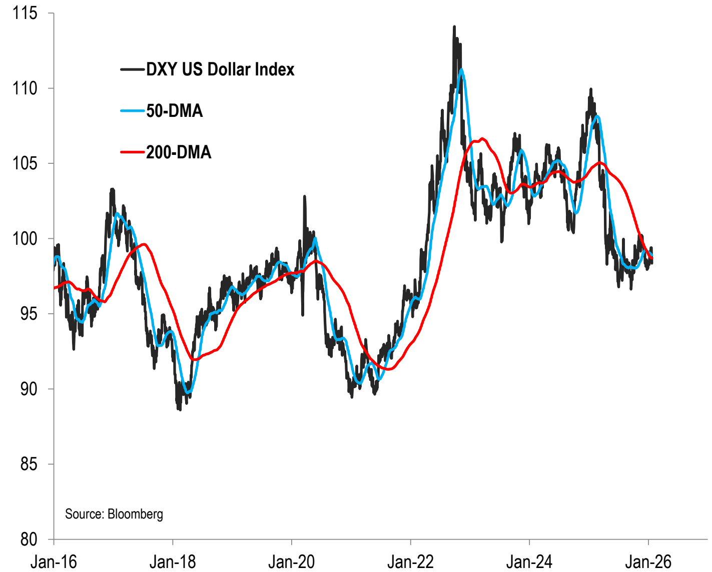


- U.S. and Canadian 10-year government yields have been holding relatively stable at elevated levels. The U.S. yield is near 4.25% and the Canadian is at 3.40%.
- High-yield spreads have compressed over the past couple of months and continue to reside near the low-end of a decade-long range.
- The MOVE Index remains in a longer-term downtrend reflecting lower perceived volatility in the fixed income market.

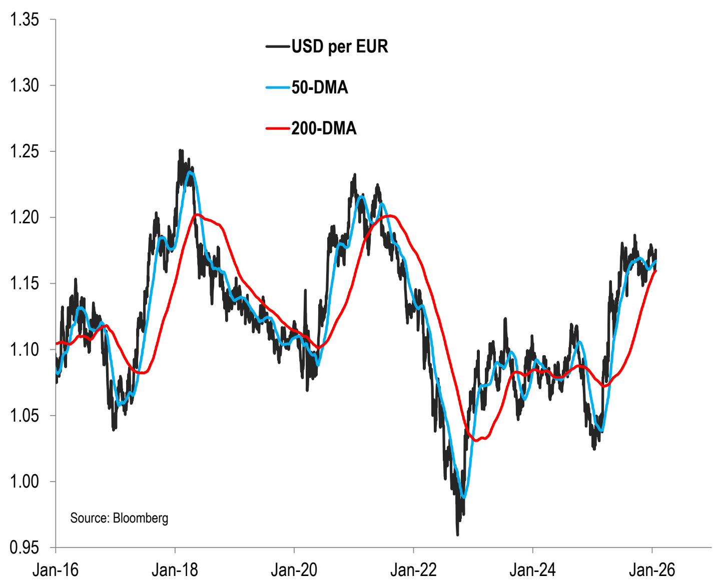


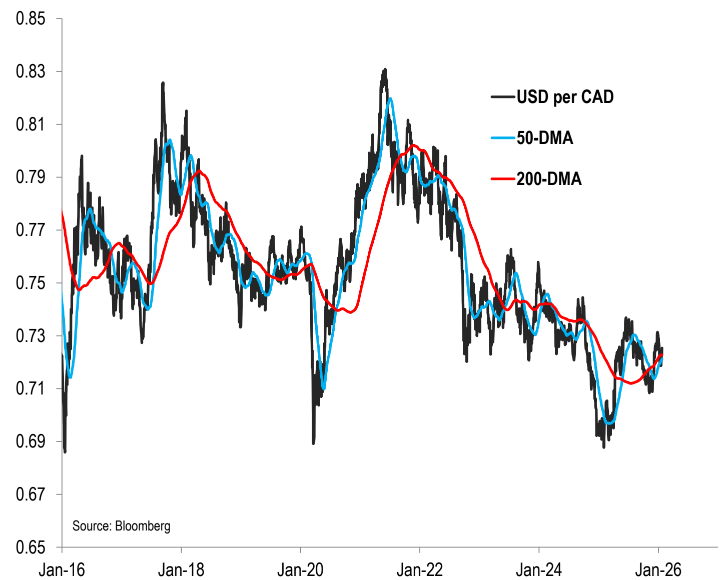


Currencies



- The DXY Dollar Index has turned lower following a brief period of strength to start 2026.
- The EUR/USD and CAD/USD crosses have both jumped over the past week after a slow start to 2026, reflecting the weaker USD. The EUR/USD cross is at 1.167 while the CAD/USD cross is at 0.725.





Commodities

- Gold set a new all-time high of $4,653 per troy ounce this past week. Momentum is increasing in an already bullish trend.
- WTI crude oil prices bounced to $62 a barrel earlier in the month but the commodity has since settled back to $60.
- The price of copper has pulled back from a strong rally that saw prices touch $6.05 per pound before pulling back to $5.77 currently.