WEEKLY CLIENT COMMENTARY | JUNE 27, 2024

Mitch on the Markets

Portfolio Manager Investing Insights

How Will the 2024 Presidential Election Impact the Markets?

U.S. presidential election years tend to be drama-filled and emotionally charged. For some investors, that means more stress. But I'd recommend pushing in the opposite direction, by recommitting to being dispassionate, disciplined, patient, and focused on the long term. Even though it often feels like everything is riding on the outcome of the election, history reminds us—very clearly—that election results have not driven market results over the long term. The economy and corporate earnings do.

For as long as I've been an investment manager, there has been investor sentiment that *if candidate so and so wins the election, it will be terrible for the stock market*. But a look at past election year returns—as well as longer-term returns for U.S. stocks—demonstrates that such an outcome has never materialized. In the cases where we have seen post-election downturns, it has been tied to broader economic factors, not the election or re-election of the president.

ABOUT MITCH ZACKS

Mitch Zacks, MBA
CEO, Senior Portfolio Manager

Mitch is the CEO & Senior Portfolio Manager at Zacks Investment Management. Mitch has been featured in various business media including the Chicago Tribune and CNBC. He wrote a weekly column for the Chicago Sun-Times and has published two books on quantitative investment strategies. He has a B.A. in Economics from Yale University and an M.B.A in Analytic Finance from the University of Chicago.

Since the inception of the S&P 500 in the 1920's, there have been 24 U.S. presidential elections. In 20 of them, the S&P 500 registered positive total returns. In the four instances when the stock market fell (highlighted in yellow below), the U.S. economy was in the Great Depression, the early days of World War II, the 2000 tech bubble, and the 2008 Global Financial Crisis. The last time the stock market fell in a presidential re-election year was 1940.

HISTORICAL U.S. PRESIDENTIAL ELECTION RESULTS		
Election Year	President Elected	S&P 500 Index Total Returns
2020	Biden	18.2%
2016	Trump	12.0%
2012	Obama	16.0%
2008	Obama	-37.0%
2004	Bush W.	10.9%
2000	Bush W.	-9.1%
1996	Clinton	23.1%
1992	Clinton	7.7%
1988	Bush H.W.	16.8%
1984	Reagan	6.3%
1980	Reagan	32.4%
1976	Carter	23.8%
1972	Nixon	19.0%
1968	Nixon	11.1%
1964	Johnson	16.5%
1960	Kennedy	0.5%
1956	Eisenhower	6.6%
1952	Eisenhower	18.4%
1948	Truman	5.5%
1944	Roosevelt	19.8%
1940	Roosevelt	-9.8%
1936	Roosevelt	33.9%
1932	Roosevelt	-8.2%
1928	Hoover	43.6%

Morgan Stanley[1]

It is common in presidential election years for investors to assume their political party is better for the stock market. But history says the stock market goes up regardless of how power is divided. Looking back at just the last eight years, some investors may have held back on equities during President Trump or President Biden's respective tenures, based on politically-driven perceptions about their ability to lead. But that would have been a mistake. Stocks have risen substantially over the past eight years under both administrations, and currently trade near all-time highs.

This is not to say that politics and policies do not matter to economic growth and corporate earnings. They do. Regulatory changes, tax law changes, energy policy and foreign policy would be fundamentally different depending on who wins the 2024 election. But an important point for investors to consider is that markets are already familiar with both candidates and their policy proposals, since both candidates have been president before. There's still plenty of uncertainty swirling around this election, but perhaps not as much as some investors think.

At the end of the day, no one knows how the election will unfold. But I do know and believe that changing your long-term strategy because of a short-term unknown is not a prudent approach – it hasn't been throughout history, and I do not think it would be prudent today.

Bottom Line for Investors

Over time, the stock market responds more to long-term earnings trends and broad-based economic growth, not to changes in political leadership. The emotional gravity of an election may make it appear as though the outcome will make or break the nation. But this mindset puts far too much emphasis on political figures and policies, and too little emphasis on the real engines of the U.S. economy: corporate earnings, small business growth, infrastructure investment, personal consumption, and innovation. Politicians come and go, but the desire to grow, innovate, and pursue profit remains a constant.

[1] Morgan Stanley. https://advisor.morganstanley.com/the-ernie-garcia-group/documents/field/e/er/ernie-garcia-group/S%26P%20500%20in%20Presidential%20Election%20years.pdf

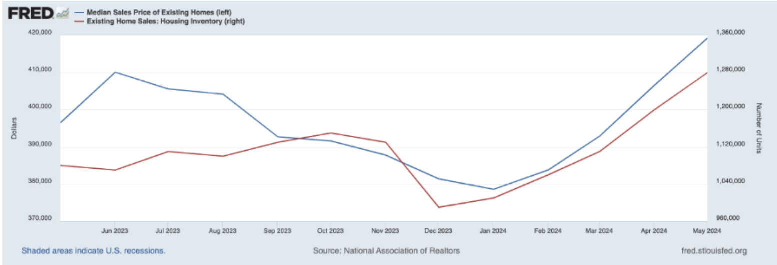
STEADY INVESTOR WEEK

- **The rise in U.S. home prices**
- **The growth in U.S. business activity**
- **Rising rents and its threat to inflation control**

U.S. Home Prices Keep Going Up

U.S. existing home prices hit another record in May. According to the National Association of Realtors, the national median existing-home price rose to $419,300, as the pressures of low national inventory continue to outweigh the impact of higher mortgage rates on overall demand. On a year-over-year basis, existing-home prices rose by 5.8%, even as existing-home sales fell by -2.8% over the same period. For context, the median price of an existing home was $270,400 just four years ago, in February 2020 (just before the pandemic). The chart below looks at existing-home prices (blue line, left axis) and existing-home inventory (red line, right axis). While it's true that the supply of existing-homes on the market has been going up in 2024, it's bouncing off very low levels and the imbalance between supply and demand is still placing upward pressure on prices. High mortgage rates are deterring some buyers from entering the market, but it's also deterring sellers from listing—keeping supply of homes lower than average. The latter force appears to be exerting more pressure on the housing market.[1]

The Median Sales Price of Existing Homes blue line) and Housing Inventory (red line)



Source: Federal Reserve Bank of St. Louis[2]

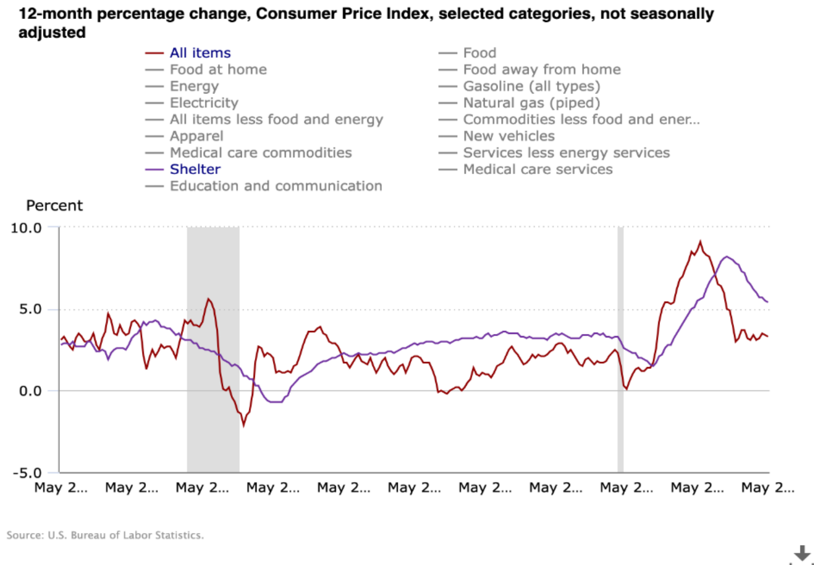
Business Activity in the U.S. Has a Strong June

Late last week, the S&P Global released surveys of manufacturing and services across the world, and the U.S. has once again emerged as a leader. In June, the S&P Global U.S. Composite Purchasing Managers Index (which aggregates manufacturing and services activity) registered at 54.6—a slight improvement from May's 54.5 print. Any reading above 50 indicates expansion, and June's level was the highest that S&P Global has reported in 26 months. Not only was the uptick in activity broad-based, but the companies surveyed also reported modest inflation pressures. On average, businesses said they raised prices for goods and services sold at the slowest pace in 2024, and they also reported that raw materials prices and other input prices also cooled.[3]

Will Rising Rents Complicate the Fed's Inflation Fight?

Lack of affordability in the housing market is causing more renters to extend leases, which is factoring as a source of 'sticky demand' that could pressure prices in the year ahead. Looking back at the last 12 months, a new supply of multifamily units – particularly tied to a building boom in the Sunbelt – put downward pressure on rents, and contributed to inflation's deceleration (as seen on the chart below). Vacancy rates actually went up, which caused landlords to slow rent increases.[4]

Inflation Rate of All Items (red line) and the Shelter/Housing Component (purple line)



U.S. Bureau of Labor Statistics[5]

Because shelter costs are a lagging contributor to overall inflation data, we'd expect that particular component of inflation to continue decelerating in the coming months. But it will be important to watch trends in apartment rents in the coming months and quarters—if landlords become emboldened to start raising rents again at a faster pace, it would complicate the Fed's telegraphed plans to start cutting rates perhaps later this year.

[1] Wall Street Journal. June 21, 2024. https://www.wsj.com/economy/housing/home-prices-hit-a-record-high-4028acf2?mod=economy_lead_pos3&mod=djemRTE_h

[2] Fred Economic Data. June 21, 2024. https://fred.stlouisfed.org/series/HOSMEDUSM052N

[3] Wall Street Journal. June 21, 2024. https://www.wsj.com/economy/global/eurozone-recovery-slows-as-french-uncertainty-hits-new-orders-7d275430?mod=economy_lead_pos5&mod=djemRTE_h

[4] Wall Street Journal. June 18, 2024. https://www.wsj.com/real-estate/rent-hikes-loom-posing-threat-to-inflation-fight-e6797e39?mod=hp_lead_pos2&mod=djemRTE_h

[5] U.S. Bureau of Labor Statistics. 2024. https://www.bls.gov/charts/consumer-price-index/consumer-price-index-by-category-line-chart.htm

DISCLOSURE

Past performance is no guarantee of future results. Inherent in any investment is the potential for loss.

Zacks Investment Management, Inc. is a wholly-owned subsidiary of Zacks Investment Research. Zacks Investment Management is an independent Registered Investment Advisory firm and acts as an investment manager for individuals and institutions. Zacks Investment Research is a provider of earnings data and other financial data to institutions and to individuals.

This material is being provided for informational purposes only and nothing herein constitutes investment, legal, accounting or tax advice, or a recommendation to buy, sell or hold a security. Do not act or rely upon the information and advice given in this publication without seeking the services of competent and professional legal, tax, or accounting counsel. Publication and distribution of this article is not intended to create, and the information contained herein does not constitute, an attorney-client relationship. No recommendation or advice is being given as to whether any investment or strategy is suitable for a particular investor. It should not be assumed that any investments in securities, companies, sectors or markets identified and described were or will be profitable. All information is current as of the date of herein and is subject to change without notice. Any views or opinions expressed may not reflect those of the firm as a whole.

Any projections, targets, or estimates in this report are forward looking statements and are based on the firm's research, analysis, and assumptions. Due to rapidly changing market conditions and the complexity of investment decisions, supplemental information and other sources may be required to make informed investment decisions based on your individual investment objectives and suitability specifications. All expressions of opinions are subject to change without notice. Clients should seek financial advice regarding the appropriateness of investing in any security or investment strategy discussed in this presentation.

Certain economic and market information contained herein has been obtained from published sources prepared by other parties. Zacks Investment Management does not assume any responsibility for the accuracy or completeness of such information. Further, no third party has assumed responsibility for independently verifying the information contained herein and accordingly no such persons make any representations with respect to the accuracy, completeness or reasonableness of the information provided herein. Unless otherwise indicated, market analysis and conclusions are based upon opinions or assumptions that Zacks Investment Management considers to be reasonable.

Any investment inherently involves a high degree of risk, beyond any specific risks discussed herein.

It is not possible to invest directly in an index. Investors pursuing a strategy similar to an index may experience higher or lower returns, which will be reduced by fees and expenses.

The ICE U.S. Dollar Index measures the value of the U.S. Dollar against a basket of currencies of the top six trading partners of the United States, as measured in 1973: the Euro zone, Japan, the United Kingdom, Canada, Sweden, and Switzerland. An investor cannot directly invest in an index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

Zacks Investment Management, Inc. is a wholly-owned subsidiary of Zacks Investment Research. Zacks Investment Management is an independent Registered Investment Advisory firm that acts as an investment manager for individuals and institutions. Zacks Investment Research is a provider of earnings data and other financial data to institutions and to individuals.

This material is being provided for informational purposes only and nothing herein constitutes investment, legal, accounting or tax advice, or a recommendation to buy, sell or hold a security. Do not act or rely upon the information and advice given in this publication without seeking the services of competent and professional legal, tax, or accounting counsel. Publication and distribution of this article is not intended to create, and the information contained herein does not constitute, an attorney-client relationship. No recommendation or advice is being given as to whether any investment or strategy is suitable for a particular investor. It should not be assumed that any investments in securities, companies, sectors or markets identified and described were or will be profitable. All information is current as of the date of herein and is subject to change without notice. Any views or opinions expressed may not reflect those of the firm as a whole.

Any projections, targets, or estimates in this report are forward looking statements and are based on the firm's research, analysis, and assumptions. Due to rapidly changing market conditions and the complexity of investment decisions, supplemental information and other sources may be required to make informed investment decisions based on your individual investment objectives and suitability specifications. All expressions of opinions are subject to change without notice. Clients should seek financial advice regarding the appropriateness of investing in any security or investment strategy discussed in this presentation.

Certain economic and market information contained herein has been obtained from published sources prepared by other parties. Zacks Investment Management does not assume any responsibility for the accuracy or completeness of such information. Further, no third party has assumed responsibility for independently verifying the information contained herein and accordingly no such persons make any representations with respect to the accuracy, completeness or reasonableness of the information provided herein. Unless otherwise indicated, market analysis and conclusions are based upon opinions or assumptions that Zacks Investment Management considers to be reasonable. Any investment inherently involves a high degree of risk, beyond any specific risks discussed herein.

The S&P 500 Index is a well-known, unmanaged index of the prices of 500 large-company common stocks, mainly blue-chip stocks, selected by Standard & Poor's. The S&P 500 Index assumes reinvestment of dividends but does not reflect advisory fees. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor. An investor cannot invest directly in an index.

The Russell 1000 Growth Index is a well-known, unmanaged index of the prices of 1000 large-company growth common stocks selected by Russell. The Russell 1000 Growth Index assumes reinvestment of dividends but does not reflect advisory fees. An investor cannot invest directly in an index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

Nasdaq Composite Index is the market capitalization-weighted index of over 3,300 common equities listed on the Nasdaq stock exchange. The types of securities in the index include American depositary receipts, common stocks, real estate investment trusts (REITs) and tracking stocks, as well as limited partnership interests. The index includes all Nasdaq-listed stocks that are not derivatives, preferred shares, funds, exchange-traded funds (ETFs) or debenture securities. An investor cannot invest directly in an index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

The Dow Jones Industrial Average measures the daily stock market movements of 30 U.S. publicly-traded companies listed on the NASDAQ or the New York Stock Exchange (NYSE). The 30 publicly-owned companies are considered leaders in the United States economy. An investor cannot directly invest in an index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

The Bloomberg Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers. An investor cannot invest directly in an index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

The ICE Exchange-Listed Fixed & Adjustable Rate Preferred Securities Index is a modified market capitalization weighted index composed of preferred stock and securities that are functionally equivalent to preferred stock including, but not limited to, depositary preferred securities, perpetual subordinated debt and certain securities issued by banks and other financial institutions that are eligible for capital treatment with respect to such instruments akin to that received for issuance of straight preferred stock. An investor cannot invest directly in an index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

The CBOE Volatility Index (VIX) is a calculation designed to produce a measure of constant, 30-day expected volatility of the U.S. stock market, derived from real-time, mid-quote prices of S&P 500 Index call and put options. On a global basis, it is one of the most recognized measures of volatility -- widely reported by financial media and closely followed by a variety of market participants as a