



DIVIDEND ASSETS CAPITAL, LLC

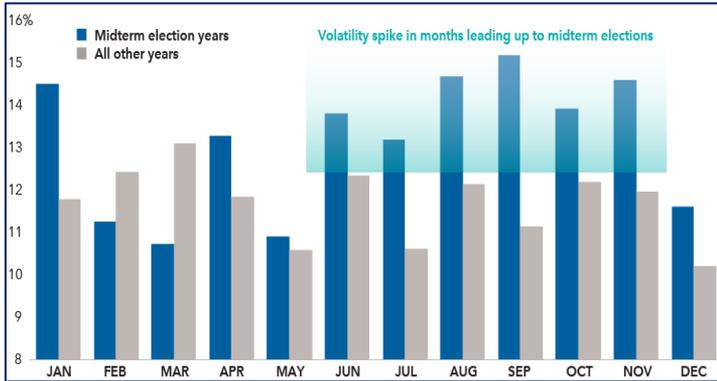
INVESTMENT ADVISORS

# DAC Insights: Midterm Elections 2022... The Politics of Investing

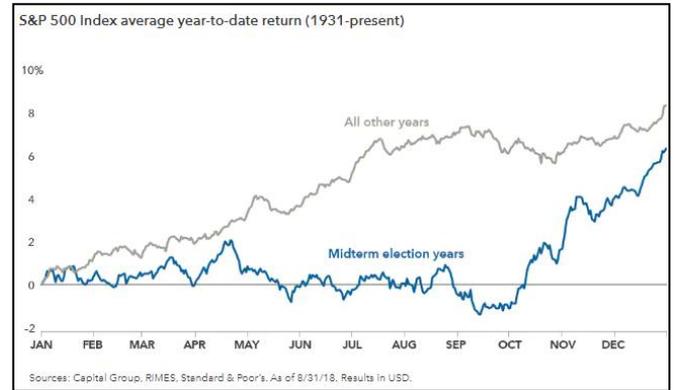
DIVIDEND ASSETS CAPITAL – INVESTMENT STRATEGIES FOR RISING INCOME & GROWTH

With the 2022 midterm elections less than two months away (November 6<sup>th</sup>) it is worth examining historical market tendencies around this event given its implications for a divided vs unified government.

## Historically, how has the market behaved around midterm elections?



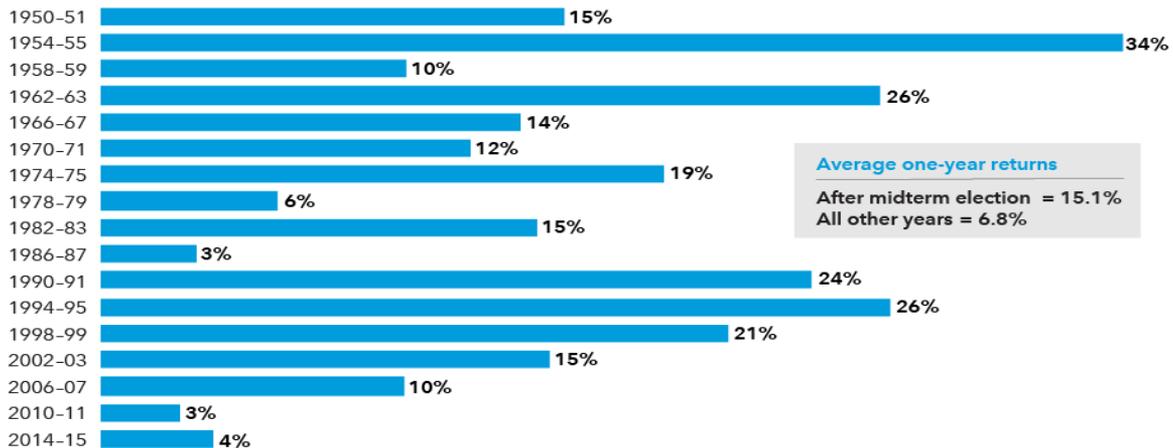
Sources: Capital Group, Strategas



Sources: Capital Group, RIMES, Standard & Poor's.

- History shows that the months leading up to midterm elections tend to experience higher volatility and lower returns compared to non-midterm election years. This is likely in part due to the uncertainty around prospective changes in fiscal spending, corporate and individual taxation, and other regulatory risks effected by a unified versus divided Congress.
- However, there has been a distinct pattern of upside for the market as certainty around the outcome of the elections draws nearer.
  - Since 1931, the S&P 500 has risen +7% in the 4<sup>th</sup> quarter in midterm years versus +2% in non-midterm years with an average 1-year return of +15.1% following midterm elections versus +6.8% in all other years.
- While the data above incorporates averages over the long term, it is important to caveat the current macro backdrop, with historically high inflation and the Fed raising rates, differs greatly from a typical midterm election year environment.

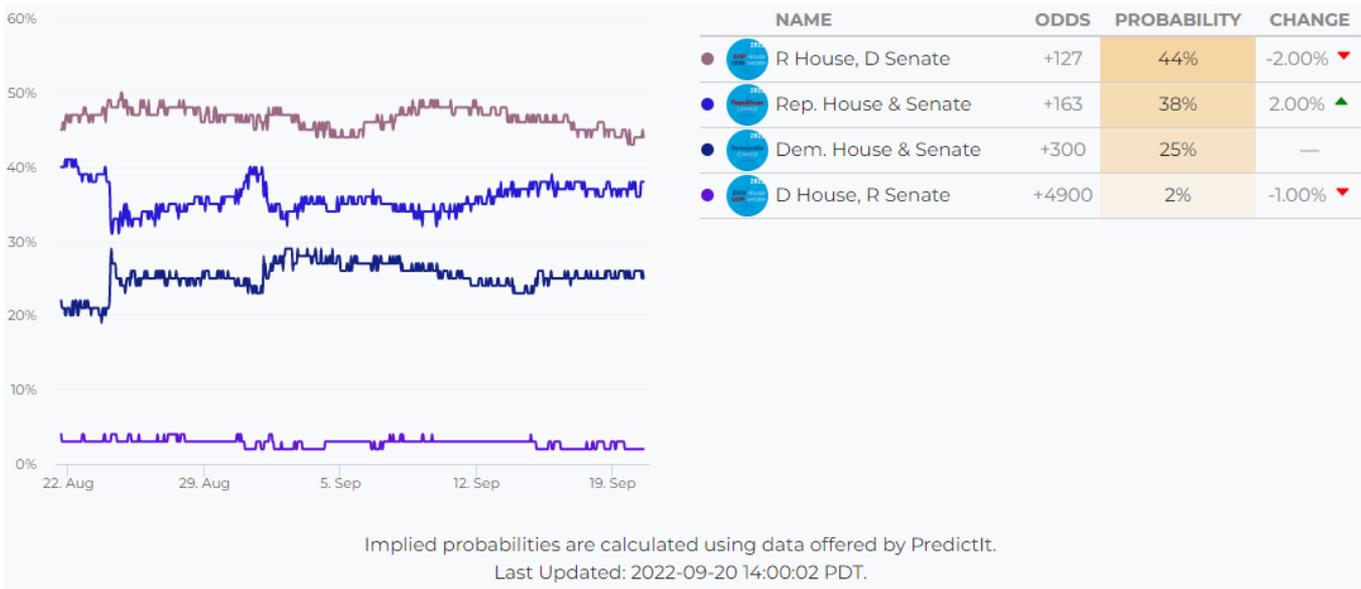
## The market tends to rise significantly more in the year following midterm elections than in other years



Sources: Capital Group, RIMES, Standard & Poor's.

## How do the early Midterm Election indications look?

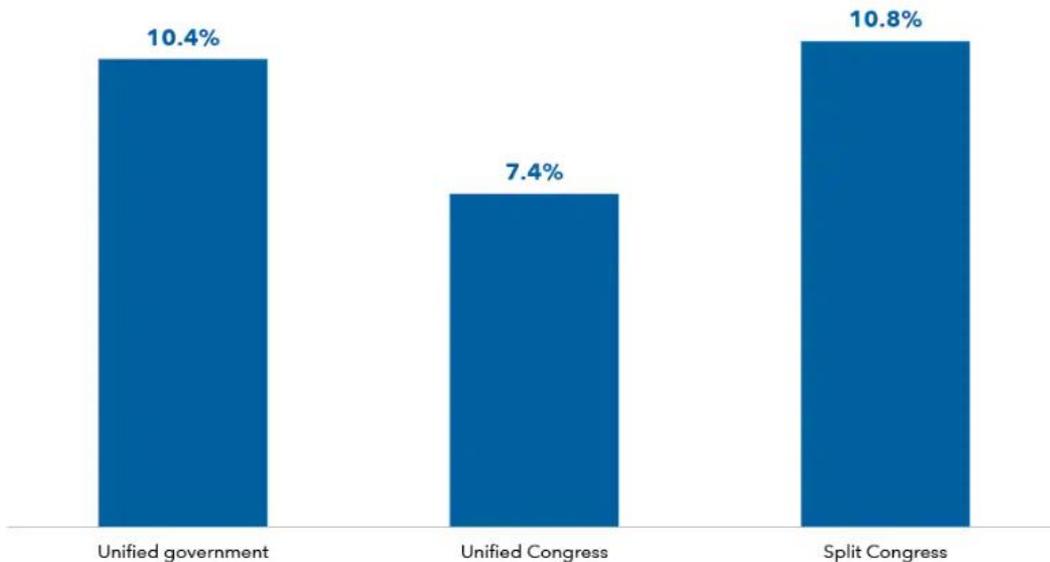
It is worth noting that since World War II, the President's party has lost seats in the midterms 90% of the time in the House and 68% of the time in the Senate. The narrowly unified government favoring the Democrats is in jeopardy, with markets pricing the most likely scenario as Republicans taking control of the House (44% chance), a Democratic Senate and President Biden's approval near the lowest level of his term (currently 43% approval rating, up from 38% in July). Currently, Democrats hold a 5-seat majority in the House while the Senate is split 50/50 (with Vice President Kamala Harris acting as the tie-breaker).



Sources: Bonus.com, PredictIt. Implied probabilities are calculated using data offered by PredictIt, not oddsmakers or pollsters.

With that, a split Congress appears the most likely scenario coming out of the election at this stage though that can change quickly. Historically speaking (since 1933), a split Congress has been the “best” market environment for stocks as regulatory risks are generally tempered, with average annual returns of +10.8%, versus +10.4% during years of unified government (Congress and the White House) and +7.4% with a unified Congress only.

S&P 500 Index – Average annual return (1933-2021)



Sources: Capital Group, Strategas. As of December 31, 2021. Unified government indicates control of the White House, House and Senate by the same political party. Unified Congress indicates control of the House and Senate by the same party, but control of the White House by a different party. Split Congress indicates control of the House and Senate by different parties, regardless of White House control.

While market volatility this year has indeed followed the typical midterm election year trends, we recognize the volatility has come on the back of several macro events not related to the outcome of the election. That said, we look forward to moving past the election to remove one pillar of uncertainty as we continue to monitor the evolving macro environment. At DAC, we are invariably long-term investors, and while we don't attempt to "time the market", we will remain diligent where there are opportunities in our core investment philosophy, which is owning high quality companies with a long-term perspective.

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**Clarity:** A transparent and understandable approach to portfolio management.

**Simplicity:** We believe dividends are the best indicator of the future price performance of a stock.

**Devotion:** We build confidence through a disciplined process and strong devotion to our investment philosophy and clients.



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