

## OBSERVATIONS

- Markets were mixed last week with the S&P 500 losing -0.1% but small caps (Russell 2000 Index) gaining +1.3%, while the yield on a 10-year Treasury moved up +14 basis points to finish at 4.40%.<sup>1</sup>
- The S&P CoreLogic Home Price Index showed that home prices nationally increased by +6.3% year-over-year (YoY) in April, down slightly from March's +6.5% YoY figure.<sup>1</sup>
- Sales of new single-family homes were 619k for May, below expectations, and -11.3% below the prior month and -16.5% below one year ago.<sup>1</sup>
- Durable goods increased +0.1% month-over-month (MoM) in May, which was ahead of expectations, but durable goods orders for April were revised lower by 1/3 to +0.2% MoM.<sup>1</sup>
- The final estimate for Q1 GDP registered +1.4% (annualized rate), which was up slightly from an earlier estimate. Meanwhile, the Bloomberg consensus forecast for GDP growth in Q2 is +2.9% (annualized rate).<sup>1</sup>
- Initial unemployment claims fell to 233k last week, down -6,000 from the week prior—overall initial unemployment claims remain very low and, thus far, suggest little stress in the US labor market.<sup>1</sup>
- The Fed's preferred inflation measure, the core-PCE index, came in as expected for May at 2.6% YoY, down from April's 2.8% YoY reading. Headline PCE also fell to 2.6% down from April's 2.7% YoY figure.<sup>1</sup>
- The University of Michigan Consumer Confidence Index fell to 68.2 in June below May's 69.1 reading—the Index has been below its 50-year average since April-2021 when inflation began accelerating.<sup>1</sup>

## EXPECTATIONS

- Q2 earnings season will kick-off in a few weeks and currently the expectations are for +8.8% YoY growth driven by the Communication Services, Healthcare, and Technology sectors. Should the +8.8% YoY growth estimate prove to be accurate, it will be the highest quarterly earnings growth rate since Q1-2022.<sup>2</sup>
- The French wrapped up the first round of their Parliamentary elections over the weekend and France's populist, far-right Rassemblement National (RN) party had the strongest results gaining about 33% of the vote, while French President Macron's party finished a distant third with about 22% support. The second round of elections—France's election contains numerous parties vying for seats and the top-two vote getters in each district face off in a second round—will be held on July 7<sup>th</sup> and will determine if the RN party will gain enough votes to have an outright majority or if they will need to form a coalition with other parties.<sup>3</sup>

## ONE MORE THOUGHT: Political cycles and markets<sup>1</sup>

Last week's Presidential debate kicked off another election cycle filled with questions about the potential trajectory of the US economy—particularly in the face of a mounting budget deficit and a debt service that is likely to worsen. About a month ago we wrote about the [stark policy differences](#) between Biden and Trump, assuming a blue wave or a red wave (both of which appear less probable at this time). Incredibly, perhaps not surprisingly, neither party is likely to confront the deficit in a meaningful manner and continued spending or fresh tax cuts are both likely to worsen the country's fiscal position. Much of this serves as the macro backdrop for why we believe interest rates and inflation are likely to remain higher for longer. But does this mean stock markets must suffer? As we noted in [January](#), the average return during election years from 1948 to 2020 has been +6.6% with notable exceptions of 2000 and 2008 when markets suffered negative returns thanks to recessions. When zooming out over the longer-

<sup>1</sup> Bloomberg LP as of 6/28/2024

<sup>2</sup> FactSet Earnings Insight 6/21/2024

<sup>3</sup> <https://www.ft.com/content/ba912eca-a85e-4c0f-bc92-52b2ae4b309f>

term (something we believe investors must do to mitigate overreacting to the media-hyped election noise), we note that returns on a 10-year basis when investing at the beginning of the election year are similar regardless of the party that wins the presidential election (see Chart of the Week). The need to react stems from a behavioral anchoring of validating one’s own political views; “if my party loses, it must be bad for stocks” or vice versa. For better or worse most investors fall prey to this investing bias. Related to elections, we believe it is our job as researchers to objectively (i.e., without political bias) outline changes to the fiscal landscape and orient our clients to changes in things like GDP growth and productivity, which directly impact earnings growth, dividends, interest rates, and inflation that are key drivers of long-term stock and bond market returns. As the election noise continues to ramp up—including the prospect that neither of the two main candidates secure their party’s formal nomination—potential policy is likely to move from more theoretical to the more concrete, allowing for a thoughtful process of evaluating the opportunities and threats to our client’s investment portfolios. For the near term, brace for a bumpy ride with continued election noise. Because markets are at the top end of our best-case range for 2024, a 3-5% drawdown seems like an increased possibility. Of note, the S&P 500 has now gone 339 trading days without a -2% decline, the longest such stretch since 2016-2017.

**CHART OF THE WEEK**

Presidential Cycle	S&P 500 Average Returns (1993-2015)	Trump Presidential Cycle (2017 to 2020)	Biden Presidential Cycle (2021 to 2024)
Year 1 (Inauguration)	+6.7%	+21.8%	+28.7%
Year 2 (mid-terms)	+5.8%	-4.4%	-18.1%
Year 3 (off-year)	+16.3%	+31.5%	+26.3%
Year 4 (presidential election)	+6.7%	+18.4%	TBD

Party Elected in November	Average 10-Yr Annualized Return (invested 1-Jan of election year): 1936 to 2012
Democrat	+11.2%
Republican	+10.5%

Source: Clearstead, Bloomberg, Capital Group, Schwab Center for Financial Research, 1/22/2024

Election Outcome	S&P 500 Average Return - 1948 to 2020	Election Years
Democrat to Democrat	+10.9%	1948, 1964, 1996, 2012
Democrat to Republican	+10.4%	1952, 1968, 1980, 2000, 2016
Republican to Democrat	-1.1%	1960, 1976, 1992, 2008*, 2020
Republican to Republican	+7.4%	1956, 1972, 1984, 1988, 2004

\*Removing 2008 would increase this figure to +8.5%

Source: Clearstead, Bloomberg, Capital Group, Schwab Center for Financial Research, 1/22/2024



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