Our Perspectives: A Few Thoughts to Help Investors Deal With Post-Election Uncertainty

Homestead Funds

This commentary was prepared on November 9, 2020, and reflects our view of events at that time. Please visit our website, homesteadfunds.com, for the latest perspectives.

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Interested in speaking with one of our associates about your long-term investment plan? Call us at 800.258.3030, option 2.

Presidential elections are often unsettling for investors, and this year's contest was no exception. Voters have now made their decision, and Joe Biden has been declared president-elect. Many states made changes to voting procedures in response to the COVID-19 pandemic, and this will lengthen the amount of time it takes to certify the vote. Americans will need to be patient and allow each state to follow its own rules and timeline for declaring results. This process could extend into the coming weeks.

As in prior election cycles, we've gotten calls from shareholders on the heels of the 2020 decision and thought we'd provide some perspective.

It takes time for an administration's policy initiatives and priorities to take shape.

It's not possible to assess the policy environment for 2021 in part because there can be a significant difference between campaign positions and the details of policy initiatives, which at this point are unknown.

Over the course of the next few months leading up to Inauguration Day, we expect markets to be volatile based on the latest news cycle anticipating what the next four years may look like. The political agenda will continue to be murky until the three branches assemble and begin the process of governing on January 20, 2021.

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Market performance is based on many factors, not just the person in the Oval Office.

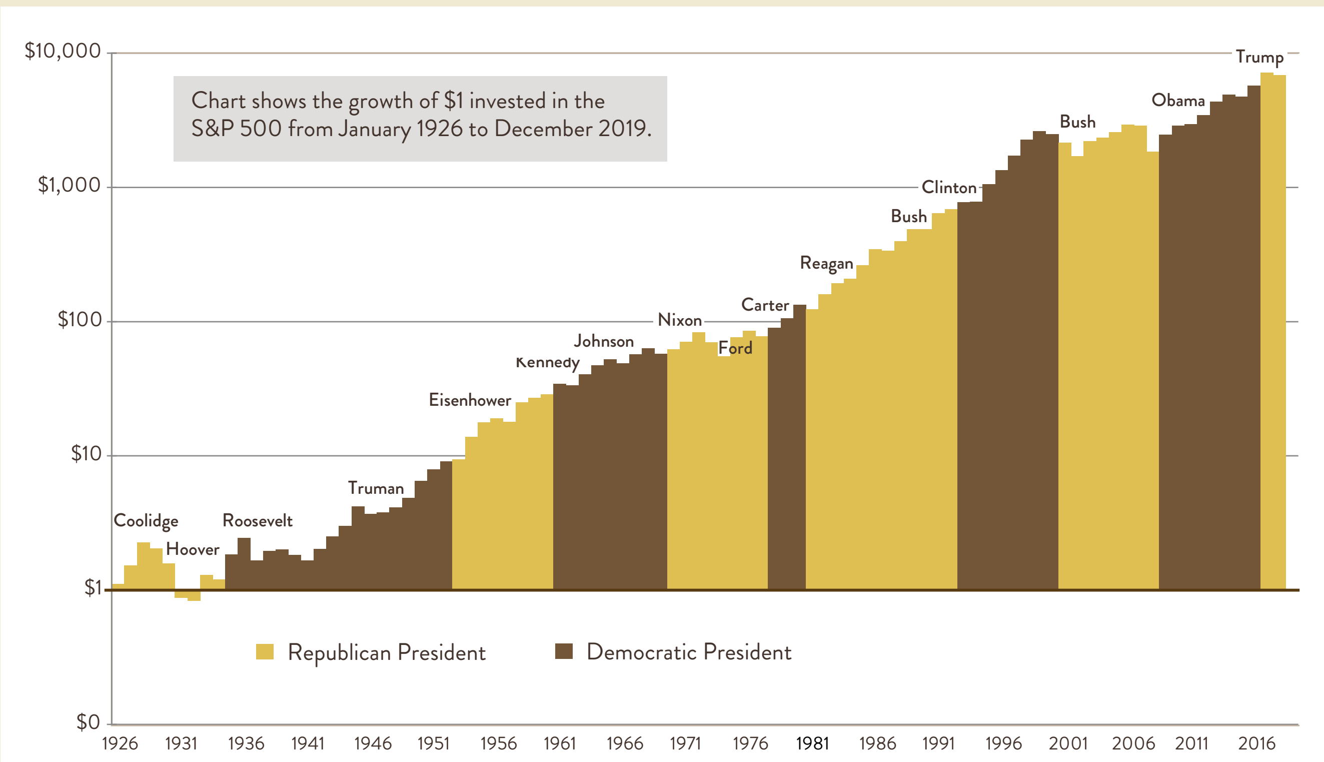
Many factors affect the performance of the financial markets, including the strength of the economy, regulatory changes, government spending, interest rates, taxes and other variables. Importantly now, the pandemic remains a threat to public health. Regardless of the political backdrop, the financial markets are likely to remain volatile until there is more clarity on additional stimulus programs (to provide short-term support and liquidity) or greater certainty regarding the availability of a vaccine or other therapeutic response (needed for the economy to return to a more normal level of activity).

Historically, election year volatility is smoothed out by longer-term market performance.

A comforting thought: Looking at stock market performance represented by the S&P 500 in the years following elections since 1932, the average annualized four-year return was 9.3%. Only three presidential elections out of 22 resulted in a negative four-year return.[1]

As the timeline below shows, stocks have trended higher over the long term and through different administrations.

Market Returns Under Different Administrations



Source: Official Data Foundation

[1] Columbia Threadneedle, Latest Insights, August 2020

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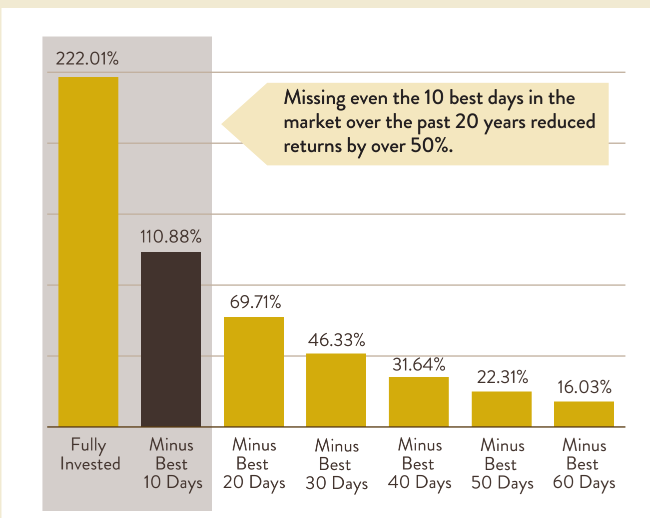
While politics gobble up a fair share of the news flow, they probably shouldn't determine your longer-term investment plan.

Trying to time the market can wreak havoc with your portfolio.

No one can predict the future with certainty. Even investors who are lucky enough to avoid a sudden downturn need to be lucky twice in order to get back into the market at the right time. Stocks can recover quickly, and missing out on any bounce back could be costly. The graph below shows cumulative stock market returns with and without the 10 best days in the market.

Perils of Trying to Time the Market



Source: The chart shows the cumulative total returns, which includes the reinvestment of dividends and capital gains, for the S&P 500 for the period January 1, 2000, through December 31, 2019, and cumulative returns for that same period minus best days as measured by historical price data. The chart is for educational purposes only to demonstrate the effects of market timing. It is not a promise of any investment's future returns.

Our focus remains the same, even through periods of volatility.

The professional money managers at the helm of Homestead Funds' equity and bond portfolios take a long-term view of opportunities and risks. They are patient through periods of short-term volatility, continually check their confidence in positions based on information and analysis, and make decisions thoughtfully and collaboratively.

Let us help you keep your investment program on track.

We have a team of client service representatives who can help you evaluate your portfolio based on your investment time horizon and risk tolerance. We encourage you to give us a call to discuss your specific financial goals. Call us at 800.258.3030, option 2.

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