

A big year for local and global elections – what this means for investors

Schroders

This year, more than 20% of the world's populations will be going to the polls, as over 40 major elections will be held in 2024 – including our own national elections happening this week.

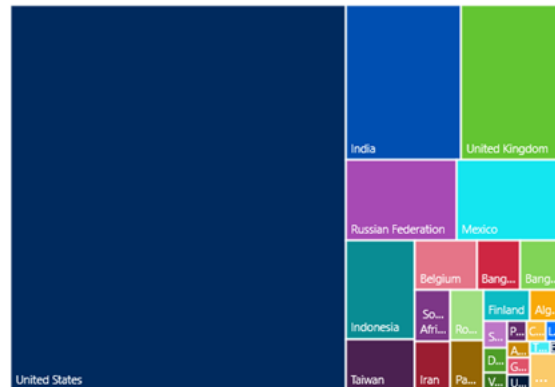
Large number of elections in EM in 2024

US most important, others may affect reshoring trends etc

48 elections due this year



2023 GDP US\$



Source: Schroders Economics Group, LSEG Datastream, 8 January 2024

"Politics has become a significant source of volatility in financial markets, more so than in the past," says Kondi Nkosi, country head in South Africa for global investment manager, Schroders.

"It's become increasingly important for investors to be conscious of the political backdrop when making investment decisions. After all, government policy changes can have a profound effect on a company's future profitability," he says.

"This is not to say that investors should try to predict the future. There have been a number of elections in recent years which resulted in surprising outcomes, so it's best for investors to focus on long-term investments they believe can ride out political storms and news flow" he explains.

Implications for investing in a time of political change

Johanna Kyrklund, Group Chief Investment Officer says:

"Politics can create short term noise. Although the market likes to focus on events like elections, political trends tend to play out over months and years.

"But if you can withstand the volatility, it's best to sit on your hands and wait for it to pass.

"If you really have to trade, then it may be wise to bank any profits before an election. But investors should always avoid knee jerk reactions when results come out."

Alex Tedder, Co-Head of Equities says:

"Short-term market setbacks, like those created by political uncertainty, can prove very helpful for more patient investors looking to generate returns. Over the long term, we still feel that this is a bigger determinant of investor returns than trying to respond to political events."

Alex Monk, Portfolio Manager, Global Resource Equities says:

“The US election in November 2024 will be most important for energy transition equities, given the risks to Inflation Reduction Act (IRA) support in a strong Republican win.

“Although support to energy transition sectors is unlikely to be removed in its entirety, the leading runners for the Republican nomination have talked about repealing aspects of the policy, making the risk of a reduction in support a credible threat.

“Regardless of the ultimate outcome, we would at least expect those names that currently benefit most from the policy to experience volatility as the election looms.

“Outside of the US, major elections in Taiwan, India, Mexico, South Africa, the UK, and Belgium among many others, must all be watched.”

Simon Adler, Fund Manager, Global Value team says:

“We understand that politics can be an important consideration for many investors. After all, the political instability in countries in, say, Africa and South America can be disconcerting – especially when they lead to industrial unrest, strikes in key sectors such as power, the imposition of emergency measures and so on.

“While we are mindful of the possible impact of political events, we avoid buying into any prevailing opinions or other ‘noise’ that could influence portfolio decisions.

“On the global value team, we believe an unemotional, valuation-based approach to investing should deliver over the long-run regardless of politics – and indeed we can point to more than 100 years of history that backs this up.

That said, we think all investors, no matter their style orientation should focus on the long-term rather than getting caught up in the short-term volatility that can result from political events.”

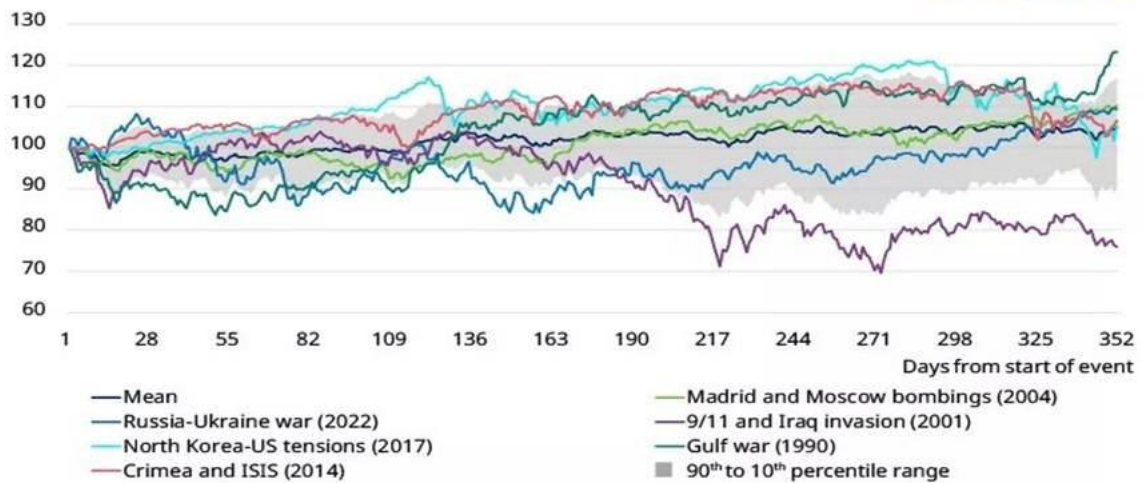
Duncan Lamont, Head of Strategic Research says:

“Stock markets often fall in the near-term when geopolitical risk spikes, as markets re-assess risk. Past performance is not a guide to the future, and every situation is different but, historically, they have started to recover strongly within a matter of months. Staying the course rather than reacting rashly has worked out for the best.

“The chart below shows the total return of the S&P 500 index in the year following other events that caused heightened geopolitical risk,” says Lamont.

Indexed total returns of S&P 500 index (USD)

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Source: Schroders 2024. 612423

Indexed total returns of S&P 500 index (USD):

Source: Refinitiv, Schroders, April 2024

The destination, not the journey

“We have no way of knowing yet whether Trump will seize power again in the US, or whether we may see various iterations of coalitions in South Africa, and what these may look like. More important is the direction of political travel and how it could impact investment prospects either locally or abroad.

“While the political outlook may be getting more complicated, a resilient long-term investment strategy that can withstand political shocks is likely to help investors navigate what lies ahead,” concludes Nkosi.