

Investing in a highly politicized climate

Tune out political noise and focus on the fundamentals—the real driver of investment returns.

Key highlights

- ▶ Political headlines can move markets in the short term, but fundamentals drive longer-term returns.
- ▶ The noise during election seasons can amplify emotions, often widening the gap between perception and economic reality.
- ▶ History favors staying invested as policy uncertainty ebbs and fundamentals re-assert themselves.



Investors have to manage different emotions as they make decisions around their financial future. One of the strongest influences—and potentially the most problematic—is politics.

During presidential and midterm election cycles, some investors may feel that political outcomes will have consequences in the markets and their portfolios, but any connection between election results and investment returns is tenuous. When investor expectations are tied to electoral outcomes and political bias drives investment decisions, it can result in missed opportunities due to market timing and the loss of compounding power over the long term.

History suggests that successful long-term investing through political cycles has less to do with anticipating outcomes and more to do with maintaining consistency and discipline. Separating political signal from the noise is one of the most durable habits investors can develop to help them navigate through the emotion and uncertainty of election cycles.

Markets can turn volatile as investors shift their sentiments to align with their political inclinations. But like most external forces, these fluctuations have little long-term impact on the financial markets.

Mark Twain once said,

“Never talk about politics or religion in polite company.”

He could have added money to that list as well.

A combustible mix

People tend to have strong feelings about both politics and money. In many cases, these feelings are closely tied to their backgrounds and personalities. There's nothing inherently wrong if someone holds strong political beliefs, but it's important to recognize the influence strong political views can have on different decisions we make, including how we invest money for the future.

This is a critical topic for financial advisors and investors to discuss because political tribalism seems to be at a high point right now. Our country has been through highly politicized periods before, but many of today's investors may not have lived during those times or may not realize how strong the pull of political tribalism can be.

WHAT IS POLITICAL TRIBALISM?

People with strong political beliefs may gravitate toward like-minded people and develop a close identification and loyalty to the tribe. This can occur whether the preferred political party of the tribe is in or out of power.

Within tribes, trust is often given to information sources that reinforce existing political beliefs. Views from outside the tribes are usually rejected or ignored. Even established or well-regarded facts are judged for inherent biases. This contributes to confirmation bias among individuals that can affect decisions they make, including those related to money and investing.

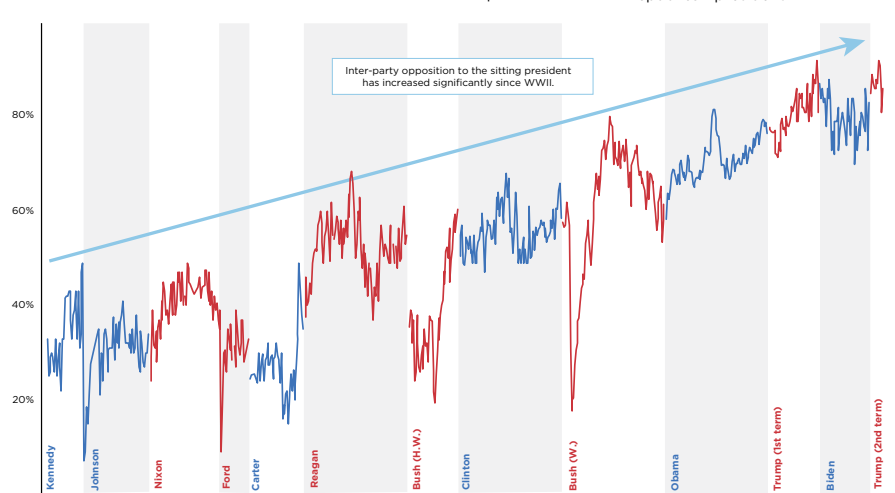
IS TRIBALISM STRONGER NOW?

It's hard to pinpoint the reasons why the gap between the two political parties has widened during this time, but several trends have occurred along with this rise in partisanship.

For one, the media landscape has become more fragmented in recent decades, coinciding with the proliferation of digital media through different channels including streaming video, podcasting and social media feeds. It's easier than ever for political partisans to tune into organizations and personalities that speak to like-minded views and confirm pre-existing biases.

Two, trust in a wide range of traditional institutions has declined over this time, including the government, the media, the business community and higher education. In the past, the American public viewed these institutions as sources of expertise and authority. The erosion of trust has downgraded the value of expertise and increased awareness of institutional bias.

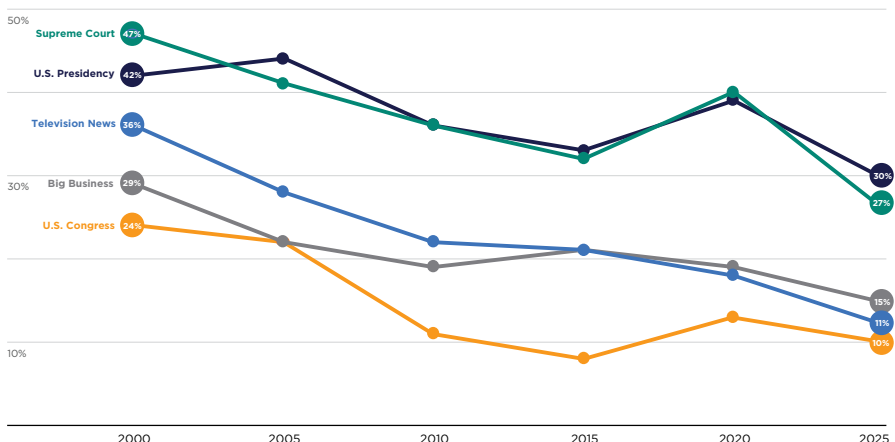
Presidential approval rating; Spread between president's party and opposition party
Monthly average of Gallup data



Source for chart: Strategas Research

Confidence in American institutions

% of U.S. citizen survey respondents who have "great deal" or "quite a lot" of trust



Source for chart data: Gallup "Confidence in Institutions" survey, July 2025

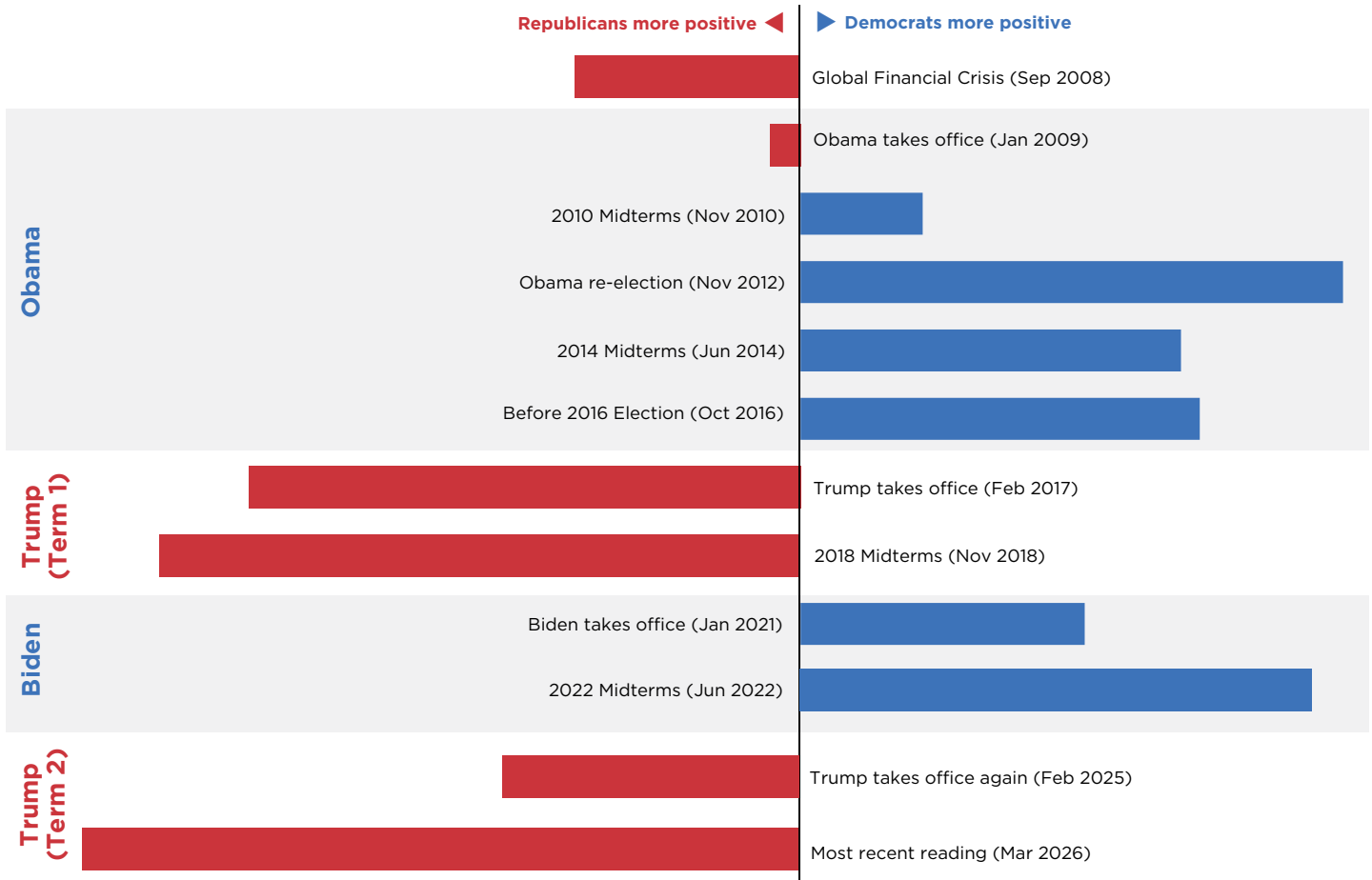
TRIBALISM EMERGES FOR ELECTIONS

Federal election years, especially when control of the White House is at stake, tend to enflame political tribalism. In recent election cycles, shifts in sentiment and confidence between Democrats and Republicans have been pronounced and consistent, particularly when control of the executive branch switches parties. Consider the shifts that have occurred after the most

recent presidential election cycles. The chart below shows the partisan gap in consumer sentiment as measured by the University of Michigan Consumer Sentiment Survey in presidential and midterm election years. After 2009, in the post-Global Financial Crisis era when Barack Obama took office, the swings in partisan consumer sentiment grew more pronounced.

Partisan swings in consumer sentiment around federal elections

University of Michigan Index of Consumer Sentiment



Source for chart data: University of Michigan, Index of Consumer Sentiment



Across multiple election cycles, shifts in political control have been accompanied by sharp changes in consumer sentiment along partisan lines. When control of the White House changes, optimism tends to rise among supporters of the newly elected party, while confidence among opposition voters often declines.

Importantly, these sentiment swings have frequently occurred even when underlying economic conditions have not materially changed. Recent readings continue to show that political affiliation plays a powerful role in shaping perceptions of the economy, reinforcing how easily emotion—and not fundamentals—can influence investor outlooks.

Investing under the influence

The absence of diverse or challenging viewpoints can have an outsized influence on investors who live inside these ideological bubbles. Loyalty to the “tribe” can cloud their judgment and lead to emotional decisions that run counter to their personal investment objectives.

A research paper¹ on the role of politics in investment decisions found that politically minded investors tend to be more optimistic about market opportunities when their preferred party is in power. As a result, they may take on more risk than they should and expose themselves to potential losses if the market falls.

Conversely, investors whose political party is out of power exhibit greater pessimism about the future. As a consequence, they may pull assets away from the market to lower their exposure to risk. But the greater risk these investors face is missing out on market gains.

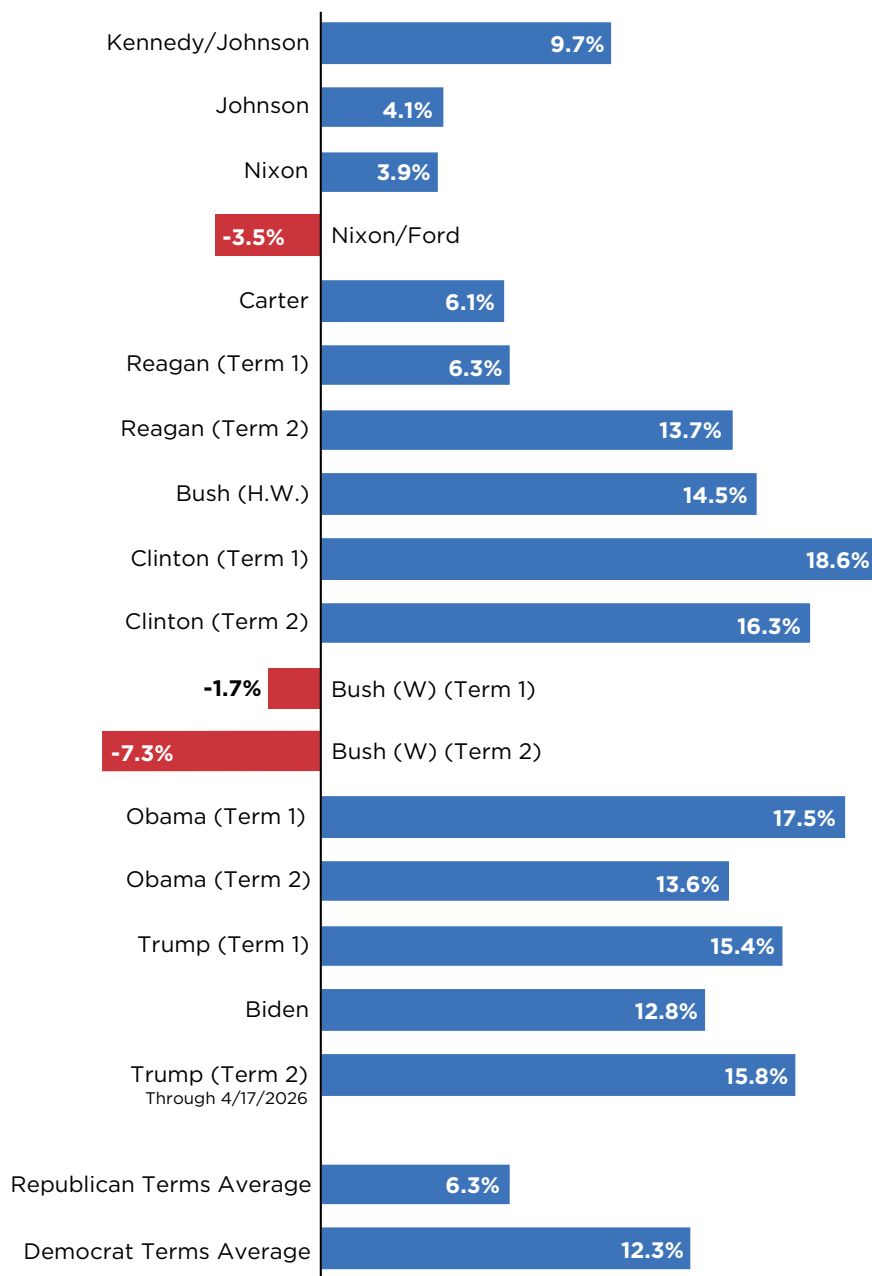
Investors under the sway of political tribalism may see a connection between politics and investment that in reality does not exist. Market history shows that stock returns have been good under both Democratic and Republican presidents. (See chart at right.) Even one-party legislative control has had no discernible effect on market returns.

When political partisanship leads investors to connect electoral victories with market performance, confirmation bias is in full effect. For these investors, it can be affirming to believe their deeply held political views translate to financial gain. And politicians may try to link their policies with economic and financial success—it makes for rousing speeches, but doesn’t do so much for achieving favorable investment outcomes.

The fact remains, government policy or political control of a particular branch of government has a negligible impact on the direction of the financial markets. What drives market performance most of all is economic and business fundamentals.

S&P 500® Index annualized return by presidential term

Four-year annualized total return, 1960 to April 2026



Source for chart data: Bloomberg, Plancorp

¹Bonaparte, Yosef and Kumar, Alok and Page, Jeremy K., Political Climate, Optimism, and Investment Decisions (February 26, 2012). AFA 2012 Chicago Meetings Paper.

Focus on the fundamentals

When investment firms talk about “fundamentals,” they’re referring to the results achieved by businesses and the overall economy. This is the hard data, such as statistics, or similar information that can be measured and compared so investors can judge the potential of a particular investment opportunity.

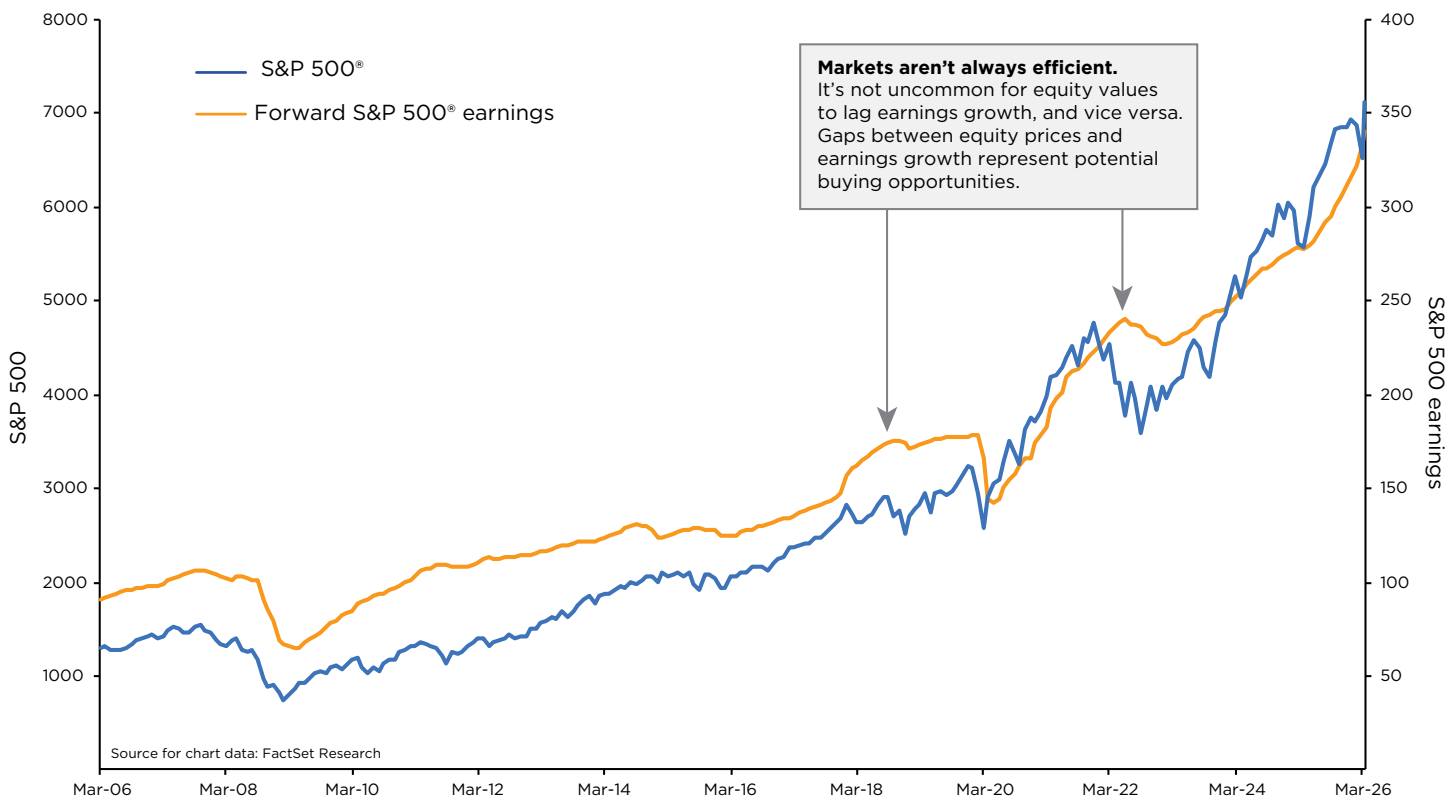
Fundamentals can include (but aren’t limited to) sales, revenue, cash flows and debt ratios. Perhaps the most important business fundamental to consider is earnings, because company earnings are the primary driver of equity market returns. When a firm can grow earnings, share profits with investors and re-invest in their business, the value of its equity shares tends to increase.

Moreover, companies that deliver consistent earnings growth offer the best potential for long-term appreciation of their equity shares. You can see the link between earnings and equity growth in the long-term trends of both illustrated in the chart below. Over time the annualized growth rate for S&P 500® company earnings and the price index are just about equal.

The chart also shows equity returns and earnings growth don’t always move in sync. When gaps emerge between stock prices and earnings, it suggests markets aren’t always pricing fundamentals efficiently. In many cases, these periods of short-term equity volatility are event-driven—investors reacting emotionally to news headlines.

S&P 500® Index vs. earnings growth of S&P 500® companies

March 2006 to March 2026, indexed to 100



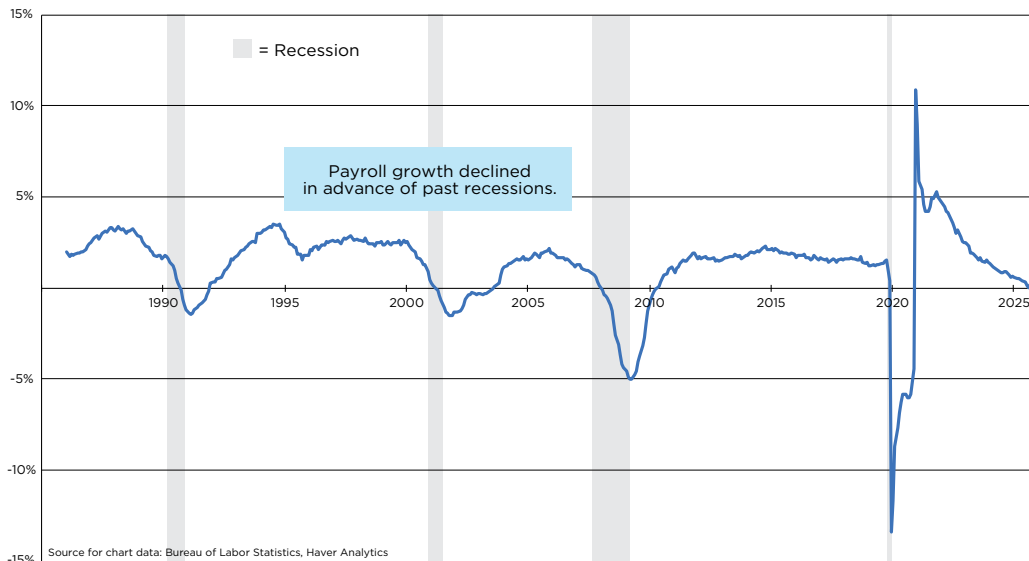
Investors can also watch the labor market for shifts in the economic cycle. Employment growth is one of the clearest gauges of whether businesses are still confident enough to keep adding workers. When payroll growth remains positive, it typically signals an economy that’s still expanding and can continue to support consumer spending and business activity.



When payroll growth turns negative, that signals businesses have become more cautious about the economy and are scaling back on hiring workers. Because a downturn in hiring leads to weaker consumer confidence and spending, economic recessions have often followed. (See chart at right.)

More recently, year-over-year job growth has cooled from the unusually strong pace that followed the pandemic recovery. That suggests the labor market is moderating but not breaking. Still, this is an important trend to watch. If the pace of hiring slows further, it could point to softer business conditions and a less supportive environment for earnings and market returns.

Nonfarm payroll growth % change year-over-year, May 1986-April 2026



Be a savvy investor during election seasons

Investors must rely on their own judgment to identify insights they can use to help make informed investment decisions. A degree of self-awareness is also necessary to recognize internal biases and to challenge existing beliefs, especially when they are related to politics.

Periods of political uncertainty can elevate market volatility as investors grapple with shifting expectations and an abundance of headline risk that rattles sentiment. One upside to volatility is that it can create dislocations between price and long-term value and present attractive entry points for investors with a long-term horizon.

Attempting to time markets around political events or act emotionally due to political persuasion frequently results in reduced exposure during periods when forward returns are most favorable.

An approach that maintains a diversified asset allocation, balances growth with appropriate risk management and rebalances on a regular basis allows investors to harness volatility rather than retreat from it. Viewing political-driven volatility through this lens helps investors remain focused on process, not prediction, and reinforces the advantages of patience, consistency and time in the market.

Tips to help temper the influence of political bias in investment decisions:

1

Be conscious of shifts in emotion after election results are announced and check your behavioral biases when making investment or financial decisions.

2

Apply a strong filter to election news coverage to maintain an objective understanding of the events shaping our world.

3

Remember that election results in either party's favor have historically had little impact on future investment returns.

4

Stay focused on the fundamental drivers of investment performance (e.g., company earnings, revenue growth, profit margins, etc.) and leading indicators of economic conditions.



Help your investors know when to tune out the “noise” of political headlines and tune in to their long-term financial goals. Turn to Nationwide for timely insights on the markets and economy that can help your clients make informed investing decisions.

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