ABR Dynamic Funds

A Note on Recent Elections

Long-term, diversified investors, who stick with a carefully developed plan, are likely to be fine over time. They also may have their patience tried in the runup to the U.S. election. If this happens, they have a few choices.

1. Ignore it.
2. Embrace it.
3. Succumb to it.

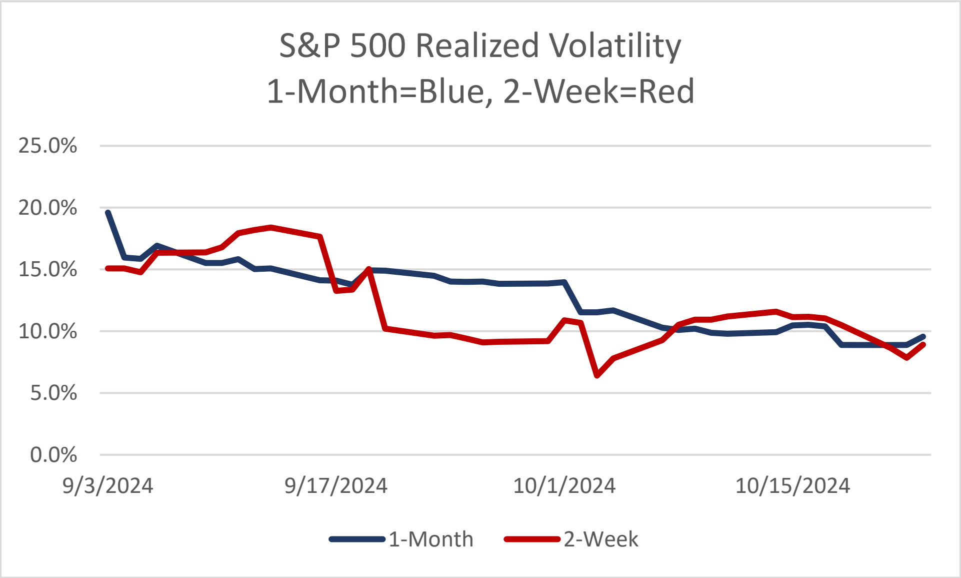
It's great if investors are able to ignore it, but, if not, here is a thought to help with the second option. It is precisely times like these that have allowed investors to put money in the market, come back years later, and have more money. Put another way, without risk, there would be no risk premiums.

The desire can be strong to succumb to the idea that this time is different, and that action – probably hedging – is required. After all, many view this election as very consequential.

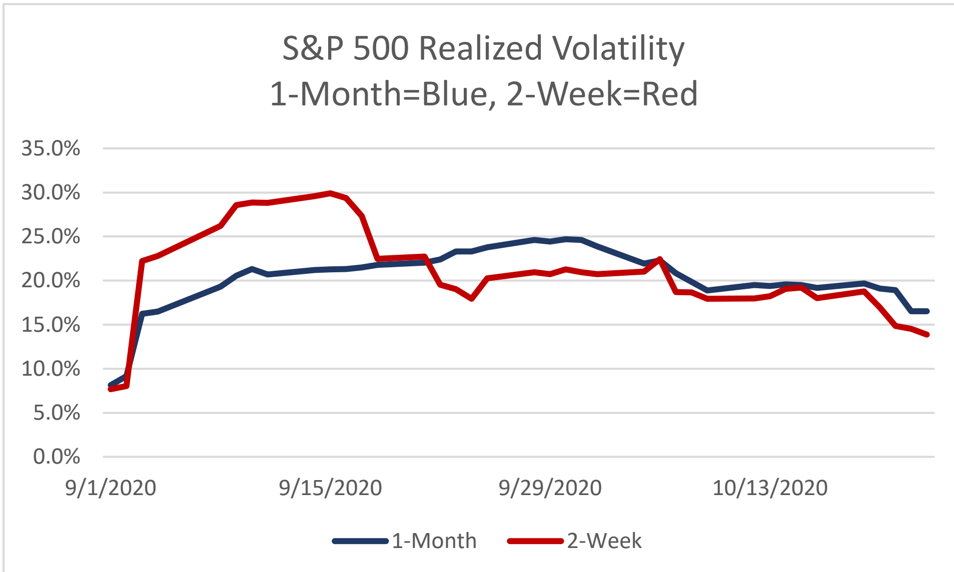
That is not an investing approach that we can endorse. No matter how this time turns out (and we don't know), history indicates that engaging in short-term, reactive behavior is how long-term growth of capital is wrecked. Fear-driven opportunity cost is perhaps the biggest detriment to longer horizon investing.

No doubt many are still tempted by the idea that this time is different. It could be – that's the risk part of risk premium – but here is some recent context on how different it has been so far, from a volatility perspective. Spoiler alert: not very different.

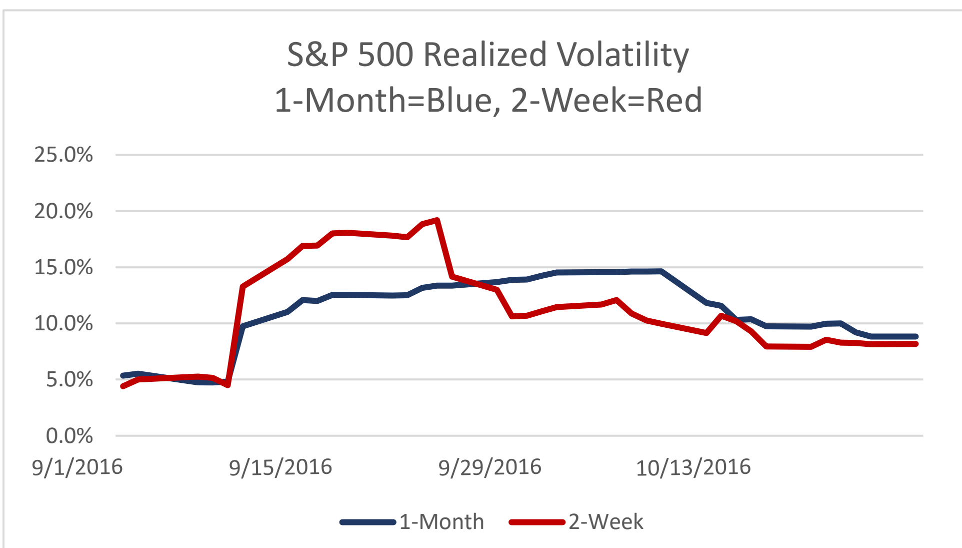
S&P 500 realized volatility has been trending downward…



…like it was through the same point in 2020…

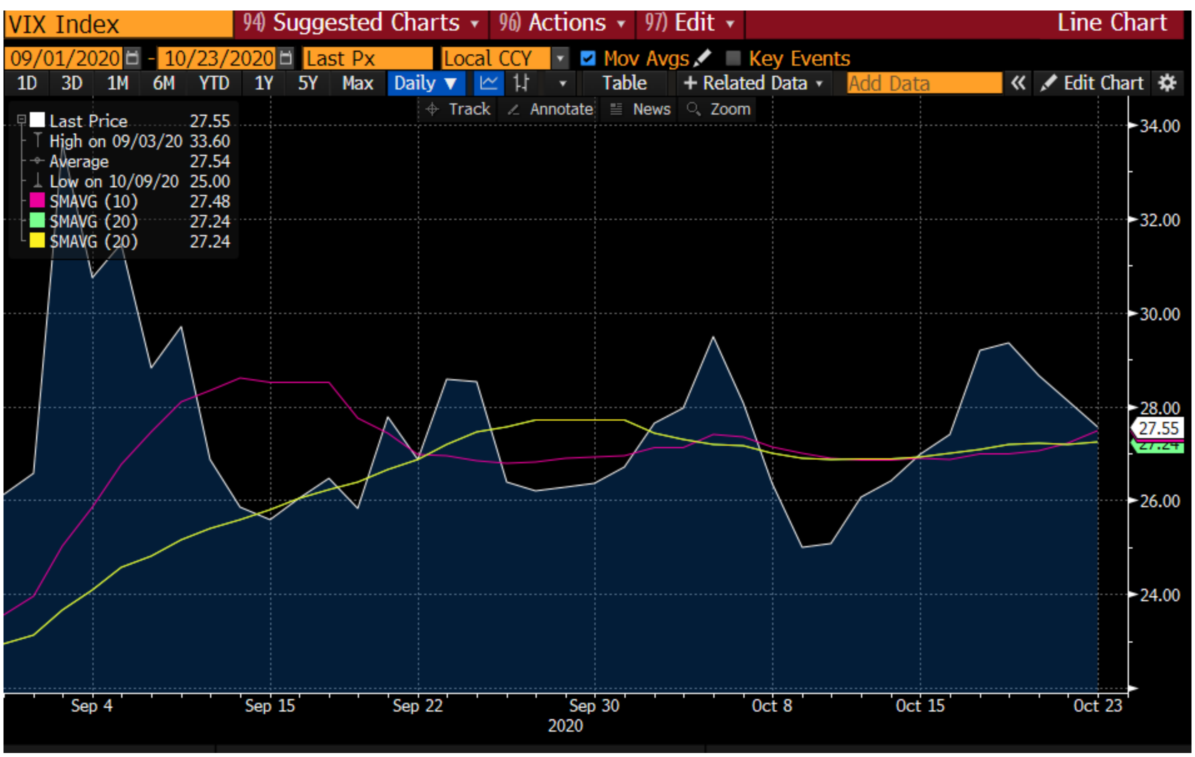


…and 2016.



Implied Volatility (VIX Index) has also been unremarkable, without major trends in either direction. It has, however, been meaningfully higher than realized volatility in the above graphs…

…like it was through the same point in 2020:



…and 2016.

To summarize:

- In the past 3 election runups, including 2024, fear has appeared to exceed reality in the sense that the VIX is currently sitting well above realized volatility.
    - In the two in which November is observable, VIX futures dropped 18% and 35% in November (SPVIXSTR Index), roughly when hedgers would be done "positioning portfolios" for the election (i.e., buying volatility).

- In the previous 2 U.S. elections, again in which November is observable, the S&P 500 was down 1.8% in October and up 3.7% in November (2016), and it was down 2.7% in October and up 11.0% in November (2020).
    - The S&P 500 was also ultimately unfazed by the heightened fear.
    - Over the history of the S&P 500 since 1928, it has returned +1.1% in November and +2.3% in Q4 of election years, on average, compared to 0.6% and 2.0% in all months and quarters, respectively.

Disclosures:

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The S&P 500 Index is a capitalization weighted index of approximately 500 of the largest publicly listed companies in the U.S. The VIX Index is an annualized measurement of S&P 500 implied volatility over the upcoming 30 days, calculated using S&P 500 options. S&P 500 realized volatility is a measurement of the fluctuations in the past returns of the S&P 500. SPVIXSTR Index is a measurement of the result of investing in a rolling blend of the first two VIX Index futures over time, with an average weight to futures settlement of 30 days. Past performance doesn't guarantee future results, and all investing involves risk, including the loss of principal. It is not possible to invest directly in an index.

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