



SHOULD WE BE WORRIED ABOUT OUR INVESTMENTS BECAUSE OF POLITICAL UNCERTAINTY?

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A Guide to Navigating Market Volatility During Uncertain Times

The headlines are hard to ignore. Policy changes, trade tensions, and regulatory shifts dominate the news cycle, leaving many investors wondering how political uncertainty will impact how their investments will perform in their portfolios. At Palmer Wealth Group™, we understand these concerns are real and valid. The Economic Policy Uncertainty Index recently reached its highest levels ever recorded, 8.3 standard deviations above historical averages.¹ Yet our experience managing wealth through multiple political cycles has taught us an important lesson: successful investing requires looking beyond the noise to focus on time-tested strategies and historical patterns.

WHAT HISTORY TEACHES US ABOUT POLITICS AND MARKETS

When examining wealth management during elections and political transitions, the data reveal a reassuring pattern. Since 1928, election years have produced positive returns 83% of the time, with an average return of 11.3%.² Even in 2024, amid intense political uncertainty, the S&P 500 delivered a remarkable 23.31% return, achieving 57 record closes throughout the year.³

The four-year presidential cycle shows consistent patterns worth understanding. Research spanning 90 years reveals that the third year of presidential terms typically delivers the strongest performance, with average returns of 17.2%, while the second year tends to be weakest at 4.6%.⁴ However, these patterns represent tendencies, not guarantees, and successful investors focus on longer-term trends rather than short-term political cycles.

Perhaps most surprising to many investors is how markets perform under different government configurations. Contrary to popular belief, divided government scenarios have historically produced strong market returns, often reducing policy uncertainty rather than increasing it.⁵ The key insight is that political gridlock frequently prevents dramatic policy shifts, creating a more predictable environment for businesses and investors.

UNDERSTANDING CURRENT POLITICAL RISK FACTORS

Today's political uncertainty extends beyond traditional election cycles. Trade policy uncertainty has surged to over 16 standard deviations above average following recent tariff announcements.⁶ Effective tariff rates have increased to 13-20% from previous levels of 2.5%, creating ripple effects across sectors and global supply chains.⁷

Specific industries face unique regulatory challenges. Healthcare executives report regulatory uncertainty as a primary strategic concern, while energy sector developments have created project standstills as companies await clarity on tax credits and environmental regulations.⁸ Financial services anticipate deregulation opportunities, though compliance uncertainty remains elevated.

At Palmer Wealth Group™, we recognize these sector-specific risks require sophisticated portfolio protection strategies that go beyond simple asset allocation adjustments. Our approach incorporates dynamic asset allocation strategies that adapt to changing market conditions, allowing portfolios to respond systematically to evolving political and economic environments. We also recognize the importance of momentum to asset allocation, understanding that market trends and sector rotations during political transitions can create meaningful opportunities for enhanced portfolio performance.

STRATEGIC PORTFOLIO PROTECTION DURING UNCERTAINTY

Effective political risk management starts with enhanced diversification. Our research shows that during periods of heightened political uncertainty, traditional 60/40 portfolios may need modification to better protect and grow wealth.

International Diversification Benefits

Political uncertainty investments benefit significantly from global diversification. US-international developed market correlations of 0.88 and US-emerging market correlations of 0.75 provide meaningful diversification benefits.⁹ International markets offer exposure to different regulatory environments, currencies, and economic cycles that can buffer domestic political shocks.

Our high net worth investment strategy typically includes 20-25% international equity exposure, providing access to different growth opportunities while reducing concentration risk. This approach has proven particularly valuable during periods when domestic policy uncertainty weighs on US markets.

Alternative Investment Integration

Alternative investments play a crucial role in market volatility planning. Private credit markets raised \$59 billion in Q1 2025, offering yield premiums over public markets while providing portfolio diversification.¹⁰ Real estate investments benefit from structural housing shortages, while hedge fund strategies can capitalize on politically driven volatility through long-short equity and global macro approaches.

Our typical alternative allocation ranges from 15-25% of total portfolios, depending on individual circumstances and risk tolerance. These investments often perform independently of traditional political cycles, providing valuable portfolio stability.

Fixed Income Strategy Adjustments

Political uncertainty affects fixed-income markets through policy expectations and inflation concerns. Government bonds provide effective hedging against growth risks during uncertain periods, while corporate credit benefits from generally strong balance sheets despite earnings volatility.¹¹

Investment advisor guidance during political transitions often emphasizes maintaining quality in fixed income allocations while considering duration risk from potential policy changes affecting interest rates and inflation expectations.

PALMER WEALTH GROUP'S PHILOSOPHY ON LONG-TERM WEALTH PRESERVATION

At Palmer Wealth Group™, our wealth management philosophy centers on three core principles that have served our families well through multiple political and economic cycles.

First, we maintain a long-term perspective. Over 95 years of market data demonstrate that economic fundamentals, Federal Reserve policy, corporate earnings, and global conditions have far greater impact on investment returns than political party control. Patient, diversified investors have been rewarded under all political configurations, with the S&P 500 generating over 1,456,754% cumulative returns from 1926-2023 across all political scenarios.¹²

Second, we emphasize sophisticated diversification. Simple asset allocation models may prove insufficient during periods of extreme uncertainty. Our approach incorporates multiple asset classes, geographic regions, investment strategies, and time horizons to create resilient portfolios capable of weathering various political and economic environments.

Third, we focus on active risk management. Political uncertainty creates both risks and opportunities. Our investment process includes systematic rebalancing, tactical adjustments based on changing conditions, and access to institutional-quality investment strategies that can capitalize on market dislocations.

PRACTICAL STEPS FOR TODAY'S ENVIRONMENT

Given current conditions, we recommend several specific actions for investors concerned about political uncertainty.

Portfolio Assessment and Rebalancing

Review current allocations against target models, considering whether portfolios adequately reflect diversification across asset classes and geographies. Current market concentration, with only 19% of S&P 500 stocks outperforming the index in 2024, suggests the importance of broader diversification.¹³

Liquidity Management

Maintain 15-20% of portfolios in liquid assets for tactical flexibility. This provides the ability to capitalize on opportunities created by political volatility while ensuring adequate liquidity for ongoing needs.

Professional Partnership

Complex uncertainty environments favor institutional-quality investment approaches. Working with experienced wealth management professionals provides access to sophisticated strategies, ongoing portfolio monitoring, and adjustments based on changing conditions.

LOOKING FORWARD WITH CONFIDENCE

While political uncertainty will always be present in investment markets, historical evidence strongly supports a disciplined, diversified approach to wealth building. The combination of professional portfolio management, strategic asset allocation, and a patient long-term perspective has proven effective across all political scenarios.

At Palmer Wealth Group™, we believe the current environment, despite its challenges, presents opportunities for well-positioned investors. Enhanced diversification, active risk management, and focus on quality investments position portfolios to weather uncertainty while capturing long-term growth opportunities.

Political cycles create temporary volatility, but fundamental economic growth, innovation, and global commerce continue regardless of which party holds office. Successful wealth management requires staying focused on these enduring trends while making tactical adjustments to navigate short-term uncertainty.

For personalized investment advice and wealth management services, contact Palmer Wealth Group™ to schedule a consultation with one of our experienced advisors.

ENDNOTES

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4. Bankrate, "Election 2024: How Stocks Perform In Election Years," 2024; PFBT, "The 4 Year Election Cycle Theory and the Stock Market," 2024.
5. St. Louis Fed, "What Happens to Expected Stock Volatility around Election Day," December 2024.
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7. LPL Financial, "More Pullback Perspective," 2024; Morningstar, "13 Charts on Q4's Big Postelection Rally," 2024.
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10. Federal Reserve, "Costs of Rising Uncertainty," April 2025; Bank for International Settlements, "Sustaining stability amid uncertainty and fragmentation," 2025.

11. WallStreetZen, "Ultra High Net Worth Asset Allocation: 7 Smart Moves for Building a Resilient Portfolio in 2025," 2025.
12. J.P. Morgan Research, "Market Outlook 2025," 2025; New York Fed, "Certain Uncertainty," March 2025.
13. Goldman Sachs Asset Management, "Market Know-How 3Q 2025," 2025; Morgan Stanley, "Outlooks: Market and Economic Forecasts," 2025.

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