

# The Presidential Pump: Isolating Alpha in the Pre-Election Year

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**ABSTRACT:** We investigate the efficiency of the S&P; 500 across the 4-year US Presidential Election Cycle (1950-2024). Empirical evidence rejects the 'Election Year' hypothesis in favor of a strong, statistically significant anomaly in the **Pre-Election Year (Year 3)**, which exhibits a Sharpe Ratio of 1.58 versus the market's 0.57.

## 1. INVESTMENT THESIS

The 'Political Business Cycle' theory posits that incumbent administrations employ expansionary fiscal and monetary policies in the period substantially preceding an election to maximize economic sentiment during the voting window. Our analysis confirms that this stimulus 'pricing in' occurs primarily in **Year 3** (Pre-Election), not Year 4.

## 2. EMPIRICAL FINDINGS (1950-2024)

The performance disparity is structural. Year 3 offers double-digit mean returns with significantly suppressed volatility ( $\sigma=10.86\%$ ).

Cycle Phase	Mean Rtn	Volatility	Sharpe	Max DD	Win Rate
Year 1: Post-Election	8.36%	17.68%	0.47	-17.37%	—
Year 2: Midterm	3.68%	20.37%	0.18	-29.72%	—
<b>Year 3: Pre-Election</b>	<b>17.18%</b>	<b>10.86%</b>	<b>1.58</b>	<b>-0.73%</b>	<b>89%</b>
Year 4: Election	8.11%	14.41%	0.56	-38.49%	—
Benchmark (Buy & Hold)	9.41%	16.57%	0.57	-41.92%	73%

## 3. STATISTICAL VALIDITY

We test the null hypothesis  $H_0: \mu_{\text{Year3}} \leq \mu_{\text{Other}}$  using a one-tailed Welch's t-test.

- T-Statistic: 3.0532
- P-Value: 0.0018 ( $p < 0.01$ )

**Conclusion:** The outperformance is statistically significant at the 99% confidence level.

## 4. STRATEGY IMPLICATION

A rigorous 'Year 3 Only' strategy (Cash in Years 1, 2, 4) yields a Max Drawdown of just **-0.73%** over 75 years, compared to -41.92% for Buy & Hold. This risk profile suggests Year 3 is an ideal window for leveraged exposure or aggressive factor rotation.

**Recommendation:** Overweight US Equities (SPY) aggressively at the start of the Pre-Election Year. Neutralize or hedge exposure entering the Election Year.