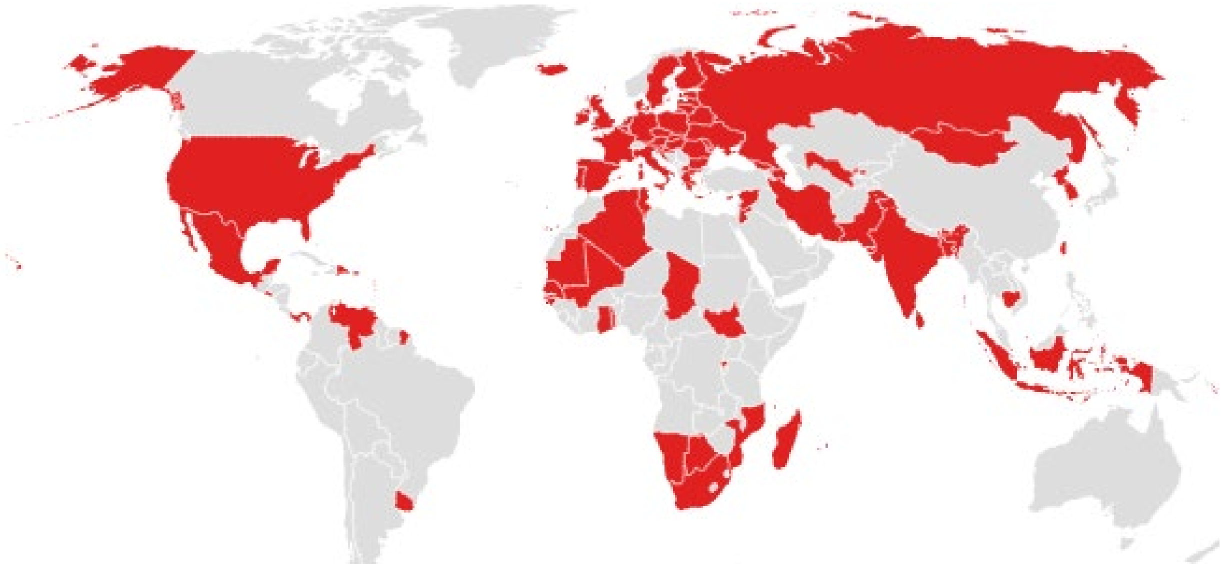
The Federal Reserve During an Election Year

March 2024

2024 is expected to be one of the biggest election years in history, with more than 60 countries representing approximately half of the world's population heading to the polls. The year will include multi-day legislative elections in India (the largest population in the world), Indonesia's presidential election (the world's largest single-day vote), and the globally-anticipated U.S. presidential election.

Countries Scheduled for a Legislative Election in 2024[1]



We believe the Federal Reserve (Fed) will also continue to make headlines, with the market expecting Fed Chairman Jerome Powell to deliver rate cuts as early as March, although market-implied probabilities are weighted more towards May and/or June.

These (potentially) coinciding events raise the question, "Has the Fed adjusted the fed funds rate during an election year?" The answer is a decisive yes.

In fact, the Fed has either cut or raised rates in every presidential election year since 1980 except for one. In 1984, the Fed cut and raised rates in the same year. 2012 was the lone year rates were unchanged, although noteworthy that the Fed announced the third round of its quantitative easing program (QE3) during Obama's reelection year.

A deeper dive shows the Fed has occasionally opted to lower rates in the months immediately preceding an election. Examples include[2]:

- **1984**: Fed cuts rates from 11.75% in September to 10.00% in October (after raising rates from 9.50% in the beginning of the year)
- **1992**: Fed cuts rates from 3.25% to 3.00% in September
- **2008**: Fed cuts rates from 2.00% in September to 1.00% in October

With notable cuts listed above, the Fed has also been inclined to hike rates as we get closer to the election date:

- **1980**: Fed raises rates from 10.00% in August to 13.75% in October
- **2004**: Fed raises rates from 1.50% in August to 1.75% in September

[1]Chart sources: Time; The Ultimate Election Year. [2]Textual data is sourced from Bankrate.com and PIMCO. Charts are for illustrative purposes only. The views expressed represent the opinions of Sterling Capital Management. Any type of investing involves risk and there are no guarantees that these methods will be successful.

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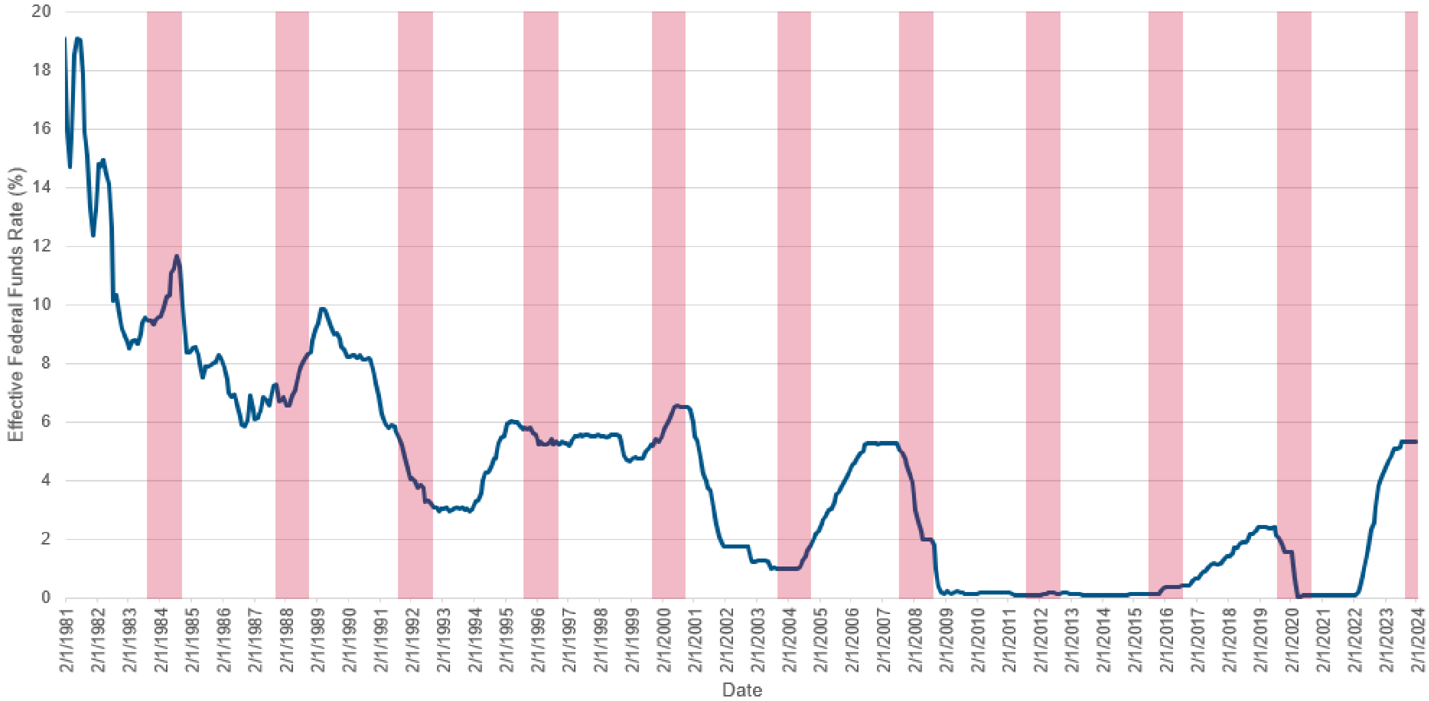
As shown in the below chart, even in the face of a presidential election, the Fed has not refrained from policy changes whether it be rate cuts or rate hikes. While we believe the Fed would prefer to minimize policy changes as an election draws near, history has shown it will adjust accordingly to accomplish its dual mandate of fostering economic conditions that achieve both stable prices and maximum sustainable employment.

Effective Federal Funds Rate (Election Periods Highlighted)[3]



Will 2024 be different? Perhaps, as we are still early in the year. However, based on market-implied probabilities, the market appears to be anticipating some level of rate changes.

[3]Chart sources: Bloomberg L.P.; PIMCO. Charts are for illustrative purposes only. The views expressed represent the opinions of Sterling Capital Management. Any type of investing involves risk and there are no guarantees that these methods will be successful.

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Important Information

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Shane A. Burke, Executive Director, joined Sterling Capital Management in 2013 and has investment experience since 2002. Shane is a portfolio manager on Sterling's Advisory Solutions team with a focus on fixed income. Prior to joining Sterling, he worked as a senior analyst at New England Pension Consultants (NEPC) and as a portfolio accountant with State Street Corporation. Shane received his B.S. in Finance from the University of North Carolina at Wilmington and his M.B.A. from San Francisco - Golden Gate University.

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The fed funds rate is the interest rate that depository institutions (such as banks and credit unions) charge other depository institutions for overnight lending of capital from their reserve balances on an uncollateralized basis.

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