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Midterms Ahead

What history says about the months before and after

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On November 3, 2026, voters will decide all 435 House seats and roughly a third of the Senate. Midterm elections do not draw the same spotlight as a presidential race, but they carry real weight for the balance of power in Washington, and history shows they also tend to carry a distinct pattern for markets in the months on either side of them. Understanding that pattern in advance can make the next few months easier to sit through.

The Weakest Year of the Four-Year Cycle

Going back to 1945, the S&P 500 has averaged a gain of roughly 3.8% during midterm election years, well below the average of about 10.9% for the other three years of a president's term, according to data compiled by CFRA and S&P Global. Midterm years have also tended to bring the deepest swings of the cycle. The average largest drawdown within a midterm year has run close to 18%, compared with roughly 12% in non-midterm years.

That weakness has also tended to be front-loaded. Research from J.P. Morgan Asset Management shows returns have historically been flat to slightly negative in each of the three quarters leading up to a midterm election, before jumping an average of about 6.6% in the fourth quarter, once the outcome is known.

Why the Months Leading Up Tend to Feel Rougher

Markets generally dislike uncertainty more than they dislike bad news, and a midterm election is, by definition, a few months of not knowing how the balance of power in Congress might shift. That uncertainty about future policy, tax rules, spending, and regulation tends to show up as a modest but persistent drag on sentiment through the spring and summer, with volatility often peaking in the weeks just before Election Day.

This pattern is not a sign of anything unusual happening beneath the surface. It has shown up in nearly every midterm cycle on record, regardless of which party held power going in, and it has generally faded quickly once votes were counted and the uncertainty resolved.

What Has Happened After the Votes Are Counted

This is the part of the pattern worth holding onto. Since 1950, the S&P 500 has posted a positive return in every single 12-month period following a midterm election, with an average gain in the mid-teens. Fidelity's research, going back to 1938, found stocks moved higher in the year following a midterm about 95% of the time, with average returns jumping from roughly 5% during the midterm year itself to around 14% in the 12 months after.

None of this means a repeat performance is guaranteed this time. Each cycle has its own economic backdrop, and past results do not predict future ones. What the data does offer is a long, consistent record: the discomfort of a midterm year has historically been temporary, and it has tended to resolve into a stronger stretch on the other side.

Party Control Has Mattered Less Than It Feels Like It Should

It is tempting to assume markets do better under one party than the other. The historical record does not support that. Average annual S&P 500 returns during the Obama administration (16.3%) and the first Trump administration (16.0%) were nearly identical, and both were above the last 30 years' average of roughly 10.3%, according to J.P. Morgan Asset Management. Divided government, which many see as a possible outcome this cycle, has also historically produced solid average returns.

Acting on political predictions has, if anything, tended to cost investors more than it helped them. BlackRock research found that a hypothetical $100,000 invested in the S&P 500 in 2013 and left alone would have grown to roughly $398,000 by early 2026. The same amount, moved to cash whenever an investor's preferred party lost power, would have grown to only about $214,000 or $186,000, depending on which party's fortunes were being tracked. Letting political sentiment drive investment timing has historically been an expensive habit.

A General Principle, Not a Prediction

None of this is a forecast for what will happen between now and November, or in the months after. What it offers is context: the pattern of a choppier run-up followed by a historically strong recovery has shown up again and again, across very different political and economic environments. Recognizing that pattern will not remove the noise of an election season, but it can make the noise easier to sit through without reacting to it.

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Sources

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