

GLOBAL PERSPECTIVES

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THE MIDTERM MARKET PATTERN: WHAT HISTORY SAYS ABOUT THE NEXT 15 MONTHS

HIGHLIGHTS

- ▶ Since 1950, the S&P 500 has returned an average of 29.9% over the 15 months from October of a midterm year through the following December, roughly double the 14.7% average for the same stretch in other years, and all 19 of those periods were positive.
- ▶ The pattern owes more to the calendar than to who wins. When the party out of the White House took both the House and the Senate in a midterm election, which has happened four times since 1928, subsequent returns showed no consistent partisan direction.
- ▶ Stocks enter this window already up 12.7% for 2026 through September, far above the typical midterm year, so history argues for patience and portfolio discipline.

A FAMILIAR TEMPTATION

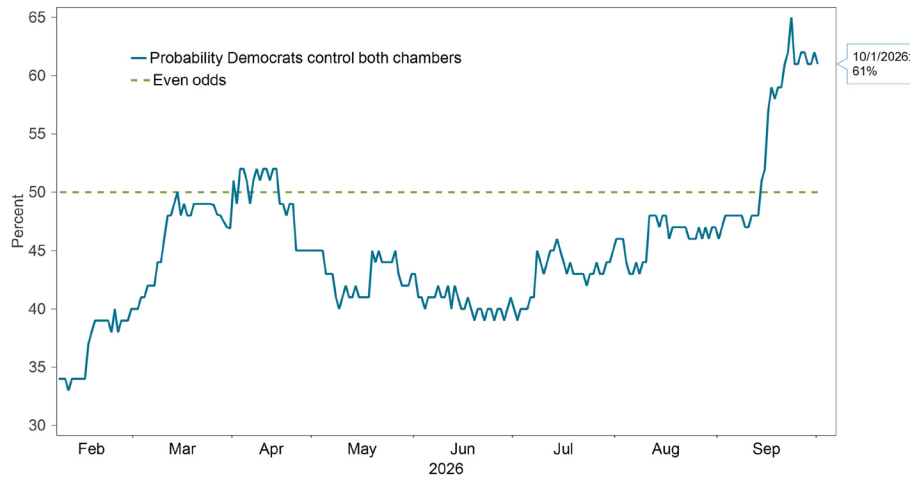
As the midterm elections approach, many investors feel the pull to get defensive and wait for the political fog to clear. History offers a reason to resist that instinct. The months after a midterm election have been among the best stretches of the four-year presidential cycle for US stocks.

The political stakes this year are real. Prediction markets now give Democrats better-than-even odds of winning both the House and the Senate: 61% on Kalshi as of October 1 (**Figure 1**). But the market record around midterms has had far more to do with timing than with which party prevailed.

FIGURE 1

Betting markets now favor a Democratic sweep of Congress

Kalshi market-implied probability that Democrats win both the House and Senate in 2026, daily, February – September 2026



Prediction markets give Democrats better-than-even odds of winning both the House and the Senate in November.

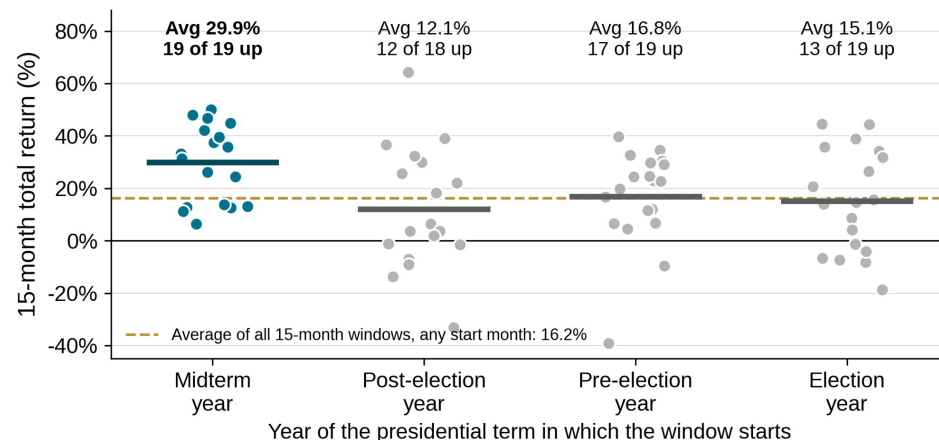
ASSESSING THE MIDTERM MARKET PATTERN

We measured S&P 500 total returns, including reinvested dividends, from the end of September through the end of the following December.¹ That window covers 15 months, starting in each year from 1950 through 2024. When the window began in a midterm year, it averaged 29.9%, and all 19 cases ended higher. When it began in any of the other three years of the presidential term, it averaged 14.7%, and 42 of 56 cases, or three in four, ended higher (Figure 2).

FIGURE 2

Post-midterm stretch nearly doubled the usual 15-month gain

S&P 500 total return, October through the following December, windows starting 1950–2024



Since 1950, the 15 months from October of a midterm year through the following December averaged a 29.9% total return, roughly double the result for the same window starting in other years, and all 19 were positive.

¹ All returns are for the S&P 500 on a total return basis, including reinvested dividends, based on month-end index levels.

No other starting point came close. Windows that began the year after a presidential election averaged 12.1%, those that began the year before averaged 16.8%, and those that began in an election year averaged 15.1%. The average over every 15-month period since 1950, whatever its starting month, was 16.2%. By that yardstick, the post-midterm stretch has delivered nearly twice the typical gain.

The gap is too large to dismiss as luck. If the 75 October-start windows are shuffled at random, a group of 19 matches or beats the midterm group's 15.2 percentage point advantage only about once in 750 tries. Nineteen gains in a row, in periods where gains otherwise occur three times in four, would be expected well under 1% of the time if each window were independent.² As far as finding calendar-based market anomalies goes, the midterm market pattern seems statistically significant.

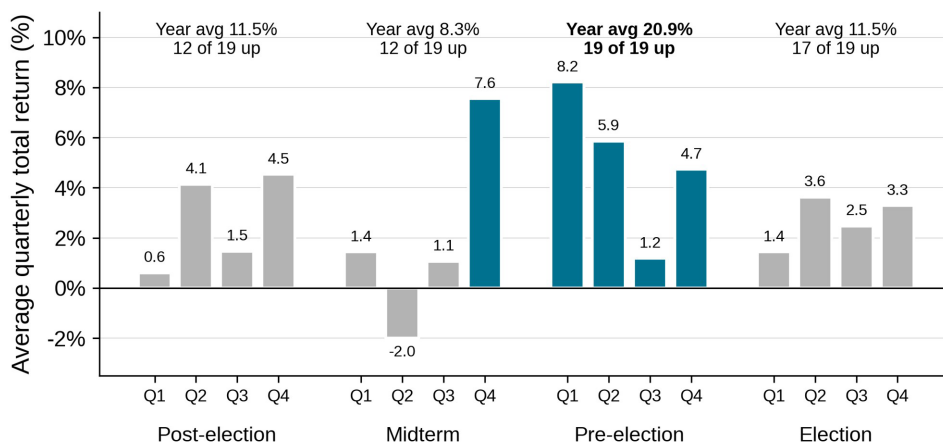
WHERE THE GAINS HAVE COME FROM

The 15-month result is built from two better-known pieces of the cycle. The midterm year itself has been the weakest of the four, averaging 8.3%, with gains in 12 of 19 years. Its second quarter averaged a 2.0% loss, the only negative quarter of the cycle on average (**Figure 3**).

FIGURE 3

The rebound has started late in the midterm year

Average S&P 500 total return by quarter of the presidential term, 1950–2025



Note: Averages of 19 observations per quarter; individual quarters varied widely (Q4 2018: -13.5%). Data through December 2025.
Sources: GW&K Investment Management and S&P Global via Macrobond

The midterm year has been the weakest of the cycle, with a second-quarter dip, but its fourth quarter and the following year have been the strongest stretch of the presidential term.

The recovery has typically begun late in the year. Midterm fourth quarters averaged 7.6%, compared with 4.2% for fourth quarters in other years. The advantage came from the size of the gains rather than their frequency: stocks rose in 84% of fourth quarters in both groups. The first quarter of the following year averaged 8.2%, the best of all 16 quarters. The year after the midterm, the third year of the presidential term, averaged 20.9% and rose in all 19 cases since 1950, with gains ranging from 1.4% to 37.6%.³

These results come with an important caveat: past performance is not indicative of future results. The cycle pattern emerged from this same history, and 16 quarters offer many chances for one to stand out by chance. Explanations such as policy stimulus ahead of a presidential election, or relief

² To test the strength of the midterm market pattern, we randomly relabeled the 75 October-start windows from 1950 to 2024, 1,000,000 times, and counted how often 19 randomly chosen windows beat the other 56 by at least the observed 15.2 percentage points; this occurred 0.13% of the time. The windows overlap the following calendar year, so the 15-month, third-year, and first-quarter results are not independent confirmations of one another.

³ Over the longer 1928–2025 sample, the third year averaged 17.9% and the midterm year 7.4%. The third year declined twice in that longer history: a 43.9% loss in 1931 and a 0.9% loss in 1939.

as election uncertainty lifts, are certainly plausible but hard to prove. Nineteen observations also make for a small sample.

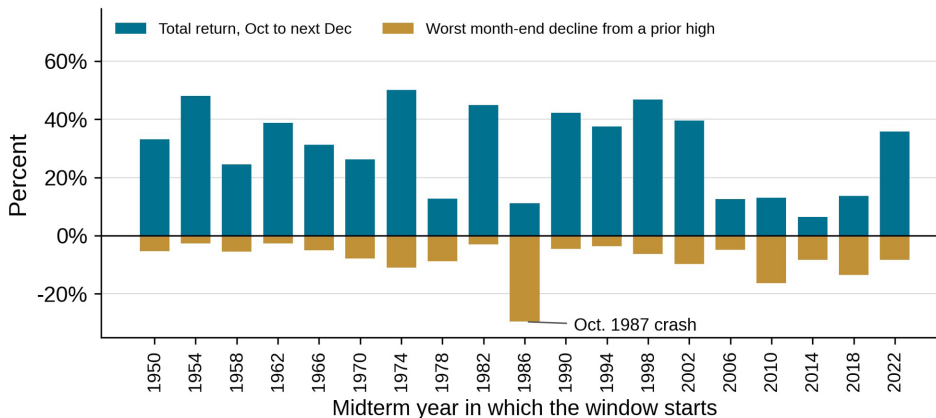
THE AVERAGES HIDE THE RIDE

A winning streak says nothing about what investors had to sit through. Although all 19 midterm windows ended higher, 12 of them included a decline of at least 5% from a prior month-end high, and four included a decline of 10% or more (**Figure 4**). The worst came in the window that began in 1986, when the October 1987 crash cut the market's value by nearly 30% from its month-end peak, before the period ended with a gain. More recently, the fourth quarter of 2018 fell 13.5%, despite its favorable spot on the calendar.

FIGURE 4

Every window ended higher, but most had a scare along the way

S&P 500 total return and worst interim decline, midterm-year October through next December



Note: Declines use month-end levels, so intra-month drops could have been larger. All 19 windows ended higher; 12 fell at least 5% along the way. Data through December 2025.
Sources: GW&K Investment Management and S&P Global via Macrobond

Every post-midterm window since 1950 ended higher, but most included a meaningful decline along the way, most severely the October 1987 crash.

ELECTION OUTCOMES MATTER LESS THAN THE CALENDAR

A sweep of both chambers by the party opposing the president would be unusual. Only four midterms since 1928 flipped both the House and the Senate: Republican gains in 1946 and 1994, and Democratic gains in 1954 and 2006.⁴ The results that followed ranged widely. After the Democratic sweep of 1954, stocks returned 31.4% in 1955. After the 2006 sweep, they returned 5.5% in 2007. The comparable figures after Republican sweeps were 5.2% in 1947 and 37.6% in 1995 (**Figure 5**). Across the four cases, the 15-month window averaged 26.8%, close to the 29.9% for all 19 midterms since 1950. The switches followed the general pattern rather than improving on it. Limiting the comparison to the three switches since 1950 gives the same answer: their fourth quarters averaged 6.4%, versus 7.8% for the other 16 midterms, while their following years averaged 24.8%, versus 20.2%. Which comparison looks better depends on the period chosen, as one would expect from a handful of cases.

A Democratic takeover of either chamber would produce divided government. Over the full 1950–2025 period, stocks did somewhat better under unified government, at an annualized 13.2% versus 11.4%. Excluding recession months reverses the ranking, to 14.2% under divided government

⁴ A complete switch means one party controlled both chambers before the election and the other party controlled both after, based on party divisions published by the House and Senate historians. Gaining one chamber while keeping the other, as in 1986 and 2014, does not count as a complete midterm switch, nor do presidential-election years.

versus 12.1% under unified (Figure 6). The reversal reflects timing more than politics: recessions made up 16% of divided-government months but only 7% of unified-government months.

FIGURE 5

Two-chamber switches have followed no party pattern

S&P 500 total return after midterms in which the party out of the White House gained both chambers, 1928–2025

Year	Party gaining both chambers	Midterm year	Midterm Q4	Next year	Oct. to next Dec.
1946	Republicans	-8.2%	3.5%	5.2%	8.9%
1954	Democrats	52.4%	12.6%	31.4%	48.0%
1994	Republicans	1.3%	0.0%	37.6%	37.6%
2006	Democrats	15.8%	6.7%	5.5%	12.6%
Avg.	Four switches	15.3%	5.7%	19.9%	26.8%
Avg.	All 19 midterms, 1950–2022	8.3%	7.6%	20.9%	29.9%

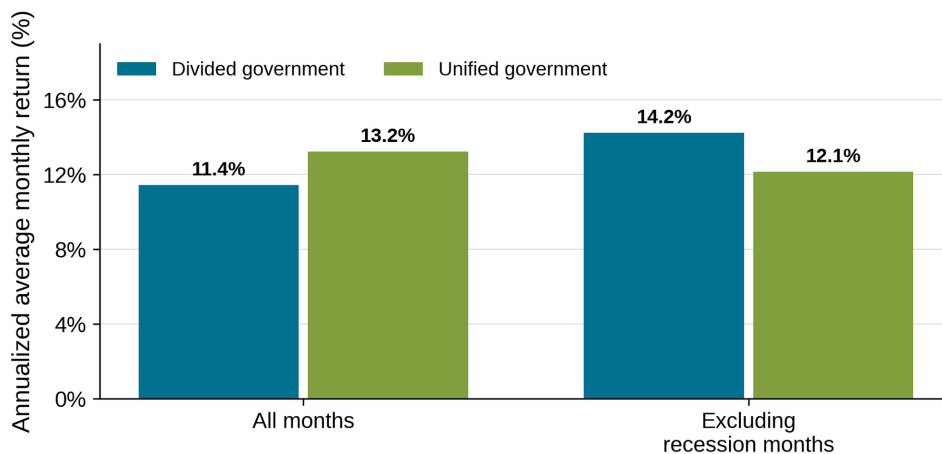
Note: Four cases cannot separate the effect of a change in control from inflation, rates, valuations, and recessions. Data through December 2025.
Sources: GW&K Investment Management and S&P Global via Macrobond; US House and Senate historians

The four midterms in which the party out of the White House gained both chambers of Congress were followed by widely varying returns, with no consistent pattern by party.

FIGURE 6

Divided government's edge appears only outside recessions

S&P 500 total return by party control of the White House and Congress, monthly, 1950–2025



Note: Recession months were 16% of divided-government months versus 7% of unified months. Recessions are dated only in hindsight. Data through December 2025.
Sources: GW&K Investment Management and S&P Global via Macrobond; US House and Senate historians; NBER

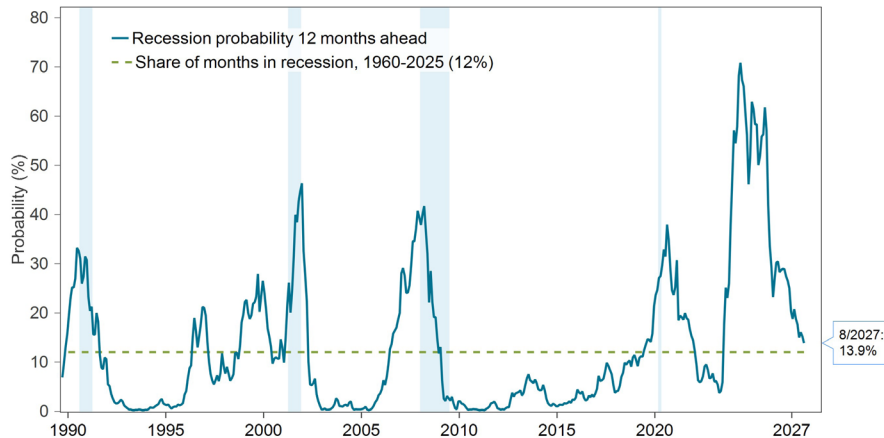
Divided government has outperformed unified government only after excluding recession months, and recessions were far more common during divided government.

It therefore appears the economic outlook matters more than the election result. And for what it's worth, the bond market is not flashing a recession warning. According to the New York Fed's model, based on the gap between 10-year Treasury yields and 3-month bill rates, the probability of a recession 12 months ahead was 13.9% as of August (Figure 7). That barely differs from the 12% of months since 1960 when the economy was in recession.

FIGURE 7

The yield curve puts recession odds near their long-run norm

Probability of US recession 12 months ahead, NY Fed Treasury-spread model, 1990–2025



Note: Gray bars mark NBER recessions. Model output is a probability, not a forecast of timing; it rose above 70% in 2023 without a recession following. Data through August 2026.

Sources: GW&K Investment Management and Federal Reserve Bank of New York model; Federal Reserve Board data via FRED; NBER

The New York Fed's yield-curve model puts the odds of a recession within a year near 14%, close to the long-run share of time the economy has spent in recession.

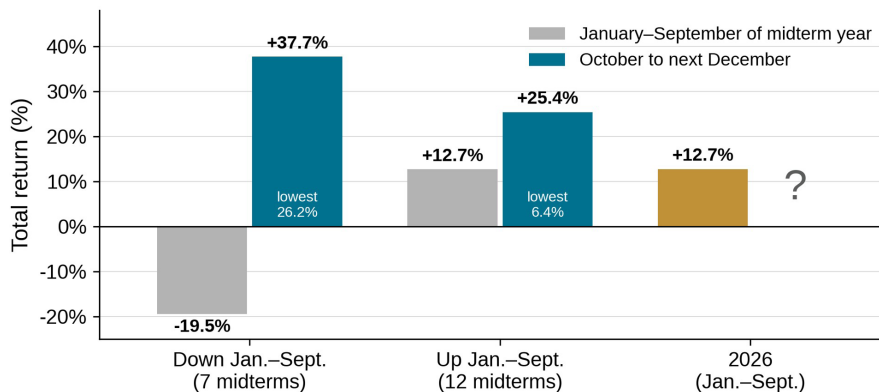
WHAT COULD MAKE 2026 DIFFERENT

The biggest difference this year is where stocks are starting from. The S&P 500's total return was 12.7% for 2026 through September, compared with an average of 0.9% for the same months of midterm years since 1950. Historically, the midterm window often began after a rough patch, and part of its strength was recovery. After midterm years in which stocks were already up through September, the following 15 months averaged 25.4%, compared with 37.7% after losing starts; this year's 12.7% gain is exactly the up-year average (**Figure 8**).

FIGURE 8

2026 looks like the up-start years, which saw smaller rebounds

S&P 500 total return before and after the midterm election, by January – September performance



Note: Group bars are averages of midterm years 1950 – 2022; the bar is the actual year-to-date return. All 19 windows rose; outcomes varied widely. Not a forecast. Data through September 2026.

Sources: GW&K Investment Management and S&P Global via Macrobond

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We would still argue that fundamentals matter more than the election calendar. Corporate earnings, inflation, and borrowing costs are likely to drive equity markets, as is almost always the case. Also, given the AI theme's driving role, investors are likely to focus on whether heavy AI spending generates sustainable profit growth. Investors will also watch closely how the newly elected Congress influences taxes, government spending, and regulation. And we doubt that a divided government will bring smaller deficits or lower interest rates.

PERSPECTIVE FOR PORTFOLIO DECISIONS

The main lesson is not to use election dates as a reason to enter or exit the market. Selling on political uncertainty forces a second decision about when to buy back, and history suggests the months after a midterm have been an expensive time to wait on the sidelines. The same history shows that sizable interim declines are common, so a favorable calendar does not justify taking more risk than an investor's plan allows.

History may not repeat itself this time around. But knowing the favorable market history around midterm elections may help investors avoid headline-driven decisions.



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