THE QUALITY PULSE

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ISSUE 09 | 6 NOVEMBER 2026 | 6 MIN READ



What history reveals about US midterms, market nerves and the rally around election day

Waiting until the election is over can feel like the sensible thing to do. There will be a result, the competing promises will give way to a clearer agenda, and investors can decide what comes next. Yet markets rarely wait for that clarity. By the time the votes are counted, share prices may already reflect much of the outcome investors were waiting to see. That is worth remembering following the US midterm elections on 3 November 2026 for all 435 House seats and 35 Senate seats.

Donald Trump remains president, but the result will determine how easily he can pursue his agenda through Congress. For investors, history offers an intriguing reassurance: the S&P 500 was higher twelve months after every midterm from 1950 through 2022, with an average price gain of about 15%. The more revealing story is what happened on the way there. [1][2][3]

THE RECOVERY OFTEN BEGINS BEFORE THE VOTE

Midterm years have often been uncomfortable for shareholders. Capital Group's study since 1970 puts median annualised volatility at nearly 16%, compared with 13% in other years, with the months approaching the election particularly unsettled. In plain language, daily price movements have tended to be larger. These figures measure the variability of returns; they do not mean that investors typically lost 16%. Nor can all that turbulence be attributed to politics. Interest rates, recessions and earnings disappointments do not pause for an election campaign. [7]

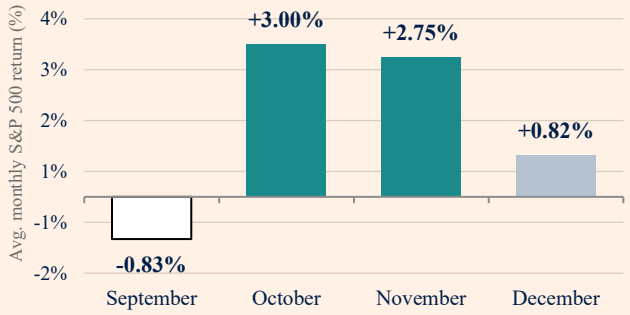
But an unsettled market need not be a falling one. Looking specifically at the final month, BlackRock finds that the average recovery began roughly 22 trading days before midterm elections in its 1970–2022 sample. A separate J.P. Morgan study reports an average October gain of 3.0% in midterm years since 1950, following a 0.83% September decline. October is a useful view of the run-up, although it is not exactly the month ending on Election Day. Anyone waiting for Election Day could therefore miss part of that recovery. [8][9]

INVESTMENT PERSPECTIVE

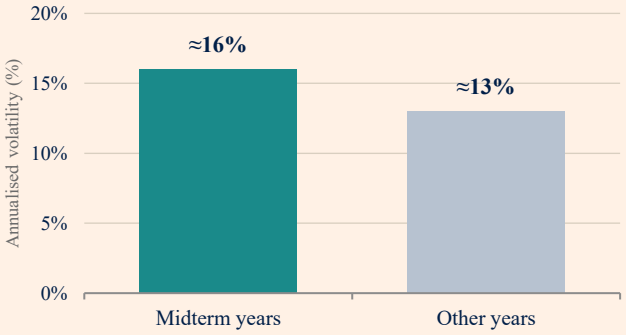
History suggests that markets have tended to anticipate midterm outcomes rather than wait for them. The election calendar is a weak guide on its own; what has mattered more for long-term returns is the development of profits, interest rates and the price paid for a business.

Sources numbered [1]–[13]: full references on page 4

Gains have often begun before polling day



But with larger day-to-day swings



Left: average monthly S&P 500 returns in midterm years, 1950–2022, as reported by J.P. Morgan/Bloomberg [9]; calendar months, not returns measured from Election Day. Right: approximate median annualised volatility, 1970–2025, Capital Group [7], based on daily returns within each month. Different measures and samples; historical evidence, not forecasts.

SOURCES: J.P. MORGAN [9], CAPITAL GROUP [7]

The improvement has often continued after the vote. Since 1974, the S&P 500 gained an average 5.7% over the next three months and 12.4% over six months; only two of the thirteen elections were followed by a negative three-month return, and none by a negative six-month return. One plausible explanation is that knowing the political outcome removes a source of uncertainty. But these averages cannot separate that effect from changes in the economy, and the twelve-month winning streak rests on just nineteen elections. [3]

To see what that limitation means in practice, consider 1982 and 2018. Both belong to the positive twelve-month record, yet they illustrate opposite timing risks: in 1982, a powerful rally was already under way before the vote; in 2018, the worst turbulence still lay ahead. They are useful contrasts, rather than a claim that every midterm follows either path. [1][3][4]

TWO VERY DIFFERENT JOURNEYS TO A POSITIVE RETURN

In 1982, investors were looking for an end to a severe recession and relief from high interest rates. As the Federal Reserve cut rates, the S&P 500 rose more than 26% between 1 August and Election Day. The economic outlook was changing before the political result was known. Waiting until after the election would therefore have missed a substantial part of the recovery. It also explains why the average pre-election return can look reassuring even when the experience in a typical year was much less spectacular. [3]

+26%

S&P 500 gain between 1 August 1982 and Election Day, before the result was known

SOURCE: SCHWAB [3]

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Midterms since 1950 followed by a higher S&P 500 twelve months later

SOURCE: J.P. MORGAN [1]

+12.4%

Average S&P 500 return in the six months after midterms since 1974

SOURCE: SCHWAB [3]

Dec 2018

Low of the year reached a month after the vote, despite a positive 12-month return

SOURCE: RBC [4], FED [5]

The 2018 election offered no such immediate comfort. Stocks continued falling after the vote and reached their low for the year in December. Federal Reserve minutes describe worries about global growth and monetary policy, amplified by thin year-end trading. Sentiment improved in early 2019 when Fed officials signalled greater patience and flexibility. The market eventually delivered another positive twelve-month post-midterm return, but investors had first endured a painful decline. Knowing the election result had not resolved their larger concern about the economy. [1][4][5]

Read together, these episodes explain why a perfect historical record is less useful as a trading rule than it first appears. The same positive endpoint can include an early rally or a late sell-off. Nineteen successful observations cannot tell us how the next one will unfold, and the average gain says little about the starting valuation or earnings outlook facing investors today.

GLOBAL SPILL-OVER EFFECT

The historical rebound has also reached well beyond Wall Street. MSCI's analysis of 13 midterm elections between 1974 and 2022 found that developed-market equities outside the US gained an average of 15.7% over the following six months when the president's party lost control of a chamber of Congress, and 13.0% when it did not. These are US-dollar price returns, excluding dividends, but they show that the post-midterm strength was not confined to American companies. [10]

That wider reach makes economic sense: European and Asian businesses sell into the US, while investors everywhere respond to changes in American interest rates, trade policy and appetite for risk. A more settled outlook in Washington can therefore support confidence far beyond its borders. Yet these connections also transmit shocks: trade restrictions can hurt exporters, and higher US yields can put pressure on valuations worldwide. The encouraging historical pattern is therefore relevant to global investors, but its durability still depends on the economic conditions shared across markets – not simply on the ballots being counted.

THE 2026 RESULT: A NEW TEST FOR THE HISTORICAL PATTERN

The 2026 midterms have now provided a fresh test of that historical pattern. Democrats won control of both the House of Representatives and the Senate, ending Republican control of Congress and placing new constraints on President Trump's legislative agenda. The initial market response was unsettled: US equity futures fell as the results emerged, with technology shares particularly sensitive to the prospect of tighter oversight of artificial intelligence. Treasury yields and the dollar also declined, although equity futures subsequently recovered some of their losses.

The reaction illustrates the distinction at the heart of the historical evidence. Elections can change policy expectations overnight, but they do not settle the outlook for corporate earnings, interest rates or valuations. With a Democratic Congress and a Republican president, negotiations over spending, taxation and regulation may become more difficult, while executive powers and presidential vetoes remain important. For investors, the question is therefore not simply who won the election, but which changes were already reflected in market prices – and which could still alter the outlook for businesses.

WHAT A CHANGE IN CONGRESS CAN REALLY CHANGE

If the calendar cannot explain the whole story, perhaps the winner can. Investors often assume that divided government is favourable because it makes sweeping policy changes harder. Yet RBC's historical study finds that, under Republican presidents, returns were stronger with unified Republican control than with a divided Congress or Democratic control of both chambers. That does not establish a superior political arrangement. It shows how easily a simple slogan can conceal the very different economies each government inherited. [4]

For 2026, the more useful question is what becomes possible after the vote. A Democratic House creates a stronger obstacle to major partisan bills, while a Democratic Senate can also make appointments more contested. Budget negotiations still have to happen. And trade-policy uncertainty will not simply disappear: the president retains tariff powers delegated under several laws, subject to their conditions and legal limits. [2][6]

The practical question for investors is how these policy changes could affect the businesses they own. A tax change can alter profits; healthcare funding can affect demand for providers and suppliers; energy incentives can change whether a project is worth building. But even a favourable policy can disappoint the market if share prices already assumed something more generous. The result matters through the change in expectations, not just through the party that wins.

There is a bond-market side to this too. Policies that increase borrowing or inflation pressure could lift Treasury yields, making finance more expensive and reducing what investors will pay for future earnings. Swiss and European investors also need to consider US sales, supply chains and the dollar: a gain in the S&P 500 is not automatically the same gain in francs or euros.

The pre-election scenarios below illustrate potential sector effects, rather than forecasts of returns. Trump remains president in every case; Democratic majorities still face his veto, while many executive-led policies can continue. [11–13]

Election outcome	Potential beneficiaries and why	What could limit the benefit
Democrats win both chambers	Hospitals and selected health insurers: pressure to protect coverage and funding. Renewable-energy developers and suppliers: stronger efforts to preserve clean-energy incentives.	New funding would require agreement with the president. Drugmakers could face renewed pricing pressure.
Republicans retain both chambers	Banks and capital-markets businesses: support for lighter regulation. Oil-and-gas infrastructure suppliers and AI power infrastructure: continued backing for development.	Much deregulation can proceed without Congress. Higher borrowing costs or weaker commodity prices could offset favourable policies.
Split Congress	No clear sector-wide winner. Fewer sweeping legislative changes could support policy continuity; executive-led deregulation could continue.	Budget disputes could delay contracts and funding. Gridlock would not automatically ease trade uncertainty or lower interest rates.

These effects also reach overseas businesses with US customers and projects. A favourable policy outcome can still disappoint investors if share prices already anticipate it. Sources: [11–13].

THE PULSE

History gives investors good reason to resist the urge to retreat until politics feels calmer. It gives much less reason to buy simply because a midterm has passed.

The experience of 1982 and 2018 suggests a better habit: keep watching what is changing in profits, interest rates and the price paid for a business.

Elections can change policy expectations overnight, but they do not settle the outlook for earnings, interest rates or valuations – and those are what long-term returns depend on.

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