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The Mid-Term Election

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What is the history of the mid-term elections in the second presidential term and the impact on the stock market?

Midterms in a president's second term have usually been bad for the president's party—but not necessarily for stocks. The important distinction is between the political "six-year itch," which has a fairly consistent historical pattern, and stock-market performance, which depends much more on the economic backdrop. In the five completed second-term midterms since Eisenhower—1958, 1986, 1998, 2006 and 2014—the president's party lost House seats four times, while the S&P 500 delivered positive calendar-year total returns in all five.

The Historical Record

We are reviewing the midterms held during a president's second four-year term—not simply the second year of any presidency.

The table below covers the clear second-elected-term cases since Franklin Roosevelt. Returns include reinvested dividends; they measure the entire election calendar year and the following calendar year, not the election's immediate impact. Before 1957, the stock-return series uses the S&P predecessor index.

Second term mid-term	President	President's party: House seat change	President's party: Senate seat change	Stock-market total return that year	Following calendar year
1938	Franklin D. Roosevelt	−72	−7	+31.12%	−0.41%
1958	Dwight Eisenhower	−48	−12	+43.36%	+11.96%
1986	Ronald Reagan	−5	−8	+18.67%	+5.25%
1998	Bill Clinton	+5	0	+28.58%	+21.04%
2006	George W. Bush	−30	−6	+15.79%	+5.49%
2014	Barack Obama	−13	−9	+13.69%	+1.38%

Sources: Congressional seat changes from Brookings; Stock returns from the historical S&P total-return series. Seat changes compare the midterm results with the preceding general election, so they can differ from counts based on seats held immediately before Election Day.

Two patterns stand out:

- Political setbacks were common: the president's party lost seats in both chambers in five of these six elections. Clinton's 1998 election was the exception.
- Strong stock markets did not prevent those setbacks: every election year in the table had positive total returns, including substantial gains in 1938 and 1958 despite large congressional losses. Conversely, the following calendar year was not invariably strong.

What is the actual impact on the market?

1. Political defeat and investment losses are different outcomes

A congressional setback changes the president's capacity to enact legislation. It does not automatically reduce corporate earnings or raise discount rates. Historically, markets have advanced under unified government, split Congresses, and opposition-controlled Congresses; there is no simple rule that one configuration is necessary for gains.

The second-term record illustrates this separation especially clearly: major presidential-party losses and rising stocks often occurred in the same year.

2. Resolution of uncertainty may help—but does not prove causation

One explanation for the historical late-year improvement is that elections narrow the range of possible policy outcomes. Chase identifies the removal of election uncertainty as a potential explanation for the stronger fourth-quarter pattern. But the historical association alone cannot tell us how much of the rally came from the election rather than changing economic conditions.

3. Macro conditions can overwhelm the election cycle

Economic growth, earnings, inflation and interest rates have generally mattered more for long-term market returns than election results. The negative 1974 return and sharp 1975 rebound are a useful reminder that the same presidential-cycle position can coincide with very different market environments.

Even a positive annual result can conceal substantial risk. For example, the following-year return after Reagan's 1986 midterm was positive in 1987; that calendar-year figure should not be read as evidence of a smooth investment experience. More generally, the investment studies find elevated volatility in midterm years.

What this implies for 2026

Trump's 2026 midterm falls within his second elected term, although the nonconsecutive nature of his presidencies makes it an imperfect match for the traditional sixth-consecutive-year pattern. There is not yet a completed 2026 election result to include in the historical comparison.

For an investment framework, the history supports three conclusions:

- A presidential-party congressional setback is historically common, but it is not by itself a bearish equity signal.
- A post-midterm rally is a meaningful historical tendency in the broad sample, not a guarantee specific to second terms.
- The more useful market question is what the outcome changes about policy and how those changes interact with earnings, inflation and interest rates—not simply whether the president "wins" or "loses" the midterm.

In short, second-term midterms have been more reliably adverse for presidential political power than for stock-market returns. The historical evidence is useful context, but it does not isolate an election-driven return premium or justify treating 2026 as a mechanical repeat of earlier cycles.

OUTLOOK

The year-to-date numbers still look good, but the third quarter was flat to slightly positive. Generally, the third quarter is the most challenging from a stock market standpoint. So far, this year is following that familiar pattern. Hopefully, the fourth quarter will follow the "normal" pattern and end the year in a strong fashion, but there are no guarantees.

The midterms represent another variable. If events play out as they have historically, noted in the body of this newsletter, then all is well. A strong market post midterm regardless of political outcome is a rosy scenario, but there are other factors to consider. We have had a strong market over the last four years, trouble in the Mideast, rising inflationary pressures and the Fed raising interest rates. Also, AI, the main driver of this recent economic boom, is running into some headwinds: AI data centers locations and pushbacks on AI itself being considered dangerous to humanity. However, we do not feel that AI will be stopped even if it is temporarily slowed down because it does represent the future. Nevertheless, we feel it might be prudent to take some risk off the table. no drastic moves but possibly adding some buffered etf's back into the portfolio that have upside potential along with some downside protection. If we do implement this strategy, it will have little immediate impact on tax-qualified accounts, but taxable accounts will realize some taxable gains because almost anything we sell has accumulated gains but we will try to minimize the effect to the extent that we can. As always, the outlook is subject to change as events occur and new information becomes available.

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