

The Midterm Election Effect On Markets

Correlation Is Not Causation



John Stoltzfus

Chief Investment
Strategist, Managing
Director

Oppenheimer Asset
Management

Jim Johnson
Senior Director

Jared Krongold
Senior Director

Kole Henry
Senior Director

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Key Takeaways:

- Midterm years tend to bring more volatility and weaker returns.
- Markets have often rebounded strongly after elections, with above-average gains in the following year.
- Politics is only one factor—markets are driven by broader economic forces.
- Staying invested has historically outperformed trying to time elections.

What Midterm Election Years Have Historically Meant for Investors

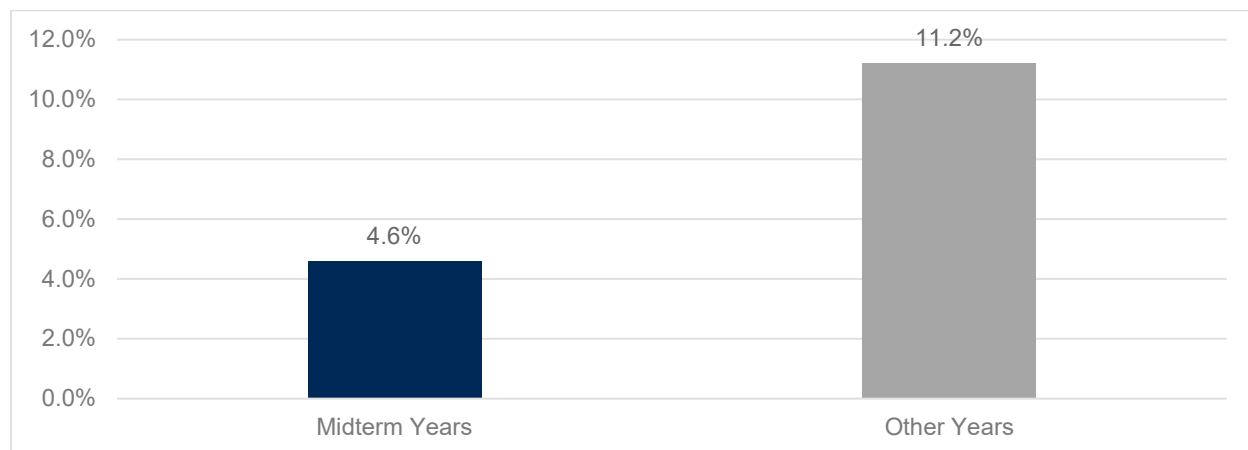
Investors often search for patterns in the market the way travelers look for weather forecasts before a long trip. One of Wall Street’s most closely watched seasonal patterns is the so-called “midterm effect”—the tendency for stocks to experience weaker and more volatile returns during U.S. midterm election years before often recovering after Election Day. Importantly, this pattern has not historically rewarded attempts to step out of the market ahead of elections and re-enter later.

But while history can provide useful clues, it does not provide guarantees. Markets are shaped by far more than politics alone, and every election cycle comes with its own unique economic and geopolitical backdrop.

Since 1948, years featuring a U.S. midterm election for Congress have produced an average annual gain of 4.6% for the S&P 500, compared with an average gain of 11.2% during the other three years of the presidential cycle.

Years that feature a midterm election tend to have lower returns and higher volatility than the other three years of the election cycle.

Annual Returns for Midterms vs. Other Years



Source: Oppenheimer Asset Management Research, Bloomberg. Data are calendar average returns from 1948 to 2025.

The tendency for markets to experience more volatility and weaker returns leading up to midterm elections is commonly referred to as “the midterm effect.”

The reasoning is fairly intuitive: the party controlling the White House often loses Congressional seats during midterm elections, creating uncertainty around taxes, spending priorities, regulation, and the broader legislative agenda. And markets tend to dislike uncertainty the way drivers dislike heavy fog—investors often slow down when visibility becomes limited.

Why Midterm Years Often Feel Different

Market returns typically follow seasonal patterns throughout the year. Historically, January and April have often been stronger months for equities, supported in part by new investment contributions and tax refund season.

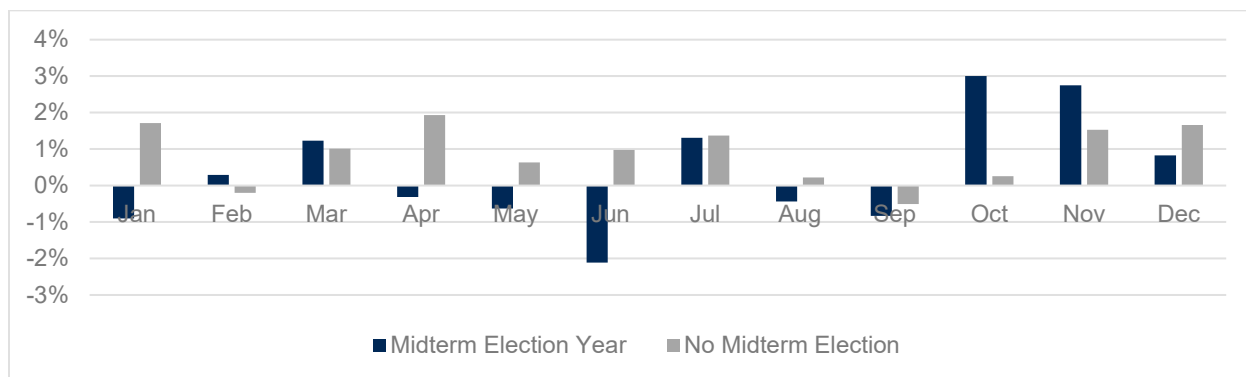
But midterm election years frequently break that rhythm.

Historically, returns during midterm years have tended to soften through the summer and early fall as investors weigh the potential impact of political change. Then, as polling begins to clarify the likely outcome, markets have often regained confidence later in the year.

In fact, the strongest gains during many midterm years have historically occurred in October and November.

Monthly stock returns have a seasonal pattern that is different in the years that feature a midterm election than those of the other three years.

Monthly Returns on S&P 500 since 1948



Source: Bloomberg, OAM Research.

The pattern suggests that markets may respond less to which party wins and more to the simple reduction of uncertainty once the election outcome becomes clearer.

What Happens After the Election?

Historically, the period following midterm elections has often been much stronger for investors.

Since 1948, the S&P 500 has risen an average of 13.9% during the twelve months following a midterm election, compared with an average gain of 5.8% during the comparable periods of non-midterm years.

The twelve-month period following a midterm election tends to bring stronger returns than the same periods of the other three years of the US election cycle.

Post-election Returns (Dec. to Nov.)



Source: Oppenheimer Asset Management Research, Bloomberg. Data show the average changes in the Dec-Nov period following midterm elections since 1948, versus those of other years.

Why might that happen?

Once elections are behind them, investors typically have greater visibility into the political and policy environment ahead. Markets often prefer clarity—even if the outcome itself is imperfect—over prolonged uncertainty.

Of course, history does not repeat perfectly. But the consistency of stronger post-midterm returns has made this one of the more closely followed patterns in market history.

What About 2026?

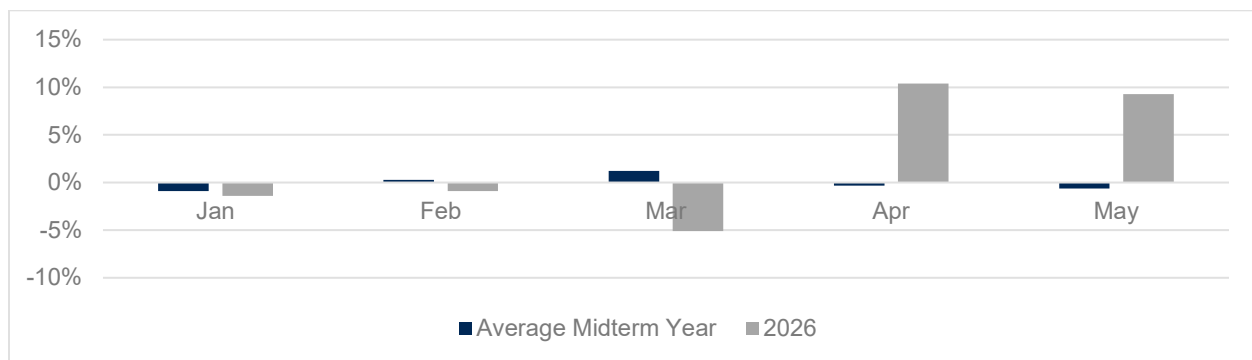
Thus far, 2026 has not behaved like a “typical” midterm election year.

Why might that be?

While midterm years have historically coincided with weaker returns earlier in the year, markets are influenced by many other forces at the same time. In 2026, concerns surrounding the conflict with Iran and the resulting energy price shock likely overshadowed election-related uncertainty.

Thus far in 2026, monthly returns over the first four and a half months have been atypical of a midterm election year, suggesting that these patterns do not always hold in each and every election cycle. Other factors have likely trumped the midterm effect.

Select Monthly Returns on S&P since 1948



Source: Oppenheimer Asset Management Research, Bloomberg. Data for 2026 are through May 11.

At the same time, strong corporate earnings from S&P 500 companies helped support investor sentiment during the spring months.

In other words, election cycles may influence investor behavior around the margins, but they are rarely the only force driving markets.

The Bigger Picture for Investors

While 2026 has already demonstrated that no election cycle follows a perfect historical script, the broader lesson may be less about politics and more about investor discipline. For long-term investors, the key lesson is not to avoid midterm election years, but to remain focused on time in the market rather than timing the market. Periods of uncertainty can feel uncomfortable in real time. Headlines become louder, volatility rises, and the temptation to react emotionally increases. Yet history suggests that some of the strongest market periods have often followed moments of peak uncertainty.

We cannot say with certainty whether markets will continue to rally into late 2026 and 2027. Historically, investors who stayed invested through periods of uncertainty—including election

cycles—have often been better positioned to participate in subsequent recoveries, though naturally this cannot be guaranteed.

OAM's current market views continue to reflect a constructive outlook toward equities, while recognizing that market conditions may change. With bond prices lower and yields higher than earlier this year, fixed income may also present opportunities for investors seeking current income and portfolio diversification, depending on individual objectives, risk tolerance and financial circumstances.

From a sector perspective, OAM is currently monitoring areas such as information technology, communication services, industrials, financials, and consumer discretionary. These views are subject to change and should not be interpreted as a recommendation to buy, sell, or overweight any sector, security, or investment strategy.

Stay tuned.

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