The Relationship Between Stock Market Performance and Midterm Elections

I ask Google's Gemini…

Midterm Year	S&P 500 Level (Aug 1 Close) *	S&P 500 Level (Nov 30 Close) *	Price Return (Aug 1 – Nov 30)
2022	4,118.63	4,080.11	**-0.94%**
2018	2,813.36	2,760.17	**-1.89%**
2014	1,925.15	2,067.56	**+7.40%**
2010	1,125.86	1,180.55	**+4.86%**
2006	1,270.92	1,400.63	**+10.21%**
2002	884.66	936.31	**+5.84%**
1998	1,080.32	1,163.63	**+7.71%**
1994	461.01	453.69	**-1.59%**
1990	355.52	322.22	**-9.37%**
1986	234.91	249.23	**+6.09%**

Key Takeaways

- **Win-Loss Record:** Across these 10 midterm election cycles, the S&P 500 posted positive price returns **6 times** and negative returns **4 times** during the August 1 – November 30 window.
- **Average Return:** The average price return across all 10 periods was roughly **+2.83%**.
- **Outliers & Macro Drivers:**
  - **1990 (-9.37%):** Heavily impacted by the Iraqi invasion of Kuwait in August 1990 and the onset of the 1990–1991 recession.
  - **2006 (+10.21%):** The strongest gain in this window over the past 10 midterm cycles, driven by strong earnings and Fed pause expectations.
  - **2022 (-0.94%) & 2018 (-1.89%):** Both experienced late summer/fall volatility tied to aggressive Federal Reserve rate hike cycles.

Midterm Year	Incumbent President (Party)	House Seat Change (President's Party)	Senate Seat Change (President's Party)
2022	Joe Biden (D)	**-9**	**+1**
2018	Donald Trump (R)	**-40**	**+2**
2014	Barack Obama (D)	**-13**	**-9**
2010	Barack Obama (D)	**-63**	**-6**
2006	George W. Bush (R)	**-30**	**-6**
2002	George W. Bush (R)	**+8**	**+2**
1998	Bill Clinton (D)	**+5**	**0**
1994	Bill Clinton (D)	**-52**	**-8**
1990	George H.W. Bush (R)	**-8**	**-1**
1986	Ronald Reagan (R)	**-5**	**-8**

Key Takeaways

- **House Trend (Historical Loss):** The president's party **lost House seats in 8 out of the last 10 midterm elections**. The only exceptions were **2002** (post-9/11 rally around George W. Bush) and **1998** (strong economy during the Clinton presidency).
- **Senate Trend (More Mixed):** The governing party lost Senate seats in **6 cycles**, gained seats in **3 cycles** (2002, 2018, 2022), and held even in **1 cycle** (1998). Senate outcomes depend much more heavily on which specific seats are up for reelection in that cycle.
- **Major "Wave" Elections:**
  - **2010 (-63 House, -6 Senate)** and **1994 (-52 House, -8 Senate)** saw massive seat losses that flipped majority control of the House.
  - **2006** and **2018** also resulted in major House flips against the incumbent party.

1. Market Direction vs. Seat Outcomes (No Pattern)

Comparing stock performance from August 1 to November 30 with seat results across the last 10 midterms shows that seat losses occur regardless of market trajectory:

- **When the Market Was UP (6 cycles):**
  - **2014 (+7.40%):** Democrats lost 13 House seats and 9 Senate seats.
  - **2010 (+4.86%):** Democrats lost 63 House seats and 6 Senate seats.

    - **2006 (+10.21%):** Republicans lost 30 House seats and 6 Senate seats.
    - **1986 (+6.09%):** Republicans lost 5 House seats and 8 Senate seats.
    - **1998 (+7.71%) & 2002 (+5.84%):** The governing party gained seats in these two cycles.
- **When the Market Was DOWN (4 cycles):**
    - **2022 (-0.94%):** Democrats lost 9 House seats but gained 1 Senate seat.
    - **2018 (-1.89%):** Republicans lost 40 House seats but gained 2 Senate seats.
    - **1994 (-1.59%):** Democrats lost 52 House seats and 8 Senate seats.
    - **1990 (-9.37%):** Republicans lost 8 House seats and 1 Senate seat.

Whether the S&P 500 gained +10% (2006) or fell -9% (1990), the governing party lost significant ground in Congress in both cases.

2. Why the Disconnect Exists

1. **Structural "Midterm Penalty":** The sitting president's party almost always loses House seats (in 8 of the last 10 midterms and 17 of the last 20) regardless of the economic or stock environment. Midterm turnout dynamics and presidential approval ratings drive seat outcomes far more than stock indices.
2. **Broader Macro Forces Drive Markets:** Stock market returns in the late summer and fall are historically dictated by broader macroeconomic conditions rather than projected midterm election outcomes. **Key catalysts during this window, historically and probably in 2026, include Federal Reserve rate decisions, corporate earnings trends, trade dynamics, and unexpected geopolitical disruptions.**
3. **Markets Dislike Uncertainty, Not Specific Parties:** Financial research consistently shows that pre-election market movements reflect **uncertainty** rather than a preference for seat gains or losses. Once the election passes and control of Congress is settled, **stocks historically rally regardless of which party wins**.

3. Where Correlation *Does* Exist: Gridlock Preference

While seat count numbers do not correlate with stock returns, markets **do** show a mild historical preference for **divided government** (where one party holds the White House and the other holds at least one chamber of Congress). Because midterms frequently result in the president's party losing seats and creating split control, markets often experience a post-election rally as political gridlock reduces the likelihood of major regulatory or policy changes.

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