



Guide to Midterm Elections

How to invest with confidence
amid political uncertainty



**Matt Miller**

is a political economist with 35 years of experience and has been with Capital for 10 years (as of 12/31/2025). He holds a law degree from Columbia and a bachelor's from Brown University.

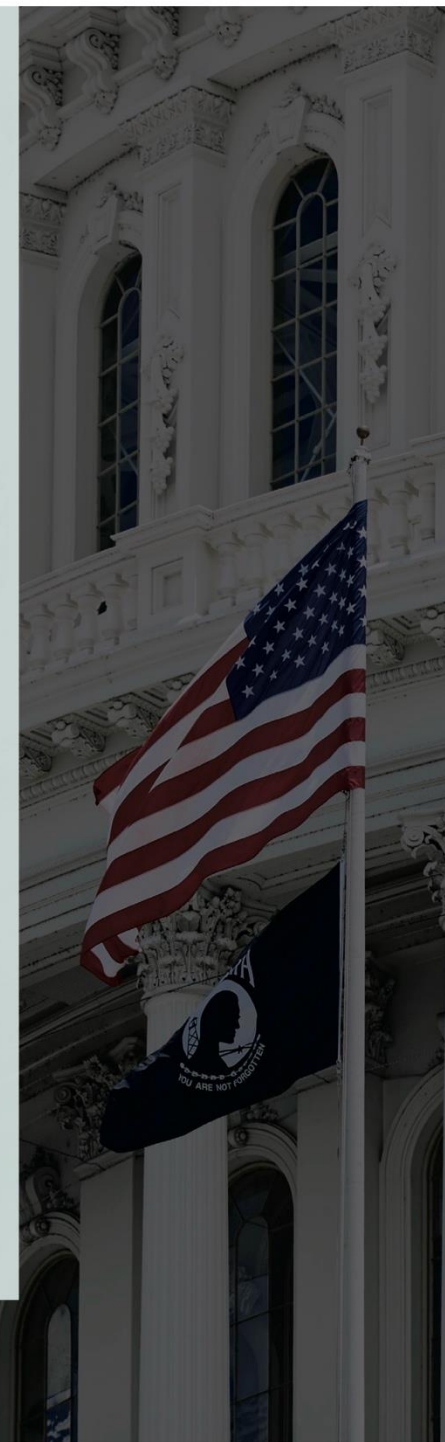
**Reagan Anderson**

is a senior vice president of government and regulatory affairs. She has 25 years of investment industry experience (as of 12/31/2025). She holds a bachelor's degree in journalism from Ohio University.

Held near the midpoint of a president's four-year term in office, midterm elections are often seen by the electorate and the political press as something of a referendum on the status quo. Control of Congress is at stake, and Republicans and Democrats go all out to win. Whichever party prevails in November will command the legislative agenda for the next two years. Historically speaking, the party in power tends to lose seats, but that doesn't mean history always repeats itself.

Every election cycle generates uncertainty, but how do midterms specifically affect stocks? To find out, Capital Group examined more than 90 years of data from the S&P 500 Index and, as it turns out, U.S. stocks do exhibit some unique characteristics in midterm election years. Although a variety of other factors may influence the investment environment in any given year, after digging deeper into midterm election history, we identified five key takeaways.

1. The president's party typically loses seats in Congress.
2. Market returns tend to be muted in midterm years.
3. Volatility has been elevated in midterm election years.
4. Markets usually bounced back strongly after elections.
5. Control of Congress has had little impact on investment returns.



Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.

1 | The president's party typically loses seats in Congress — and markets know it.

Midterm elections occur at the midpoint of a presidential term in November, and they usually result in the president's party losing ground in Congress. Over the past 23 midterm elections, the president's party lost an average 27 seats in the House of Representatives and three in the Senate. Only twice has the president's party gained seats in both chambers.

This tends to happen for two reasons. First, supporters of the party not in power — in this case, the Democratic Party — usually are more motivated to boost voter turnout. Second, the president's approval rating typically dips during the first two years in office, as it has with President Trump, which can influence swing voters and frustrated constituents.

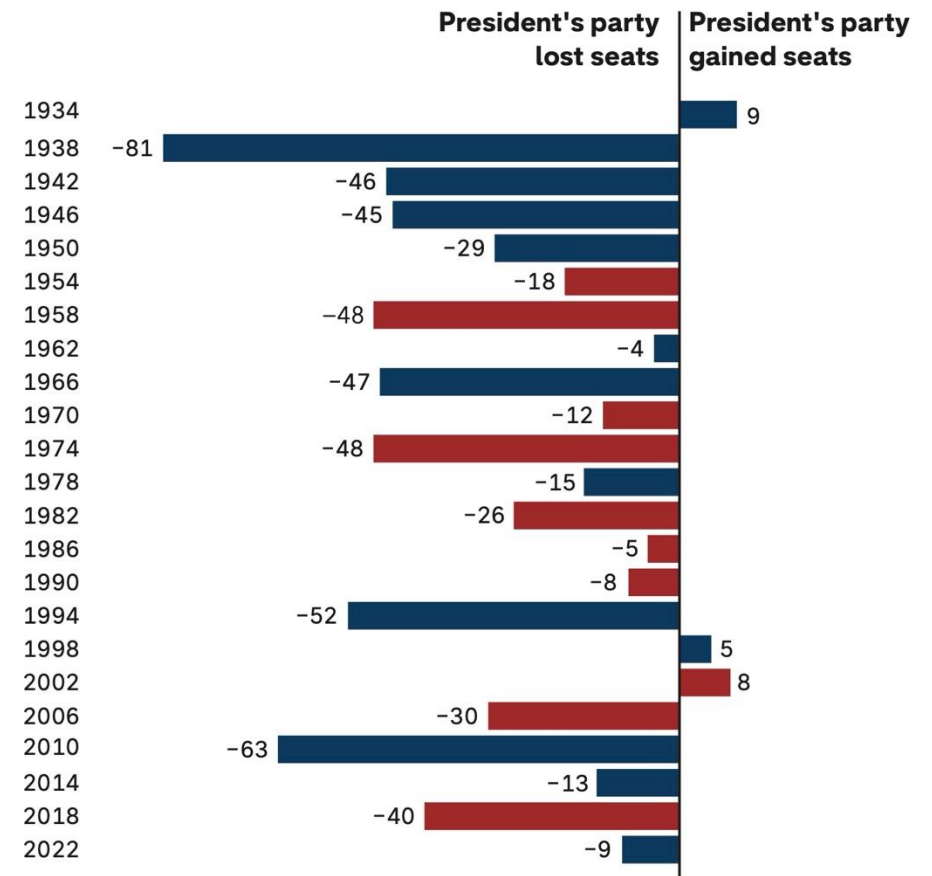
Republicans currently control both the Senate and House by slim margins. Losing either chamber would effectively end any chance to pass ambitious Republican-sponsored legislation over the next two years, and it would put Trump on the defensive for the remainder of his term in office, according to Capital Group political economist Matt Miller.

Since losing seats is so common, it's usually priced into the markets early in the year. But the extent of a political power shift and resulting policy impacts remain unclear until later in the year, which can explain other interesting trends.

The incumbent has lost seats in most midterm elections

Net change in House of Representatives seats controlled by president's party after midterm elections

■ Republican President ■ Democratic President



Sources: Capital Group, UCSB: The American Presidency Project. As of January 15, 2026.

2 | Market returns tend to be muted in midterm years.

Since markets have typically gone up over long periods of time, the average stock movement during an average year should steadily increase. But we found that in the initial months of midterm election years, stocks have tended to generate lower average returns and often gained little ground until shortly before the election.

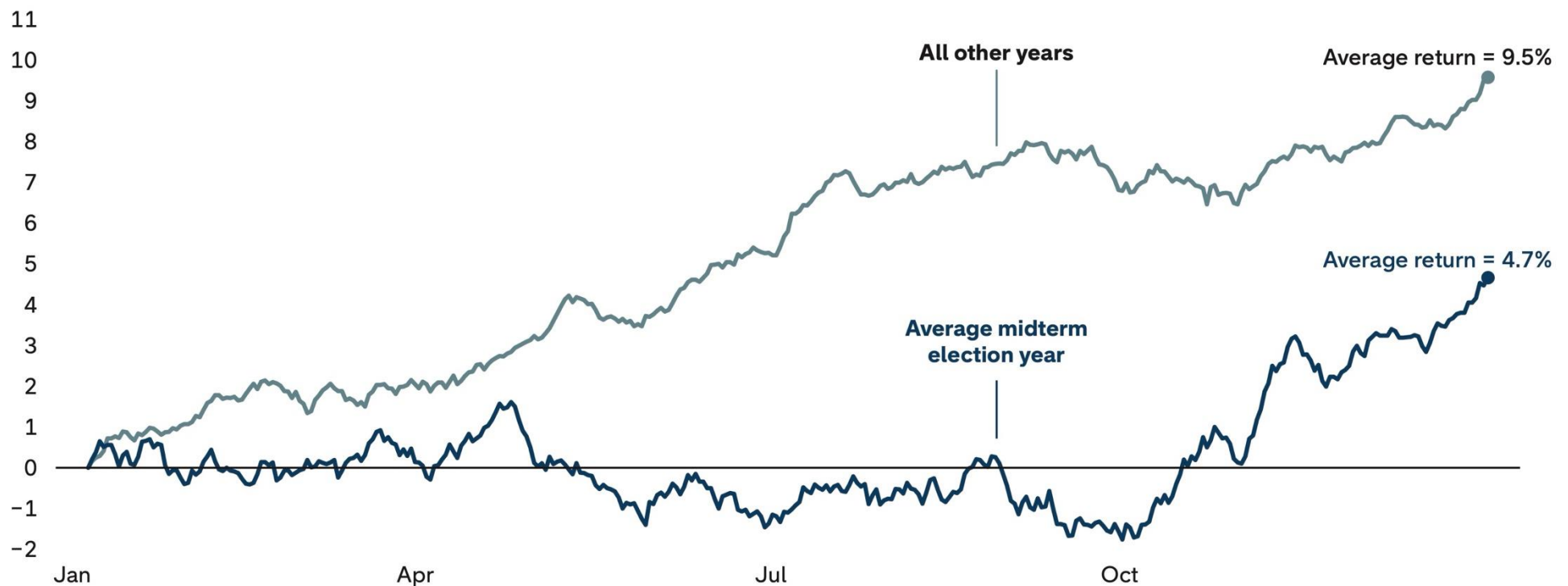
Markets don't like uncertainty — and that adage seems to apply here. At the start of the year there is less certainty about the election's outcome and impact. But markets have tended to rally in the weeks before an election then continue to rise after the polls close.

Despite election-related uncertainty, investors should consider the cost of sitting on the sidelines or trying to time the market. Historically speaking, staying invested has been the smartest move.

The path of stocks varies greatly each election cycle, but the overall long-term trend of markets has been upward. Since 1931, the S&P 500 Index has seen an average return of 4.7% in midterm election years, about half the 9.5% average for all other years but positive all the same.

Political uncertainty has dampened returns in midterm years

S&P 500 Index average price returns (%), 1931-2025



Sources: Capital Group, RIMES, S&P Global. The chart shows the average trajectory of cumulative price returns for the S&P 500 Index throughout midterm election years compared to non-midterm election years. Each point on the lines represents the average year-to-date return as of that month and day, and is calculated using daily price returns from January 1, 1931, to December 31, 2025. Price returns exclude distributions. Past results are not predictive of results in future periods.

3 Volatility has been elevated in midterm election years.

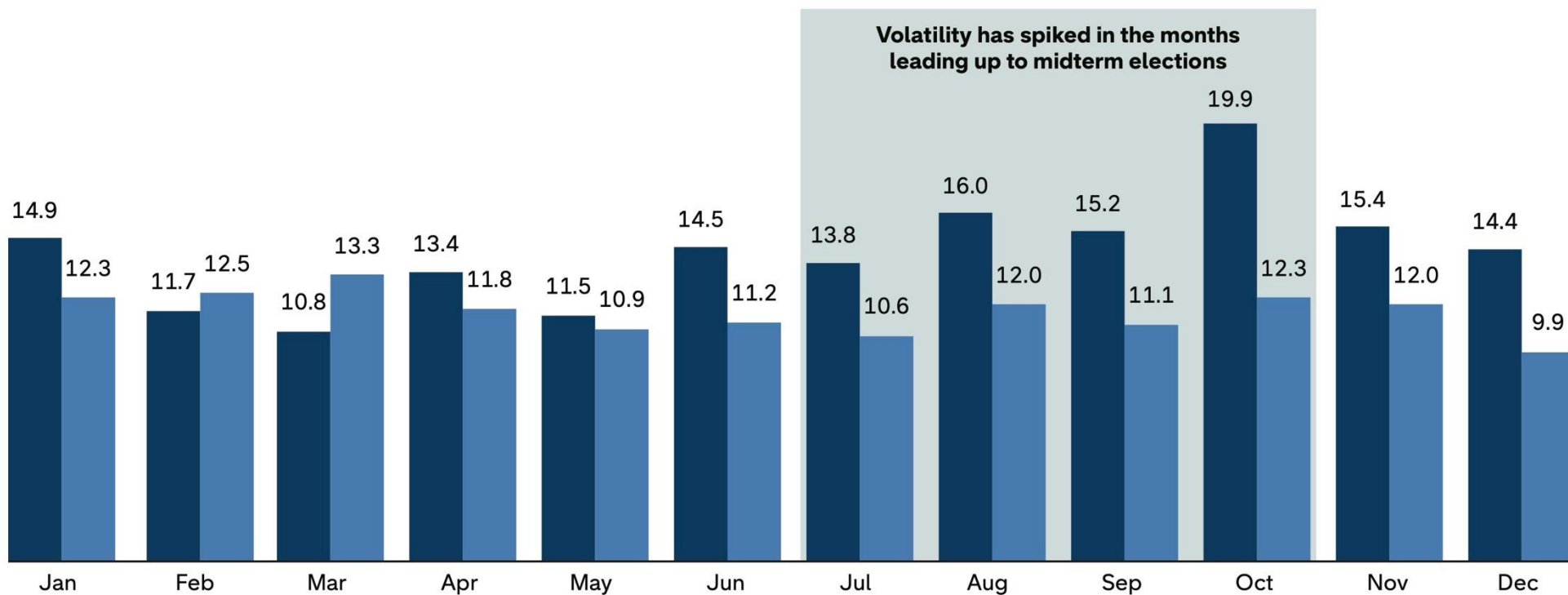
There is no question that election season can be tough on the nerves. Candidates often draw attention to the country's problems, and campaigns regularly amplify negative messages. Policy proposals may be unclear and often target specific industries or companies.

If you suspect that this contributes to increased market volatility, then you're right. Once again, election year uncertainty seems to translate directly into higher volatility. This is especially true in the months just prior to an election.

Since 1970, midterm years have a median standard deviation of returns of nearly 16%, compared with 13% in all other years. Interestingly, the volatility in presidential election years has been very similar to non-election years, pointing to midterm elections as truly an outlier.

Midterm election years have come with higher volatility

■ Midterm election years ■ All other years



Sources: Capital Group, RIMES, S&P Global. Volatility is calculated using the standard deviation of daily returns for each individual month. The median volatility for each month is then displayed in the chart on an annualized basis. Standard deviation is a measure of how returns over time have varied from the average. A lower number signifies lower volatility. As of December 31, 2025.

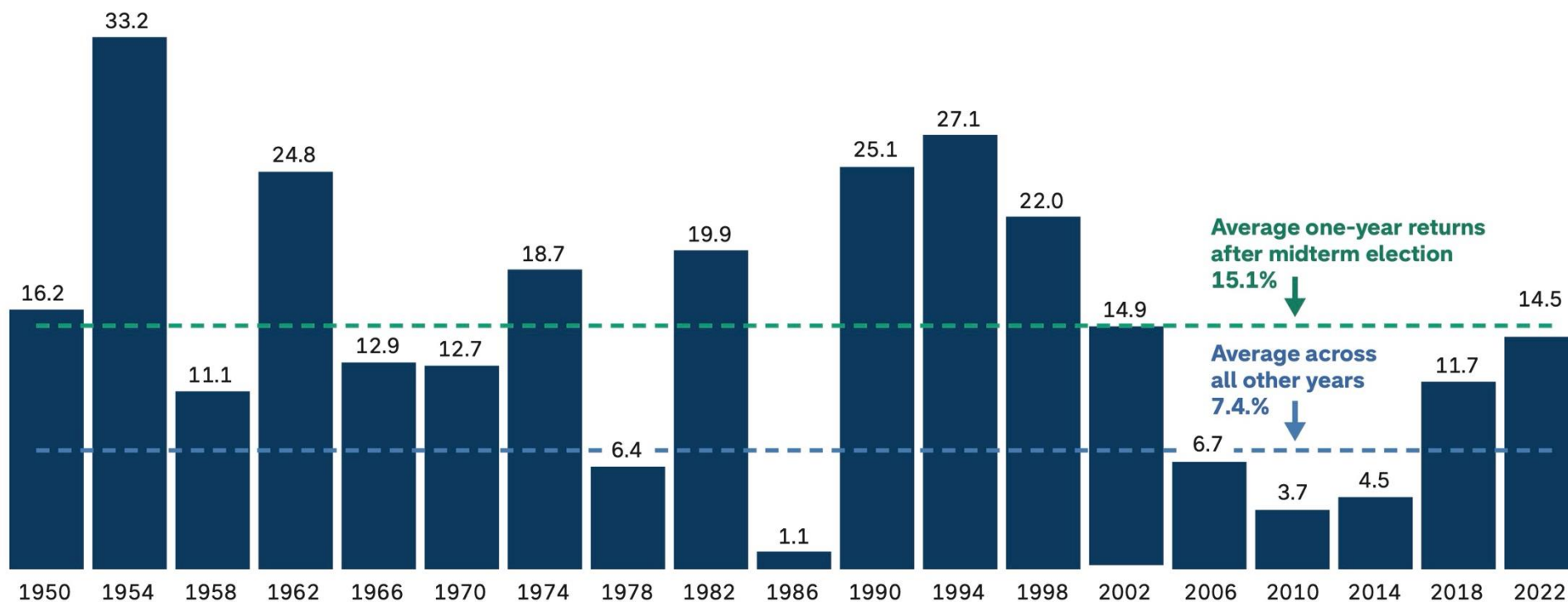
4 Markets usually bounced back strongly after elections.

The silver lining for investors is that markets have tended to rebound strongly after Election Day. As we have seen, markets typically rally shortly after midterm elections. History also shows that this isn't just a short-term blip: Above-average returns are typical for a full year following the election cycle. Since 1950, the average one-year return following a midterm election was 15.1%. That's nearly twice the return of all other years during a similar period.

Of course, every cycle is different, and elections are just one of many factors influencing market returns. For example, investors will need to weigh the potential impacts of oil prices, tariffs, inflation, and interest rates, as well as global economic growth and geopolitical conflicts.

Post-midterm market returns have been strong

S&P 500 Index price return one year after midterm election



Sources: Capital Group, RIMES, S&P Global. Calculations use Election Day as the starting date in all election years and November 5th as a proxy for the starting date in other years. Only midterm election years are shown in the chart. As of December 31, 2025. Price returns exclude distributions. Past results are not predictive of results in future periods.

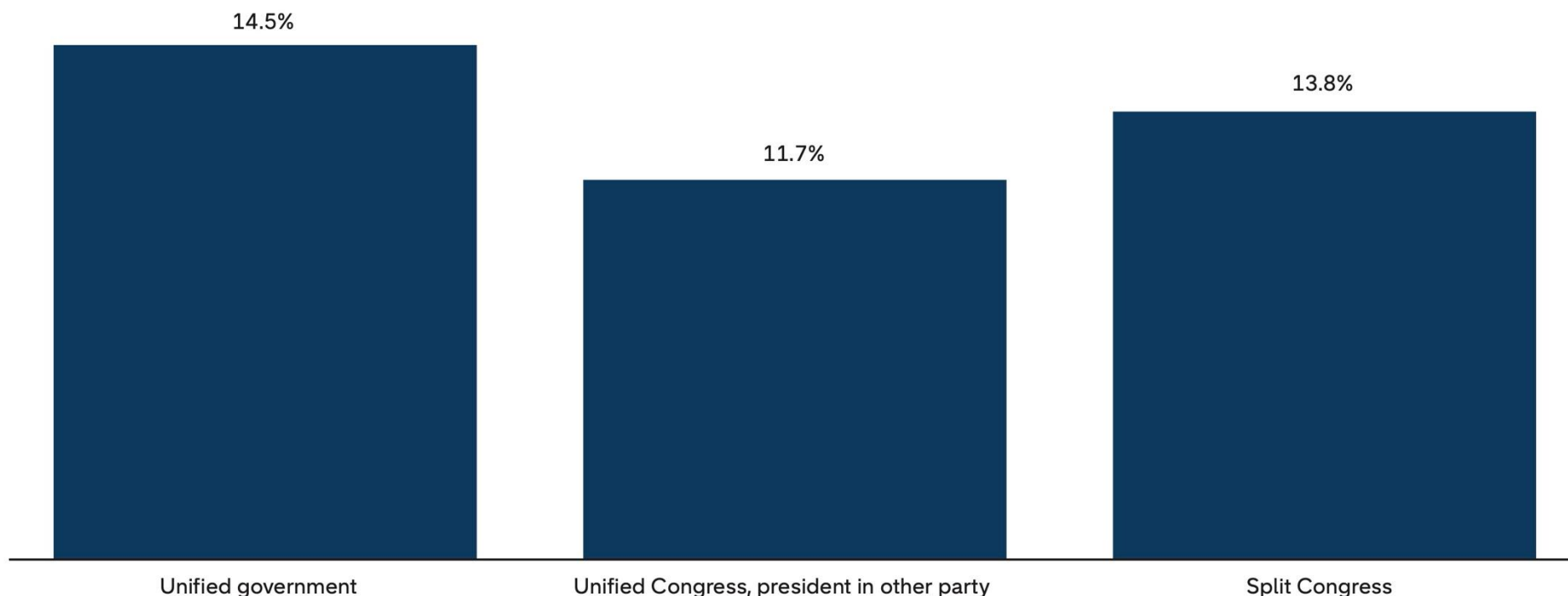
5 | Control of Congress has had little impact on investment returns.

There's nothing wrong with wanting your preferred candidates to win, but investors can run into trouble if they place too much importance on election results. That's because, historically, elections have had little impact on long-term investment returns. Going back to 1933, markets have averaged double-digit returns during various scenarios, including when a single party controlled the White House and both chambers of Congress as a "unified government," a split Congress, and when a president's opposing party controls Congress.

Although midterm election years have exhibited these trends in aggregate over long periods, it is important to remember that each year follows its own path. Midterm elections — and politics as a whole — generate a lot of noise and uncertainty. But the reality is that long-term equity returns are generated by the value of individual companies over time. A prudent investor should look past the short-term volatility spikes that elections can bring and maintain a long-term focus.

Markets have averaged double-digit returns regardless of power structure

S&P 500 Index average annual total return, 1933-2025



Sources: Capital Group, Office of the Clerk — U.S. House of Representatives, Senate.gov, S&P Global. Unified government indicates White House, House and Senate are controlled by the same political party. Unified Congress indicates House and Senate are controlled by the same party, but the White House is controlled by a different party. Split Congress indicates House and Senate are controlled by different parties, regardless of the White House control. Data excludes 2001 due to Senator Jim Jeffords switching party mid-year. As of December 31, 2025. Past results are not predictive of results in future periods.

Key takeaways

- **The president's party typically loses seats in Congress – and markets know it.**
Since losing seats is so common, it's usually priced into markets early in the year.
- **Market returns tend to be muted in midterm years.**
However, they usually rally just before Election Day and continue to rise from there.
- **Volatility has been elevated in midterm election years.**
You're not imagining things: Election year uncertainty seems to translate into higher volatility.
- **Markets usually bounced back strongly after elections.**
What's more, history shows above-average returns are typical for a full year after Election Day.
- **Control of Congress has had little impact on investment returns.**
Since 1933, markets have averaged double-digit returns regardless of the power structure.



Voted #1

for thought leadership by advisors since 2019*

*Source: FUSE Research, Marketing Support: The Advisor View, April 2026, May 2025, June 2024, May 2023, July 2021, June 2020; Fund Intelligence, February 2020. FUSE surveys 500-1,000 advisors identifying the "most-read thought leaders." Survey was not conducted in 2022. Capital Group did not compensate Fuse Research Network for the ratings and comments in this material.

S&P 500 Index is a market capitalization-weighted index based on the results of approximately 500 widely held common stocks. The index is unmanaged and, therefore, has no expenses. Investors cannot invest directly in an index.

The S&P 500 ("Index") is a product of S&P Dow Jones Indices LLC and/or its affiliates and has been licensed for use by Capital Group. Copyright © 2026 S&P Dow Jones Indices LLC, a division of S&P Global, and/or its affiliates. All rights reserved. Redistribution or reproduction in whole or in part is prohibited without written permission of S&P Dow Jones Indices LLC.

This content, developed by Capital Group, home of American Funds, should not be used as a primary basis for investment decisions and is not intended to serve as impartial investment or fiduciary advice.

All Capital Group trademarks mentioned are owned by The Capital Group Companies, Inc., an affiliated company or fund. All other company and product names mentioned are the property of their respective companies.

Capital Client Group, Inc.