Market Commentary Blog

Cash Flow *and Carey*



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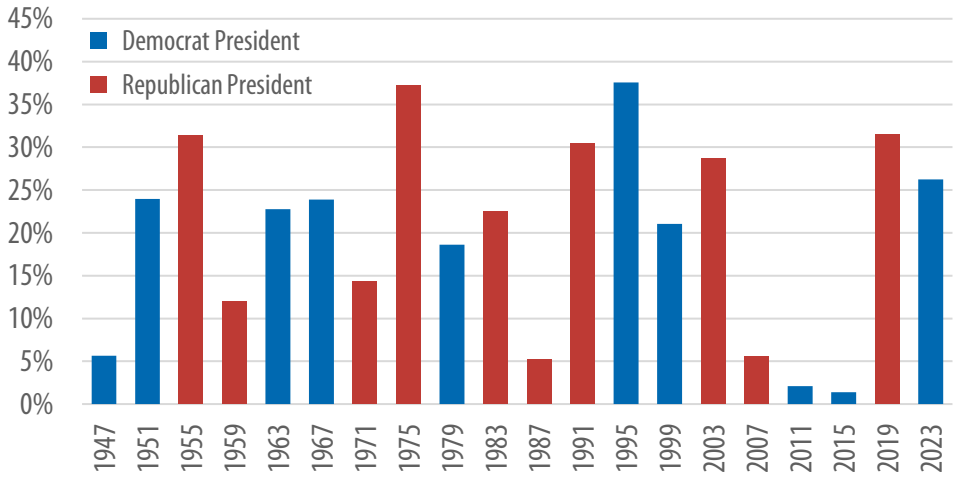
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This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions or other expenses incurred when investing. Investors cannot invest directly in an index. The S&P 500 Index is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance. Past performance is not indicative of future results.

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Stocks and Midterm Elections

S&P 500 Index Total Returns (Year after Midterms)



Source: Bloomberg.

View from the Observation Deck

Given the volatility following last week's midterm elections, we thought a discussion focused on equity market performance following previous midterms would be timely. There have been 21 midterm elections in the U.S. since 1945 (post World War II). The chart above tracks the S&P 500 Index's ("Index") total return for the calendar year following each of those elections (excluding this year).

Total returns for the Index have been positive in every one of the observations above.

The Index's total return averaged 20.1% over the 20 periods in today's chart. The highest total return was 37.6% in 1995, while the lowest was 1.4% in 2015. The Index increased by at least 20.0% in 12 of the 20 observations and was below 10.0% in just five of them.

Data show that the Index generally outperforms its historical average in the year following a midterm election.

The Index's average annual total return was 13.0% from 1947 through 2025, according to data from Bloomberg. The Index posted positive total returns 79.7% of the time over the period, compared to 100% of the time in the calendar year following a midterm election.

For many, midterm elections are viewed as an opportunity to express their approval or disapproval of the sitting president.

That said, the sitting president's party generally loses seats in midterm elections. The sitting president's party lost seats in the House in 20 of the past 22 midterm elections dating back to 1938 (not including this year's results), according to the Brookings Institution. Given last week's outcome, that figure now stands at 21 of the past 23.

Takeaway

Volatility spiked in the wake of last week's midterm elections, sending the CBOE Volatility Index surging from this year's low of 14.21 (September 22) to 28.18 on November 5 amid concerns of heightened regulation and the threat of rising capital costs. Economic data also played a role, with better-than-expected GDP and unemployment claims leading many investors to discount for higher interest rates by year-end. We don't mean to downplay these concerns, but we would be remiss if we didn't point out that increases in volatility are typical in midterm election years. The CBOE reported that since 1945, realized volatility in midterm election years has been higher than in the previous year 80% of the time. With this in mind, we continue to caution investors against taking an overly short-sighted view regarding their equity exposure. Analyst earnings estimates remain at record levels. Estimates for the Index's 2026 calendar year earnings per share were 365.23 on November 6, up from 361.80 on September 30, and 311.20 at the start of the year. The Index's Q3'26 net profit margin was 14.9% on November 6 (88% of companies reporting), representing the second highest reading on record. Additionally, companies appear to be converting increased asset exposure into returns. The Index's return on assets (ROA) stood at a record 4.88% in Q2'26, well above its quarterly average of 2.72% from Q1'90 to Q2'26.