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The Midterm Election and Long-Term Investing

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With the November midterm elections now just a few months away, campaign activity and political coverage is intensifying. As your advisor, I want to share some market perspective based on history.

My goal is to help you understand the impact politics and elections may have on your financial plan. Elections are incredibly important as citizens, but they have historically mattered far less to long-term portfolios than many investors might expect. This may seem surprising, so let me walk through why that's the case.

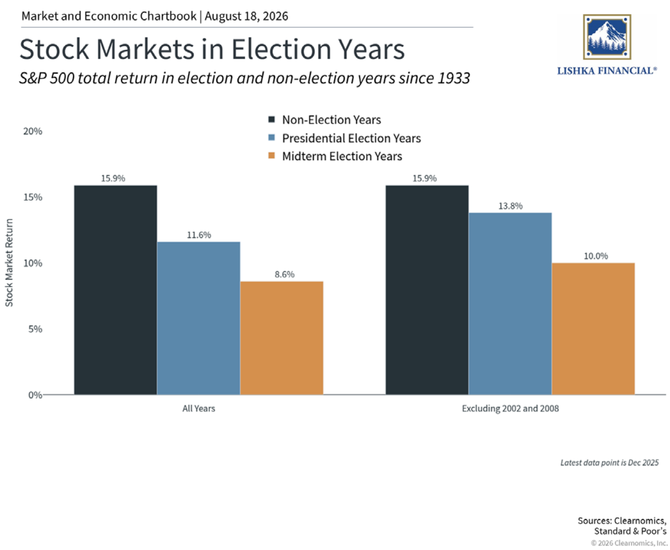
What is at stake in the midterm elections

Midterm elections occur every four years and determine the composition of Congress, which can affect the government's ability to pass legislation. Current polling suggests a divided government is the most likely outcome, though margins are thin in both chambers.

In the House of Representatives, 218 seats are needed for a majority. Republicans currently hold 219 seats, meaning Democrats could take control by winning only a handful of races. In the Senate, Republicans hold a firmer 53-seat majority, though expectations have been shifting in recent months. So, a great deal can still change between now and then.

As citizens and voters, these elections are important. The composition of Congress shapes policy on taxes, entitlement programs like Social Security, defense spending, and the national debt. The outcome this fall could also influence the administration's agenda on issues such as tax provisions, tariffs, and the ongoing Iran conflict.

Market returns have historically been positive in election years



It's often important to separate our preferences as voters from what is best for our portfolios. The fact that the midterm election matters for the country does not mean it matters equally for financial markets, or that it should drive changes to financial plans.

It seems intuitive that election years might be more volatile or that certain political outcomes would be better or worse for investors. Since elections affect economic policy, which in turn affects industries and companies, it is easy to assume that markets would react accordingly.

History tells a different story. Looking back since the Great Depression, stock market returns have been positive across presidential election years, midterm election years, and non-election years alike. Markets have performed well and the economy has grown under Republican majorities, Democratic majorities, and divided governments.

This does not mean every year is positive. For example, in the last midterm election of 2022, inflation in the wake of the pandemic impacted markets. In 2018, concerns about global growth and Federal Reserve policy led to market swings. In both cases, the underlying economic environment drove returns, not the fact that a midterm election was taking place.

It is also worth noting that presidents who begin with a Congressional majority often lose it during midterm elections. In recent decades, this happened to Presidents Biden, Obama, George W. Bush, and Clinton, among others. Both markets and the economy continued to grow through these transitions.

The broader trends matter more than politics

For long-term investors, the business cycle and interest rates have historically been far more powerful drivers of portfolio performance than the makeup of Congress or the White House. This is because political change tends to occur gradually and with significant lags. Even when policy shifts appear substantial, such as changes to taxes and tariffs in recent years, their direct economic effects are often smaller and slower to materialize than what headlines suggest.

This is because corporate earnings, inflation, employment, and economic growth are shaped by a wide range of forces that extend well beyond Washington. The technology revolution of the 1990s, the housing boom and bust of the mid-2000s, the inflationary surge following the pandemic, and today's artificial intelligence developments have all influenced markets in ways that had little to do with which party held power.

This year's election is taking place against a backdrop of geopolitical conflict, elevated interest rates, and ongoing uncertainty around AI. These factors have been far larger drivers of markets and corporate earnings than the specifics of any Congressional race. And yet, major stock market indices have delivered strong returns this year despite periods of uncertainty.

This does not mean that markets never experience volatility around elections. It means that the long-term trajectory of markets has been driven primarily by economic fundamentals, innovation, and corporate profitability, not by which party controls the House or Senate.

Taken together, we'll be watching the midterm election with interest, and while it is unlikely to impact your financial plan, we will let you know if anything materially changes. If you have any questions about the election or what it might mean for your specific financial situation, please do not hesitate to reach out. I am always happy to talk through these issues and how your financial plan is designed to navigate them.

Best regards,

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