MARSHALLING THE "MIDTERM MIRACLE"

SEPTEMBER 2026

As always, our political analysis is nonpartisan and focuses on what markets care about: policies and the risk of legislation creating winners, losers and uncertainty that potentially skews earnings. Accordingly, we assess midterms for the likelihood they deliver gridlock.

KEY POINTS

- Despite strong returns and increased volatility YTD, 2026 is playing out similarly to past positive US midterm years.
- This midterm looks set to result in the president's party losing seats, delivering typical gridlock stocks love—additional fuel for this bull market.

HOW THE "MIRACLE" WORKS

What Fisher Investments refers to as the "Midterm Miracle" is stocks' historic tendency of cumulatively delivering gains 92% of the time in the nine months from October of a US midterm election year through the following June (Exhibit 1). In our view, this tendency stems from the fact the US president's party almost always loses seats in Congress during midterm elections (Exhibit 2). This increases gridlock—bullish for equities given they prefer reduced legislative risk.

Regardless of the political party in charge, high legislative risk unnerves markets and creates winners and losers. A busier Congress therefore means more potential "losers," hurting sentiment and discouraging risk taking. Businesses wait to see how rules will affect investment returns before launching projects, weighing on stocks. Gridlock negates this, letting businesses invest with clarity and rallying markets, hence, midterms are routinely bullish.

Exhibit 1: Equity Markets Have a Strong Tendency to Rally Around Midterm Elections

Midterm Year	POTUS Year 2				POTUS Year 3				Midterm Miracle
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
1950	4.9%	4.0%	11.9%	6.9%	6.7%	-0.3%	12.8%	3.8%	13.7%
1954	10.1%	9.8%	11.9%	12.6%	2.8%	13.3%	7.5%	5.1%	31.1%
1958	6.4%	8.5%	11.6%	11.2%	1.2%	6.3%	-2.0%	6.1%	19.6%
1962	-2.1%	-20.6%	3.7%	13.1%	6.4%	5.0%	4.2%	5.4%	26.4%
1966	-2.7%	-4.3%	-8.8%	5.9%	13.2%	1.3%	7.5%	0.5%	21.4%
1970	-1.8%	-18.0%	17.1%	10.3%	9.7%	0.2%	-0.6%	4.6%	21.2%
1974	-2.8%	-7.6%	-25.2%	9.3%	23.0%	15.4%	-10.9%	8.6%	55.0%
1978	-4.9%	8.5%	8.7%	-5.0%	7.1%	2.6%	7.6%	0.1%	4.4%
1982	-7.3%	-0.6%	11.5%	18.3%	10.0%	11.1%	-0.2%	0.4%	44.5%
1986	14.1%	5.9%	-7.0%	5.6%	21.3%	5.0%	6.6%	-22.5%	34.5%
1990	-3.0%	6.3%	-13.7%	9.0%	14.5%	-0.2%	5.3%	8.4%	24.5%
1994	-3.8%	0.4%	4.9%	0.0%	9.7%	9.5%	7.9%	6.0%	20.2%
1998	13.9%	3.3%	-9.9%	21.3%	5.0%	7.0%	-6.2%	14.9%	36.3%
2002	0.3%	-13.4%	-17.3%	8.4%	-3.1%	15.4%	2.6%	12.2%	21.2%
2006	4.2%	-1.4%	5.7%	6.7%	0.6%	6.3%	2.0%	-3.3%	14.1%
2010	5.4%	-11.4%	11.3%	10.8%	5.9%	0.1%	-13.9%	11.8%	17.4%
2014	1.8%	5.2%	1.1%	4.9%	1.0%	0.3%	-6.4%	7.0%	6.2%
2018	-0.8%	3.4%	7.7%	-13.5%	13.6%	4.3%	1.7%	9.1%	2.5%
2022	-4.6%	-16.1%	-4.9%	7.6%	7.5%	8.7%	-3.3%	11.7%	25.7%
2026	-4.3%	15.2%	?	?	?	?	?	?	?
Average	1.4%	-2.0%	1.1%	7.5%	8.2%	5.9%	1.2%	4.7%	23.2%
% Positive	47.4%	52.6%	63.2%	84.2%	94.7%	89.5%	57.9%	89.5%	100.0%

Source: Finaeon, Inc., as of 6/7/2026. S&P 500 Total Return Index returns as indicated, quarterly, in USD, from 1/1/1950 – 30/6/2026. S&P 500 data shown for historic data availability.

Exhibit 2: Since the 1940s, Only Two Midterm Elections Have Given the President's Party More House of Representative Seats

Midterm	President	Approval Rating in June	House Seat Change for President's Party
1946	Truman (D)	43%	-56
1950	Truman (D)	37%	-28
1954	Eisenhower (R)	62%	-18
1958	Eisenhower (R)	54%	-50
1962	Kennedy (D)	69%	-6
1966	Johnson (D)	48%	-47
1970	Nixon (R)	55%	-12
1974	Nixon (R)	28%	-48
1978	Carter (D)	42%	-14
1982	Reagan (R)	44%	-26
1986	Reagan (R)	64%	-4
1990	Bush (R)	69%	-8
1994	Clinton (D)	44%	-54
1998	Clinton (D)	60%	+4
2002	GW Bush (R)	76%	+8
2006	GW Bush (R)	37%	-30
2010	Obama (D)	46%	-64
2014	Obama (D)	43%	-13
2018	Trump (R)	42%	-42
2022	Biden (D)	41%	-9
2026	Trump (R)	40%	???
Average Seat Change (Pre-2026)		50%	-26
Average Seat Change with Low Popularity		41%	-36
Average Seat Change with High Popularity		64%	-11

Source: Fisher Investments Research, US House and Senate Archives, Macrobond, Gallup, and RealClearPolitics as of 30/6/2026. Monthly Presidential approval ratings from the beginning of a President's second term until midterms. Gallup data ends 31/12/2024. Approval ratings only go as far back as 1940s.

WHY THE "MIRACLE" SHOULD STILL MATERIALISE

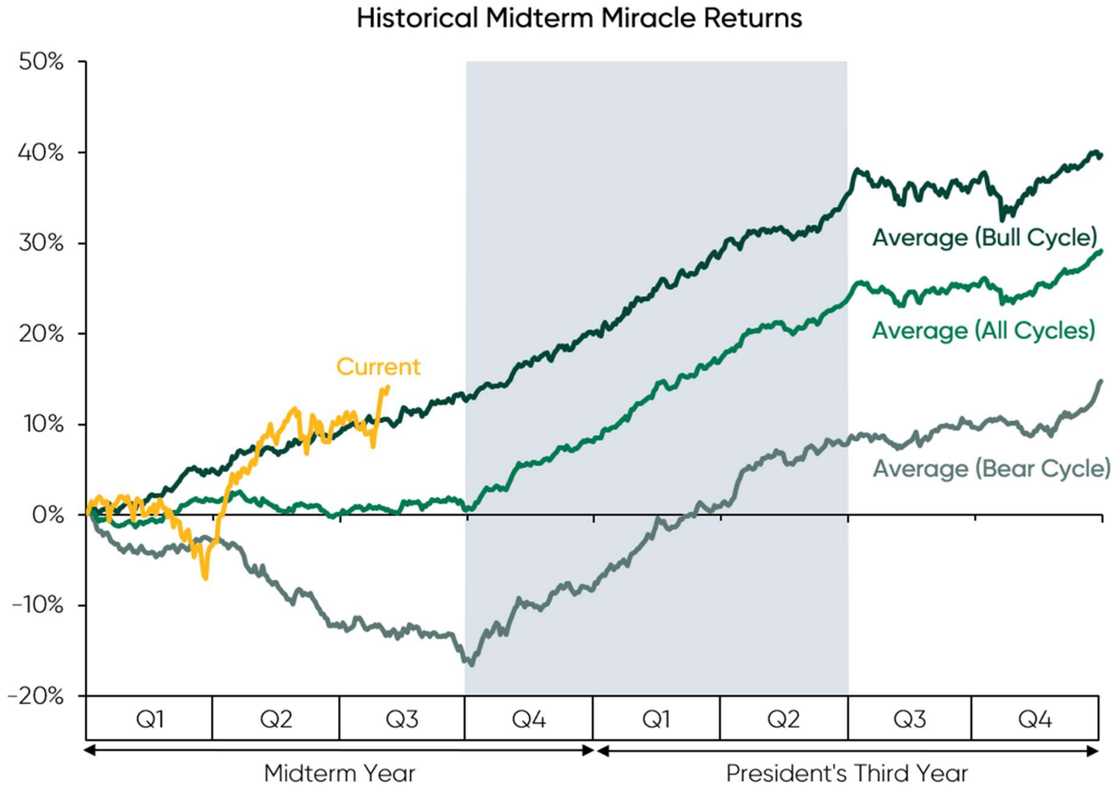
2026's POSITIVE RETURNS & VOLATILITY SHOULDN'T DERAIL THE MIRACLE

Some point to 2026's outsized volatility and returns thus far as reasons for potentially preventing the Midterm Miracle from materialising later this year. However, 2026 is shaping up to look like a typical positive midterm year in several ways.

For one, volatility—both positive and negative—is fairly standard in midterm years, rendering this year no exception. Whilst markets got off to a rocky start this year tied to the war in the Middle East and AI fears, the swift pullback preceded an even sharper rally. Yet when comparing 2026 to past bull-cycle midterm years, this year is right in line with the historical average—volatility included (Exhibit 3).

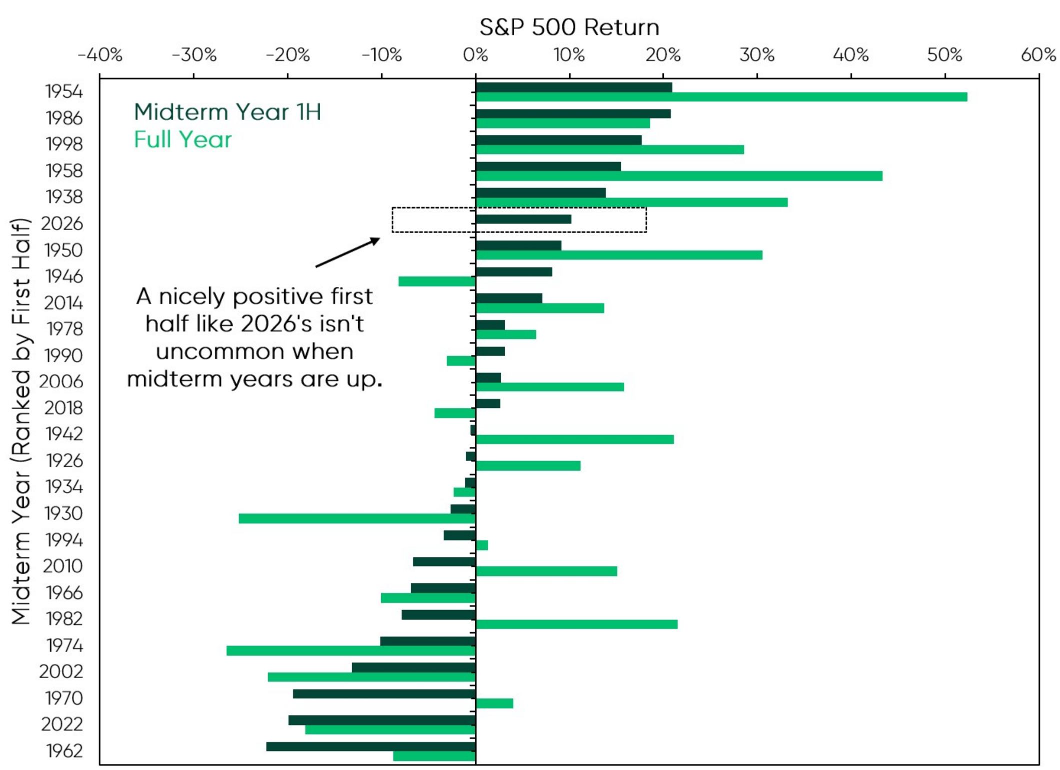
Moreover, this year's returns haven't been abnormally high. Comparing 2026's first-half returns to the 15 positive midterm years since 1926, this year's are just 6th best (Exhibit 4). Add to this that good first halves rarely precede weak back halves and it seems markets have queued up a ripe environment for the Midterm Miracle to materialise.

Exhibit 3: 2026 Returns Are In-Line with Average Bull-Market Midterm-Year Returns, Volatility Included



Source: Finaeon, FactSet, as of 7/8/2026. Average S&P 500 Total Return during midterm years, daily, in USD, from 1/1/1950-6/8/2026.

Exhibit 4: A Nicely Positive First Half Isn't Uncommon in Midterm Years



Source: Finaeon, as of 30/7/2026. S&P 500 total returns.

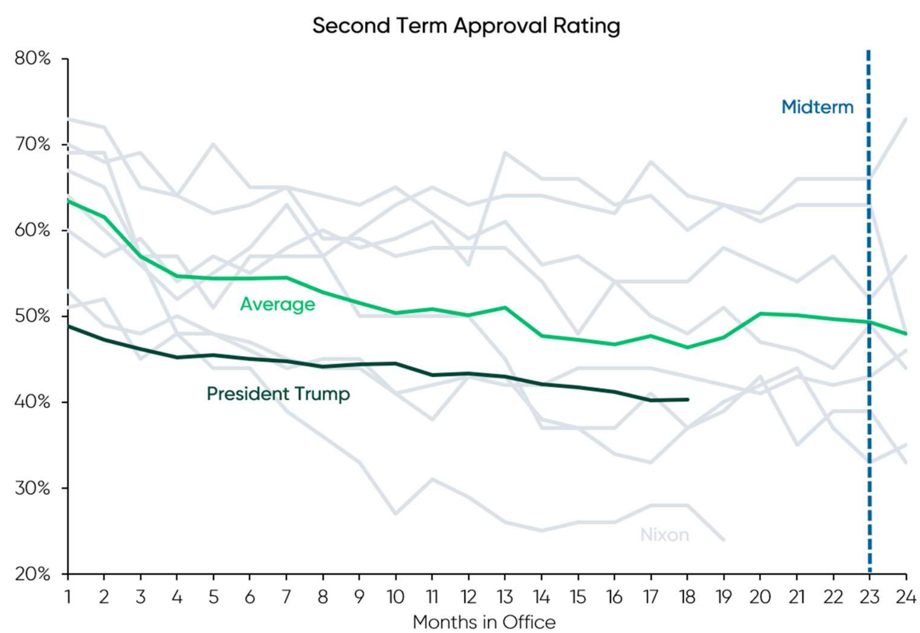
WHY THIS ELECTION SEEMS LIKELY TO DELIVER GRIDLOCK

This midterm also looks set to result in the president's party losing seats, boosting gridlock. For one, midterms are historically tough for the incumbent president's party (Exhibit 2). Since the 1940s, the president's party has lost House seats 90% of the time, averaging -26 seats lost. Performance in the Senate is only slightly better, losing seats 75% of the time and averaging -5 seats lost.

Moreover, whilst even popular presidents usually lose seats, presidents with below-average approval ratings—like President Trump—tend to lose even more (Exhibit 2 & 5). *RealClearPolitics'* poll average shows President Trump's job approval declined from a net 6.2 ppts after January 2025's inauguration to -16.7 ppts at the end of June 2026, achieving a lower-than-average approval rating (Exhibit 6). Importantly, history suggests voters tend to display sentiment felt toward presidents in June at the polls in November, rendering the likelihood of Republicans gaining seats this year slim (Exhibit 2).

A closer look at the current state of both the House of Representatives and Senate further emphasises this point. Republicans hold 218 House seats to the Democrats' 212, with 4 vacancies and 1 independent who caucuses with Republicans. Hence, only a handful of races will decide House control. Whichever party wins, their edge should be small, therefore rendering the likelihood of a supermajority slim and cementing gridlock. As for the Senate, Republicans currently hold 53 seats to the Democrats' 45, plus two independents caucusing with the Democrats. Here, too, a supermajority looks unlikely given there are only nine true toss-up seats. Six are currently held by Republicans—Texas, Maine, Iowa, Ohio, North Carolina and Alaska—but three are "open" due to John Cornyn's primary loss (TX) and retirements of Joni Ernst (IA) and Thom Tillis (NC). The three currently Democratic toss-ups are Georgia, Michigan and New Hampshire, with the latter two also "open" due to retirements. Still, either party gaining more than these seats would be a surprisingly strong result. That said, there is a long way until election day, so we caution against drawing conclusions early.

Exhibit 5: President Trump's Approval Ratings Are Still Below-Average



Source: Fisher Investments Research, Macrobond, Gallup, and RealClearPolitics as of 30/6/2026. Monthly Presidential approval ratings from the beginning of a President's second term until midterms. Gallup data ends 31/12/2024.

CONCLUSION

This midterm year isn't playing out atypically—from an average-returns perspective nor from a gridlock-likelihood perspective. Even if Republicans keep narrow House and Senate majorities, this would extend the status quo, which has accomplished little. Stocks are familiar—and happy—with intraparty gridlock. In turn, if Democrats take a slight edge in either or both chambers, traditional partisan gridlock returns. Both keep legislative risk low, powering the Midterm Miracle, which should refuel this bull market.

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