

CAPITAL MARKETS BRIEFING

The 2026 Midterm Election and Capital Markets

Separating political noise from market signal

Bill Kennedy, CFA
CEO, Chief Investment Officer
RiskBridge

Three Key Questions

The midterm outcome and the market outcome are not the same thing.

01

Does the midterm outcome itself move markets, or is it just noise?

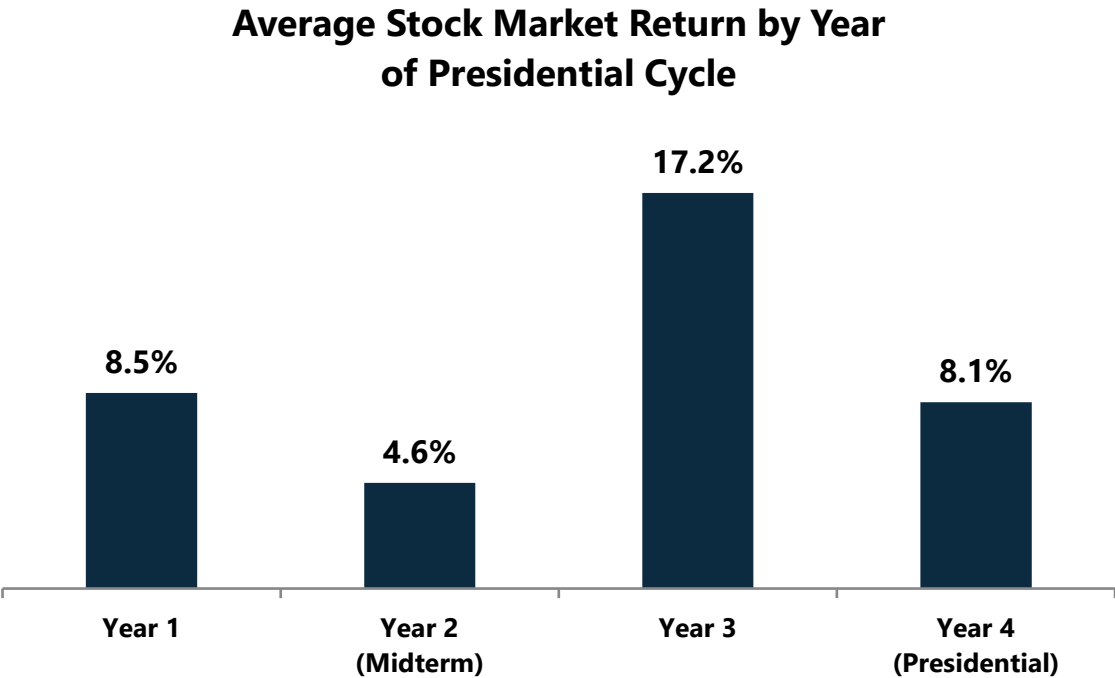
02

What does the 2026 setup mean for portfolios? Is 2026 a typical election cycle, or a break from “normal”?

03

Given the above, should investors change anything or stay the course?

The Midterm-Year Stock Market Return Pattern, Since 1950



Aug–Oct

Historically, the most volatile stretch of the 4-year cycle

100%

Of 12-month periods following a midterm election have been positive for the S&P 500 since 1950

Divided > Unified

Divided government has produced modestly higher average returns historically

Source: RiskBridge, Bloomberg. Data based on S&P 500 Index price returns from Jan 1949 – Dec 2025. Past performance does not guarantee future results. For illustration purposes only.

Why the Pattern Exists

1 Gridlock as a feature

Divided government lowers the probability of major legislative shifts.
Markets price reduced policy risk, not political preference.

2 Uncertainty resolution

Once an outcome is known, the market repriced from ambiguity to a defined base case.
The classic “uncertainty removal” rally.

3 Fiscal & regulatory continuity

Stalemate tends to preserve the status quo on spending and regulation.
Continuity is generally priced as a positive, not a negative.

4 Correlation vs. causation

The Fed cycle, earnings trends, and business-cycle stage move concurrently.
The election is one input among several, not a standalone driver.

Politics in Perspective: It's the Economy, Silly

- US real GDP has grown below its pre-2008 trend for over 15 years, a persistent income gap fueling political volatility
- Since 2008, voters have removed the party in power in 9 of the last 10 elections.



American Populism = 4 Party System

Progressive/socialist ⇔ Democratic Party | Republican Party ⇔ MAGA

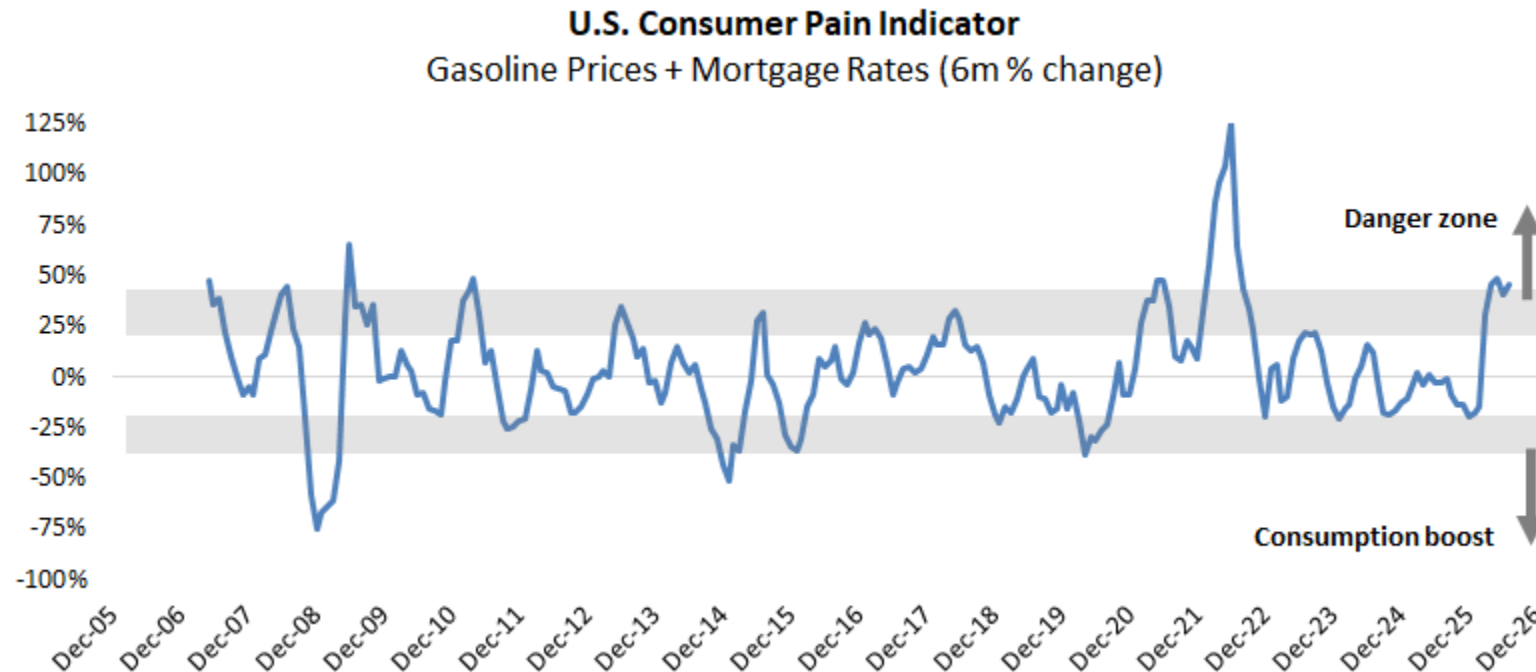
Frequently Cited Sources of American Populism

1. Economic dislocation and inequality
2. Cultural and demographic anxiety
3. Institutional distrust
4. Media fragmentation and polarization

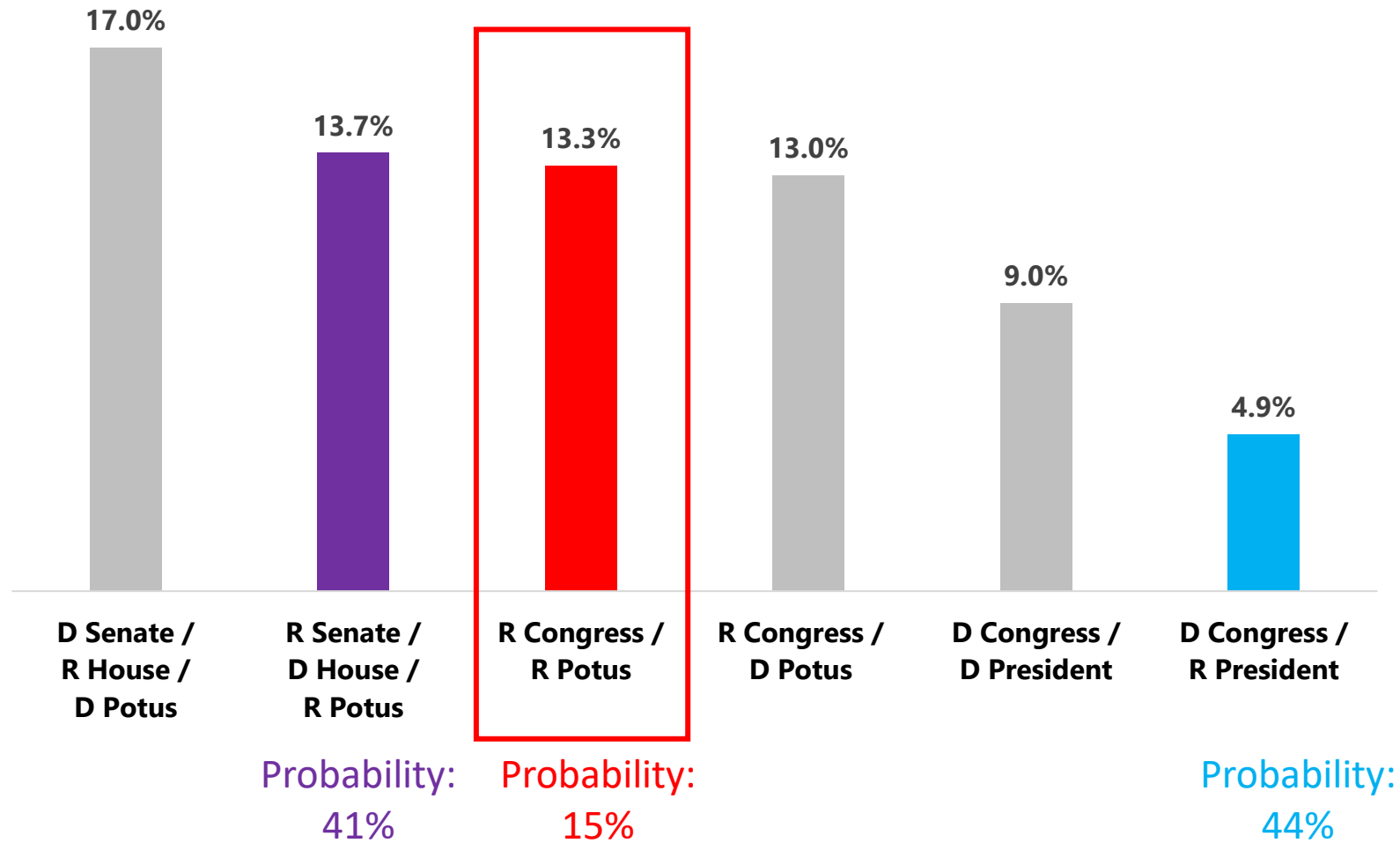
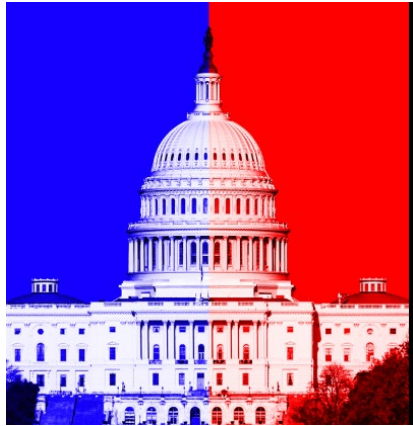


Pocketbook Pain Signals More Political Turnover

- The Pain Indicator reached +50% in 2008 (Obama), 2010 (Republicans 63-seat swing), and 2022 (Republicans take House)
- Since Covid, policy and political uncertainty have been tied to wars in Ukraine and Iran, and the energy supply chain impact

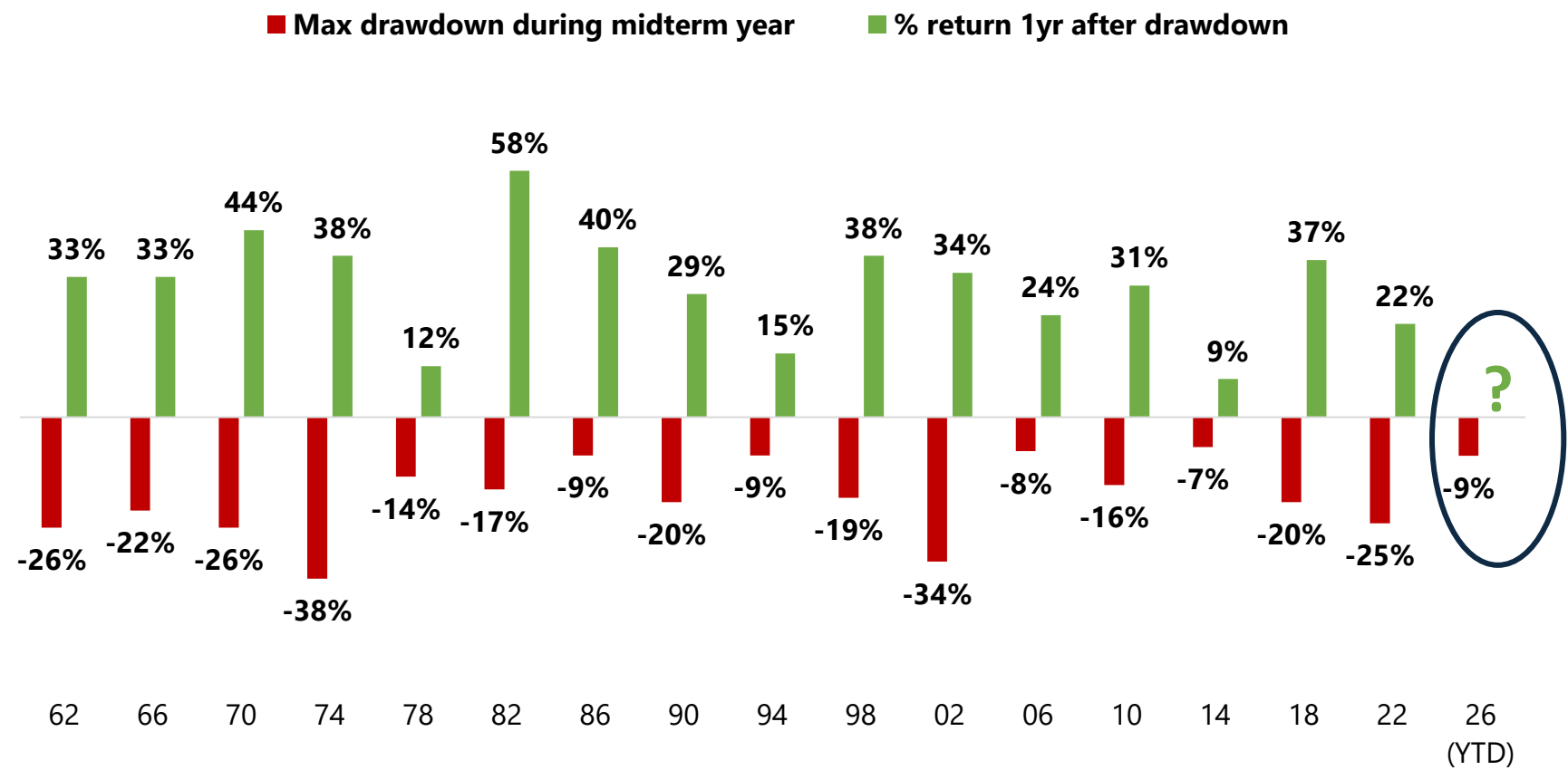


S&P 500 Index Performance by US Gov't Configuration



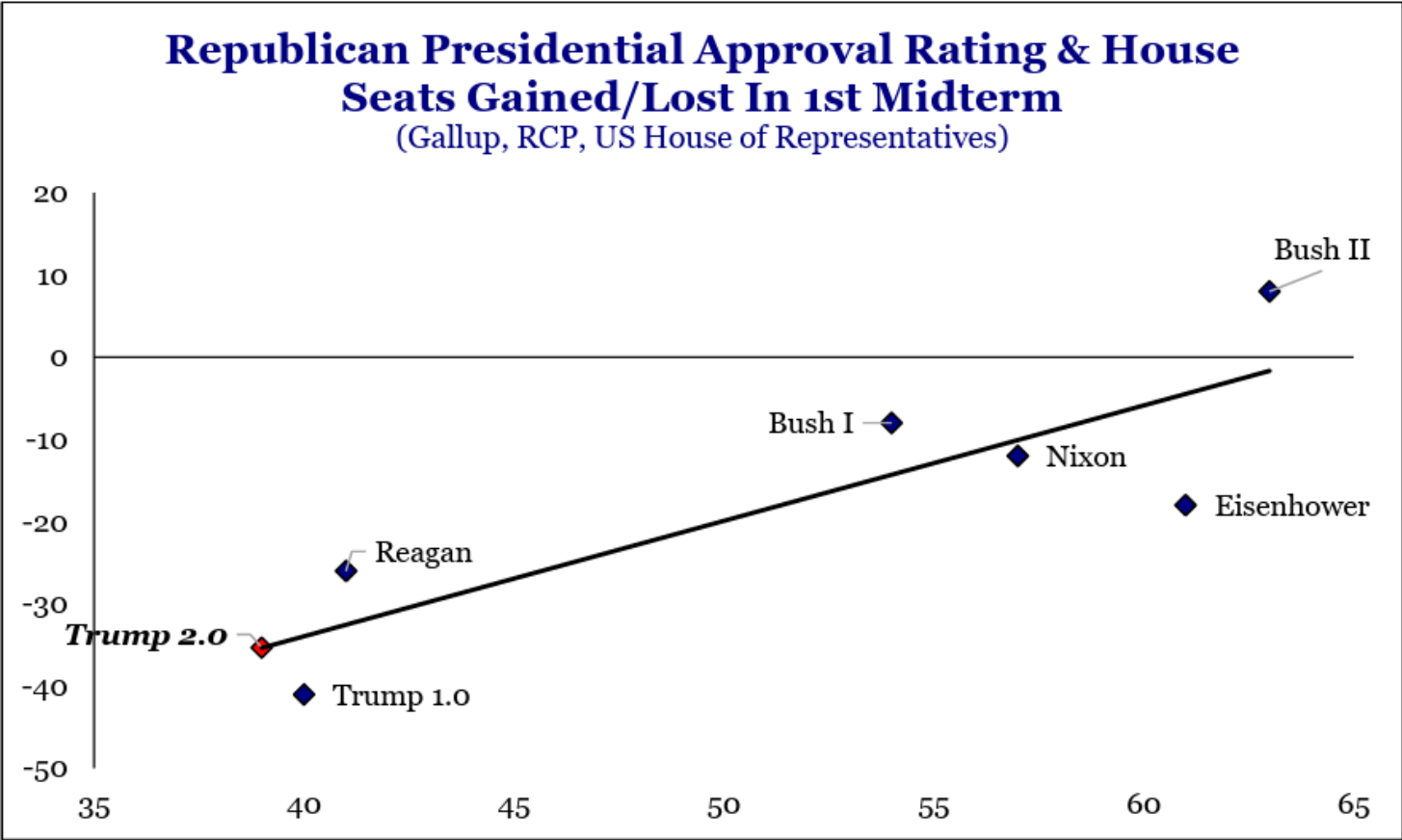
Market Corrections During Years of Midterm Elections

Political configuration aside, midterm years share a seasonal signature



Why 2026 May Not Be Different

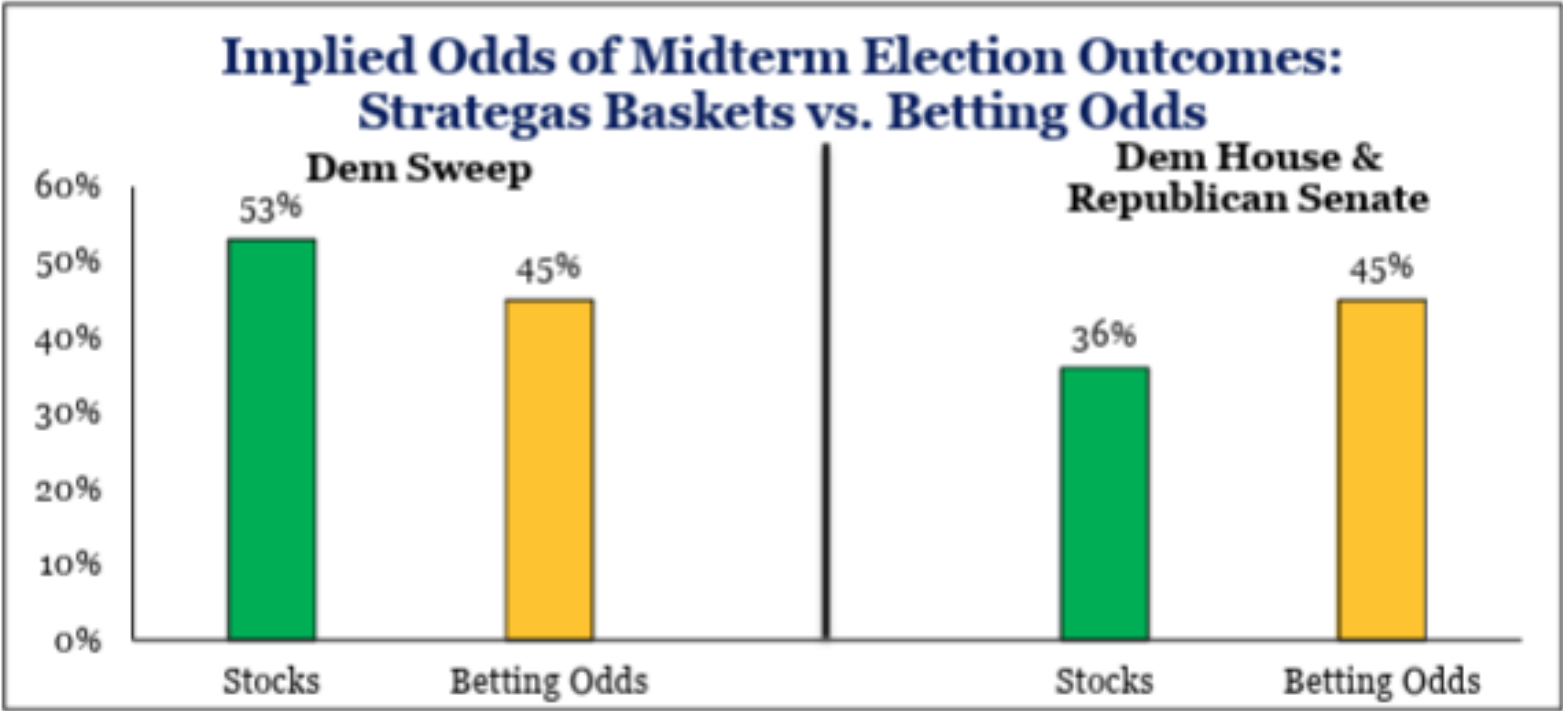
Current POTUS approval ratings are indicative of Republicans losing 35 House seats in November



Source: Strategas. Basket construction and political configuration outcomes are Strategas' analysis, not a RiskBridge forecast or recommendation. See forward looking statements disclosure. Past performance does not guarantee future results. For illustration purposes only.

Why 2026 May Not Be Different

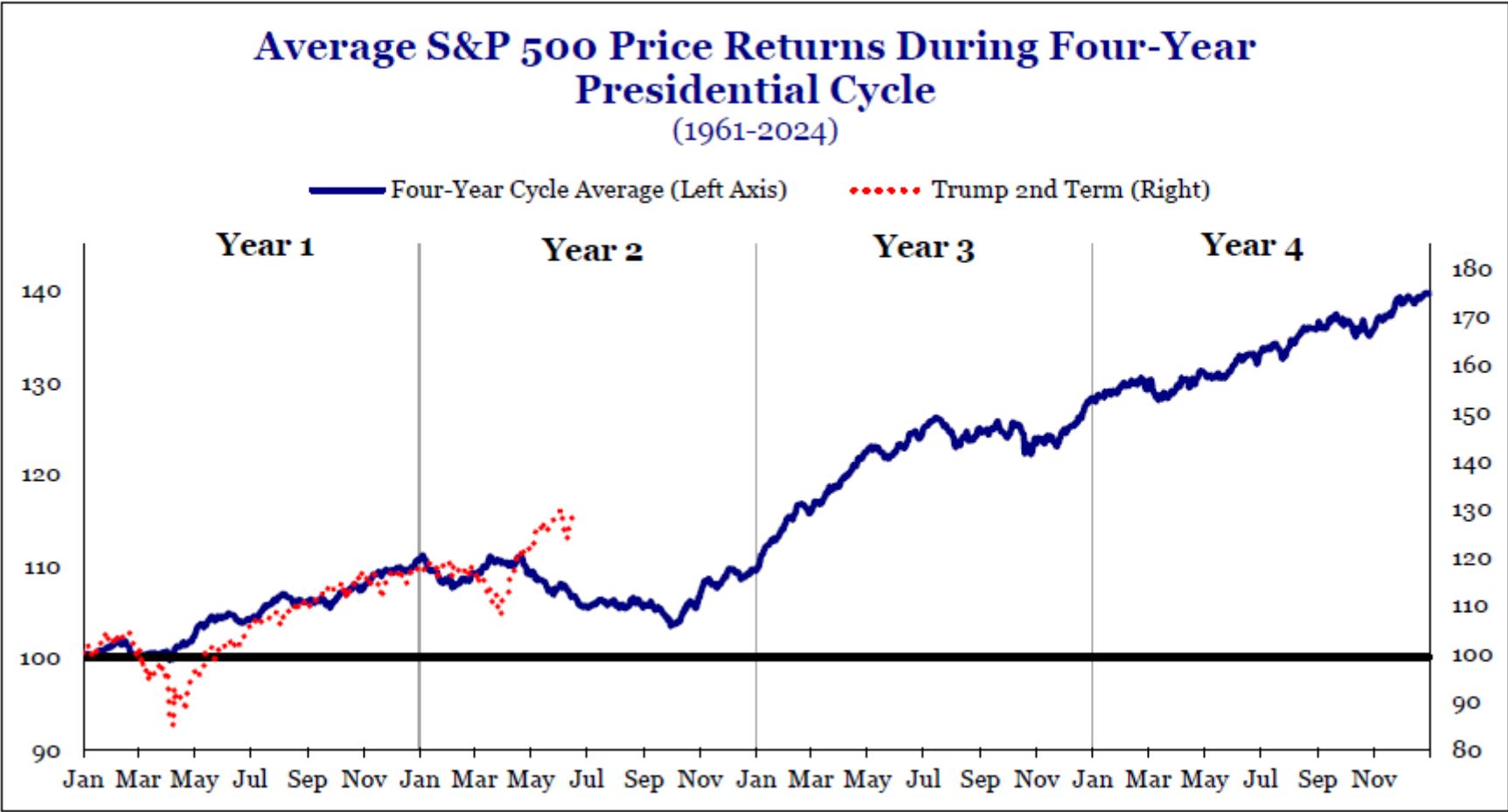
Baskets of stocks that may win/lose based on future political configuration favor a Democratic sweep.



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Why 2026 May Be Different

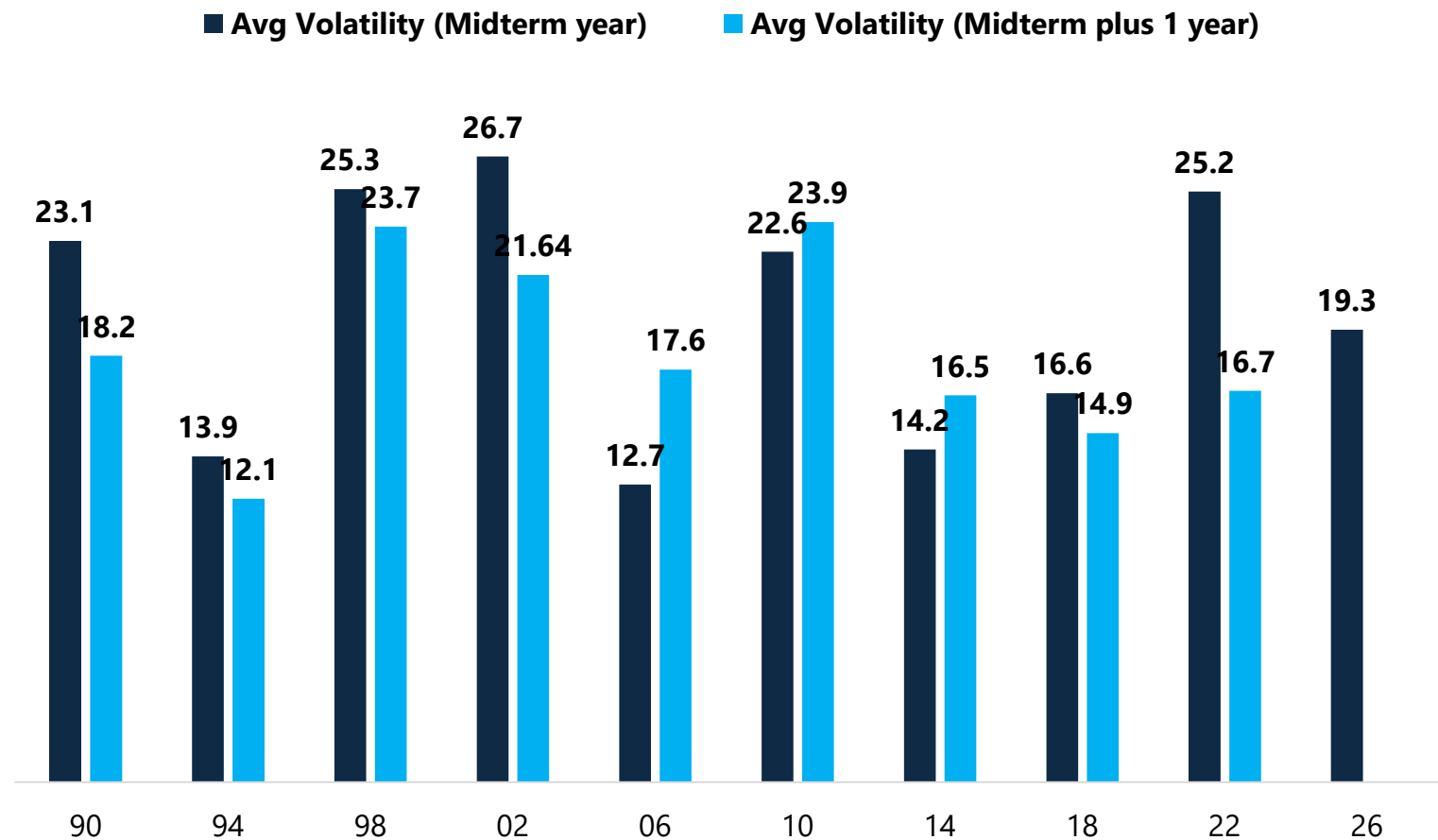
We have not yet seen the typical midterm stock market drawdown



Source: Strategas. Past performance does not guarantee future results. For illustration purposes only.

Why 2026 May Be Different

Current volatility readings suggest markets have not yet priced the seasonal pattern that typically emerges in Q3



Source: RiskBridge, Bloomberg. 2026 is through 7/24/2026. Past performance does not guarantee future results. For illustration purposes only.

What This Means for Portfolios

Stay Invested

The historical cost of existing pre-election and re-entering after has consistently underperformed a simple “hold” strategy during periods of volatility.

Don’t Exit Tactically

Requires being right twice: the exit and the re-entry.

Think Long Term

Short-term political noise is rarely a reliable input for decisions with multi-year time horizons

Scenario	Tactical Tilt
D Congress / R POTUS	Financials, large-cap over small cap, defensive sectors, quality credit, short duration
R Congress / R POTUS	Energy, industrials, defense tech, financials, small-caps, healthcare, shorter duration
R Senate / D House / R POTUS	Quality over small-cap, financials, energy, defense tech, healthcare, neutral duration

RiskBridge View

Stay close to the policy mix, manage risk dynamically, and seek to turn volatility into opportunity. Neutral stock/bond call. Overweight US vs. international equities and consider tactical tilts once we get into Q4. Underweight fixed income interest rate risk (duration) by ½ year. Key signals to watch: Fed policy, corporate earnings, and the rate of change in AI capital spending.

Key Takeaways

- 1 Gridlock has historically been a modest market tailwind, not a headwind.
- 2 Pre-election volatility is a seasonal pattern, not a sell signal; the cost of exiting has exceeded the cost of holding.
- 3 2026 policy flashpoints (AI regulation, deficit path, War in Iran, tariffs, tax provisions) and the Fed are the real variables to watch.
- 4 Discipline and rebalancing remain the path to fiduciary excellence. Tactical tilts are reserved for scenarios that genuinely diverge from the historical base rate.

Source: RiskBridge. Positioning shown reflects RiskBridge's house view as of 07/24/2026 and is subject to change without notice. Tactical tilts are illustrative model level guidance, not a recommendation for any individual account. Actual client portfolios will differ based on mandate, risk profile, restrictions, and timing of implementation. This is not a guarantee of future performance. For illustration purposes only.

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