Investing After the Midterm Elections

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U.S. stocks have often done well in the year after a midterm election. For investors deciding what to do today, the better starting point is when you'll need your money and how much risk you can live with.

What the numbers show

The S&P 500 posted a positive return in the 12 months following each of the 19 midterms from 1950 through 2022. Capital Group calculates an average price gain of 15.4%, excluding dividends. U.S. Bank's broader analysis of 31 midterms beginning in 1900 found an average 12-month gain of 12.4%, with losses in some years. Its study uses the Dow Jones Industrial Average for the early years and the S&P 500 from 1929 onward. Past performance does not guarantee future results [1–3].

What investors respond to

Republican and Democratic wins can both affect policy. As investors buy and sell, they also weigh company earnings, economic growth, inflation, and interest rates. U.S. Bank's research did not find a dependable midterm effect in its broader sample. The post-election record gives us historical context for a conversation about markets, but it can't tell us what this year will bring [3].

Start with the job your money needs to do

Ask when you'll need the money, how large a decline you could afford, and what kind of drop might cause you to sell in a panic. Money earmarked for a near-term expense has a different job from money you expect to invest for years. Review whether your mix of stocks, bonds, and cash fits those needs, and diversify across holdings [4].

Give long-term investments time

If an election headline makes you want to trade, pause and ask what has changed in your goals, spending needs, or ability to take risk. That answer can tell you more about whether to adjust your portfolio than the party that won the election.

Sources and further reading

[1] Capital Group. How U.S. Midterm Elections Affect the Markets

[2] J.P. Morgan Asset Management. How Do Markets Perform Post-Midterms?

[3] U.S. Bank Asset Management Group. How Midterm Elections Affect the Stock Market

[4] SEC Investor.gov. Asset Allocation and Diversification