Fortified Wealth Strategies Inc.

Signal, Noise, And What Matters: Nineteen for Nineteen

Can the Market's Perfect Post-Midterm Record Be Trusted?

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The midterm elections are here, and investors will soon be offered no shortage of explanations for what the results mean for the stock market. Depending on who wins, one commentator will predict a rally, another will warn of a selloff, and both will probably have historical statistics to support their positions.

But there is one statistic that deserves particular attention. In the 19 midterm elections from 1950 through 2022, the S&P 500 finished higher one year after Election Day every single time.

Nineteen elections. Nineteen positive returns. A perfect record.

That sounds like an extraordinarily reliable investment signal. The question is whether it actually tells us what happens next.

What People Are Hearing

The familiar argument is that midterm elections are good for stocks. Once the election is over, political uncertainty fades, investors gain clarity about the balance of power in Washington, and markets can return their attention to business fundamentals.

Historical comparisons appear to reinforce that story. Stocks have generally performed better in the year following midterm elections than during many other comparable periods.

For an investor who is nervous about politics, the message can be reassuring. For someone looking for a reason to invest more aggressively, it can sound like an opportunity.

But a historical pattern and a reliable investment strategy are not necessarily the same thing.

Signal: The Historical Pattern Is Remarkable

The post-midterm record is not an invented statistic. Using the S&P 500's price level on Election Day and comparing it with the price level approximately one year later, the market posted a positive return after all 19 midterms from 1950 through 2022.

Historical studies have also found that the average return following midterms has been substantially stronger than the average return over comparable periods in other years.

That is a pattern worth examining. Elections may resolve uncertainty about tax legislation, government spending, regulatory priorities, and the likelihood that major policy changes can pass Congress.

There may also be a broader presidential-cycle effect. Midterm elections occur during the second year of a presidential term, and the subsequent period has historically been one of the stronger portions of the four-year cycle.

But none of those explanations proves that the election itself caused the subsequent market gains.

Noise: 19 for 19 Means the Next One Is Practically Guaranteed

This is where an impressive historical observation can become misleading.

Nineteen observations are not a particularly large sample. More importantly, they are not 19 independent experiments conducted under identical conditions. Each election occurred in a different economic environment, with different interest rates, valuations, earnings trends, inflation conditions, and monetary policies.

A positive 12-month return also says nothing about the path the market took to get there.

Consider the 1986 midterm election. The following 12 months included the October 1987 stock market crash, one of the most dramatic single-day declines in market history. Yet the market's election-to-election-anniversary return was still slightly positive.

An investor who only saw the final return would miss the enormous volatility along the way.

There is another issue with the perfect record. It depends on the historical period and measurement dates selected. Extend the analysis farther back, and the results change. Use a different starting point, or measure returns over six months rather than twelve, and the record changes again.

That does not make the statistic false. It means the statistic answers a very specific question, not every question an investor might reasonably ask.

What Matters: Move the Calendar, and the Story Changes

The most revealing test is to change the window. Rather than treating Election Day and its first anniversary as magic dates, look at what happened in the six months immediately after the vote and then in the next six months. In the 19 midterms from 1950 through 2022, the S&P 500 was higher six months after every election, with an average gain of 14.1%. After a full year, the record was still 19 for 19, but the average cumulative gain was only 15.1%.

That is a striking difference. The first six months accounted for nearly all of the average one-year gain measured from Election Day. On a compounded basis, the ratio of the two reported average cumulative returns implies only about 0.9% additional growth between months six and twelve; that calculation is illustrative, not an average of the 19 individual second-half returns.

Now move the calendar in the other direction. A six-month stretch before Election Day, or another six months after the first anniversary, might produce a different success rate altogether. Those expanded windows have not been calculated on a consistent 1950–2022 price-index basis here, so we should not claim that the 19-for-19 streak survives them. But the point is already visible: The supposedly flawless one-year result is highly dependent on where we start and stop counting.

There is a more direct challenge to the word "perfect." Yardeni Research's longer historical table shows negative 12-month post-midterm returns in 1930 and 1938. The 19-for-19 claim is accurate for the commonly cited post-1950 sample, not a universal rule of midterm elections.

And even within that favorable sample, the election is not necessarily the cause. Earnings, interest rates, inflation, recessions, and the normal upward tendency of stocks over time all influence returns. A useful investment rule must do more than identify a good historical average; it must explain why the pattern should persist and what happens when it does not.

For an investor, the practical question is whether changing the portfolio because of an election offers a better risk-adjusted outcome than remaining invested according to a disciplined plan. A calendar-based statistic cannot answer that on its own.

The surprising finding is not simply that stocks went up after midterms. It is how quickly an apparently ironclad market rule becomes a narrower, more complicated observation once we move the dates.

The Real Lesson of a Perfect Record

A perfect historical record is particularly persuasive because it leaves no visible counterexample within the selected sample. But markets do not operate under rules that require a pattern to continue simply because it has never failed before.

This is not an argument that stocks will decline after the 2026 midterms. They may perform quite well, consistent with much of the historical experience.

It is an argument against confusing a favorable historical tendency with an investment guarantee.

If a portfolio is appropriately diversified and aligned with long-term financial objectives, the midterm election results alone are unlikely to justify a major change. If a portfolio carries too much risk, the fact that stocks have historically performed well after midterms is not a good reason to ignore that exposure.

The distinction is simple. Historical data can inform expectations. It cannot eliminate uncertainty.

Questions Worth Asking

- Does the historical statistic measure price returns or total returns, including dividends?
- How much does the result change when different starting dates or time periods are used?
- Is the pattern stronger than the stock market's normal tendency to rise over time?
- Would an investment decision based on the pattern still make sense if the next election breaks the historical streak?
- Are portfolio changes being driven by financial objectives or by political predictions?

Closing Thought

The stock market's post-midterm record is interesting, and the historical strength deserves recognition. But the most useful lesson may not be that investors should expect another rally.

It may be that even a perfect historical record can tell us less about the future than we initially think.

The market does not owe investors a twentieth consecutive positive year simply because the previous nineteen worked out that way.

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Methodology: The 19-for-19 statistic uses S&P 500 price returns over approximately 12 months after each midterm election, 1950–2022, excluding dividends. Exent reports mean cumulative gains of 14.1% at six months and 15.1% at twelve months. These are means of separate cumulative-return observations, not a directly calculated mean return for months seven through twelve. Yardeni Research documents negative post-midterm 12-month returns in 1930 and 1938. Consistent six-month pre-election and 18-month post-election comparisons were not available for verification and are not presented as established findings.

Disclosure

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