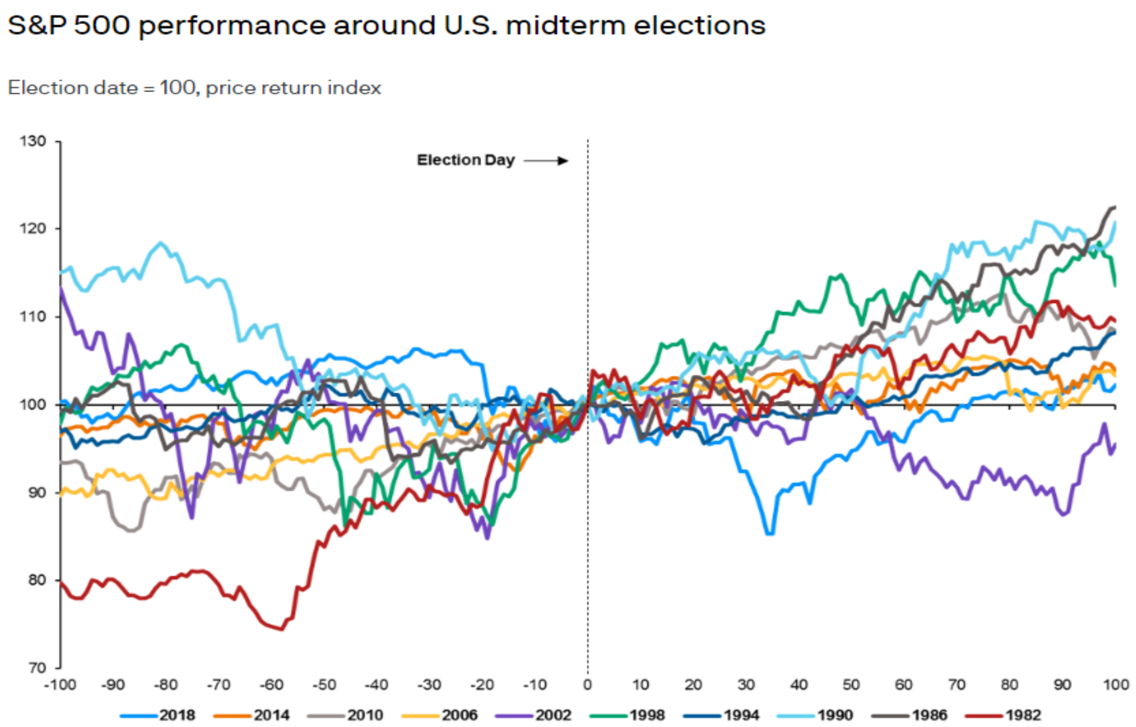
S&P 500 performance around US Midterm Elections

This week, we look at the S&P 500's performance around US midterm elections. The election is due to take place tomorrow Tuesday the 8th of Nov. Although many investors may show nervousness around these elections, history shows that election-related volatility is usually short-lived and it is policy (both monetary and fiscal), not politics, that influences the economy and markets over time.

FYI- The elections are for Congress, which is made up of two parts: the House of Representatives and the Senate. The Democrats have held the majority in both for the past two years, which has helped Biden pass the laws he wanted.



Sources: Standard & Poor's, FactSet, JP Morgan Asset Management

As is demonstrated by the 10 instances shown on the chart above, markets tend to be more volatile in the lead-up to these events since they are a source of uncertainty. Then, when the uncertainty has passed, regardless of the outcome of the vote, the S&P 500 has been higher 9 out of the previous 10 times. While they were not midterms, the two most recent Presidential elections in the States have also led to similar price action. Markets in the US rallied after both of these events despite different results. This highlights an important dynamic that is often overlooked: stocks tend to rally regardless of which party wins.

With higher inflation and a slowing economy at the forefront of voters' minds, Republicans seem likely to win back control of the House of Representatives. The Senate remains too close to call, and a split Congress would result in gridlock. We are likely to see some form of divided government in the US following this election, which could put fiscal policy in the backseat. Focus should then be squarely on the Federal Reserve.