US Midterm Elections

Last week we looked at the S&P 500's performances in the weeks leading up to, and then after US midterm elections, dating as far back as 1982. This week, we take a look at data from every midterm election year in the US back to 1950 and observe peak-to-trough moves during these years as well as the index return one year later.

While the final result is not yet in, it is looking likely that the US will be in political gridlock for the next two years. The average US mid-term election year sees the S&P correct by 17.1% from peak to trough. This year the fall was 25.4%. The good news is that 12 months after the mid-term lows, stocks are up more than 32% on average, with a median of 33.5%. Despite a range of different outcomes in previous midterms, equity markets have made fairly predictable moves one year after the midterm year low-point, gaining significant ground each time.

Midterm Years Tend To Bottom Later In The Year And See Larger Corrections

S&P 500 Index Peak-To-Trough During A Midterm Year

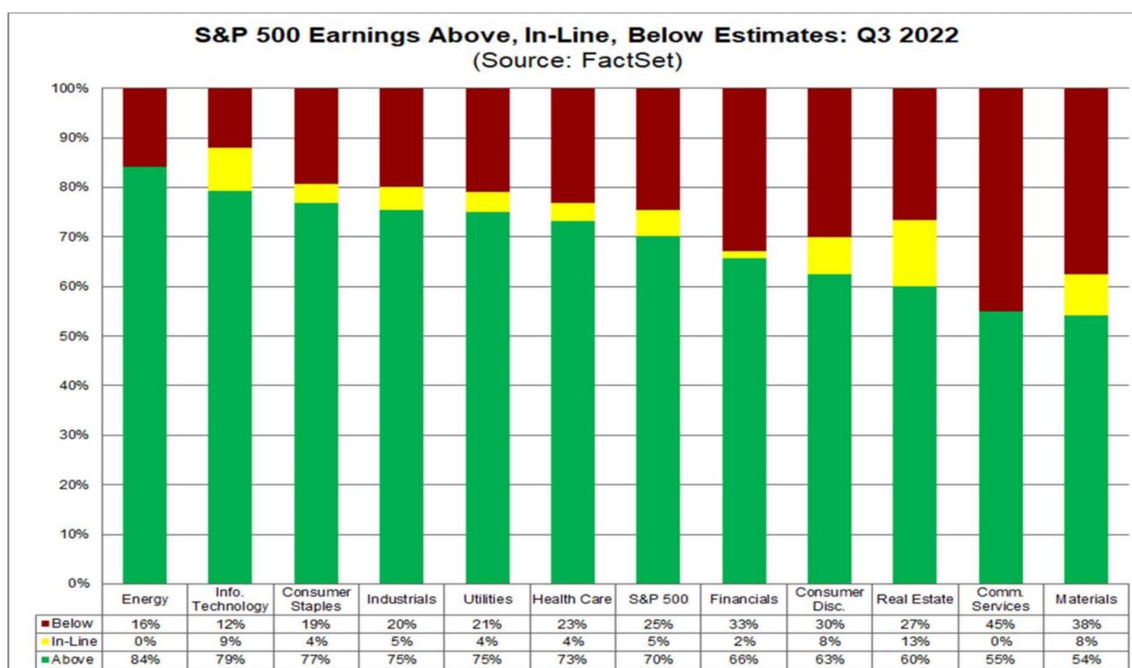
		S&P 500 Index Return	
Year	Date of Low	Peak-To-Trough	Return 1-Year Later
1950	7/17/1950	(14.0%)	30.9%
1954	8/31/1954	(4.4%)	43.9%
1958	2/25/1958	(4.4%)	36.3%
1962	6/26/1962	(26.4%)	32.7%
1966	10/7/1966	(22.2%)	33.2%
1970	5/26/1970	(25.9%)	44.5%
1974	10/3/1974	(37.6%)	34.6%
1978	11/14/1978	(13.6%)	11.3%
1982	8/12/1982	(16.6%)	57.7%
1986	9/29/1986	(9.4%)	40.6%
1990	10/11/1990	(19.9%)	28.8%
1994	4/4/1994	(8.9%)	14.3%
1998	8/31/1998	(19.3%)	37.9%
2002	10/9/2002	(33.8%)	33.7%
2006	6/13/2006	(7.7%)	24.5%
2010	7/2/2010	(16.0%)	31.0%
2014	10/15/2014	(7.4%)	8.7%
2018	12/24/2018	(19.8%)	37.1%
2022*	10/12/2022	(25.4%)	?
Average	August 14	(17.1%)	32.3%
Median	September 4	(16.3%)	33.5%

Source: YCharts, Carson Wealth Management

US Earnings

Of the circa 85% of S&P 500 companies that have reported Q3 results so far, 70% have seen their earnings per share (EPS) come in above analysts' forecasts which, while strong, is below the 5-year average of 77% and the 10-year average of 73%. 25% of these firms have seen earnings come in below expectations and 5% were in-line.

Below you will see a breakdown of each sector's third-quarter results so far, with the S&P 500 highlighted in the middle. Unsurprisingly, energy firms have outperformed (left-hand side), with 84% of these companies beating EPS forecasts.



Source: FactSet

Where the chart above shows us S&P 500 earnings compared with analysts' forecasts, below we can see the index's Q3 earnings and sales versus the same quarter last year (YoY) and versus the previous quarter this year (QoQ). The consensus forecasts, which factor in the results we have already seen along with estimates for the remaining companies, are for 1.5% earnings growth y/y and 12% sales growth y/y (in blue). Importantly, earnings growth is forecast to be positive for the third quarter, with firms able to pass on much of their increased costs to consumers.

S&P 500 consensus earnings and sales growth expectations by sector

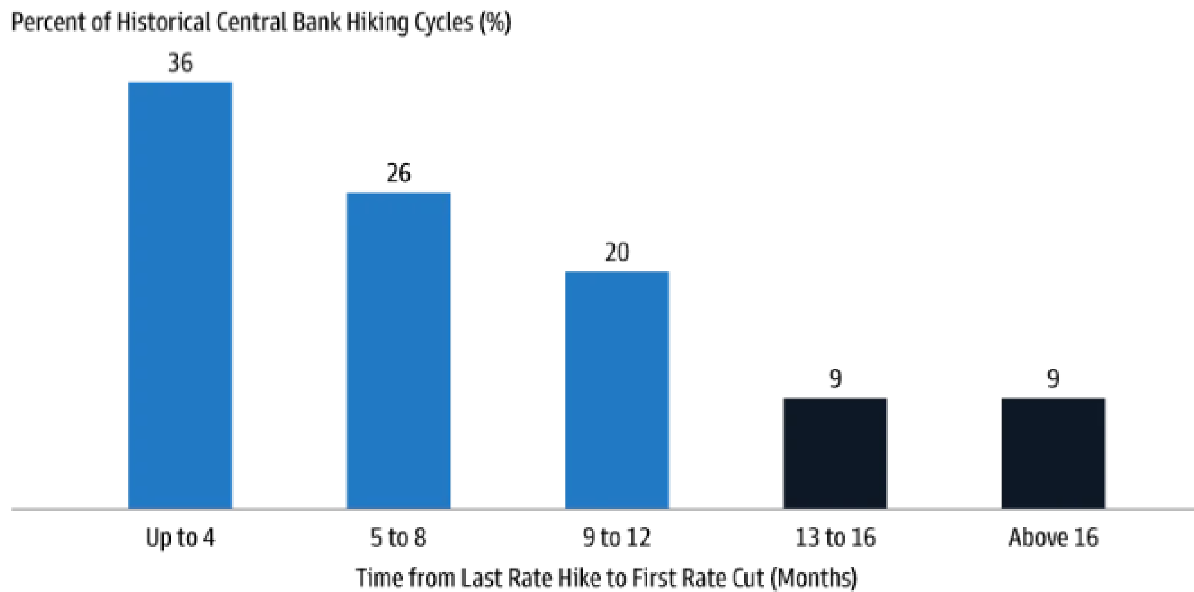
	Earnings		Sales	
Sector	**YoY%**	**QoQ%**	**YoY%**	**QoQ%**
Consumer Disc.	9.3%	23.5%	14.2%	3.3%
Consumer Staples	(1.8%)	1.9%	6.7%	3.5%
Energy	140.3%	(7.2%)	43.6%	(8.9%)
Financials	(20.1%)	(10.0%)	18.4%	16.2%
Health Care	(2.2%)	(3.9%)	4.9%	(0.2%)
Industrials	15.3%	(6.9%)	12.8%	1.4%
Technology	(2.4%)	0.8%	5.8%	0.7%
Materials	(15.3%)	(28.5%)	6.0%	(7.3%)
Real Estate	16.2%	2.0%	16.3%	2.1%
Communication Services	(25.5%)	22.8%	2.6%	(0.2%)
Utilities	(2.9%)	35.0%	13.2%	13.3%
S&P 500	**1.5%**	**(0.1%)**	**12.0%**	**1.9%**
ex. Financials	**5.9%**	**1.5%**	**11.1%**	**0.1%**
ex. Energy	**(6.1%)**	**0.9%**	**9.3%**	**3.2%**
ex. Fins & Energy	**(3.0%)**	**3.1%**	**8.0%**	**1.4%**

Source: FactSet, Bank of America US Equity & Quant Strategy

Fed Expectations & Historical Hiking Cycles

Following last week's weaker-than-expected US CPI inflation print, market expectations for Fed hikes and the terminal rate in the US have pulled back slightly. The market is now looking for a 50bp move in December followed by 25bp in both January and March. This would leave the Fed Funds rate at a range of 4.75 – 5.00%, with cuts now expected in the second half of the year.

The chart below shows the time period from the last rate hike in the cycle to the first subsequent rate cut. 36% of the time, there has been 4 months or less between these two events, and 26% of the time there has been between 5 and 8 months. We may end up seeing rate cuts sooner than many have been expecting, which will likely send both equity and bond markets significantly higher when they eventually do come about.



Source: Haver Analytics, Goldman Sachs Global Investment Research, Goldman Sachs Asset Management