Signal from Noise

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THE POST-MIDTERM PLAYBOOK



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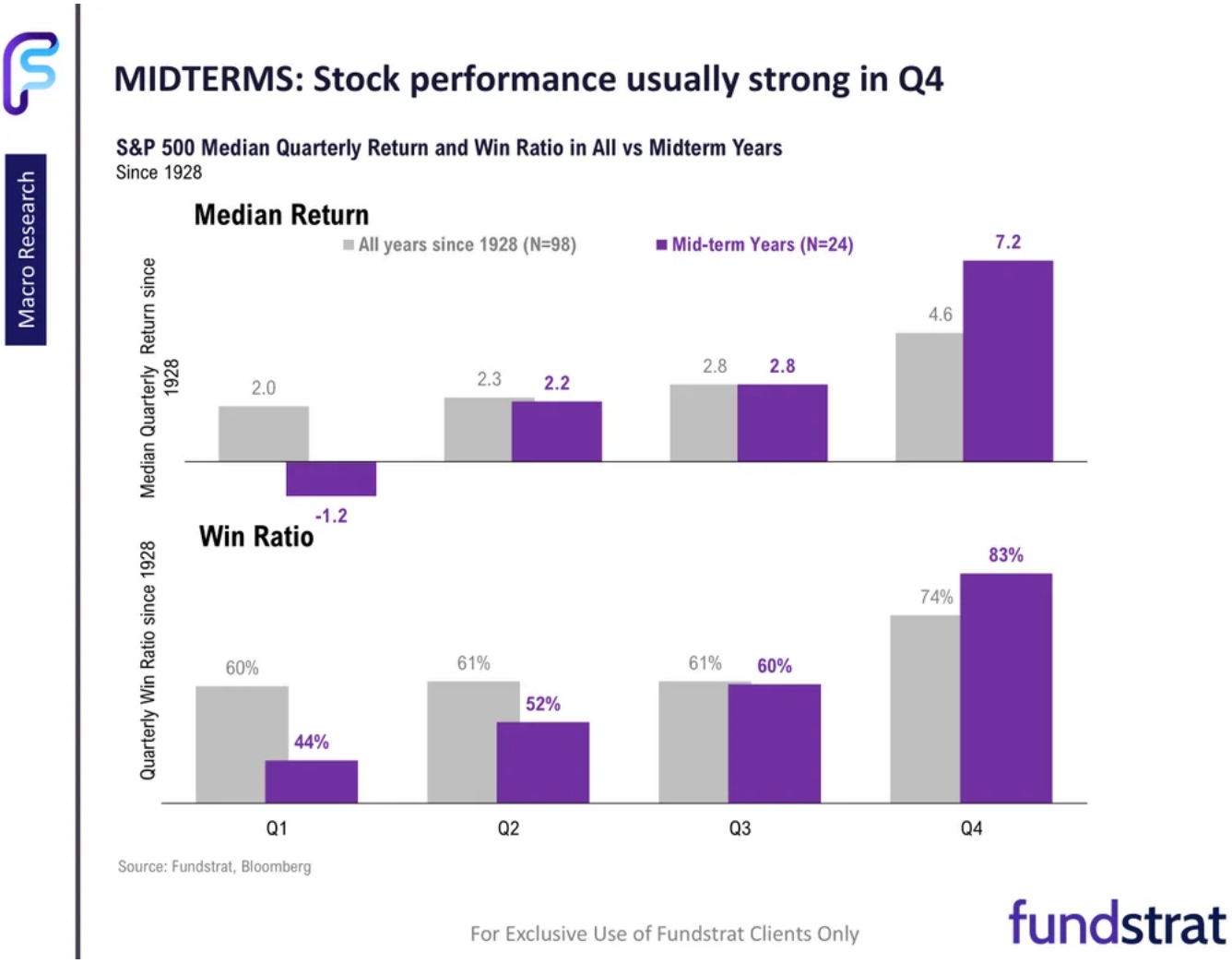
Elections belong to the people. It's their decision. If they decide to turn their back on the fire and burn their behinds, then they will just have to sit on their blisters." — Abraham Lincoln

For all the headlines about the midterms, it doesn't really matter which party gains control. Not for investors, anyway.

The S&P 500 has been higher six months after Oct. 26 in every single midterm year, analysis going back to 1950 by Fundstrat Head of Technical Strategy Mark Newton shows, with the index posting an average gain of 15%.

Looking specifically at the fourth quarter performance, that's gangbusters for stocks, too, regardless of what the political balance of power ends up being. Since 1928, the S&P 500 in the fourth quarter has posted an average gain of 5.6% and a median advance of 7.2% during midterm years, according to Macro Data Scientist Alex Wang.



So if you've been sitting on the sidelines for most of the year, hesitant to buy in because of concerns about AI's circular financing or the appetite slowing down for the deluge of AI debt or gigantic IPOs that scarcely make any sense, then you might consider adding to your positioning now. This very well might be the last stumble in the stock market for the year.

Head of Research Tom Lee and Newton both expect stocks to post a strong rally into the year-end, listing out 8,000 points as their S&P 500 price target, which would represent a gain of 5.5% from Friday's close.

"For me, this is not the time you want to run for the hills. This is our traditional sell-off into the midterms, which historically has proven to be the best buying opportunity of the entire four-year cycle," Newton said mid-October.

Market breadth has shown signs of recovery in recent weeks, with 10 of the 11 sectors in the Invesco S&P 500 Equal Weight ETF $RSP in the green over the last month. The equal-weight index has gained 4.9% in October, outperforming the cap-weighted version's loss of nearly 1%.

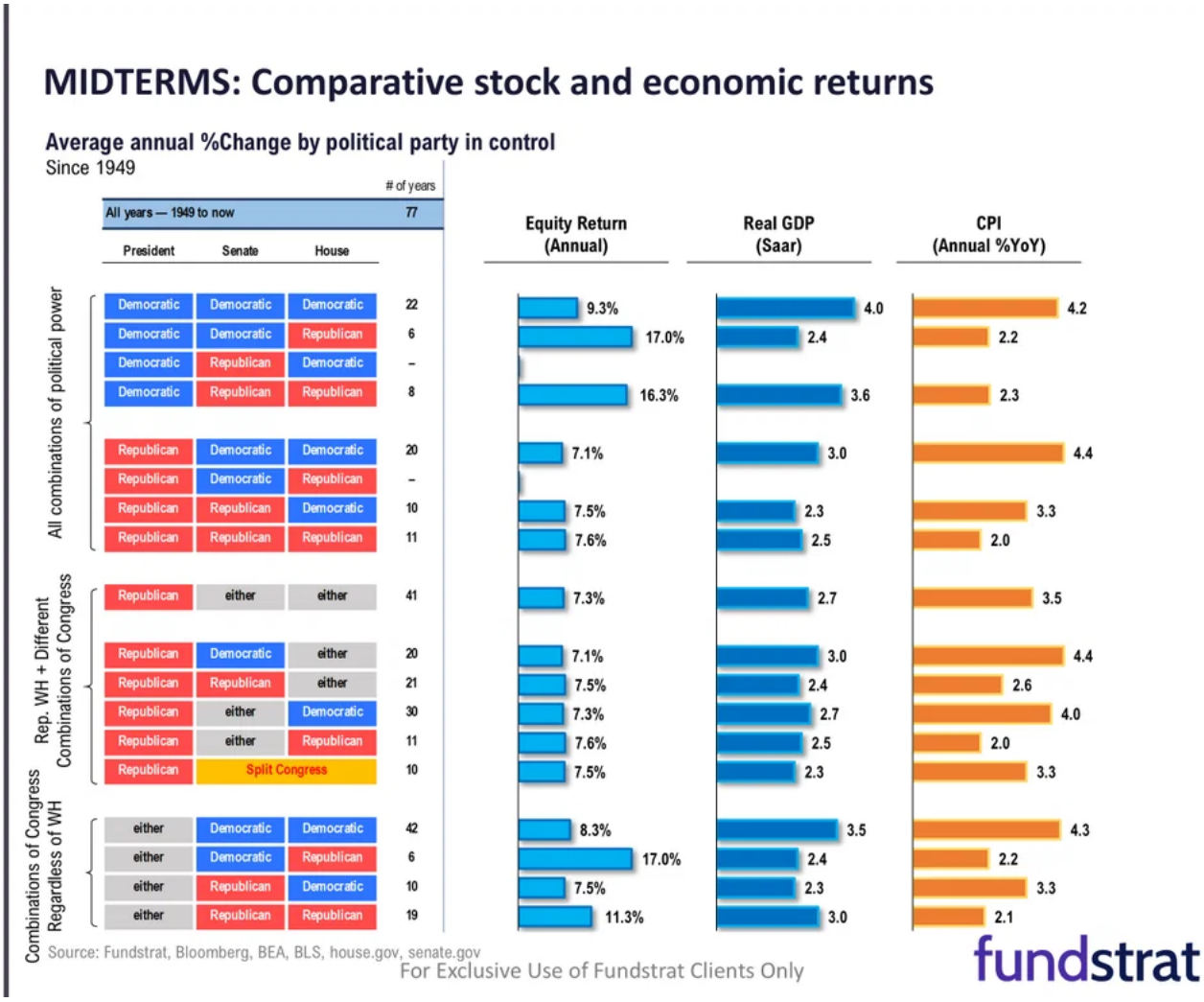
Under Trump's second term, the economy and markets have been volatile. Tariffs generated billions in revenue, but it was a mere drop in the $40 trillion budget deficit bucket, and much of it has now been refunded. The war with Iran has led to skyrocketing energy costs, contributing to an affordability crisis. The resulting persistent inflation from that has made it harder for the Federal Reserve to sit by idly, forcing officials to raise interest rates in September for the first time since 2023. The labor market has been lackluster, adding to consumers' growing feeling of malaise. It's little wonder that Trump's approval rating has suffered.

Yet somehow markets have never looked better. The S&P 500 has hit records 28 times this year and finished the month 3.1% away from its all-time highs hit on Oct. 6. The Dow Jones Industrial Average closed above the 50,000 mark for the first time ever this year. It's up 7% in 2026 so far.

To be fair, it was a similar case with former President Biden, whose approval rating also declined partially because of rising prices, but with him as well, stocks didn't care. They just kept hitting record after record after record, so those rising prices didn't matter to stocks, even if they did for the regular consumer.

This time around, too, the economy and healthcare are what's most important to Americans in midterm elections, according to a Gallup poll. What James Carville said during Bill Clinton's 1992 campaign still holds true: "It's the economy, stupid." (He also said "Don't forget health care.")

The takeaway here is that whatever the outcome may be, stocks will likely rally because the midterms are a clearing event.

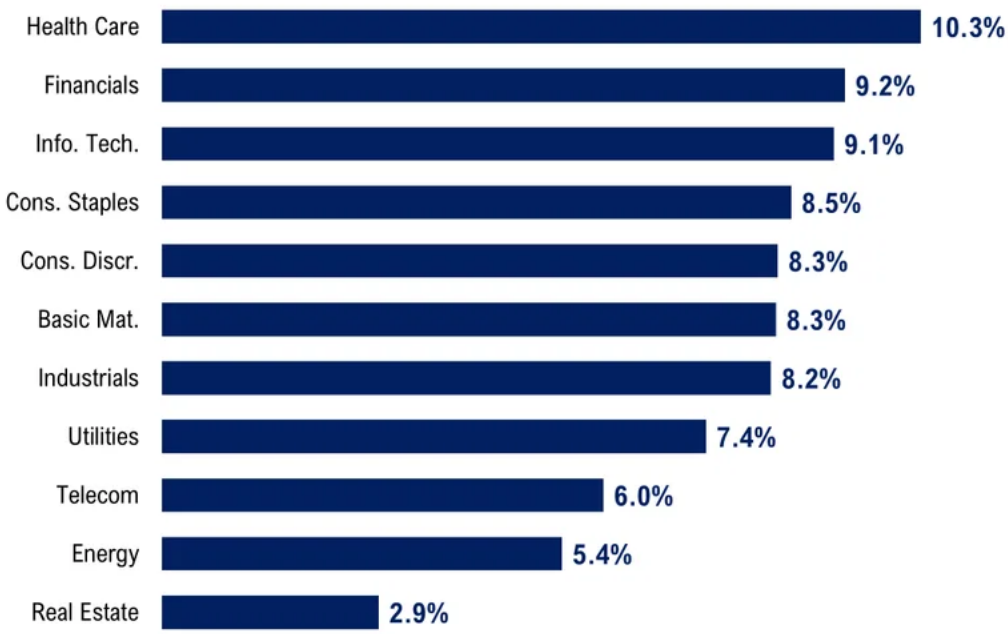


Stocks arguably remain a “coiled spring,” as Lee puts it, and sentiment is bearish. The percentage of bears is at 41.4%, compared to 37.8% for bulls, according to the American Association of Individual Investors sentiment survey for the week ending Oct. 28.

With all that being said, if you’re wondering which sectors to favor post-midterms in the fourth quarter, then the top four sectors to consider are healthcare, financials, information technology, and consumer staples, according to historical data. The charts below have more details.

Macro Research

Median Q4 stock-market sector returns in midterm years
Since 1930



Source: Fundstrat, Kenneth French Data Library, Datastream, Bloomberg

Note: Sector returns before 1990 are based on a total market index; returns from 1990 onward are from S&P 500 sector indexes.

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Macro Research

Q4 stock-market sector returns in midterm years
Since 1930

Midterm Year	Cons. Discr.	Industrials	Info. Tech.	Basic Mat.	Energy	Fin.	Real Estate	Telecom	Cons. Staples	Health Care	Utilities
1930	-15.4%	-18.9%	-17.8%	-21.4%	-22.2%	-26.5%	-37.9%	-10.8%	-7.7%	-12.0%	-19.1%
1934	13.4%	35.8%	18.1%	7.4%	2.6%	15.4%	7.5%	-3.8%	14.2%	9.0%	-15.9%
1938	8.4%	19.5%	8.8%	14.7%	3.4%	7.3%	5.6%	6.9%	8.3%	10.5%	17.0%
1942	13.8%	11.6%	16.6%	15.0%	19.1%	9.3%	-15.6%	9.4%	9.3%	15.8%	18.7%
1946	-0.6%	2.6%	10.8%	6.9%	4.4%	2.8%	-10.0%	0.2%	0.4%	10.1%	8.5%
1950	2.7%	9.4%	7.0%	9.7%	14.8%	9.2%	15.3%	1.9%	2.4%	13.6%	1.6%
1954	11.4%	17.4%	20.6%	18.2%	12.7%	15.8%	17.6%	4.2%	9.4%	16.4%	5.3%
1958	14.1%	11.8%	24.9%	10.0%	4.5%	11.1%	0.6%	17.5%	10.1%	18.6%	13.7%
1962	10.7%	14.3%	11.4%	8.8%	15.8%	13.1%	1.6%	11.3%	8.7%	14.9%	10.1%
1966	3.1%	7.7%	13.5%	7.8%	6.4%	14.1%	3.0%	9.2%	10.4%	12.8%	10.8%
1970	8.9%	4.1%	-5.8%	4.7%	10.3%	7.5%	6.8%	9.2%	13.6%	1.0%	16.3%
1974	-3.6%	3.0%	2.6%	0.3%	14.1%	23.0%	-11.5%	8.5%	17.8%	21.9%	6.9%
1978	-10.6%	-3.5%	4.2%	-10.0%	-1.5%	-8.3%	-18.9%	-1.2%	-4.5%	-3.8%	-5.6%
1982	27.9%	22.6%	32.5%	21.3%	12.3%	21.9%	23.2%	11.1%	14.7%	14.0%	8.5%
1986	6.2%	8.8%	-2.6%	7.8%	4.7%	0.2%	3.8%	6.0%	7.1%	9.4%	3.0%
1990	8.8%	7.4%	9.4%	9.3%	-2.9%	12.8%	3.2%	2.8%	14.9%	12.9%	9.2%
1994	-2.5%	-0.7%	8.6%	-8.0%	0.9%	-4.0%	-3.2%	-6.8%	3.3%	2.4%	1.0%
1998	29.1%	17.7%	36.4%	2.7%	0.4%	21.7%	0.5%	27.6%	21.7%	14.4%	1.6%
2002	1.8%	5.0%	22.2%	12.1%	6.1%	6.8%	-1.1%	36.4%	0.5%	4.6%	3.5%
2006	9.8%	5.3%	5.9%	10.7%	10.7%	6.3%	10.9%	7.8%	2.9%	1.0%	8.3%
2010	12.1%	11.2%	10.0%	18.5%	20.9%	11.2%	8.1%	5.9%	5.3%	3.1%	-0.0%
2014	8.3%	6.2%	4.9%	-2.3%	-11.3%	6.7%	12.8%	-5.3%	7.4%	7.0%	12.2%
2018	-16.7%	-17.7%	-17.7%	-12.8%	-24.4%	-13.6%	-4.7%	-13.6%	-6.0%	-9.1%	0.5%
2022	-10.4%	18.7%	4.4%	14.4%	21.7%	13.0%	2.8%	-1.6%	12.0%	12.3%	7.8%
Average	5.4%	8.3%	9.5%	6.1%	5.2%	7.4%	0.8%	5.5%	7.4%	8.4%	5.2%
Median	8.3%	8.2%	9.1%	8.3%	5.4%	9.2%	2.9%	6.0%	8.5%	10.3%	7.4%
Win Ratio	71%	83%	83%	79%	79%	83%	67%	71%	88%	88%	83%

Source: Fundstrat, Kenneth French Data Library, Datastream, Bloomberg

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Healthcare:

On a median basis, the healthcare sector has been the top-performing sector in the fourth quarter in an analysis of midterm years going back to 1930, up 10.3%.

The healthcare sector likely benefits from expectations that there won't be any big reforms, allowing companies to have greater visibility into the next year.

The sector has added roughly 15% since the end of the second quarter through Thursday, Oct. 29.

Eli Lilly $LLY is among the top five contributors, gaining around 15%. It's best-known today for its diabetes and obesity drugs, including Mounjaro and Zepbound. Another gainer has been Thermo Fisher Scientific $TMO, which is a supplier of lab

instruments, reagents, diagnostics, and contract drug-manufacturing services to pharma, biotech, and research customers. Its shares are up roughly 42%. These two companies trade at about 30.5 and 25.9 times expected earnings over the coming 12 months, respectively.

CVS Health $CVS is among the top five detractors, losing around 11% over the same period. The company runs the CVS pharmacy chain, the Aetna health insurer, and the Caremark pharmacy benefits manager. Another loser has been UnitedHealth $UNH, which runs UnitedHealthcare, the largest U.S. health insurer. Its shares are down 1.4%. These two companies trade at about 10.7 and 17.9 times expected earnings over the coming 12 months, respectively.

The broader S&P 500 trades at an 18.7 times multiple.

Financials:

On a median basis, the financials sector has been the second-best performing sector in the fourth quarter in an analysis of midterm years going back to 1930, up 9.2%.

Like the healthcare sector, financial stocks get a boost from a gridlocked government. President Trump has tried to cap the rates charged on credit cards, and aimed to stop institutional investors from buying single-family homes, among other measures.

The sector has added roughly 6% since the end of the second quarter through Thursday.

Visa $V is among the top five contributors, gaining around 20%. The company is a global payments network that processes card transactions between consumers, merchants and banks, earning fees on volume rather than lending money itself. Another gainer has been rival Mastercard $MA. Its shares are up roughly 25%. Visa and Mastercard trade at about 27.0 and 28.2 times expected earnings over the coming 12 months, respectively.

Bank of America $BAC is among the top five detractors, losing approximately 9% over the same period. The company is a banking giant spanning consumer banking

and credit cards, Merrill wealth management, and corporate and investment banking. Another loser has been Citigroup $C, which is focused on corporate treasury and trade services, markets and investment banking, wealth management, and U.S. consumer banking, where it's one of the largest credit card issuers. Its shares are down about 10%. These two trade at about 10.2 and 9.9 times expected earnings over the coming 12 months, respectively.

The broader S&P 500 trades at an 18.7 times multiple.

Information Technology:

On a median basis, the information technology sector has been the third-best performing sector in the fourth quarter in an analysis of midterm years going back to 1930, up 9.1%.

The sector likely benefits because investors become hungry for growth after elections, and for that, you can frequently rely on the tech sector. Anthropic's S-1 filing, for example, is unlike that of any other tech company in history, and earnings have been stellar.

The sector has added roughly 4% since the end of the second quarter through Thursday.

Microsoft $MSFT is among the top five contributors, gaining around 40%. The company is a tech giant whose biggest businesses are Azure cloud computing, Office and other productivity software, and Windows, with AI woven across all three. Another gainer has been Apple $AAPL, which makes the iPhone, Mac, iPad and wearables, and earns a fast-growing share of profit from services like the App Store, iCloud and Apple Music. Its shares are up roughly 20%. These two companies trade at about 24.9 and 36.2 times expected earnings over the coming 12 months, respectively.

Micron $MU is among the top five detractors, losing about 18% over the same period. The company is a memory chipmaker that produces DRAM and NAND storage, including the high-bandwidth memory used in AI data-center chips. Another loser has

been Applied Materials $AMAT, which is a maker of the equipment chipmakers use to manufacture semiconductors, such as deposition, etching and inspection tools. Its shares are down approximately 40%. These two companies trade at about 5.3 and 22.6 times expected earnings over the coming 12 months, respectively.

The broader S&P 500 trades at an 18.7 times multiple.

Consumer staples:

On a median basis, the consumer staples sector has been the fourth-best performing sector in the fourth quarter in an analysis of midterm years going back to 1930, up 8.5%.

Though companies that sell the likes of toilet paper and cereal and cigarettes aren't exactly glamorous or trendy, they typically perform well precisely because of that. The expectation is that no matter what happens to the economy, consumers will prioritize purchasing staples over everything else.

The sector has added roughly 6% since the end of the second quarter through Thursday.

Coca-Cola $KO is among the top five contributors, gaining around 15%. Another gainer has been Philip Morris $PM, which is a tobacco company that sells Marlboro outside the U.S. and is shifting toward smoke-free products like IQOS heated tobacco and Zyn nicotine pouches. Its shares are up roughly 15%. These two companies trade at about 26.6 and 23.3 times expected earnings over the coming 12 months, respectively.

Casey's General Stores $CASY is among the top five detractors, losing about 15% over the same period. The company is a convenience store chain concentrated in the Midwest that sells fuel and groceries, and is known for its made-from-scratch pizza. Another loser has been Monster Beverage $MNST. Its shares are down approximately 4%. These two companies trade at about 30.4 and 36.0 times expected earnings over the coming 12 months, respectively.

The broader S&P 500 trades at an 18.7 times multiple.

Conclusion

It's natural for worries to creep up around the midterm election season, but those politically driven declines have typically ended up being one of the greatest buying opportunities of the four-year cycle. For long-term investors with a risky appetite, healthcare, financials, information technology, and consumer staples might be worth considering.

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