

INVESTMENT MANAGEMENT TEAM

Market Musings

*"The great source of both the misery and disorders of human life seems to arise from over-rating the difference between one permanent situation and another."
– Adam Smith, The Theory of Moral Sentiments*

MONTH IN REVIEW | SEPTEMBER 2026

- **U.S. stocks** were mixed for the month, as ongoing tech-sector strength kept large-cap stocks in positive territory despite growing uncertainty surrounding the future of AI regulation. Small and mid-cap stocks, however, struggled in the face of re-escalating tensions in the Middle East and surging interest rates.
- **International stocks** were similarly varied. Tech-heavy emerging markets like Taiwan and Korea outperformed, but developed markets were dragged lower amid heightened trade tension between Canada and the U.S., growing fiscal worries, and concerns around higher oil prices and their impact on already-sluggish European economies.
- **Bonds** had a rough month as **Treasury yields** surged to multi-decade highs on the back of strong economic growth, higher oil prices, sticky core inflation, and surging odds that, after raising policy rates for the first time in three years, more Federal Reserve rate hikes are on the way.
- The **U.S. economy** continued its strong run, with unemployment claims still hovering near historic lows, consumer spending proving robust despite higher prices, and manufacturing beginning to show signs of life.

More constructively, we saw a pick-up in hiring, which is a welcome change from the low-hire, low-fire backdrop that has dominated 2026.

MIDTERM MARKET MANIA

Election season has arrived once again, and it has brought no shortage of debate about just how much rests on the outcome of a single Tuesday in November. And in all fairness, this midterm election will not only set the tone for the final two years of President Trump's administration, but will lay the foundation for what is likely to be a highly contentious and wide-open 2028 White House race. In such an environment, attempting to divine the impact of politics on stock-market performance becomes even more difficult than usual, and is only further complicated by the fact that red and blue may no longer tell the whole story. Luckily, history again serves as a useful guide, and as we will discuss, midterm elections – regardless of their impact elsewhere – may not represent much of a market headwind.

Since 1946, the political party that held the White House during midterms lost seats in the House of Representatives 90% of the time.¹ And this should come as no major shock. Fairly or unfairly, red or blue, whether the issue is under the control of government policy or not, the reigning administration receives both the credit and the

blame for nearly everything that happens during its tenure. In other words, two years of **any** White House makes for easy picking for political opponents.

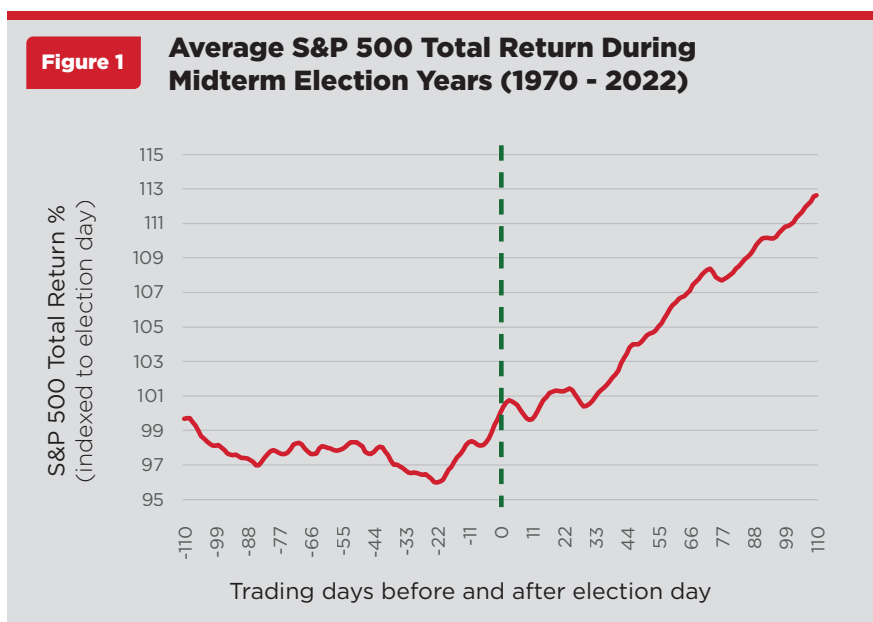
So, given the razor-thin Republican majority, it should not be a surprise that Democrats are projected to swing the House in their favor according to current betting odds.² The Senate, however, which was widely expected to remain in Republican control at the start of the year, has become a wild card. But while it too tends to see a historical shift against the sitting administration, the fact that only a portion of the Senate is up for reelection in any given year means that the size of the shift (and chance of flipping) is much lower. Instead, it is the Iran conflict that seems to be the primary catalyst for a potential Senate win for Democrats. Indeed, the probability of a Senate flip to Democratic control has moved in near lockstep with the price of oil since early March. And given that a month is a long time in politics these days, and with the Iran conflict in constant flux, Senate leadership may remain a coinflip until November.

But high pre-midterm uncertainty is nothing new. In fact, this pattern is precisely why we have such a clean picture of how midterms – and elections in general – tend to impact the stock market (Figure 1).

Remember that stock-market prices are forward-looking, and at their core, they are projections of corporate earnings that rely on expectations of several variables, including the regulatory landscape, economic growth, and the geopolitical backdrop. The more uncertain the future states of those factors are, the more volatility you are likely to see in the market. As such, heading into midterms – when the legislative agenda is up in the

air – stocks markets tend to suffer. But as the big day approaches and the post-election picture becomes clearer, we normally see the market adjust to the new normal relatively quickly. Republican or Democrat, flipped or maintained, mixed or swept – the outcome itself is less important than the fact that there simply was an outcome.

But an astute observer will notice that we are a month away from election day, and the S&P 500 is hovering near all-time highs - hardly the pre-election choppiness we have come to expect. That said, we have certainly had our fair share of market volatility this year (and last year as well), but most of it was driven by the Iran war and ongoing trade battles, not Capitol Hill. Now, it could be that, given these considerably more impactful factors,



Source: Bloomberg data analyzed and prepared by First Command, Sept 25, 2026. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment. Indices cannot be purchased directly by investors.

midterms have simply taken a backseat in the minds of investors. After all, while the president may be using the midterms to set the timeline for an Iran deal,³ it is a safe assumption that the outcome will be a small factor in how negotiations play out. And trade policy has certainly not depended heavily on congressional approval so far.

Or perhaps the market response has been muted simply because whatever form Congress takes after next month may not impact legislation and policy – and by extension, the economy – as much as you may expect:

- **Mixed Congress:** Should the Republicans hold the Senate, we get a classic political logjam with a dearth of major policy action and a greater reliance on continuing resolutions, procedural games, and executive actions to move things along. Partisan House bills will die in the Senate; Democratic Senate bills will never get a House vote. We would argue that we are likely to see more brinksmanship around federal budget proposals, but it is hard to imagine more than we already have.
- **Blue Sweep:** A fully Democratic Congress may clear the path for more progressive legislative proposals. But given the president's veto power and a low probability of an overriding super majority in either chamber, the chance of new legislation passing will likely remain low, which helps to tamp down unwelcome policy uncertainty. What power this does give the Democrats – a bit more influence on how taxpayer dollars are spent and stronger executive oversight – may simply result in more political theater and posturing for 2028 than impactful shifts in government policy.

Under either scenario, while we as voters may often blanch at a government that seems to be getting very little done, financial markets tend to welcome a sluggish legislature.

Even with a change in leadership we need to be careful about assuming too much cohesion along party lines. Within the Democratic Party,

the growing force of the Democratic Socialists is charging head-long into the establishment left. On the right, the Trump-aligned MAGA Republicans are being challenged by those in the party who are pushing for less interventionist policies. We do not quite have a four-party system, but depending on the legislation on the floor, Republican or Democrat may be an insufficient guide going forward.

This blurring of the traditional party lines – combined with post-election Iran developments and a persistently changeable U.S./China (well, U.S./everyone) relationship – may mean that the chance for some near-term market volatility is not off the table. In fact, the last Trump midterm in 2018 also bucked our midterm market pattern, with much of that year's volatility coming *after* the election. But in any event, one of the most persistent patterns we see is that, in the 12 months following any midterm election, the S&P 500 has not seen a negative result since the Great Depression.⁴

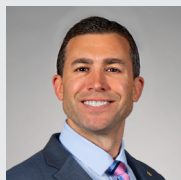
This is not the first time we have written about [election year market behavior](#). In 2024, we zoomed out to highlight that the things that drive political discourse – or more importantly, the things that tend to legitimately shift with government leadership – are not always the key drivers of the economy, or markets, over time. The lesson has not changed. So, whatever this election brings, whatever stage it sets for the next two years, and more importantly, whatever your politics, do not lose sight of the fact that, when it comes to investing, “the fundamental things apply, as time goes by.”⁵ 

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1. <https://www.presidency.ucsb.edu/statistics/data/seats-congress-gainedlost-the-presidents-party-mid-term-elections>
2. <https://polymarket.us/midterms>
3. <https://www.nbcnews.com/politics/trump-administration/trump-address-united-nations-general-assembly-iran-war-rcna599085>
4. <https://www.ssga.com/us/en/intermediary/insights/the-midterm-paradox-voters-want-change-markets-prefer-gridlock>
5. One of your authors may have just rewatched Casablanca while writing this section and felt inspired.



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