WINTHROP WEALTH

OCTOBER 2026 CLIENT QUESTION OF THE MONTH

PRE MIDTERM ELECTIONS

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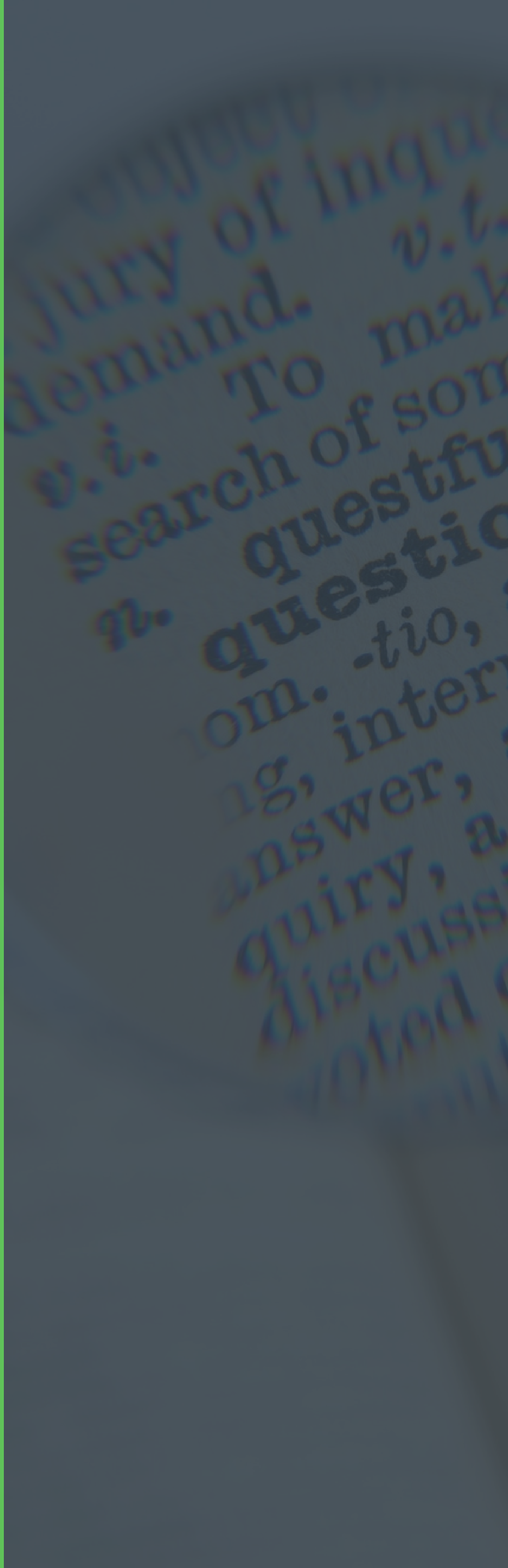


2026 Midterm Election: What Does It Mean for Markets?

The 2026 midterm elections are approaching, and control of Congress is very much in play. Prediction markets currently expect Democrats to capture the House, while the Senate is much more competitive.[1] Republicans currently control the White House, House, and Senate, so either chamber changing hands would end unified Republican control of Washington.

Our goal with this commentary is to frame the election from a financial planning and investment management standpoint. A major part of our role as your trusted advisor is to remove the emotional aspect from investment decision making. Elections naturally generate strong opinions, but our advice regarding your finances is to focus on what matters and what you can control. Don't let election results cause you to lose sight of your long-term financial goals.

Does the Makeup of Washington Matter for the Stock Market?

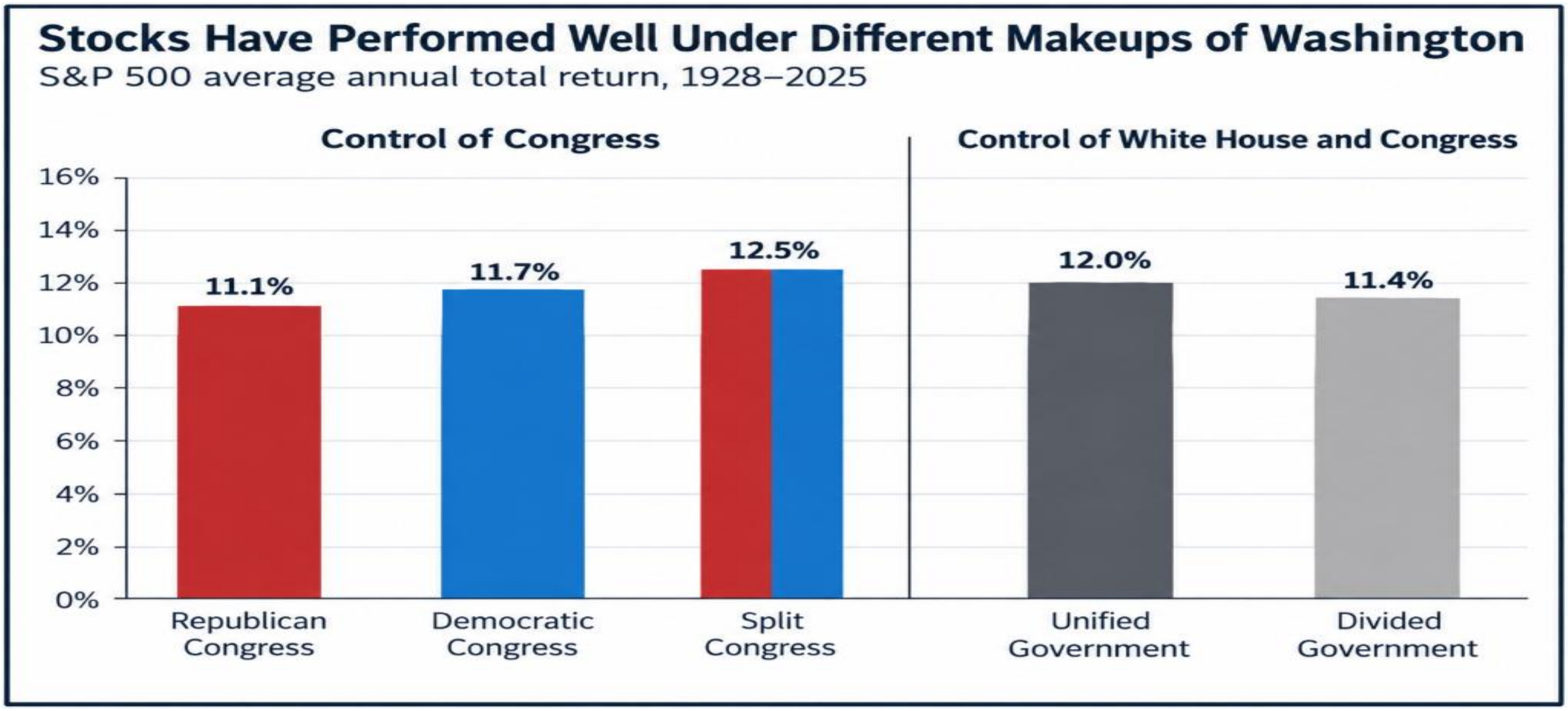
Of course, elections matter. Changes in tax, spending, trade, and regulatory policy can have meaningful impacts on the economy, individual industries, and financial markets. However, history does not provide a reliable rule that one particular makeup of Washington is consistently better for the stock market.

We looked at S&P 500 total returns from 1928 through 2025 and grouped each year based on two measures of political control:

- **Control of Congress:** Republican-controlled means Republicans controlled both the House and Senate, Democratic-controlled means Democrats controlled both chambers, and split means each party controlled one chamber.
- **Control of the White House and Congress:** Unified government means the President's party also controlled both the House and Senate. Divided government means at least one chamber of Congress was controlled by the other party.

The results were surprisingly similar. The S&P 500 generated an average annual total return of approximately 11.1% with a Republican-controlled Congress, 11.7% with a Democratic-controlled Congress, and 12.5% with a split Congress. Looking at control of the White House and Congress, average annual returns were 12.0% under unified government and 11.4% under divided government.

We also found that political market studies are highly sensitive to the reference period and the dates used to define control. Election Day, New Year's Day, the first session of Congress, and Inauguration Day can all produce different results. With enough data mining, someone could likely support almost any argument about whether one political regime has historically outperformed another simply by selecting favorable starting and ending points. For our analysis, we classified each calendar year based on the political configuration that was in place for the majority of that year. *Historical results are presented for informational purposes only and should not be interpreted as predictive of future market performance.*



Source: Bloomberg, US House of Representatives, Office of the Historian, Winthrop Wealth.

What Matters More?

Many other factors drive the stock market besides politics. Our asset allocation framework focuses on four key areas: economic growth, monetary policy, fundamentals, and valuation. Today, that means closely monitoring the strength of the economy and inflation, the path of Fed policy and interest rates, corporate earnings and the extent to which AI investment and adoption translate into productivity and profit growth. We are also evaluating whether valuations are supported by the outlook for future growth. The midterms are another variable to monitor, but we believe these broader market and economic factors will have a much greater influence on investment returns over time.

What Could Change After the Midterms?

The most direct impact of the election will be on the ability of Washington to pass legislation. Unified government generally makes it easier for the party in power to pursue its policy agenda, while divided government raises the hurdle for major changes to taxes and spending.

Federal Debt is one area where the makeup of Washington could have a meaningful impact. As we discussed in our recent Client Question of the Month, the government continues to run large budget deficits while debt and interest costs are rising. The CBO projects a fiscal 2026 deficit of approximately $2.1 trillion and debt held by the public of about 101% of GDP. Divided government could raise the hurdle for large new spending or tax legislation that adds to the deficit. However, in our view, policymakers continue to take a "kick the can down the road" approach because the current trajectory is not causing an immediate crisis. Addressing the problem will ultimately require difficult decisions involving taxes, entitlement programs, and other government spending.

Should I Adjust My Portfolio Before the Election?

Election coverage and "recommendations" can make it seem like investors should be making major changes to their portfolios based on the expected outcome. We caution against this type of short-term thinking.

In our 2024 Pre-Election commentary, we looked at the prior two presidential election cycles and compared asset class performance immediately following the election with the subsequent year. In both cases, some of the strongest initial moves, often based on the perceived impact of the incoming administration's policies, reversed in the following year as investors refocused on the economic and fundamental environment.

The same pattern occurred again after the 2024 election. Several areas that initially lagged or sold off, including small-cap and international equities, went on to post strong gains in 2025, while fixed income also rebounded.

We will certainly monitor how markets react to the midterms, but we do not believe investors should make significant portfolio changes based on the first few days or weeks following an election.

Maintain a Long-Term Investment Philosophy

Elections can create strong emotions and short-term market volatility, but they should not cause investors to lose sight of their long-term financial goals. We believe in staying **D**isciplined, **O**pportunistic, and **D**iversified, while striving to **M**itigate fees, taxes, and expenses. The makeup of Washington will change over time, and our focus is to maintain a consistent investment process rather than react to short-term political developments.

At Winthrop Wealth, we follow a Total Net Worth Approach to wealth management that combines both comprehensive financial planning and investment management. The financial plan helps define cash flow needs, seeks to optimize account structures, considers tax mitigation strategies, and determines the appropriate asset allocation based on the client's willingness and ability to take risk. Based on the output of the financial plan, our investment management process designs a well-diversified portfolio constructed with a long-term methodology based on prudent risk management, asset allocation, and security selection. *For clients who receive both financial planning and investment advisory services under agreement. No strategy assures success or protects against loss. Investing involves risk, including loss of principal.*

Endnote

[1] As of September 2026, prediction markets such as Polymarket have generally assigned a higher probability to Democrats gaining control of the House, while expectations for Senate control remain considerably more competitive. Prediction market forecasts are inherently uncertain and can change as new information becomes available.

Polymarket. (September 2026). 2026 Midterm Elections Predictions & Odds. Retrieved September 2026 from Polymarket 2026 Midterms.

Disclosures

The information contained herein is for informational and educational purposes only and is not intended as individualized investment, tax, legal, or political advice. Any opinions expressed are those of Winthrop Wealth as of the date of publication and are subject to change without notice.

Discussion of political events, elections, legislative matters, and prediction market forecasts is provided solely for market and economic context. References to election forecasts, polling data, or prediction markets reflect publicly available information and should not be interpreted as endorsements, political recommendations, guarantees, or predictions of future election outcomes.

Market and economic performance are influenced by numerous factors, including monetary policy, corporate earnings, economic growth, inflation, geopolitical developments, and investor sentiment. While government policy can affect financial markets, there is no assurance that any particular political party, election outcome, or governmental structure will result in favorable or unfavorable investment performance.

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Any references to asset classes, market sectors, indices, or investment themes are intended solely to illustrate broader market concepts and should not be considered investment recommendations. The S&P 500 Index is an unmanaged index that cannot be invested in directly.

All investments involve risk, including the possible loss of principal. Stock investing involves market risk, including fluctuating prices. Fixed income investments are subject to interest rate, credit, inflation, and market risks. International investing involves additional risks, including political, economic, and currency-related risks.

Financial planning is a tool designed to assist in evaluating financial circumstances, goals, and objectives. There is no guarantee that any financial planning strategy will achieve its intended results. Asset allocation, diversification, and other investment strategies do not assure a profit or protect against loss in declining markets.

Winthrop Wealth's investment recommendations are based on each client's individual financial circumstances, objectives, risk tolerance, time horizon, liquidity needs, and other relevant factors. Clients should consult with their financial advisor before making investment decisions.

Sources

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