Market Strategy
by STRATEGAS A BAIRD COMPANY

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With market volatility picking up and a midterm election on the horizon, the Policy Team at Strategas gives some insight into how midterm years typically play out, why they tend to be more volatile than average, and what the longer-term picture looks like.

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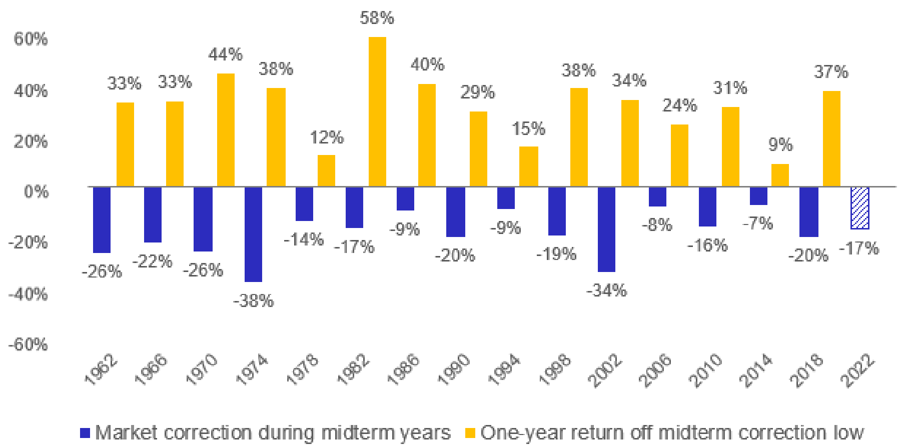
IN MIDTERM YEARS, DEEPER CORRECTIONS BUT STRONGER RECOVERIES

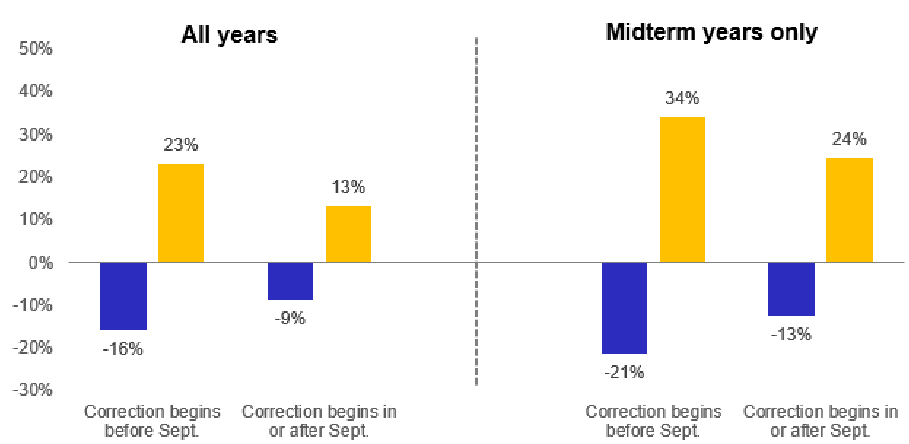
Midterm election years are historically the most volatile of the four-year presidential cycle for the stock market. The average S&P 500 intra-year decline in midterm election years is 19%, compared to just 13% in the other three years of the presidential cycle. We have generally found midterm election years to be marked by declining presidential approval ratings, tighter monetary policy, tighter fiscal policy, and an increasing likelihood of a change in political party.

The past three first-term midterm election corrections (2002, 2010, and 2018) have been quite painful, and 2022 is proving no different. However, the timing of the equity market decline this year has been faster than usual and the scope of the decline has been deeper than usual. This is largely due to higher inflation and heightened geopolitical risk on top of other factors. Interestingly, the S&P 500 has been trending very similarly to its 1982 pattern, the last time we were dealing with high inflation, Russia, and a midterm election all at once.

However, we have generally found that just getting to the midterm election has been a positive catalyst for stocks, regardless of which party wins the election. **The S&P 500 has not declined in the 12 months following a midterm election since 1946, and the S&P 500 has been up by an average of 32% one year out from the midterm year bottom.** As the chart on the right shows, the earlier the decline occurs in the midterm election year, the stronger the recovery. With the midterm election fast approaching and with volatility heightened, the policy team at Strategas will stay vigilant. [Read more of our work for Baird clients here.]

Market Corrections (and Rebounds) During Midterm Election Years





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