GLOBAL X INSIGHTS

Inflection Points: Mapping the Midterms

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Geopolitics offers a clear lens into the difference between trading and investing. While short-term traders can capitalize on headline-driven volatility such as the recent oil price swings around the Iran conflict, long-term investors are generally best served by looking beyond events like these and remaining laser-focused on economics and fundamentals. Markets almost always climb the wall of worry in a matter of days or weeks and trend higher over time.

Elections fall into the same category, no matter how hot-button they may feel. Leveraging historical polling and election data, this piece highlights scenarios for the U.S. midterm elections that could affect markets and certain investment themes more than others. We think investors should take the midterms into account, but we caution against making large-scale allocation changes based on electoral outcomes. There may be opportunities to implement tactical tilts in the aftermath of November 3, though election forecasting is always complex, and this cycle is no exception.

Key Takeaways

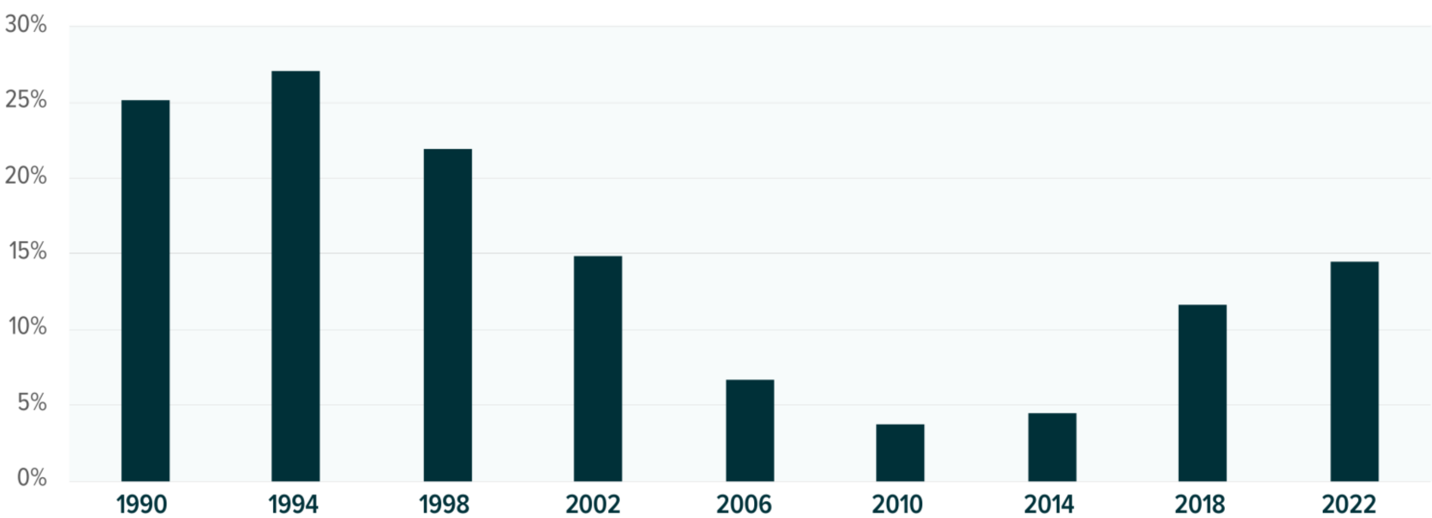
- Equity markets tend to take a breather leading up to midterm elections, but since 1990, they have done quite well in the 12 months following election day.
- Investors face three main election outcomes: the status quo where Republicans hold onto the House and the Senate, a split government where Democrats take one chamber, or a blue wave where Democrats flip both chambers.
- While our base case is that Democrats take the House, investors should be prepared for the full range of outcomes, especially in areas where both parties share common ground, such as infrastructure investment.

Shifting Party Dynamics This Cycle

Several factors make this election cycle particularly challenging to predict. Structural issues in both parties and shifts in voter priorities introduce uncertainties that can weigh on markets in the run-up to the election. The good news for investors is that equities have rallied after every midterm election since 1990, delivering an average return of 14% over the subsequent 12 months.[1]

S&P 500 ADVANCED OVER THE NEXT YEAR AFTER MIDTERMS

S&P 500 average return in the 12 months following midterm elections since 1990



Source: Global X analysis with information derived from Bloomberg as of August 1, 2026.

Both parties are undergoing shifts away from the political center. Arguably, centrist democrats fared slightly better than centrist Republicans during primary season.[2] Meanwhile, the far wings of both parties scored notable victories. Several progressive Democrats won nominations in perceived safe districts, while Republicans nominated a slate of more right-leaning MAGA candidates in key areas.[3] No individual race features candidates from the extremes running against each other, but several competitive races will likely determine control of the legislature.[4]

Another major difference in this election is that voter priorities differ from elections past. In 2016, polling showed that the economy was top of mind for voters, followed by terrorism and healthcare.[5] In 2020, the economy topped the list again, followed by the pandemic and healthcare.[6] In 2026, current polling offers a twist, with polls specifically identifying affordability or inflation as the top priority.[7]

Within the parties, the far wings have fundamentally different visions for addressing these issues. MAGA Republicans have doubled down on free markets with less regulation, while Democratic socialists argue the path is through government-controlled pricing and income redistribution. Against this backdrop, November could turn out to be an interesting policy mandate for markets to navigate or simply deliver investors another cloudy forecast heading into the 2028 presidential election cycle.

Election Scenarios

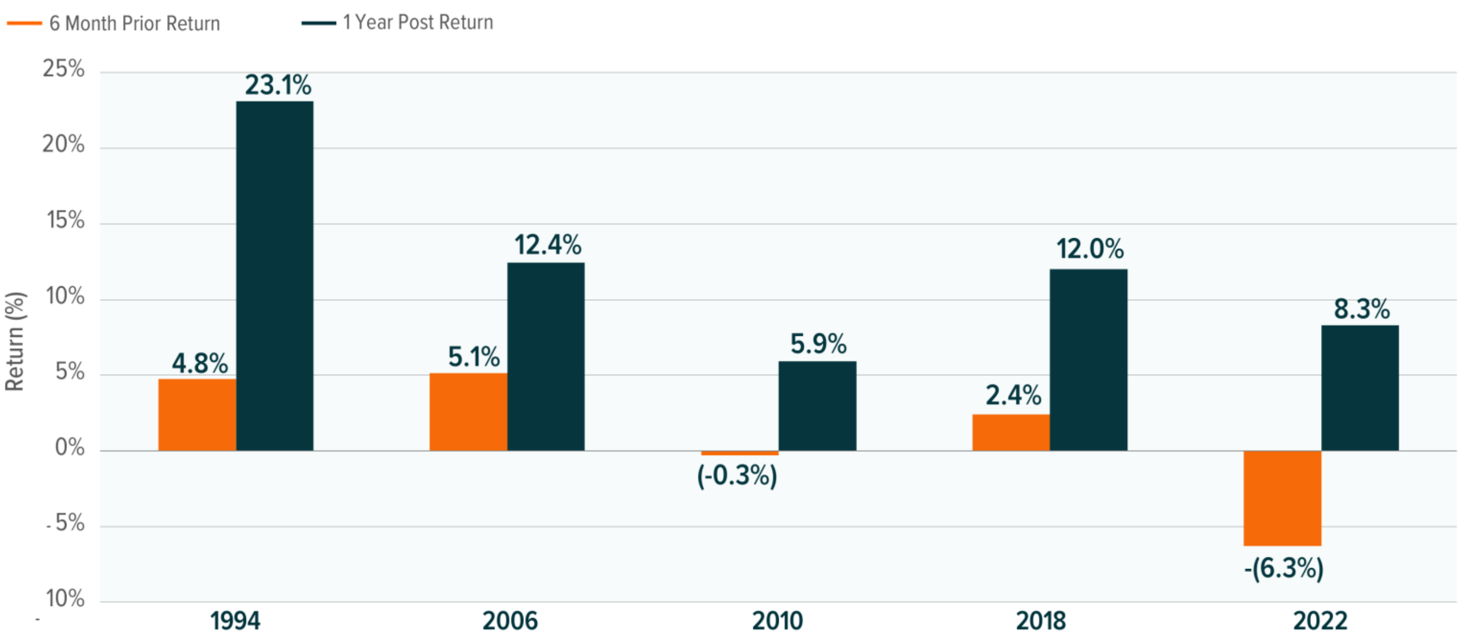
Base Case: Democrats Take the House and Republicans Retain the Senate

In recent nationwide polls, generic Democratic candidates lead generic Republican candidates by 6 to 11 percentage points.[8] These polls do not account for local idiosyncrasies, but a margin of this size suggests that Republicans have an uphill battle to keep the House despite their gerrymandering of districts in several states. Voters are not happy about the Trump administration's handling of the economy, especially tariffs, which has the president's approval rating hovering around 40%.[9]

Historically, divided governments are favorable for the market. Since 1990, midterm elections have broken up unified governments five times, and each time the S&P 500 increased over the next 12 months with an average return of 12%.[10] Markets prefer consistency, and a split government would likely create a policy stalemate that reduces uncertainty.

MARKET RETURNS AFTER A GOVERNMENT BREAKUP

S&P 500 average 12-month return following midterms that split a unified government since 1990



Source: Global X analysis with information derived from Bloomberg as of August 1, 2026.

Less Likely: Republicans Keep the House and the Senate

Midterm elections can often be viewed as a referendum on the sitting president, which may give the Democrats an advantage in 2026, but we do not count out the White House or the MAGA base. MAGA Republicans fared relatively well in the primaries, and many candidates are well-positioned to win seats.[11] Campaign financing may prove important, as the Democratic National Committee (DNC) seems more cash-strapped than its Republican counterpart, which has cash on hand.[12]

Should Republicans maintain control over both chambers, investors should expect more of the same from Congress. Calls for further deregulation would likely gain momentum, and tariffs could remain a central part of economic policy. We would also expect a renewed effort to further increase defense and national security spending.

Unlikely But Possible: Blue Wave Delivers Democrats the House and Senate

Flipping the Senate is a tough task, though the Republican majority is razor-thin. Of the 35 seats up for election, Republicans are defending 22, compared to the 13 held by Democrats.[13] In all likelihood, 8 to 12 of these races as highly competitive, with Democrats defending four.[14] Given voter concerns about affordability, the Iran conflict, and immigration policy, Democrats can leverage these issues to drive turnout.

Investing Implications

We believe infrastructure is the most likely beneficiary across the full range of election outcomes, as it represents the primary area where Democrats could successfully negotiate with the White House.[15] Substantial Infrastructure Investment and Jobs Act (IIJA) money remains in the pipeline for various projects, and bipartisan support for another round of spending is possible given that the IIJA passed early in the Biden administration in 2021.[16] Also, infrastructure is an area that President Trump has yet to deliver major legislation. A new measure might not be as sizeable as the IIJA, but tailwinds such as data center construction may continue lifting infrastructure in 2027 and beyond.

Nuclear energy is another area potentially positioned for bipartisan support.[17] With affordability a top voter priority and data center construction and power utilization increasingly political issues, small modular uranium nuclear reactors offer a practical solution. Utility bills have been a persistent source of inflation, and both the Biden and Trump administrations took steps to accelerate nuclear power adoption.[18] While the White House has not been supportive of wind and solar energy, nuclear might prove a compromise.

In prior instances when the midterms broke up a unified government, the tech and consumer discretionary sectors outperformed.[19] That outcome seems rational once again. Legislative activity would likely slow, leaving the economy's main engines which are investment and consumption less restricted. This backdrop could be favorable for themes such as semiconductors, AI, e-commerce, and social media.

Should the Republicans retain both chambers of Congress, defense technology is likely to see renewed interest. The $1.5 trillion defense budget floated by the White House would be more difficult to pass under a split government, but spending on national security is unlikely to decrease meaningfully in either outcome.

Financial and fintech companies can also benefit from Republicans holding onto the status quo, as the White House would be able to push its deregulation agenda across these sectors.

Footnotes

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