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After the Midterms: Keeping Your Investments in Perspective

Few subjects generate as much attention and debate as a national election. These contests, especially those at the national level, can breed strong emotions and create a great deal of discussion about the country's economic and political future.

Political leaders make promises. They debate policy. And they issue predictions. While these sound bites compete for airtime in our never-ending news cycles, this does not mean that every headline deserves equal weight when you consider your financial strategy. Knowing when to respond to changing circumstances, and when to maintain perspective, can help you focus on your financial goals and not fall into the trap of being pulled off course by the daily distractions we see in our news feeds and hear in political commentary.

The attention we devote to elections is warranted. This year's midterm elections will result in a significant change in the balance of power in Washington when the Democrats take control of the House and Senate at the swearing in of the 120th Congress in January 2027.

And, for many who watched the pundits tabulate these results on election night earlier this month, questions about what this change in power means for our country's legislative priorities and economic future are entirely understandable. However, history has repeatedly shown that political shifts, even significant shifts, do not necessarily translate into lasting changes in market performance. The forces influencing markets often extend beyond the political environment, persisting across years and even decades of headlines, regardless of which party holds the balance of power in Congress, or in the White House.

What Can History Tell Us?

When we look back at the last three election cycles, beginning with the 2020 presidential election, the S&P 500 has experienced double-digit price gains in the year following each Election Day, 38.3% following the 2020 election, 14.5% following the 2022 midterms, and 16.4% following the 2024 election.

Of course, each election came with its own backstory. The 2020 election took place during the extraordinary uncertainty that we experienced during the pandemic. Two years later, in 2022, investors were contending with rising inflation and interest rates. More recently, following the presidential election in 2024, stocks rallied sharply before briefly pulling back and then, ultimately resuming their upward movement.

This pattern extends well beyond these election cycles. If we examine research published by the Capital Group, we find that the S&P 500 has not recorded a negative one-year price return following any US midterm election between 1950 and 2023. Over those periods, the average return was 15.4%.

What can we conclude? While past performance will never guarantee future results, elections alone have rarely been a reliable reason to change a long-term investment strategy. Twelve-month return data can obscure the volatility investors experience along the way, but those fluctuations form part of investing and it's important to maintain perspective as we navigate through them. Adopting a "buy, hold, and monitor" approach is more prudent than knee-jerk reactions that attempt to anticipate short-term market movements.

What Really Moves the Markets?

In the weeks following the election, there has certainly been volatility. While some sectors may benefit from a particular policy environment, others may face new challenges. Market sentiment can shift direction, seemingly abruptly, as investors work through election results. In this case, as election results became clear, investors began to analyze how a Democratic-controlled Congress and newly elected state officials might approach the regulation of AI and the development of data centers.

At the same time, investors were also considering broader concerns about the future of AI. How high would costs climb to support its infrastructure? How would these investments be financed? Would the returns ultimately justify such high levels of spending?

The early November sell-off ultimately reflected both political expectations in the wake of the midterms, as well as these questions held by investors regarding the underlying economics of the fast-growing, and resource-intensive AI industry.

This is why diversification and thoughtful portfolio construction are so important. Different investments respond differently to the varying economic conditions that we will weather when pursuing our financial goals. Changes in interest rates, inflation, and consumer spending will create challenges for some businesses while offering opportunities for others.

Well-diversified portfolios reflect these differences. Instead of being built for a single economic outcome, or attempting to project which sector will next lead the market, investors who spread risk across different types of investments may not avoid every decline in the market, but they can develop a resilience to short-term market fluctuations while continuing to pursue their long-term financial goals.

Stay the Course, Not the Headlines

Political developments deserve our attention. While changes in Washington can mean big impacts for business and the economy, understanding the nature of the changes is different than knowing what to do about them. Tax policy, government spending, trade, and regulation all influence the economy in which this nation's businesses operate, but reacting rashly to each political headline or trying to harness these headlines into a sort of investment strategy is not the surest road to achieving your financial goals.

At LaFleur & Godfrey, we help you develop investment strategies around long-term objectives, thoughtful diversification, and investments in quality securities that position our clients to generate sustainable returns over time. We believe that the right investment strategy reflects your financial circumstances, risk tolerance, and long-term goals.

Those considerations remain constant even when elections produce newsworthy results. Portfolios, and their strategies, can survive short-term news cycles, which should not serve as reasons to abandon your long-term strategies. We're here to help you maintain perspective, study and understand the forces influencing your investments, and remain focused on the long-term, and the goals you have established.

Headlines will always move to the next story. Your financial goals deserve a longer view.

Around The Office

Last month, Aaron Ritsema, Zac Falconer, and John Koczara handed out candy to thousands of kids as a sponsor of the annual Ada Business Association **Pumpkin Prowl!**





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