

HOW TO POSITION YOUR PORTFOLIO FOR THE US MIDTERM ELECTIONS?

Gilles Prince

Chief Investment Officer, Blue Box Wealth Management

In a polarized U.S. political landscape and amid unresolved geopolitical tensions, the 2026 U.S. midterm elections represent an important milestone for financial markets. For investors, the key question is whether the election results, and the noise and uncertainty surrounding them, will prove supportive or detrimental to portfolios. Should we position for volatility, or maintain an even more bullish stance?

2026 has so far been a year of strong equity market performance, with the technology and energy sectors firmly in the lead. At the time of writing, the S&P 500 is up +12.7% and the Nasdaq index +14.1%. Earnings growth in the first two quarters has been exceptionally strong, while the macroeconomic backdrop remains supportive of risk assets. International political risks such as the war in Iran, trade tariffs, and the U.S. debt level surpassing \$40 trillion have not materially dented equity valuations. The risks that were flashing red on our radar have not disrupted the prevailing trends. Can the U.S. midterm election results on November 3rd affect the equity trend?

Given President Trump's approval rating and the latest political developments, a change in congressional control appears possible. The probability of Democrats winning the House of Representatives looks elevated, as they need a net gain of only three seats, while control of the Senate remains genuinely competitive. Betting markets currently reflect this dynamic (chart 3), implying roughly an 80% chance of Democrats winning the House, but only a 53% chance of taking the Senate. A split Congress therefore appears the most likely outcome at this stage.

Such a stalemate could be viewed positively, as it may constrain large fiscal initiatives or sweeping regulatory overhauls. On the other hand, a split Congress introduces gridlock, making consensus on difficult decisions regarding spending and debt-limit obligations more difficult. Market reactions are therefore hard to predict, particularly given that a Republican majority is generally perceived as pro-business and supportive of markets.

Although each election cycle is unique, a change in congressional majority is not unprecedented. We analyzed S&P 500 returns in each midterm election year since 1930 (24 elections) to assess whether historical majority changes offer any guidance (chart 1 and 2). We compared index performance before versus after the elections through year-end, across all election outcomes

versus cases with a change in majority, and further isolated years in which the first ten months were positive, as in 2026.

- On average, markets reacted positively to election results by +3.1% (+13.0% annualized), whereas the first ten months were negative on average (-0.5%). We attribute the mediocre pre-election returns to a risk premium associated with the fear of unexpected change, which tends to dissipate once the outcome is known. Post-election returns are positive in 66% of cases.
- Limiting the analysis to cases with a change in majority in one or both chambers (50% of all elections considered) the post-election return is lower but remains positive at +1.0% (+3.9% annualized). However, returns are negative in half of these cases. Restricting further to instances where Republicans lost a majority in the Senate or the House, post-election returns average +0.7% (+2.8% annualized) and are negative half of the time as well.
- By contrast, cases with no change in majority in either chamber show the strongest statistics, with average post-election returns of +5.3% (+22.8% annualized) and only 2 negative outcomes out of 12.
- Finally, given 2026's strong performance to date, we examined cases with positive pre-election returns. There is no reversal: average post-election returns stand at +3.7% (+15.6% annualized). Notably, years with negative year-to-date returns also exhibit positive post-election performance of +2.5%.

In conclusion, across all scenarios considered, post-election returns are on average positive. A shift to Democratic control is the least favorable outcome historically, though still positive on average, with half of such elections ending the year with negative returns. If history is any guide, investors should not be overly alarmed by the upcoming midterm elections. We continue emphasizing equities in our investment strategy.

Chart 1: Post-elections returns until year end are on average positive for the S&P500.

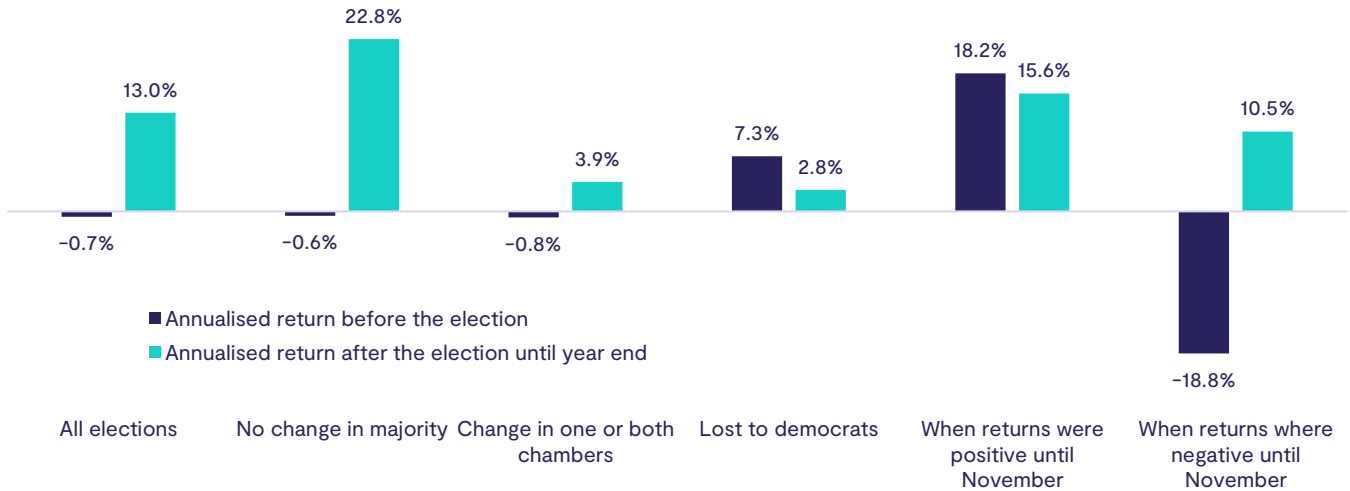


Chart 2: Cumulative performance of the S&P 500 index in election years since 1930 based on the election result. End of year returns are generally positive on average.

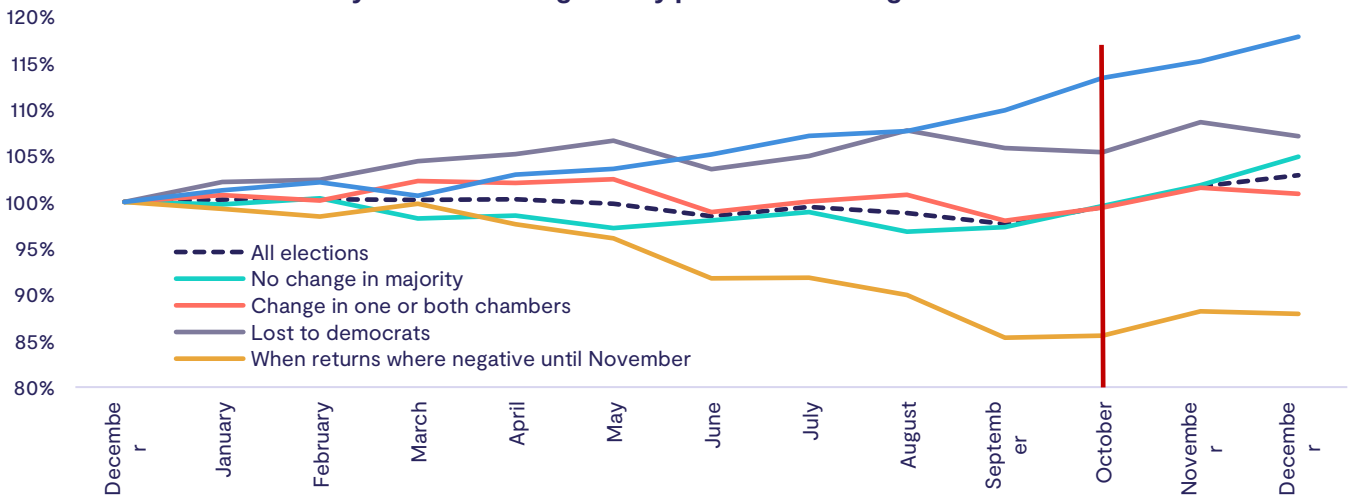
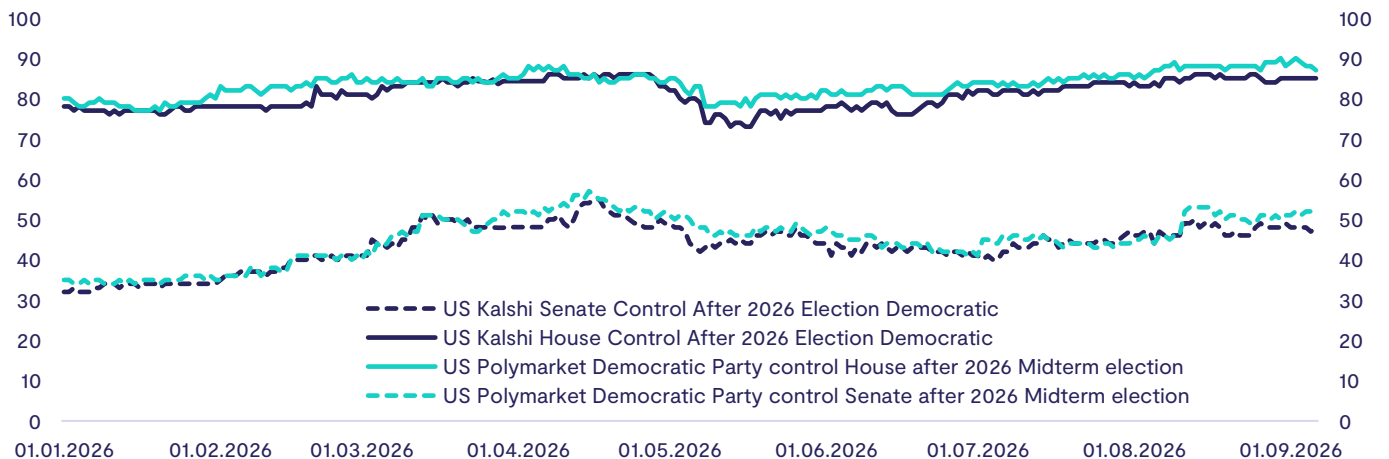


Chart 3: Betting sites tend to agree on the probability of Democrats gaining the majority at the House and the Senate





CONTACT

Blue Box Wealth Management S.A.
36, boulevard Helvétique
1207 Geneva
Switzerland
info@blueboxwm.com
www.blueboxwm.com



IMPORTANT INFORMATION

This is a marketing communication issued by Blue Box Wealth Management S.A. (hereinafter "BlueBox"). It is not intended for distribution, publication, or use in any jurisdiction where such distribution, publication, or use would be unlawful, nor is it aimed at any person or entity to whom it would be unlawful to address such a marketing communication.

This marketing communication is provided for information purposes only. It does not constitute an offer or a recommendation to subscribe, to purchase, sell or hold any security or financial instrument. It contains the opinions of BlueBox, as at the date of issue. These opinions and the information contained herein do not take into account an individual's specific circumstances, objectives, or needs. No representation is made that any investment or strategy is suitable or appropriate to individual circumstances or that any investment or strategy constitutes personalized investment advice to any investor. Tax treatment depends on the individual circumstances of each person and may be subject to change in the future. BlueBox does not provide tax advice. Therefore, you must verify the above and all other information provided in the marketing communication or otherwise review it with your external tax advisors. Some investment products and services, including custody may be subject to legal restrictions or may not be available worldwide on an unrestricted basis.

The information and analysis contained herein are based on sources considered to be reliable. BlueBox makes its best efforts to ensure the timeliness, accuracy, and completeness of the information contained in this marketing communication. Nevertheless, all information and opinions as well as the prices, market valuations and calculations indicated herein may change without notice. Investments are subject to a variety of risks. Before entering into any transaction, an investor should consult his/her investment advisor and, where necessary, obtain independent professional advice in respect of risks, as well as any legal, regulatory, credit, tax, and accounting consequences. Past performance is no guarantee of current or future returns, and the investor may receive back less than he/she invested. The value of any investment in a currency other than the base currency of a portfolio is subject to foreign exchange rate risk. These rates may fluctuate and adversely affect the value of the investment when it is realized and converted back into the investor's base currency. The liquidity of an investment is subject to supply and demand. Some products may not have a well-established secondary market or in extreme market conditions may be difficult to value, resulting in price volatility and making it difficult to obtain a price to dispose of the asset.

United States: Neither this document nor any copy thereof may be sent, taken into, or distributed in the United States of America, any of its territories or possessions or areas subject to its jurisdiction, or to or for the benefit of a United States Person. For this purpose, the term "United States Person" shall mean any citizen, national or resident of the United States of America, partnership organized or existing in any state, territory or possession of the United States of America, a corporation organized under the laws of the United States or of any state, territory or possession thereof, or any estate or trust that is subject to United States Federal income tax regardless of the source of its income.

This marketing communication may not be reproduced (in whole or in part), transmitted, modified, or used for any public or commercial purpose without the prior written permission of BlueBox.

© 2025 BlueBox Wealth Management – all rights reserved.