Staying invested in a midterm year: what history suggests

Investors may be tempted to sidestep volatility, but history suggests that trying to time the market can come at a cost.



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It's been an eventful month for the stock market, with volatility surging, leadership shifting, and credit spreads widening in October. Despite the uncertainty, the S&P 500® Index has continued to defy expectations, holding in a narrow range just below its all-time high.

This uneasy equilibrium may not last indefinitely. The recent rotation out of AI stocks has underscored how quickly market leadership can shift. Investors will soon face another potential catalyst for volatility as the midterm elections draw near.

In a recent Nationwide Retirement Institute® survey, investors expressed a desire for guidance on what the election could mean for their portfolios. Nearly three-quarters (73%) of those surveyed are looking for help for help to understand the financial effects of the midterms.

Historically, midterm election years have brought heightened volatility and larger-than-average drawdowns as investors grapple with uncertainty about the political path ahead. But this midterm season has largely defied that pattern, with far fewer meaningful pullbacks than the historical record would suggest.

Earlier this year, the S&P 500® Index fell 9.1% as geopolitical concerns rattled investor sentiment and positioning. Yet the market has remained remarkably resilient despite ongoing uncertainty around geopolitics, inflation, monetary policy, and artificial intelligence.

Rather than following the choppy path historically associated with midterm election years, equities have outperformed seasonal norms with relatively few pullbacks, supported by healthy economic activity and continued investment in artificial intelligence. While volatility could increase ahead of the midterms, history suggests the backdrop becomes increasingly constructive after the election.

S&P 500® Index declines and recoveries during and after midterm elections since 1950

Year	Maximum drawdown	12-month forward return
1950	-14%	15%
1954	-4%	33%
1958	-4%	10%
1962	-26%	24%
1966	-22%	13%
1970	-26%	13%
1974	-38%	19%
1978	-14%	6%
1982	-17%	20%
1986	-9%	1%
1990	-20%	25%
1994	-9%	27%
1998	-19%	22%
2002	-34%	15%
2006	-8%	7%
2010	-16%	4%
2014	-7%	5%
2018	-20%	12%
2022	-25%	15%
2026 YTD	-9%	TBD
Average	**-18%**	**15%**
Median	**-17%**	**15%**

Source for data: Bloomberg, Nationwide Investment Research

Many investors are waiting for the midterms to serve as a clearing event for market volatility. As the accompanying table shows, midterm election years have historically featured deeper

Continued on the next page.

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intra-year drawdowns, with the average peak-to-trough decline reaching roughly 18%. That compares with an average intra-year drawdown of about 14% across all calendar years since 1950.

Based on historical averages, investors may be tempted to move to the sidelines to avoid midterm election-related volatility. But trying to time the market can have costly implications for long-term portfolio performance. Encouragingly, history suggests that staying diversified and invested through periods of uncertainty is often the more prudent approach.

Looking at forward returns, the S&P 500 has never been lower one year after a midterm election since 1950. Narrowing the lens further, the Index has also posted positive returns 100% of the time during the six months following a midterm election.

That said, investors should recognize that while history can be informative, it offers no guarantees about future outcomes. Still, the historical record provides a reassuring reminder that disciplined investors are often rewarded for staying focused on their long-term plan rather than reacting to political headlines as the election approaches.

Advisor Takeaways

While midterm election years have historically been marked by heightened volatility and deeper drawdowns, this year's market has largely defied that pattern.

History suggests that disciplined investors are often rewarded for staying diversified and invested, as the S&P 500® Index has never been lower one year after a midterm election since 1950.

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