CLARITY

Midterms: What's at stake for markets

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TIAA Wealth Management

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EXECUTIVE SUMMARY

- **The November midterms will decide all 435 House seats, 35 Senate seats, and 36 governorships.** Prediction markets imply Democrats have a ~90% chance of winning the House, while the Senate remains a toss-up, with several competitive races on both sides.
- **History shows markets tend to soften ahead of midterms** (S&P 500 down ~2.6% on average from May–October) but rebound strongly afterward (+14.6% in the six months post-election). Market performance and indicators like gas prices have shown little ability to predict actual election outcomes.
- **Key risks to watch** include growing opposition to AI/data center expansion, renewed tax-cut proposals that could pressure bond yields and fiscal sustainability, and affordability-focused policies that could create uneven sector impacts.
- **Post-election outcomes could shape market sentiment differently:** unified Republican control may support equities but risk higher bond volatility, while a Democratic-controlled chamber could increase gridlock, elevate antitrust scrutiny, and drive rotation toward international equities.
- Despite short-term political noise, **durable corporate earnings growth remains the primary driver of long-term market performance.** We continue to recommend a disciplined, diversified investment approach anchored in fundamentals rather than election outcomes.



Niladri 'Neel' Mukherjee
TIAA Wealth Management
Chief Investment Officer



Alberto Favalli-Ragusini
TIAA Wealth Management
Director, Investment Strategy

Periods of political transition often coincide with elevated market sensitivity, and U.S. midterm elections are no exception. Historically, uncertainty around policy direction, fiscal priorities, and regulatory posture has weighed on investor sentiment in the months leading up to Election Day. Yet markets have also shown a consistent ability to refocus on fundamentals once the electoral fog clears. As we look ahead to the upcoming midterms, several dynamics—political, economic, and market based—are likely to shape investor expectations and risk appetite.

In this Focus*Point*, we cover what's up for vote, what polls and prediction markets are signaling, what past midterm elections tell us, and how markets may respond under different post election scenarios.

What's on the ballot at the November midterm elections?

The November midterm elections will present voters with a broad and consequential slate of decisions. At the federal level, all 435 House seats will be contested, as is customary every two years. In the Senate, 35 seats—roughly one third of the chamber—are on the ballot, including several in states that have shown competitive dynamics in recent cycles. These races will determine whether the current Republican majority in both chambers of Congress persists or shifts, with implications for legislative priorities, fiscal direction, and regulatory posture.

Beyond Congress, 36 governorships will be decided across the country. Governors play a central role in shaping state level economic policy, infrastructure investment, and regulatory frameworks, making these races important for sectors such as energy and healthcare, and for the data center buildout driving the rise of artificial intelligence (AI). In addition, several states will feature ballot initiatives on issues ranging from tax policy to energy regulation and healthcare affordability.

What are prediction odds and voting polls projecting?

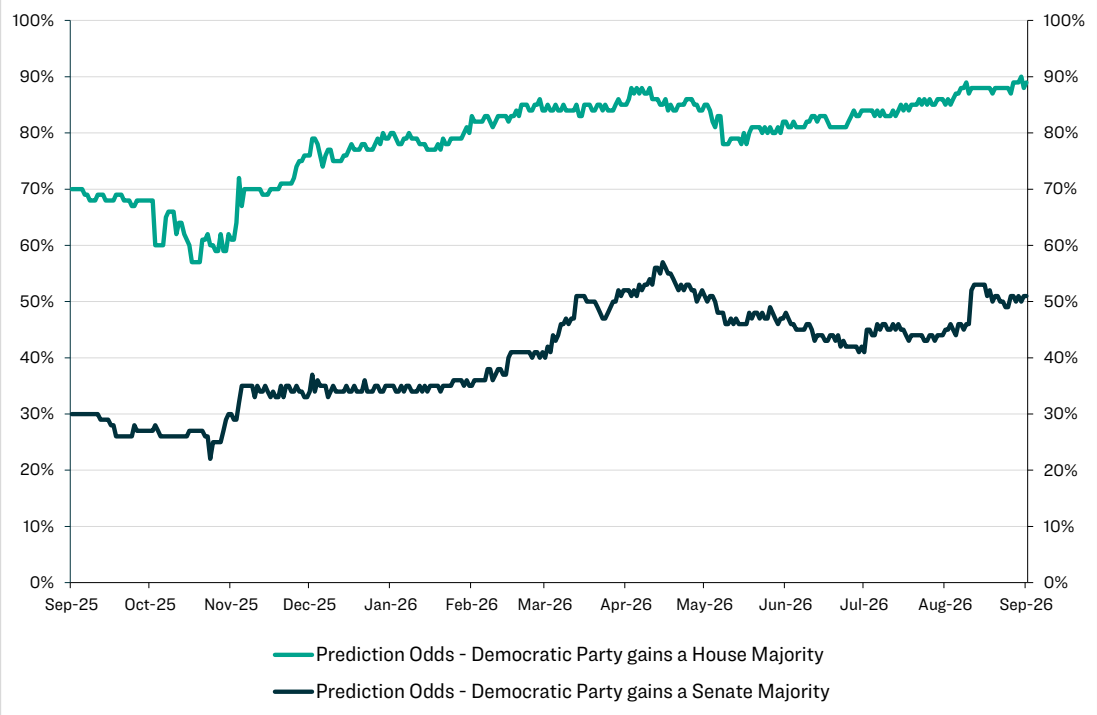
Prediction markets and polling data offer a snapshot of current sentiment, though they are not forecasts and should be interpreted cautiously. As of early September, prediction markets imply that Democrats have roughly a 90% chance of winning a majority in the House of Representatives. The Senate, by contrast, remains a true coin toss (Figure 1). Races appear tightly contested for both Republican held seats—including Texas, Alaska, North Carolina, Ohio, and Maine—and Democratic held seats, such as Michigan. To gain a majority in the Senate, Democrats would need to flip 4 seats, or potentially more if they lose the Michigan seat.

Generic congressional polls show Democrats heading into the midterms with a slight lead over Republicans, with the margin fluctuating between 3% and 7% over the past month. These polls capture broad national sentiment but often mask the localized dynamics that drive individual House and Senate races. Still, they provide a useful directional sense of voter preferences heading into the final stretch of the campaign.

Taken together, these indicators point to a competitive electoral environment and highlight the degree to which the outcome remains uncertain, with several battleground states likely to determine the final balance of power.

FIGURE 1

Prediction markets see a high probability of Democrats gaining a majority in the House of Representatives.



Source: Polymarket, TIAA Wealth Chief Investment Office. Data through 9/1/2026.

What does history teach us?

For long-term investors, history offers a useful lens through which to interpret the current environment. Since 1960, the S&P 500 has dropped on average ~2.6% between May and October during midterm election years. In years without midterms, it has gained on average ~3.1% over that same stretch (Figure 2). This pattern reflects the tendency for markets to remain trepidatious as political uncertainty builds. However, the period following midterms tends to be far more constructive: S&P 500 average performance in the six months after midterm elections is ~+14.6%, outpacing the ~+10% average during non-midterm years. The key takeaway here is that once election outcomes are known and election uncertain fades, investors often shift their focus back to earnings, macroeconomic trends, and secular forces.

Markets themselves have demonstrated little predictive power when it comes to forecasting electoral outcomes. For example, in 2006 Republicans lost 30 House seats and 6 Senate seats—even as the S&P 500 was up 8% year to date (YTD) on the eve of Election Day. Similarly, in 2010 Democrats lost 63 House seats and 6 Senate seats despite the S&P 500 being up 11% YTD.

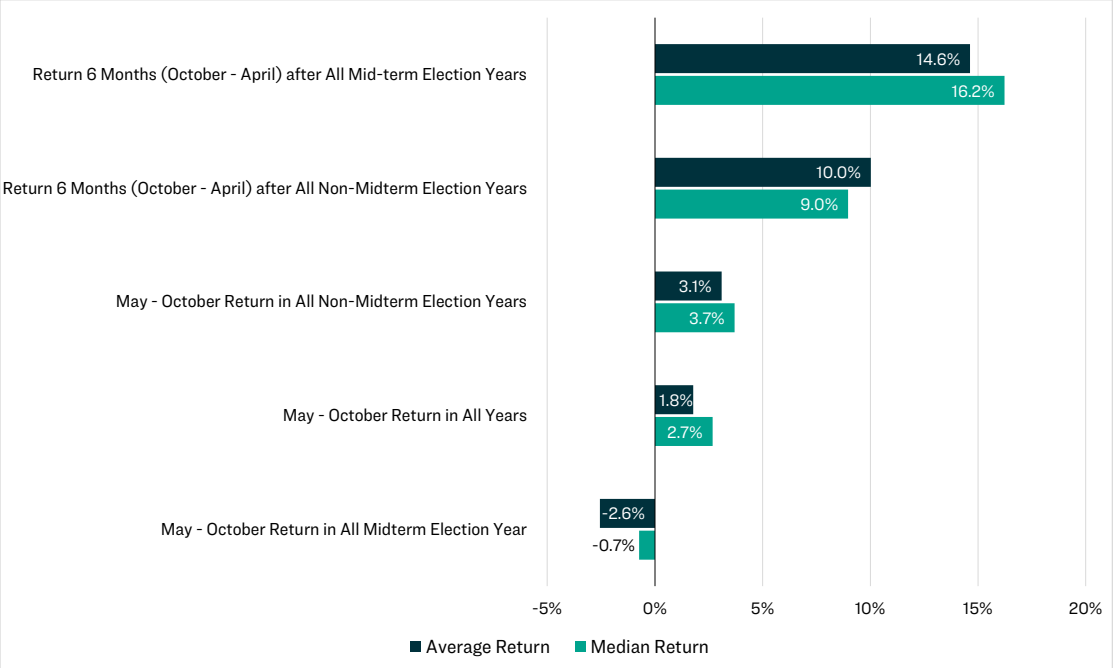
Changes to gasoline prices have also shown limited predictive value. In 2014, average gasoline prices fell 15.6% between January and Election Day, yet Democrats lost 13 House seats and 9 Senate seats, resulting in the loss of their Senate majority.

Instead, election outcomes appear more closely correlated with the tendency of presidential approval ratings to decline over the first two years of a term—whether due to challenges executing the administration's economic agenda or policy missteps—than to market performance or isolated economic indicators.

Across the 12 midterm elections from 1978 to 2022, the president's party lost on average 21 House seats (ranging from a loss of 63 in 2010 to a gain of 8 in 2002) and 3 Senate seats (ranging from a loss of 9 in 2014 to a gain of 2 in both 2002 and 2018). Notably, this trend is broadly similar when just looking at midterm elections held during second Presidential terms.[1]

FIGURE 2

Equity market performance is historically below-average ahead of midterm elections.



Source: Morningstar Direct; S&P 500 Price Return (PR) index; TIAA Wealth Chief Investment Office. Monthly data from 1/1/1960 - 12/31/2025.

What are key market risks that could gain more prominence ahead of the midterms?

Several risks could become more prominent as the election approaches, reflecting both political dynamics and evolving market sensitivities.

- Opposition to new data center construction and calls for stricter AI regulation have grown over the past few months. Given the centrality of the AI theme to economic growth and market performance, any policy shift that slows data center construction approvals or increases regulatory scrutiny could weigh on sentiment and undermine earnings projections.

- Renewed discussions of tax cuts or price relief measures also pose a risk. While such proposals may be politically appealing ahead of November, they could also raise concerns about the fiscal trajectory. More talk of tax cuts could add fuel to the recent rise in bond yields at a time when long term fiscal sustainability is already a topic of debate. Bond markets have shown sensitivity to shifts in fiscal expectations, and any perception of expanded deficit spending could influence term premia[2] and yield curve dynamics.

- Other measures aimed at addressing affordability could also pose two-sided risks for the broader market or specific sectors. Proposals targeting healthcare prices, housing affordability, or household spending could have uneven impacts across industries. These risks reflect affordability's political importance and the possibility that policy responses—if unexpected by markets—could trigger volatility before election day.

How might markets react after the elections?

Should Republicans retain control of both congressional chambers, markets may interpret the outcome as broadly constructive for U.S. equities. A unified Congress could reinforce expectations for a business friendly regulatory posture and continued emphasis on domestic manufacturing and fiscal support. Investors may view such an outcome as supportive of corporate profitability, particularly in heavily regulated sectors. However, bond volatility could increase should the Trump administration view an electoral win as a mandate to renew current fiscal and geopolitical policies. This could eventually spill into higher equity volatility as well.

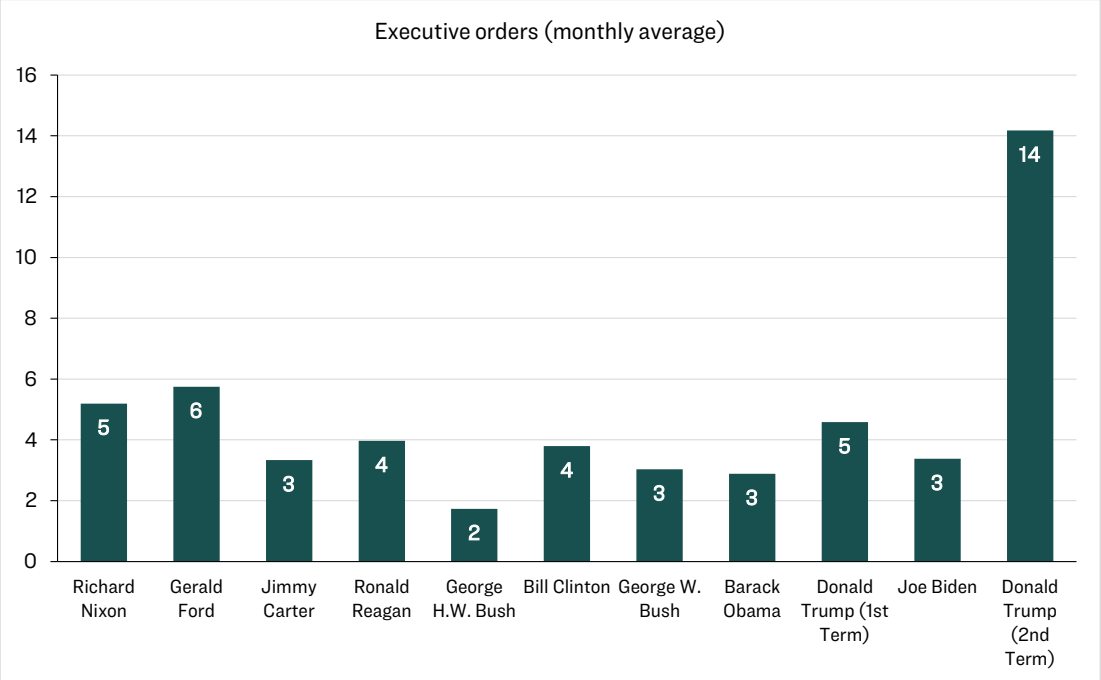
On the other hand, if Democrats win at least one chamber of Congress, political gridlock would likely become the baseline and legislative output would be expected to slow. In this scenario, executive action would likely remain the go-to policy tool for the administration (Figure 3), but this time against the backdrop of a Congress that may be more inclined to scrutinize and challenge presidential authority, particularly on issues such as trade policy and immigration. Additionally, the Democrats' economic agenda includes a renewed focus on antitrust enforcement that could lead to increased regulatory scrutiny of large technology companies and mergers and acquisitions (M&A) activity, reversing the more accommodative regulatory backdrop of the past two years. Overall, tension between the executive and legislative branches could push more decisions to executive action, raising the risk of institutional conflict. Foreign policy could remain a focus for the administration, given the greater ability to act unilaterally, keeping geopolitical uncertainty elevated. In this scenario, global markets could experience another bout of rotation away from U.S. equities and into international equities, as well as related U.S. dollar weakness—like other periods characterized by U.S.-driven policy uncertainty over the past two years.

Importantly, both parties face pressure to address affordability ahead of the 2028 presidential election, and how this policy goal is achieved will matter for markets. A market-positive outcome would require a difficult balance between providing purchasing power relief to households while avoiding fiscally imprudent measures. To this effect, both parties could also advance proposals to address the large budget deficit, especially if a further rise in bond yields pressures policymakers to act. However, finding a balance between spending cuts—likely favored by Republicans—and tax hikes—likely favored by Democrats—could prove politically challenging. Finally, if concerns around AI and data centers continue to climb to the top of voter issues, bipartisan proposals aimed at regulating AI deployment or slowing data center approvals could emerge.

With all this said, our research shows that markets have often performed well during periods of divided government. Since 1929, the annualized performance of the S&P 500 during years characterized by a Republican President and Senate, and a Democratic House (a 10-year sample) has been 9.4%. When Democrats control both the House and the Senate with a Republican President in the Oval Office (a 22-year sample), the annualized performance of the S&P 500 is only slightly lower at 8.6%.

FIGURE 3

Executive orders have been a key policy tool during the second Trump administration.



Source: Federal Register, TIAA Wealth Chief Investment Office.

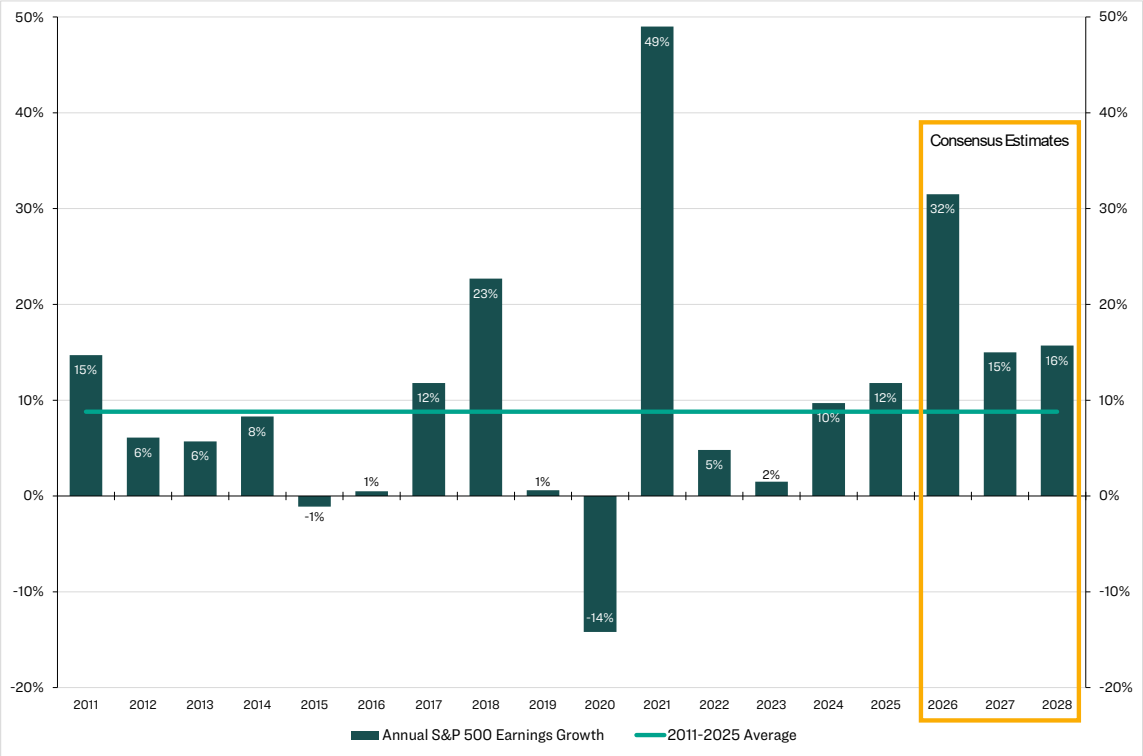
What could the 2026 midterms mean for investors?

History suggests that uncertainty can weigh on market performance heading into elections, but post-election clarity around policy outcomes typically allows investors to refocus on fundamentals. Several complex issues—AI's impact on the economy and inflation, fiscal concerns, geopolitical tensions, and policy uncertainty from a divided government—are likely to persist as recurrent sources of market volatility ahead of the midterms and into 2027. This has been our view since last year, and we think that broad asset-class diversification remains the first line of defense against market fluctuations in this environment.

That said, equity markets continue to be supported by strong corporate earnings growth, and history offers a useful reminder: over medium- and long-term horizons, it is the durability of earnings—not the outcome of any single election cycle—that has consistently driven market performance (Figure 4). Political headlines may dominate the news cycle over the next two months, but fundamental dynamics should remain the key focus for long-term investors. As a result, we continue to advocate for a disciplined investment approach that avoids overreacting to short-term noise and remains anchored in fundamental analysis and long-term financial planning.

FIGURE 4

Corporate earnings continue to provide strong support to equity markets.



Source: FactSet, TIAA Wealth Chief Investment Office.

Endnotes:
[1] Reagan (1986), Clinton (1998), G.W. Bush (2006), Obama (2014).
[2] The excess compensation demanded by investors to hold long-term bonds rather than continuously rolling over short-term bills.

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