

DOW JONES, A NEWS CORP COMPANY

DJIA **26633.96** -0.72% ▼S&P 500 **2907.17** -0.63% ▼Nasdaq **7929.52** -1.19% ▼U.S. 10 Yr **-3/32 Yield 3.200%** ▼Crude Oil **75.65** -0.99% ▼

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers visit <http://www.djreprints.com>.

<https://www.wsj.com/articles/midterms-are-a-boon-for-stocksno-matter-who-wins-1538645400>

## MARKETS

# Midterms Are a Boon for Stocks—No Matter Who Wins

The year after midterms has historically been the best of the four-year cycle for stocks



Ted Cruz, at a rally with Donald Trump Jr., is running against Beto O'Rourke for Senate in the midterm elections. PHOTO: EUROPEAN PRESSPHOTO AGENCY

By Allison Prang and Akane Otani

Oct. 4, 2018 5:30 a.m. ET

As U.S. stocks trade near all-time highs, some investors are betting the nine-year bull market will get its next jolt from an unexpected catalyst: the midterm elections.

With the Federal Reserve's latest interest-rate increase and the U.S. and Canada's trade negotiations in the rearview mirror, investors are turning their attention to the Nov. 6 elections, which will pit Republicans against Democrats in a fight to retain control of Congress.

A scenario in which Republicans lose their majority could trigger short-term volatility for the stock market, introducing uncertainty over the future of policies ranging from tax cuts to immigration, analysts say. Yet many are expecting stocks to march onward, regardless of which party claims victory in November.

A robust economy and stock market tend to bode well for the president's party hanging on to control of Congress, minimizing the chances of an abrupt shift in policy. But even when the president's party loses seats in Congress, history shows stocks have tended to rise. Many analysts note that the year after the midterms has historically been the best of the four-year cycle for stocks, in part because the president's party typically loses seats in Congress and then tries to introduce legislation that would boost the economy.

The S&P 500 hasn't declined in the year after midterm elections since the 1946 cycle—and has climbed 15% on average—regardless of which party won or lost control of Congress, Strategas Securities found in an analysis. In comparison, the index's average annual gain in every year going back to 1946 is 8.8%, and it has slumped in 20 of those years, according to Dow Jones Market Data.

Michael O'Keeffe, chief investment officer at Stifel Nicolaus & Co., said he expects the bull market to keep churning higher and for the breadth of the market's leadership to widen beyond the technology sector, which has powered much of the S&P 500's climb this year.

"It's time for the rest of the market to step up a little bit," Mr. O'Keeffe said. "Large-cap value—think quality companies, dividend-paying companies—are going to come back into favor

relative to what has been sort of a growth-dominated and to some degree FANG-dominated market.”

Politics has already helped steer the stock market higher this year, even as many investors have lamented the gridlock that has gripped Washington.



Minneapolis Mayor Jacob Frey shows off his 'I Voted' sticker after casting his ballot Sept. 21, on the first day of early voting in Minnesota in the midterm elections. PHOTO: STEVE KARNOWSKI/ASSOCIATED PRESS

Many say the U.S. tax overhaul passed late last year has helped boost corporate earnings, which had already been on the upswing for several quarters. S&P 500 firms reported their second-fastest pace of earnings growth since 2010 in the second quarter and are expected to post double-digit growth again in the third and fourth quarters, according to FactSet.

The steady growth has been key, investors say, in helping offset headwinds ranging from tariffs to turbulent emerging markets to tightening monetary policy. The S&P 500 is up 9.4% this year and hovering near records, well outpacing the Stoxx Europe 600, Japan's Nikkei Stock Average and the Shanghai Composite.

“Markets like Trump. They may not embrace his style, but they like his results,” said Michael Farr, president of money-management firm Farr, Miller & Washington, citing tax cuts and the recent deal to revise the North American Free Trade Agreement.

Because stocks are already on strong footing heading into the midterms, some analysts believe that political shifts that occur in November are likely to create small winners and losers within the market, as opposed to upending the bull run.

Democrats taking control of both the House of Representatives and the Senate could help de-escalate the trade rift between the U.S. and the rest of the world, Morgan Stanley analysts wrote in a research note, something that should broadly help the stock market, as well as farmers and manufacturers.

That could offset the headwinds that pharmaceutical stocks could face again should Democrats ramp up scrutiny on drug pricing, Morgan Stanley said. Drugmaker stocks tumbled in September 2015 when Hillary Clinton, then seeking the Democratic nomination for president, said on Twitter that she would propose a plan to counteract “price gouging” in the specialty drug market.

On the other hand, a scenario in which Republicans retain control of Congress could lift pharmaceutical stocks and shares of managed-care organizations, according to Morgan Stanley. The firm's analysts added that a Republican sweep would help ease investor fears around drug-pricing legislation and diminish the chance of the U.S. shifting to a single-payer health-care system.

Either way, many believe that stocks will get a boost after the midterm elections as investors will be contending with one less uncertainty.

In a survey of roughly 300 institutional investors, Strategas found 8.1% of respondents identified the midterms as the greatest risk to the market.

“There can be that midterm lull,” said Ryan Detrick, senior market strategist at LPL Financial. “It absolutely is something that people should pay attention to and be aware of, but don't panic if we get that volatility because again, those underlying fundamentals are so strong.”

Data have shown the U.S. economy continued to grow in the second quarter, supported by gains in consumer spending and business investment. Measures of consumer confidence are tracking at 18-year highs and retailers are bullish ahead of the holiday spending season.

That bodes well for the bull market as it heads into what has already historically been a strong period for stocks. October of midterm election years has been the best month of the four-year cycle for the S&P 500, according to Strategas. For the fourth quarter, the S&P 500 has climbed an average of 7.5% in midterm election years.

“You’re getting a lot of what looks to be the end-of-the-year rally,” said Matt Miskin, market strategist at John Hancock Investments.

**Write to Allison Prang at [allison.prang@wsj.com](mailto:allison.prang@wsj.com) and Akane Otani at [akane.otani@wsj.com](mailto:akane.otani@wsj.com)**

Copyright &copy;2017 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers visit <http://www.djreprints.com>.