트레이드 렌즈
TRADE LENS

Focus on investment.

LENS INSIGHT / No.11

U.S. equities · Midterms · Conditional six-month outlook

The Six-Month Rally
After U.S. Midterms
Will the Pattern Hold Again?

A conditional outlook linking historical returns to 2026 interest rates, earnings and AI investment

HISTORICAL RECORD	13 of 13 positive · +12.4% on average [1]
THE 2026 TEST	Can earnings and financing conditions support a repeat?

The historical pattern is real.
Its next test is earnings and the cost of capital.

Separating historical evidence, the 2018 and 2022 paths, and today's inflation, earnings and cash-flow conditions.

Analysis date 31 OCT 2026

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Market structure · Policy transmission · Earnings · Risk

01 / RESEARCH VIEW

A positive bias, not a repeatable return

TradeLens view | A modest six-month recovery is the base case, with volatility and selective leadership.

> **Core conclusion**
>
> **A perfect historical record is not a guarantee. Broad earnings growth and the index-level valuation support a recovery case, but not an automatic 12.4% gain. Our base case is a selective, modest S&P 500 recovery; Nasdaq leadership requires a separate test.** [1] [12]

What supports the view	What cannot be extrapolated
An earnings foundation	Strong Q3 blended growth still includes estimates for companies yet to report.
Potential uncertainty relief	A clearer policy outlook does not remove inflation, long-term yields or capital-spending burdens.
Valuation after repricing	An index-average multiple cannot establish the payback economics of an individual AI business.

The question is not which party's victory is good for stocks. It is how actionable policy changes affect earnings and the cost of capital, and how much of that change is already reflected in prices.

Base path

Volatile recovery
Earnings and cash differentiation

Confirmation

Disinflation + resilient estimates
Broader market participation

Falsification

Inflation + estimate cuts
Worsening credit conditions

As of October 31, 2026. Evaluation window: November 3, 2026 close to May 3, 2027 close. The election outcome and starting close are not yet known. No return target or scenario probabilities are assigned.

02 / THE HISTORICAL CLAIM

Define the sample behind “13 for 13”

Price versus total return, sample selection and the length of the window change the reported result.

13 / 13
Positive six-month outcomes

+12.4%
Average six-month price return

+5.7%
Average three-month price return

Schwab: 13 midterms from 1974 through 2022; S&P 500, excluding dividends. Three-month returns were positive in 11 of 13 cases. Data as of August 14, 2026. These are published aggregates, not a new reconstruction of all 13 years. [1]

Research	Sample and return definition	Six-month mean
Schwab [1]	13 events, 1974–2022 Six months after election; price return	+12.4%
BlackRock [2]	14 events, 1970–2022 About 126 trading days; total return	+14.1%

Do not treat this difference as an error or average the two estimates. The second study adds 1970, reinvests dividends and uses a trading-day window. Nor can the entire difference be attributed to dividends. Until recomputed on one basis, these remain distinct research results.

> **What the evidence establishes**
>
> **A post-midterm upward tendency has been observed. An average does not describe the path of an individual year, and the S&P 500 result is not an unbeaten Nasdaq Composite or Nasdaq-100 record. This report separates published aggregates from index-specific case studies.**

03 / STATISTICAL LIMITS

A perfect record is not a 100% forecast

A small sample, a selected window and changing economic regimes limit the idea of a reliable formula.

Issue	Why it matters	Treatment here
Sample size	Thirteen events occurring four years apart are not a large independent experiment.	Separate observed frequency from forecast probability
Window definition	Election-day, month-end and 126-trading-day windows differ.	Retain each publisher's definition
Drift and seasonality	Long-run equity drift and November–May seasonality may overlap.	Do not isolate an election premium
Common drivers	Recession exits, policy turns and earnings recoveries coincide.	Examine other explanations in actual cases

> **Statistical illustration: uncertainty with 13 successes**
>
> **Even an independent, constant-probability binomial model gives an exact two-sided 95% interval of about 75.3–100% for 13 successes out of 13. The lower bound is 0.025^(1/13). Different market regimes do not necessarily satisfy those assumptions, so this is not a 2026 probability forecast. [5]**

A stronger test would compare non-midterm years over the same season and horizon, controlling for growth, inflation and policy conditions. Positive outcomes alone establish neither election causality nor superior returns relative to other periods.

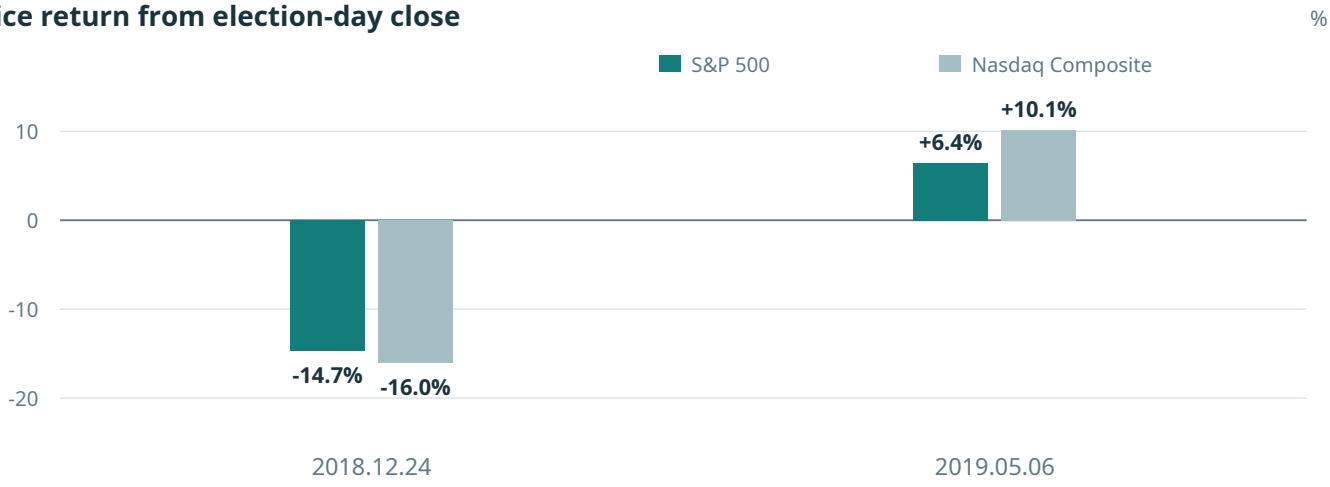
TradeLens analysis: history is a starting point. A more convincing forecast must explain how today's earnings, inflation and interest-rate conditions resemble or differ from past recoveries.

04 / 2018: ENDPOINT VS PATH

A positive endpoint hid a difficult path

2018 case | Compare the December 24 decline with the recovery six months after the election.

Price return from election-day close



Observation date	S&P 500 close	Nasdaq Composite
Nov. 6, 2018 / Election day	2,755.45	7,375.960
Dec. 24, 2018 / Stress point	2,351.10	6,192.920
May 6, 2019 / Six months later	2,932.47	8,123.290

Return=(observation close/election-day close-1)×100, excluding dividends. Only these three observations are used. The chart is neither a continuous daily path nor a peak-to-trough maximum-drawdown calculation. [3] [4]

On January 30, 2019, the Fed held its policy range unchanged and adopted a patient approach to future adjustments. The recovery window therefore also contains a monetary-policy change. Neither a smooth post-election rally nor an election-only explanation describes the evidence adequately. [6]

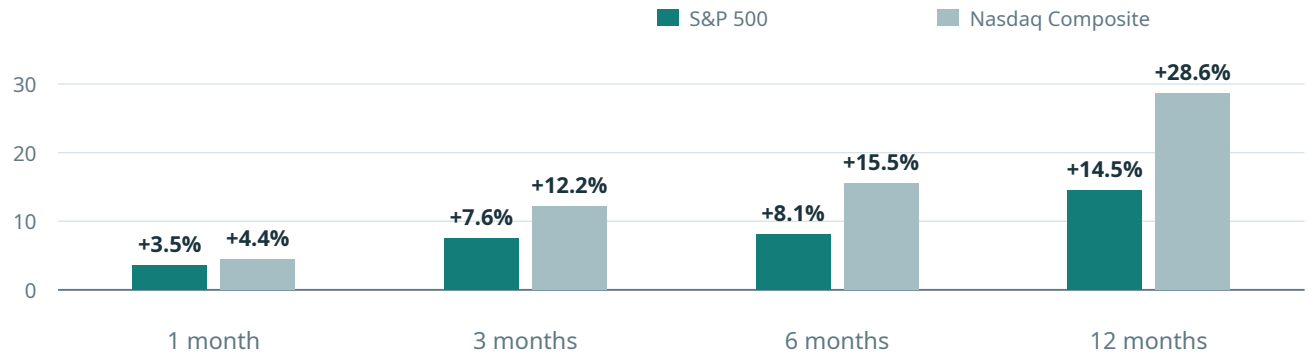
> **The lesson for 2026**
>
> **A positive six-month return and losses along the way are different questions. Even the recovery scenario can include sharp declines, reversals and changing sector leadership.**

05 / 2022: THE MACRO CATALYST

A rally did not require actual rate cuts

2022 case | Inflation news and changing policy expectations were also part of the post-election window.

Cumulative price return by horizon %



From election day	Observation date	S&P 500	Nasdaq Composite
1 month	Dec. 8, 2022	+3.5%	+4.4%
3 months	Feb. 8, 2023	+7.6%	+12.2%
6 months	May 8, 2023	+8.1%	+15.5%
12 months	Nov. 8, 2023	+14.5%	+28.6%

Base closes on November 8, 2022: S&P 500 3,828.11; Nasdaq Composite 10,616.200. Returns use same-date closes 1, 3, 6 and 12 calendar months later and exclude dividends. [3] [4]

Two days after the election, the November 10 release put October CPI inflation at 7.7%. The S&P 500 rose 5.5% that day and the Nasdaq Composite 7.4%. Yet on May 3, 2023, the Fed was still raising its range, to 5.00–5.25%. [3] [4] [7] [8]

What follows—and what does not

Markets price the expected inflation and policy path, not only today's rate. This case does not identify CPI's independent contribution to the rally or establish that the same response will occur in 2026.

06 / POLICY TRANSMISSION

Follow policy into earnings and rates

Do not assign a fixed market direction to a party's victory. Results and implementation are separate stages.

Election Congressional control › **Execution** Laws, budgets, rules › **Economics** Earnings, rates, risk › **Pricing** Existing expectations

Channel	Conditions for a positive effect	Potential offset
Tax and spending	Higher after-tax earnings or private demand	Fiscal pressure and funding costs
Regulation and trade	Lower uncertainty or compliance costs	Tariffs, retaliation and input-cost pass-through
Fiscal negotiations	More predictable budget execution	Prolonged conflict and risk premiums
Political uncertainty	A narrower range of possible policies	The outcome may already be priced

Divided government is not inherently bullish: less sweeping policy change can coexist with more budget friction. Greater policy capacity is not inherently bullish either. If fiscal expansion raises long-term yields, part of the value of higher earnings can be offset.

Institutional basis: legislation requires steps including passage of the same text by both chambers. Not every regulatory or executive action follows that legislative route. This is an analytical framework, not an election prediction. [14]

> **The sequence to verify**
>
> **Political outcome → feasible policy → cash-flow effect → funding cost → difference from expectations. Do not map congressional control directly into an index return.**

07 / THE 2026 MACRO STARTING POINT

Growth helps; inflation limits relief

Distinguish release dates, reference periods and measurement bases before interpreting the numbers.

Indicator and period	Reported figure	Market interpretation
Q3 real GDP [10]	+3.4%	Annualized quarterly growth; advance estimate. A cyclical support
September PCE / core PCE [11]	3.6% / 3.1%	Year over year. The return to target remains incomplete
September real spending [11]	0.0%	Rounded month-on-month change; not nominal growth
September real disposable income [11]	-0.3%	Month on month. Pressure on purchasing power
October 28 policy rate [9]	3.75–4.00%	Hold; two members preferred a 25bp increase

Resilient activity can support revenues and earnings. Elevated inflation, however, makes simultaneous post-election easing and multiple expansion harder to assume. Strong GDP does not establish improving purchasing power for every household; one flat spending month does not establish a recession.

Why yields fall	Equity interpretation
Disinflation with resilient earnings	Lower discount-rate pressure supports recovery
A sharp slowdown with estimate cuts	Lost earnings can outweigh the benefit of lower rates

> **The constraint on the base case**
>
> **The path is not “election ends → immediate easing → broad rally.” Durable gains depend on inflation moderating without a major deterioration in earnings.**

08 / EARNINGS AND EXPECTATIONS

Strong growth, modest surprises

Earnings levels support the market; changes relative to expectations determine fresh repricing.

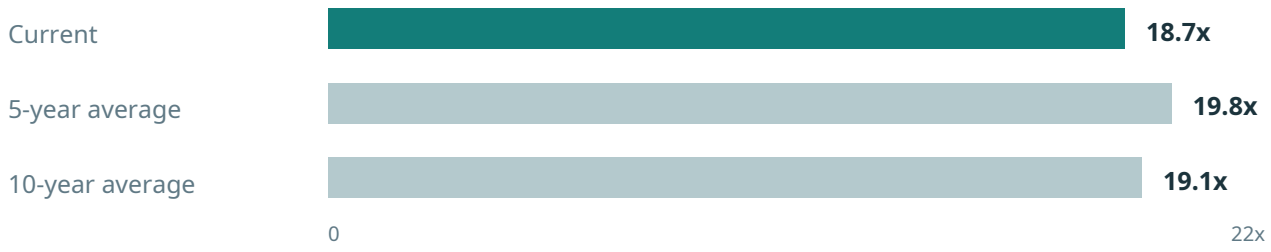
30.2%
Q3 blended earnings growth

82%
Reporters beating estimates

1.9%
Aggregate earnings surprise

FactSet, October 30, 2026; 60% of S&P 500 companies had reported. Blended growth combines actual results and estimates for non-reporters, year over year. The share of companies beating estimates differs from the size of the aggregate beat. [12]

S&P 500 forward 12-month P/E [12]



The data show an earnings foundation but limited incremental surprise. A forward P/E below its historical averages is not proof of undervaluation. If forecast earnings—the denominator—fall, the same price implies a higher multiple.

Next evidence	Strengthens the view	Weakens the view
Forward earnings estimates	Stable or rising across sectors	Forecast cuts despite reported growth
Breadth of growth	Broad revenue and margin improvement	Gains concentrated in a few large firms

Separate index and company economics

Index-level earnings resilience supports the recovery case. It does not justify every AI company's investment burden or share-price valuation.

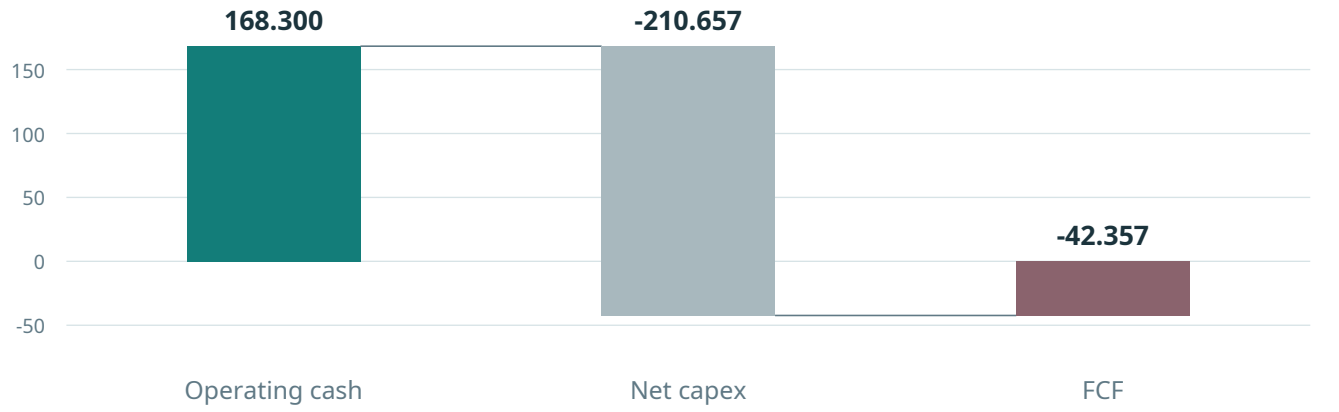
09 / WHY NASDAQ NEEDS A CASH TEST

AI revenue is not residual cash

Amazon’s company-defined FCF illustrates the distinction. One company is not the entire technology sector.

From trailing cash flow to FCF

USD bn



Trailing 12 months in the Q3 2026 release, USD bn. Operating cash 168.300 minus net property-and-equipment purchases 210.657 equals company-defined FCF of -42.357. Net purchases reflect the company’s deductions and differ from gross capex. [13]

Negative FCF is not proof of collapsing AI demand or insolvency: investment may generate future cash. But rapid sales growth can coexist with lower valuation multiples if payback lengthens or utilization and pricing disappoint.

Evidence of monetization	Evidence of cost and capital demands
Paid use, repeat orders and retention	Net capital spending and depreciation
Revenue and contribution per unit	Utilization, power, compute and acquisition costs
Sustained operating cash generation	Equipment replacement and the next expansion

The additional test for Nasdaq

The S&P 500’s historical record does not exempt technology shares from scrutiny. AI-related leadership needs a credible path to better post-investment cash generation, not just strong reported growth.

10 / RETURN DECOMPOSITION

Higher earnings can face a lower multiple

Illustration only: a sensitivity framework, not an index target, company forecast or investment recommendation.

Price return ≈ (1 + earnings change) × (1 + P/E change) - 1

Consistently defined EPS	P/E -10%	P/E unchanged	P/E +10%
0%	-10.0%	0.0%	+10.0%
+8%	-2.8%	+8.0%	+18.8%
+15%	+3.5%	+15.0%	+26.5%

Multiplicative decomposition of P=EPS×P/E. Use a consistent earnings definition at both endpoints; dividends and currency are excluded. Forward-12-month EPS also contains horizon roll-forward effects, not only forecast revisions. The assumptions are not TradeLens forecasts.

An 8% increase in consistently measured earnings combined with a 10% multiple contraction produces a -2.8% price return. With 15% earnings growth, the same contraction leaves +3.5%. The key is how much rate and risk-premium pressure offsets earnings growth.

To reproduce the historical +12.4% mean	Required P/E change
Assume EPS unchanged	+12.4%
Assume EPS +8%	About +4.1%
Assume EPS +15%	About -2.3%

Why the average is not a return target

Earnings and discount rates must support a 12.4% gain. The completion of an election does not itself deliver the required earnings growth or multiple expansion.

11 / SIX-MONTH OUTLOOK

Recovery is the base case, not a certainty

TradeLens assessment as of October 31, 2026. No probability, index target or trading timetable is assigned.

Base: volatile, selective recovery

Conditions	Earnings expectations avoid major damage and inflation does not worsen. Some political discount fades, while long-term yield and AI investment pressures remain.
Direction	The S&P 500 has a six-month recovery bias. Nasdaq leadership is selective, favoring better earnings and cash conversion. Interim declines remain possible.
Reassess	Downgrade this view if estimate cuts broaden or financing conditions deteriorate rapidly.

Upside: disinflation and earnings improve together

Conditions	Inflation and yields stabilize while forecast earnings and post-investment cash improve. Participation spreads beyond a few large companies.
Direction	The scale and durability of gains can improve. A stronger Nasdaq recovery is possible, but needs evidence of AI monetization.
Reassess	Weaken this view if yields fall because of recession fears or prices outrun earnings expectations.

Downside: inflation pressure meets estimate cuts

Conditions	Persistent inflation or fiscal and policy shocks sustain rate pressure. Revenue and margin forecasts weaken while credit risk rises.
Direction	Even the six-month return can be negative. Expectation-sensitive growth shares and financing-dependent firms are more exposed.
Reassess	The downside case weakens if earnings stabilize and inflation and credit conditions improve.

Historical win rates are not used to assign scenario probabilities. The base case is a qualitative interpretation of current public evidence and can change as new information arrives.

12 / TIME HORIZONS & CATALYSTS

Separate initial relief from lasting gains

Earnings, inflation and issuance news continue after the election. The first reaction is not a clean election effect.

Review horizon	Main assessment	Key challenge
About 1 month / Early December	Uncertainty relief can support a rebound, but rates and earnings can disrupt the path	Policy conflict and higher long yields
About 3 months / Early February 2027	Q4 results and the next year's investment plans test rebound quality	Prices recover but estimates and cash weaken
6 months / May 3, 2027	Recovery remains favored if earnings hold and inflation stabilizes	Broad estimate cuts and worsening credit

Scheduled U.S. date	New information	Why separate its impact
Nov. 4 [15]	Treasury quarterly refunding	Issuance mix can change yield expectations
Nov. 6 / Nov. 10 [16]	October jobs / CPI	Repricing of growth and inflation
Nov. 25 [10] [11]	GDP revision / October PCE	Reassessment of growth and price trends
Dec. 8–9 [17]	FOMC meeting	A policy judgment distinct from the election

The starting point is the election-day close. Do not relabel returns since this report's date as post-election returns. A positive endpoint still requires separate monitoring of interim losses, recovery speed and sector breadth.

> **Control for overlapping events**
>
> **Treasury financing news follows immediately; employment and inflation releases follow soon after. Attributing every subsequent move to congressional control would weaken the analysis.**

13 / DECISION RULE & MONITORING

Track the conditions, not the formula

Conclusion | Favor a six-month recovery conditionally, and change the assessment when its foundations change.

Monitor	Confirmation	Challenge
Inflation and rates	Core disinflation and lower rate pressure without earnings damage	Reacceleration or recession-driven yield declines
Earnings expectations	Stable or rising forward earnings across sectors	Repeated margin and guidance cuts despite sales growth
AI cash conversion	Narrower gap between investment and cash generation; paid repeat demand	Investment and replacement needs outpace cash recovery
Breadth and credit	Broader participation and stable financing	Narrow leadership and widening credit spreads
Policy execution	More visible, feasible budget and policy plans	Conflict spreads into investment, funding or input costs

These are not automatic trading rules with preset thresholds. The same signal—such as lower yields—can mean different things depending on its cause. Look for alignment across inflation, earnings, cash and credit, rather than one release.

> **The answer to the title**
>
> **A positive six-month outcome is our base path, not because it is a midterm year but because earnings can remain resilient without a further deterioration in inflation and financing conditions. Do not use the historical 12.4% average as the expected return. Nasdaq leadership requires a separate AI payback test.**

The strongest challenge would be simultaneous inflation reacceleration, broad earnings downgrades and worsening credit. Disinflation, recurring cash generation and broader market participation would instead strengthen the recovery case.

For a Korean investor, currency adds another layer: excluding dividends and costs, KRW return=(1+USD equity return)×(1+USD/KRW change)-1. A stronger won can reduce the translated gain even when the dollar index rises. This is not a currency forecast or hedging recommendation.

14 / SOURCE REGISTER · HISTORY & METHODS

Source register

Teal citations, source titles and “Open source” link directly to the original documents.

01. Charles Schwab | What the 2026 Midterms Could Mean for the Markets Open source
2026.08.18 · Research · 13 midterms, 1974–2022; S&P 500 price returns, 3- and 6-month summary

02. BlackRock | 2026 midterm elections and market performance Open source
2026.06.11 · Research · 14 midterms, 1970–2022; total return over approximately 126 trading days

03. FRED / S&P Dow Jones Indices | S&P 500: Daily observations Open source
2018~2023 · Daily series · Daily closes used in the 2018 and 2022 case studies; dividends excluded

04. FRED / Nasdaq | NASDAQ Composite Index: Daily observations Open source
2018~2023 · Daily series · Nasdaq Composite daily closes; not the Nasdaq-100

05. NIST | Exact Binomial Confidence Interval Open source
Methodology · Statistical method · Clopper–Pearson interval; independent trials with a common probability

06. Federal Reserve | FOMC statement, January 30, 2019 Open source
2019.01.30 · Policy statement · Unchanged policy range and a patient policy approach

07. U.S. Bureau of Labor Statistics | Consumer Price Index — October 2022 Open source
2022.11.10 · CPI release · October CPI, 7.7% year over year; release timing

08. Federal Reserve | FOMC statement, May 3, 2023 Open source
2023.05.03 · Policy statement · Increase in the policy target range to 5.00–5.25%

09. Federal Reserve | FOMC statement, October 28, 2026 Open source
2026.10.28 · Policy statement · 3.75–4.00% hold; inflation assessment and vote

Published summaries, raw time series and company-defined metrics have different scopes. Scenarios and illustrations are TradeLens analysis; past observations do not guarantee future performance.

15 / SOURCE REGISTER · CURRENT DATA & POLICY

Source register

Teal citations, source titles and “Open source” link directly to the original documents.

10. U.S. Bureau of Economic Analysis | GDP (Advance Estimate), 3rd Quarter 2026 Open source
2026.10.29 · Advance GDP · Real GDP growth of 3.4% at a quarterly annualized rate; advance estimate

11. U.S. Bureau of Economic Analysis | Personal Income and Outlays, September 2026 Open source
2026.10.29 · Official statistics · PCE inflation, real spending and real disposable personal income

12. FactSet | S&P 500 Earnings Season Update: October 30, 2026 Open source
2026.10.30 · Market data · 60% reported; blended earnings growth, surprises and forward P/E

13. Amazon | Amazon.com Announces Third Quarter Results Open source
2026.10.29 · Company release · Q3 2026 release; trailing-12-month cash flow and net capital spending

14. U.S. House Office of Legislative Counsel | Understanding the Legislative Process Open source
Institutional process · Institutional process · Passage by both chambers and the legislative process

15. U.S. Department of the Treasury | Quarterly Refunding Statement Open source
2026.08.05 · Refunding statement · Next quarterly refunding announcement: November 4, 2026

16. U.S. Bureau of Labor Statistics | 2026 Release Schedule Open source
2026 calendar · Official schedule · November employment and consumer-price release schedule

17. Federal Reserve | FOMC calendars and information Open source
2026 calendar · Meeting calendar · December 8–9, 2026 FOMC meeting

Published summaries, raw time series and company-defined metrics have different scopes. Scenarios and illustrations are TradeLens analysis; past observations do not guarantee future performance.

16 / METHODOLOGY & USE

Methodology, disclosures and permitted use

Distinguishing facts, published summaries, TradeLens analysis and illustrative assumptions.

Item	Basis
Date and question	October 31, 2026; a pre-election conditional outlook. The evaluation window is November 3, 2026–May 3, 2027; its return has not yet occurred.
Historical evidence	Separate Schwab's 13-event price-return summary from BlackRock's 14-event total-return study. Do not merge their samples, windows or dividend treatments.
Case calculations	2018 and 2022 are selected cases, not substitutes for the full sample. Returns use FRED closes relative to election day, rounded only for presentation.
Current data	Official advance GDP, monthly PCE and FOMC releases; FactSet's blend of results and estimates. Amazon is a company-defined trailing-12-month FCF example.
Models and scope	The confidence interval and EPS×P/E table are illustrations. Qualitative direction is TradeLens analysis, not an index target, probability estimate, trading opinion or personal advice.

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