

The Midterm Election Signals Investors Should Watch

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Key Takeaways

- Affordability is likely to be a defining issue in the 2026 midterms, as voters continue to face higher costs for everyday necessities.
- Cost pressures, weaker polling and softer consumer sentiment point to a challenging backdrop for Republicans.
- If Democrats gain more control in Congress, select technology companies and energy producers could face greater political scrutiny.
- Still, a divided government could limit sweeping policy changes and reduce the risk of disruption for the market.
- Investors should avoid overreacting to election noise, as the business cycle, corporate fundamentals and artificial intelligence investment are likely to remain bigger market drivers.

With the 2026 U.S. midterm elections fast approaching, investors are watching Washington closely. But one of the most important signals may be coming from somewhere else: the household budget.

Affordability remains the defining economic issue of the campaign, as voters continue to feel the strain of higher prices for necessities such as healthcare, food, housing and energy. That pressure comes as pre-election indicators increasingly appear to favor Democrats winning back the House while Republicans retain Senate control, based on current conditions.

Investors are paying attention. The final balance of power could affect policy, equity sector risks and market expectations heading into 2027.

Here's what to know as Election Day approaches.

The Price Level Problem Voters Can't Ignore

Price levels, not inflation, are shaping voter behavior and raising sector-specific policy risk into midterms.

Why do the 2026 midterms matter for investors?

The 2026 midterms matter for investors because the final balance of power in Congress could shape policy priorities, regulatory pressure and the market's view of what comes next. A shift in congressional control may affect which sectors face more scrutiny, how easily new legislation can pass and how markets interpret the policy backdrop.

At the same time, investors should avoid treating the election as the only driver of returns. The economy, company fundamentals, inflation, interest rates and the artificial intelligence investment cycle are all likely to remain more important for market performance.

Why is affordability driving the midterm debate?

Affordability may be the most important economic theme of this election because many households continue to feel the cumulative effect of higher prices, even as the inflation rate has declined.

According to an Aug. 30 Reuters/Ipsos poll, 47% of registered voters say the cost of living will be the single most important factor in their voting decision, up from 39% in January.

Pew Research has also found broad concern about several recurring necessities:

- **Healthcare:** Healthcare premiums grew 53% from 2015 to 2025, outpacing worker earnings and overall inflation, keeping medical costs high on voters' minds.
- **Food:** Food prices have risen approximately 30% since 2021, reflecting pandemic disruptions, higher input costs and shocks such as the war in Ukraine, avian flu and drought.
- **Housing:** The average 30-year fixed mortgage rate reached 7%, while the median new home sales price has risen 66.7% over the past 20 years to \$410,700.
- **Energy:** Residential electricity prices are up roughly 50% since 2017, and higher diesel prices can flow into food, shipping and other everyday costs.

These pressures help explain why slower inflation does not necessarily mean household costs have normalized. For many voters, the issue is not simply whether prices are rising more slowly, but whether essential expenses remain difficult to manage.

What election signals is Morgan Stanley watching?

Morgan Stanley Wealth Management's Midterm Signal Monitor tracks four measures that have historically helped frame the direction of midterm elections: generic congressional polling, presidential approval, consumer sentiment and gasoline prices.

Between August and September, those indicators pointed to a more challenging environment for the president's party:

- **Generic Congressional Polling:** Democrats' lead widened to 8.1 percentage points, from 6.1 percentage points.
- **Presidential Approval:** Presidential approval edged up to 40%, from 39.5%, but remains near a level historically associated with momentum for the opposition party.
- **Consumer Sentiment:** Consumer sentiment declined to 47.8, from 51.7, putting it well below the 85.0 historical election-year average.
- **Gasoline Prices:** Regular gasoline price growth accelerated to 29.5%, from 25.8%, underscoring how everyday costs can shape the national election backdrop.

Taken together, these indicators point to a challenging national backdrop for Republicans—though they should be viewed as directional signals rather than a forecast of congressional control.

Which sectors could be affected by the midterms?

Some sectors, such as technology and energy, could become more sensitive to policy risk if the midterm outcome shifts control of Congress, especially after strong year-to-date gains.

While the economy and company fundamentals have been the main drivers of equity performance this year, investors may want to keep an eye on potential risks for:

- **Select Technology Companies:** A Democratic shift in Congress could bring more scrutiny of competition, data privacy and AI. Even without major new laws, hearings and headlines could weigh on sentiment.
- **Energy Producers:** Energy companies could face closer attention on prices, taxes and fossil fuel policy, especially while household energy costs remain a focus for voters.

Past midterm cycles suggest these sectors can lose momentum in similar environments, even if major policy changes do not follow.

Still, history is not a forecast. The market and sector impacts of the 2026 midterms will depend on how the election reshapes the policy backdrop, how investors interpret that shift and whether lawmakers can turn oversight priorities into actual policy changes.

Is divided government bad for markets?

Divided government is not always bad for markets. In fact, history suggests that periods of political gridlock can sometimes create a more stable backdrop for equities. Morgan Stanley Wealth Management's Global Investment Office found that the strongest average S&P 500 return in the year after midterm elections under a Republican president came when Congress was split between the two parties, at 23%.

The reason may be simple: Fewer big policy swings can mean fewer market disruptions. When Congress is divided, or when the opposition party controls both chambers, it can be harder for Washington to pass major legislation. That can create a more stable backdrop for investors.

How should investors think about the midterms?

Investors should treat the midterms as an important policy event, but not as the primary driver of portfolio decisions.

For investors, the key is discipline. Elections can create noise and shift the policy backdrop in meaningful ways. However, macroeconomic conditions, the business cycle, inflationary pressures and the artificial intelligence investment cycle are likely to remain the primary drivers of market performance.

In short: Watch Washington closely, but keep the broader economy at the center of portfolio decisions.

To learn more, ask your Financial Advisor for a copy of the report, *US Policy Pulse: Reading the Midterm Election Tea Leaves*, from Morgan Stanley Wealth Management's Global Investment Office.

Find a Financial Advisor, Branch and Private Wealth Advisor near you.

Check the background of Our Firm and Investment Professionals on FINRA's Broker/Check([opens in a new tab](#)).

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For index, indicator and survey definitions referenced in this report please visit the following:

<https://www.morganstanley.com/wealth-investmentsolutions/wmir-definitions>

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Investing in smaller companies involves greater risks not associated with investing in more established companies, such as business risk, significant stock price fluctuations and illiquidity.

Stocks of medium-sized companies entail special risks, such as limited product lines, markets, and financial resources, and greater market volatility than securities of larger, more-established companies.

Bonds are subject to interest rate risk. When interest rates rise, bond prices fall; generally the longer a bond's maturity, the more sensitive it is to this risk. Bonds may also be subject to call risk, which is the risk that the issuer will redeem the debt at its option, fully or partially, before the scheduled maturity date. The market value of debt instruments may fluctuate, and proceeds from sales prior to maturity may be more or less than the amount originally invested or the maturity value due to changes in market conditions or changes in the credit quality of the issuer. Bonds are subject to the credit risk of the issuer. This is the risk that the issuer might be unable to make interest and/or principal payments on a timely basis. Bonds are also subject to reinvestment risk, which is the risk that principal and/or interest payments from a given investment may be reinvested at a lower interest rate.

Bonds rated below investment grade may have speculative characteristics and present significant risks beyond those of other securities, including greater credit risk and price volatility in the secondary market. Investors should be careful to consider these risks alongside their individual circumstances, objectives and risk tolerance before investing in high-yield bonds. High yield bonds should comprise only a limited portion of a balanced portfolio.

Treasury Inflation Protection Securities' (TIPS) coupon payments and underlying principal are automatically increased to compensate for inflation by tracking the consumer price index (CPI). While

the real rate of return is guaranteed, TIPS tend to offer a low return. Because the return of TIPS is linked to inflation, TIPS may significantly underperform versus conventional U.S. Treasuries in times of low inflation.

Yields are subject to change with economic conditions. Yield is only one factor that should be considered when making an investment decision.

Investing in commodities entails significant risks. Commodity prices may be affected by a variety of factors at any time, including but not limited to, (i) changes in supply and demand relationships, (ii) governmental programs and policies, (iii) national and international political and economic events, war and terrorist events, (iv) changes in interest and exchange rates, (v) trading activities in commodities and related contracts, (vi) pestilence, technological change and weather, and (vii) the price volatility of a commodity. In addition, the commodities markets are subject to temporary distortions or other disruptions due to various factors, including lack of liquidity, participation of speculators and government intervention.

Asset allocation and diversification do not assure a profit or protect against loss in declining financial markets.

Because of their narrow focus, sector investments tend to be more volatile than investments that diversify across many sectors and companies. Technology stocks may be especially volatile. Risks applicable to companies in the energy and natural resources sectors include commodity pricing risk, supply and demand risk, depletion risk and exploration risk. Health care sector stocks are subject to government regulation, as well as government approval of products and services, which can significantly impact price and availability, and which can also be significantly affected by rapid obsolescence and patent expirations.

Environmental, Social and Governance ("ESG") investments in a portfolio may experience performance that is lower or higher than a portfolio not employing such practices. Portfolios with ESG restrictions and strategies as well as ESG investments may not be able to take advantage of the same opportunities or market trends as portfolios where ESG criteria is not applied. There are inconsistent ESG definitions and criteria within the industry, as well as multiple ESG ratings providers that provide ESG ratings of the same subject companies and/or securities that vary among the providers. Certain issuers of investments may have differing and inconsistent views concerning ESG criteria where the ESG claims made in offering documents or other literature may overstate ESG impact. ESG designations are as of the date of this material, and no assurance is provided that the underlying assets have maintained or will maintain and such designation or any stated ESG compliance. As a result, it is difficult to compare ESG investment products or to evaluate an ESG investment product in comparison to one that does not focus on ESG. Investors should also independently consider whether the ESG investment product meets their own ESG objectives or criteria. There is no assurance that an ESG investing strategy or techniques employed will be successful. Past performance is not a guarantee or a dependable measure of future results.

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Rebalancing does not protect against a loss in declining financial markets. There may be a potential tax implication with a rebalancing strategy. Investors should consult with their tax advisor before

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The indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. The indices are not subject to expenses or fees and are often comprised of securities and other investment instruments the liquidity of which is not restricted. A particular investment product may consist of securities significantly different than those in any index referred to herein. Comparing an investment to a particular index may be of limited use.

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