The Editorial

It's not about who wins

Most of the time, we discuss what matters the most to financial market performance, namely the macro backdrop and risks surrounding it. However, there are also topics that we discuss a lot, not because they matter much to markets, but because they are interesting to discuss and we as strategists, get those questions. 'Political events' is certainly one of those types of question. Today, we will do a little 'myth buster' exercise, and we will also argue that the on-paper best configuration would actually lead to the most negative election outcome.

Now, everyone is aware that the US midterm elections are about four weeks away. So far this year, it has been discussed a lot already this year through the lens and prime argument of the "US-Iran war will be solved ahead of the midterms as Trump does not want high oil/gasoline prices at the midterms". Let's just say, that view, which with full disclosure we also argued, has proved to be naïve in gauging Trump's reaction function.

In the next four weeks or so, we will hear a lot of commentators and views on what political outcome would be best for markets, but quite frankly we should really be discussing the economics and the earnings, not the politics. And I don't want to be too negative, as politics are certainly interesting to discuss, but for financial markets it's rarely the bellwether for returns. What matters for markets, and thus also the question that we should be focusing on is: does the outcome change fiscal policy, inflation, monetary policy, earnings or the outlook for yields, and here there is one particular factor that we discuss later: the USD5,000 dividend and US administration risk premium.

It's the cycle, not the election

The lazy conclusion from just looking at the two most recent midterm elections, i.e. the 2018 and 2022 ones, is that the midterms and elections are bad for risk. However, investors should rightfully (hopefully?) remember that the reason for the weak risk was a weakening economic cycle and Fed tightening, rather than the elections themselves. What is accurate, however, about these instances is that volatility was declining, particularly after the event. The latter is, importantly, one of the key lessons of political events that highlights a consistent pattern: volatility rises as election uncertainty builds and falls once the result is known, largely irrespective of the political outcome. That is the first lesson from the data analysis we have done since 1950 for most indicators (or as far back as we could get), but before diving into that, let's first start with a few facts.

On paper and by ideological views, the current combination of a Republican president and a Republican-led Congress should appear to be the most supportive for risk assets across, given the scope for deregulation and business-friendly policy, fiscal policies etc. And certainly, markets have indeed performed strongly since Trump was elected for the second time in 2024 to achieve that combination since 2024, but what history does not show is that this political configuration is systematically superior to others.

Chief Strategist, Markets
Piet Haines Christiansen
+45 45 14 15 18
phai@danskebank.dk

Head of Cross Asset Strategy
Bjarne Breinholt Thomsen
+45 45 14 15 15
bt@danskebank.dk

Senior Strategist
Molly Guggenheimer
+46 76 721 65 11
mogu@danskebank.com

Analyst
Mathias Christiansen
+45 45 14 15 91
mathch@danskebank.dk

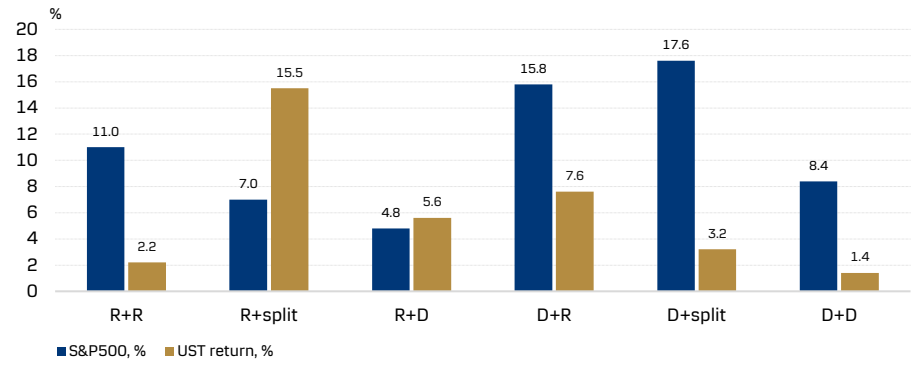
Marketing communication. *This communication is "marketing communication" and is not intended to constitute "investment research" as that term is defined by applicable regulations. This communication has as such not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of the communication.*

Important disclosures and certifications are contained from page 5 of this report.

In fact, since 1950, the S&P 500 has delivered an annualised average monthly price return of 11.7% under Democratic presidents, compared with 6.8% under Republicans. US Treasuries point in the opposite direction, returning 7.0% under Republican presidents versus 3.1% under Democrats. Taken at face value, that is counter intuitive.

Adding the six possible congressional configurations produces an equally mixed signal. Equities have historically performed best with a Democratic president and either a Republican or split Congress, while bonds have done best with a Republican president and split Congress. The samples are small though and combine very different inherited cycles, policy regimes and shocks, which is precisely the point. The political configuration alone does not provide a reliable rule for market direction. The economic backdrop remains the more powerful guide, as we have discussed so many times before.

Average monthly return by US president and congress composition (annualised, %)

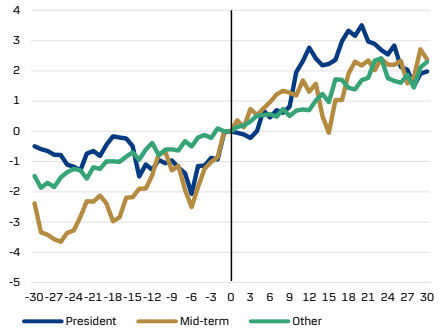


Note: Monthly data since 1950. First letter refers to President party, second to congress composition
Source: Bloomberg, Danske Bank

The event matters more for volatility than direction

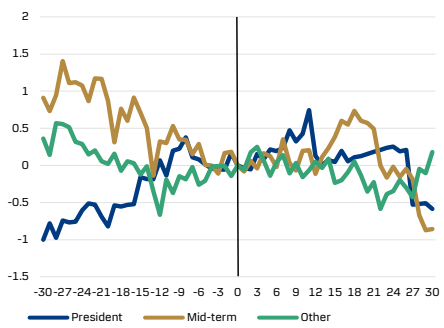
Now, slicing the data slightly differently, and splitting the performance into presidential election years, midterm election years and non-election years (using the first Tuesday of November, as the nexus), with a trading day window of 30 days before and after the elections, the results do not show a statistical difference between the years. The median equity and USD performance shows no material difference across the three groups while rates display a modest tendency for yields to fall after the midterm elections, although we have a hard time explaining why this divergence appears.

S&P500 performance around elections, and no-election years (median, %)



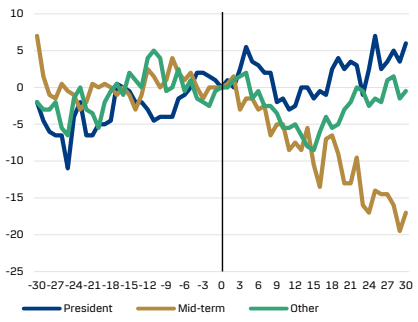
Note: For others category, we have used days around the first Tuesday in November
Source: Bloomberg, Danske Bank

DXY change around elections, and no-election years (median, %)



Note: For others category, we have used days around the first Tuesday in November
Source: Bloomberg, Danske Bank

UST 10Y change around elections, and no-election years (median, bp)



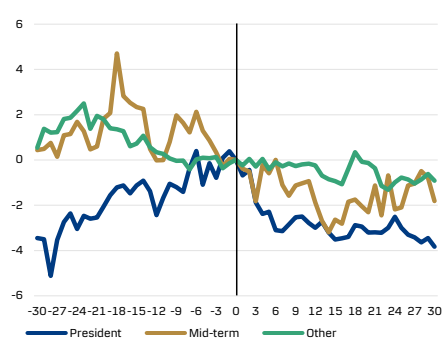
Note: For others category, we have used days around the first Tuesday in November
Source: Bloomberg, Danske Bank

What history shows more clearly is that markets dislike unresolved uncertainty. Volatility tends to rise as the event approaches and fall after the vote, when the range of political outcomes narrows, and that does make sense. This allows us to conclude that elections are therefore better understood as uncertainty events than as reliable directional signals, which also leaves fundamentals in the driving seat.

And this should be kept in mind when we zoom in on this year with the backdrop remaining supportive for risk: growth is resilient, earnings are strong and the private sector does not need another large fiscal boost. See also our *investment navigator* published this week.

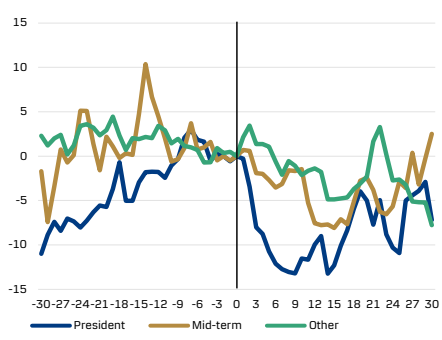
That means that the right question this year is yet again not who wins, but whether the result adds stimulus to an economy that is already running well.

Change in VIX around election day, VIX



Note: For others category, we have used days around the first Tuesday in November
Source: Bloomberg, Danske Bank

Change in MOVE around election day, bp

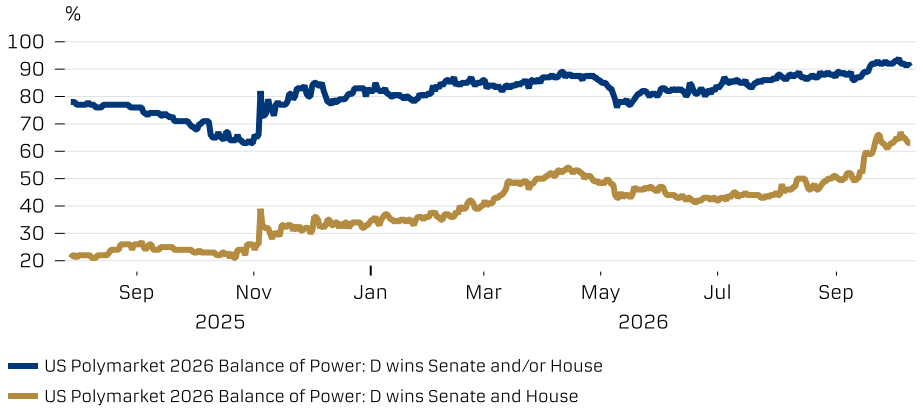


Note: For others category, we have used days around the first Tuesday in November
Source: Bloomberg, Danske Bank

This election is about fiscal risk, not fiscal support

This is where the 2026 midterm elections differ from the usual playbook, with a large asymmetric risk. You may argue that it's a small probability event given the consistent polling in recent months, indicating that the republicans will lose the majority of seats in at least one of the chambers of congress, with about a 90% probability. That will largely restrain big fiscal impulses, and thus inflation and central bank tightening; thus, the current projection implies as close to a market-friendly outcome near term as it gets.

Midterm outcome according to prediction markets



Source: Polymarket, Bloomberg, Macrobond, Danske Bank

But if we for a moment humour the idea of republicans continuing to control the congress, if Trump remains true to his USD5,000 per 18Y+ person dividend, it would lead to the most adverse effect following a US election. A USD5,000 per 18Y+ dividend is around 3.5% of GDP, which would bring the deficit to about 10% of GDP. So, the adverse market impact would not be because of the configuration and the colour of the party, but because the premium on US administration would not be capped, and it would also lead to a massive fiscal stimuli that yes, would support private consumption and near-term earnings but it would also mean greater borrowing, renew fiscal concerns, inflation risk and expectations of Federal Reserve tightening. Should the latter dominate, it would be bad for both equities and bonds.

This year, for risk markets, luckily, such a scenario seems unlikely at this stage. Paradoxically, the most market-friendly outcome, which is currently widely expected, is one with fiscal restraint and capping US administration uncertainty, which leads us to conclude that in the grand scheme of things, here four weeks prior to the election, the 2026 midterms are not set to be remembered for anything unusual, other than a reminder of focusing on the most important for markets: the fundamentals.

Conclusion: focus on fundamentals

While today's piece has not been a discussion on which party has the better views, it's merely a myth buster exercise which illustrates that elections rarely drive market returns on a tactical basis, and that only if we were to see major changes through channels of fiscal policies, inflation, growth or monetary policy would it have near-term implications. Gauging the implications of a strategic portfolio is a different exercise, and outside the scope of today's piece.

The Editorial will be on a break next Sunday, but will be back in two weeks' time. The CAS team will naturally continue to update on market events, but in the Morning Espresso, each weekday.

General disclaimer and disclosure

The following disclaimer and disclosure apply to all communication as such, including communication to which it is attached, linked to or otherwise referenced (the "Communication"). For the parts that refer to the term "investment recommendation", the disclaimer and disclosure are only applicable as far as the Communication falls under the definition in Regulation (EU) No 596/2014. The Communication has been prepared by personnel in the LC&I's Sales & Trading departments or non-independent Research departments of Danske Bank A/S. The views set forward in the Communication may differ from views or opinions in other departments of Danske Bank A/S. It constitutes a short-term view and is subject to change and Danske Bank A/S does not undertake to notify any recipient of the Communication of any such change. A list of all previous investment recommendations on any financial instrument made in the past 12 months, including all previous investment recommendations made by the producer is available upon request, free of charge.

The LC&I's Sales & Trading departments' or non-independent Research departments' personnel are not independent research analysts, and the Communication is not intended to constitute "investment research" as that term is defined by applicable regulations. The Communication has as such not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of the communication. The personnel in the LC&I's Sales & Trading departments or non-independent Research departments may be remunerated based on investment banking revenues, and may receive bonuses or other remuneration linked to specific investment banking transactions. Danske Bank A/S or its personnel may hold a position in any financial instrument discussed herein. Personnel is subject to a Personal Account Dealing policies. Further, Danske Bank A/S may act as market maker or have performed other services for the entities mentioned, which could include investment banking or other services, leading to payments or promises of payments. Prices and availability are indicative and may change without notice.

The Communication is provided for informational purposes only and should not be considered investment, legal or tax advice. It does not constitute or form part of, and shall under no circumstances be considered as, an offer to sell or a solicitation of an offer to purchase or sell any relevant financial instruments. Danske Bank A/S is not acting as an advisor, fiduciary or agent. Recipients of the Communication should obtain advice based on their own individual circumstances from their own tax, financial, legal and other advisors about the risks and merits of any transaction before making an investment decision, and only make such decisions on the basis of the investor's own objectives, experience and resources. All investments carry risks. The value of any investment may fluctuate, and investors may get back less than they invested. Past performance is not indicative of future results.

The Communication has been prepared independently and solely on the basis of available information that Danske Bank A/S considers to be reliable, but Danske Bank A/S has not independently verified the contents hereof. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation or warranty, ex press or implied, is made as to and no reliance should be placed on the fairness, accuracy, completeness, currentness or reasonableness of the information, opinions and projections contained in the Communication and Danske Bank A/S, its affiliates and subsidiaries accept no liability whatsoever for any direct or consequential loss, including without limitation any loss of profits, arising from reliance on the Communication.

For current disclosures of Danske Bank A/S' interests and potential conflicts of interest regarding issuers and financial instruments subject of investment recommendations please refer to the Danske Bank's Disclosure and disclaimer webpage: https://danskeci.com/ci/research/disclosures-and-disclaimers.

Please note that while information on the great majority of relevant issuers and financial instruments are contained on this website, it may not contain information on all relevant issuers and financial instruments. The absence of information on any relevant issuer or financial instrument should not be seen as an indication that Danske Bank A/S does not have any interests or potential conflicts of interest on the issuer or financial instrument. Please contact your Danske Bank A/S representative for information regarding any issuer subject of investment recommendation that is not mentioned on https://danskeci.com/ci/research/disclosures-and-disclaimers.

Danske Bank A/S is authorised and subject to regulation by the Danish Financial Supervisory Authority and is subject to the rules and regulation of the relevant regulators in all other jurisdictions where it conducts business. Danske Bank A/S is subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority (UK). Details on the extent of the regulation by the Financial Conduct Authority and the Prudential Regulation Authority are available from Danske Bank A/S on request.

The Communication is protected by copyright and is intended solely for the designated addressee. It may not be reproduced or distributed, in whole or in part, by any recipient for any purpose without Danske Bank A/S' prior written consent.

Disclaimer related to distribution in the United Kingdom

In the United Kingdom, the Communication is for distribution only to (I) persons who have professional experience in matters relating to investments falling within article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the 'Order'); (II) high net worth entities falling within article 49(2)(a) to (d) of the Order; or (III) persons who are an elective professional client or a per se professional client under Chapter 3 of the FCA Conduct of Business Sourcebook (all such persons together being referred to as 'Relevant Persons'). In the United Kingdom, this document is directed only at Relevant Persons, and other persons should not act or rely on this document or any of its contents.

Disclaimer related to distribution in the European Economic Area

The Communication is being distributed to and is directed only at persons in member states of the European Economic Area ('EEA') who are 'Qualified Investors' within the meaning of Article 2(e) of the Prospectus Regulation (Regulation (EU) 2017/1129) ('Qualified Investors'). Any person in the EEA who receives this document will be deemed to have represented and agreed that it is a Qualified Investor. Any such recipient will also be deemed to have represented and agreed that it has not received this document on behalf of persons in the EEA other than Qualified Investors or persons in the UK and member states (where equivalent legislation exists) for whom the investor has authority to make decisions on a wholly discretionary basis. Danske Bank A/S will rely on the truth and accuracy of the foregoing representations and agreements. Any person in the EEA who is not a Qualified Investor should not act or rely on this document or any of its contents.

Disclaimer related to distribution in the United States

The Communication was created by Danske Bank A/S and is distributed in the United States by Danske Markets Inc., a U.S. registered broker-dealer and subsidiary of Danske Bank A/S, pursuant to SEC Rule 15a-6 and related interpretations issued by the U.S. Securities and Exchange Commission. The communication is intended for distribution in the United States solely to 'U.S. institutional investors' as defined in SEC Rule 15a-6. Danske Markets Inc. accepts responsibility for this investment recommendation in connection with distribution in the United States solely to 'U.S. institutional investors'. Any U.S. investor recipient of the Communication who wishes to purchase or sell any Relevant Financial Instrument may do so only by contacting Danske Markets Inc. directly and should be aware that investing in non-U.S. financial instruments may entail certain risks. Financial instruments of non-U.S. issuers may not be registered with the U.S. Securities and Exchange Commission and may not be subject to the reporting and auditing standards of the U.S. Securities and Exchange Commission.

The Communication is for the general information of our clients and is a 'solicitation' only as that term is used within CFTC Rule 23.605 promulgated under the U.S. Commodity Exchange Act. Unless otherwise expressly indicated, the Communication does not take into account the investment objectives or financial situation of any particular person.

Report completed: 9 October 2026 at 16:46 CET
Report disseminated: 11 October 2026 at 07:00 CET