SCHLINDWEIN ASSOCIATES
INVESTMENT COUNSEL

Voter Verdict

The midterm elections have introduced a new political dynamic in Washington, with Democrats capturing control of both chambers of Congress and creating a divided government for the final two years of President Trump's term. Against a backdrop of elevated gasoline and diesel prices, persistent inflation concerns, and heightened economic policy uncertainty, investors face renewed questions about fiscal, trade, and regulatory policy. While political developments can influence market sentiment and volatility, history suggests equity markets have generally performed well during the year following midterm elections, reinforcing the importance of maintaining a longer-term investment perspective.

PERSPECTIVE

Democratic victories reflect voter frustration over rising living costs, energy prices, tariffs, and the administration's economic and foreign policies. As seen in Chart I, gasoline and diesel prices remain elevated compared with year-ago levels, adding pressure to household budgets, business margins, and transportation costs. Meanwhile, economic policy uncertainty in Chart II remains elevated amid concerns over trade, fiscal priorities, regulation, and geopolitical developments.

Looking ahead, Democrats are expected to focus on healthcare affordability, consumer protections, and tariff policy while increasing scrutiny of defense spending, AI, and data center development. Contentious negotiations over federal spending, deficits, and the debt ceiling could further complicate the outlook. However, divided government is more likely to create uncertainty around policy implementation than an immediate reversal of existing administration policies.

Historical performance provides some reassurance. Chart III shows that since 1950, the S&P 500 has generated positive returns in the 12 months following every midterm election, averaging approximately 15%. Historically, markets have shifted their focus back to economic growth, corporate earnings, and monetary policy as political uncertainty subsides. While past performance does not guarantee future results, election outcomes alone have rarely justified changes to long-term investment strategies.

INVESTMENT IMPLICATIONS

Investors should remain focused on the factors that ultimately drive portfolio performance: economic growth, corporate earnings, inflation, energy prices, interest rates, and Federal Reserve policy. High costs and economic policy uncertainty warrant attention given their potential effects on consumer spending and corporate profitability. But maintaining a properly diversified portfolio, emphasizing high-quality investments, and remaining disciplined through periods of volatility are more productive than reacting to political headlines or attempting to predict election-driven market movements.

CHART I

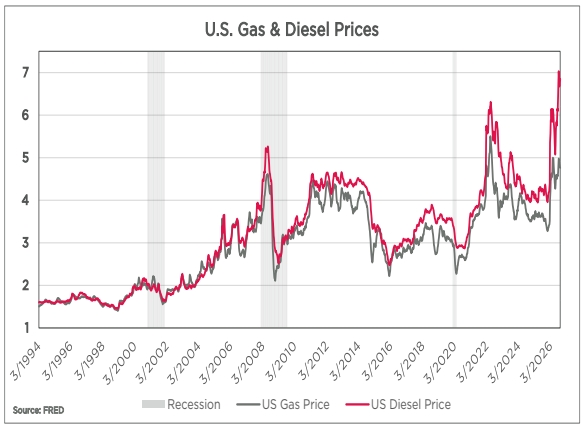


CHART II

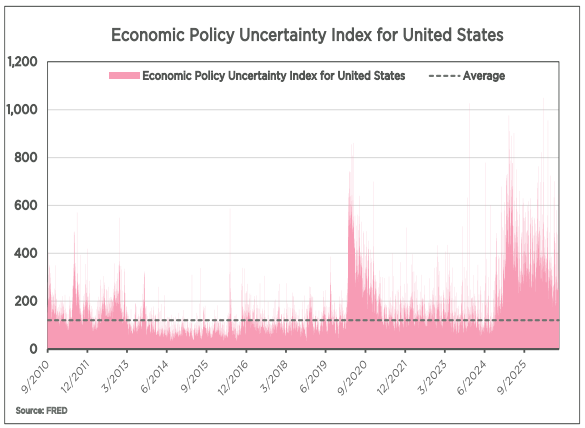
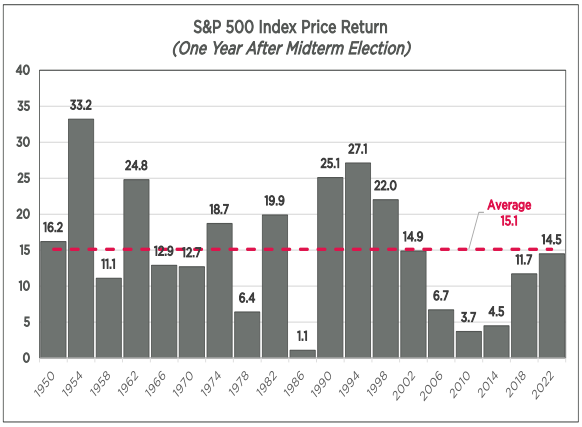


CHART III



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