

FROM THE OFFICE OF THE CIO

Washington at an Inflection Point: What the Midterms Could Mean for Markets

with political insights from Ken Robinson, Head of Government Relations for Citizens Financial Group

With the 2026 U.S. midterm elections quickly approaching, Washington is entering a more consequential political phase. President Trump began his second term with Republican control of Congress and an expansive view of presidential authority. The result has been an unusually consequential period of executive actions, court decisions, and legislative policymaking across taxes, tariffs, immigration, deregulation, and foreign affairs.

As of mid-August, the political environment has shifted. Polling averages showed President Trump and congressional Republicans facing weak approval ratings, even among voters who believe the GOP is better positioned to manage the economy. Democrats hold a meaningful advantage on the generic congressional ballot, while recent surveys point to softness among independents and less committed portions of Republican voters. Democrats also appear to hold an enthusiasm advantage heading into the fall. Together, these conditions resemble past midterm environments in which the sitting president's party lost control of one or both chambers of Congress.

Yet, a favorable environment does not guarantee a Democratic victory.

Math. Candidates. Money.

Three factors will likely determine how completely the current political environment will translate into Democratic control in Congress: math, candidates and money.

“The current environment creates opportunity. Math, candidates, and money determine how efficiently that opportunity becomes political power.”

– Ken Robinson

U.S. House of Representatives

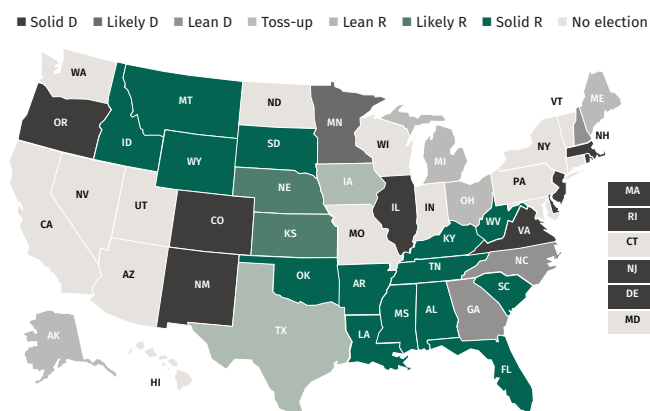
Republicans hold a narrow House majority, leaving Democrats with relatively few seats to gain. But decades of partisan redistricting have reduced the number of genuinely competitive districts. A sizable national swing can therefore produce fewer seat changes than it once did.

That makes expanding the battlefield particularly important for Democrats. By late summer, some of the most revealing information comes not from what campaigns are saying, but from what they are doing. If Democratic party resources begin moving beyond traditional swing districts and into Republican-held seats that President Trump carried in 2024, this suggests a substantially broader battlefield. This would force Republicans to spend critical resources playing defense in traditionally reliable GOP districts rather than targeting swing districts.

U.S. Senate

Democrats need a net gain of four seats across competitive contests in Alaska, Georgia, Maine, Michigan, North Carolina, Ohio, and Texas. While these states are not equally competitive, together they illustrate how differently the same national environment can play out across the map. Ultimately, candidate quality still matters.

Four Senate seats are considered toss-ups in the 2026 election



Source: The Cook Political Report, 2026 Senate Race Ratings. April 2026.

Beyond how these key seats are set up going into the election, money is the major factor. The various Republican national committees entered the summer with a substantial cash advantage, reinforced by well-funded congressional super PACs and other outside groups. In addition, Trump controls a campaign war chest of more than \$300 million. Democratic candidates have offset some of that disparity through strong individual fundraising, but institutional resources help determine how far a party can expand the map and how many endangered incumbents it can rescue.

A referendum is not a realignment

While Democrats are leading in the polls, neither political party is particularly popular. Democrats are benefiting from dissatisfaction with the incumbent administration, but continue to face tensions over ideology, generation, and the composition of their coalition. Republicans face a different challenge. President Trump remains

the Republican party's dominant figure, but declining approval ratings raise questions about whether his winning 2024 coalition turns out to support Republican candidates when he is not on the ballot.

That distinction matters beyond November. Midterms are disproportionately a referendum on the incumbent president; presidential elections are choices between competing candidates and coalitions. A strong Democratic midterm outcome would say more about how voters judge the Trump administration today than about where they will stand in 2028.

The post-election balance of power

For investors, the key question is not the final seat count. It is how the result changes each party's ability to govern.

A strong Republican performance would reinforce the administration's authority within the party and its ability to pursue its agenda through Congress and executive action. A significant GOP loss would create a more complicated governing environment. Democratic control of either chamber would almost certainly result in legislative gridlock, with the Trump administration subject to aggressive congressional oversight across a broad range of concerns, including the potential for another round of impeachment proceedings. Legislative deadlock would likely lead the White House to rely more heavily on executive orders and agency actions where the president holds wide discretion.

While much of the surface attention will be on who controls the House and Senate, the makeup of each party after the election will largely shape how Congress works with or challenges the administration. In recent years, both parties have become much more anti-establishment and populist. For Republicans, that means that regardless of holding control of Congress, both the House and Senate caucuses appear to be leaning toward a pro-Trump agenda. Similarly, the Democratic caucuses are expected to be younger and more progressive.

This populist shift is likely to affect the private sector through congressional oversight, legislation, and regulatory decisions regardless of which party controls Congress. Key areas of focus include:

- ♦ Tax policy and fiscal negotiations
- ♦ Trade and tariff policy
- ♦ Financial regulation
- ♦ Immigration
- ♦ Energy policy
- ♦ Federal Reserve independence
- ♦ Foreign affairs

Watch behavior, not just polls

Presidential approval ratings and the national congressional ballot remain important indicators for investors. But as Election Day approaches, undecided voter behavior becomes increasingly dependent on a variety of factors. These include:

- ♦ where party committees spend money.
- ♦ which races congressional super PACs suddenly choose to defend.
- ♦ where donors move money.
- ♦ whether candidates embrace or create distance from the White House.
- ♦ whether the battlefield expands beyond the districts that looked competitive during the summer.

Furthermore, economic conditions and affordability remain central themes in the election environment. Inflation remains above the Federal Reserve's 2% target, while voters continue to express substantial dissatisfaction with the rising cost of living. Geopolitical developments have introduced additional uncertainty around energy prices. Near-term improvement could stabilize the administration's political position, while further deterioration could deepen the administration's political weakness.

Interpreting the impact on the markets

What history suggests for markets

For all the attention midterms command, history offers a measured message: Elections rarely drive markets on their own. Midterm years have tended to be among the more volatile stretches of the four-year presidential cycle, with deeper pullbacks and choppier price action than other years. Yet that turbulence has typically given way to stronger returns once the outcome is known, as uncertainty peaks ahead of the vote and fades after it. The two most recent midterms illustrate both the choppiness and the importance of looking past the outcome of the ballot. The S&P 500 Index fell about 4% in 2018 and roughly 18% in 2022, the two worst years for the index since the financial crisis. In neither case were elections the primary driver. The 2018 selloff was set off by the Federal Reserve raising interest rates and escalating tariff disputes. The 2022 decline reflected an aggressive Fed tightening cycle to combat inflation, a slump in technology earnings, and the shock of Russia's invasion of Ukraine. In both years, equities followed a similar rhythm, peaking in late summer, bottoming near October, rebounding into November, and retesting lows in December before firmer footing took hold the following year.

Political uncertainty usually amplifies market volatility rather than causing it. Economic growth, monetary policy, the path of inflation and interest rates, corporate earnings, and geopolitical risk remain the dominant forces of market returns. Elections have traditionally layered additional uncertainty on top. That dynamic is worth keeping in mind in 2026, a year in which markets have already absorbed bouts of volatility tied to Middle East conflict, higher energy prices, and shifting rate expectations, amid a seasonally difficult late-summer-to-October window that has historically weighed on midterm-year performance.

What history suggests for investors

As we move toward the fourth quarter of 2026 and closer to the election, equities have held up well, consistent with the constructive views outlined in our 2026 Mid-Year Investment Outlook, despite a more challenging backdrop than many anticipated. Major U.S. equity indices have continued to reach new highs while markets have broadened by style and market capitalization. Non-U.S. equities have also performed well, particularly in emerging markets. Robust corporate earnings, resilient economic activity, and ongoing investment in AI and related infrastructure have been supportive. At the same time, investors have become increasingly concerned about rising long-term Treasury yields, elevated energy prices, persistent inflation, and the ongoing debate surrounding the sustainability of AI-related spending.

For long-term investors, the practical takeaway is not to reposition portfolios around an anticipated election result. Markets and the economy have performed well under varying configurations of political control in Washington and attempts to trade election outcomes have generally proven costly. We continue to emphasize high-quality companies with durable earnings, strong balance sheets, and the ability to manage higher costs. Diversification across asset classes, regions, and investment styles, including the use of private market strategies, can potentially enable portfolios to navigate higher long-term yields, persistent inflation, and geopolitical risk to meet desired outcomes.

Conclusion

The midterms will decide more than which party controls Congress. Conditions appear challenging for Republicans, but a difficult environment does not guarantee a Democratic victory. Math, candidates, and money will determine how many congressional seats change hands and how much political capital each party carries into the next phase of governing. For markets, the size and shape of the result matter as much as who wins. A decisive result would clarify the policy path; a narrow or divided one would likely mean more gridlock, oversight and executive action. We believe investors should focus less on the outcome itself and more on how it shapes economic momentum and risk sentiment.

Elections shape the policy backdrop, but they rarely drive markets on their own. Growth, inflation, monetary policy, earnings, and valuations remain the key factors. Midterm volatility is a reason to stay disciplined, diversified, and selective, not to overhaul portfolios based on political forecasts.

Ken Robinson, political insights contributor, is Senior VP, Head of Government Relations at Citizens Financial Group. There, he oversees strategy and public policy efforts. Ken is also responsible for maintaining relationships with elected officials including the U.S. House Financial Services Committee and the U.S. Senate Banking Committee, as well as relevant state and federal agencies. A member of the Bank Policy Institute's Executive Committee, the Consumer Banker's Association's Government Relations Representatives Council and the Exchequer Club, Ken joined Citizens in 2005.

DISCLOSURES

Please remember that past performance is no guarantee of future results. The opinions expressed are those of the investment advisor as of the date indicated and are subject to change without notice. Such opinions may differ from those of other professionals and may not reflect current market conditions or future developments. Historical performance results for investment indices, benchmarks, and/or categories have been provided for general informational/comparison purposes only and generally do not reflect the deduction of transaction and/or custodial charges, the deduction of an investment management fee, nor the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results. It should not be assumed that your account holdings correspond directly to any comparative indices or categories. Investors cannot invest directly in an index. Indexes have no fees.

The investment products and financial strategies suggested herein are subject to investment risk, including possible loss of principal amount invested. There can be no guarantee the suggested strategies or investments will lead to successful outcomes. Investment decisions should be based on each individual's goals, time horizon and tolerance for risk.

Citizens Wealth Management (in certain instances d/b/a Citizens Private Wealth) is a division of Citizens Bank, N.A. ("Citizens"). Securities, insurance, brokerage services, and investment advisory services are offered by Citizens Securities, Inc. ("CSI"), a registered broker-dealer (Branch address: One Citizens Bank Way, Johnston, RI 02919) and SEC registered investment adviser - Member FINRA/SIPC. Investment advisory services are also offered by Citizens Private Wealth, LLC ("CPW"), an SEC-registered investment adviser (see Form ADV Part 2A for details). CSI and CPW are affiliates of Citizens. Banking products and trust services are offered by Citizens for deposit products. Member FDIC.

**SECURITIES, INVESTMENTS AND INSURANCE PRODUCTS ARE SUBJECT TO RISK, INCLUDING PRINCIPAL AMOUNT INVESTED, AND ARE:
 • NOT FDIC INSURED • NOT BANK GUARANTEED • NOT A DEPOSIT • NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY • MAY LOSE VALUE**