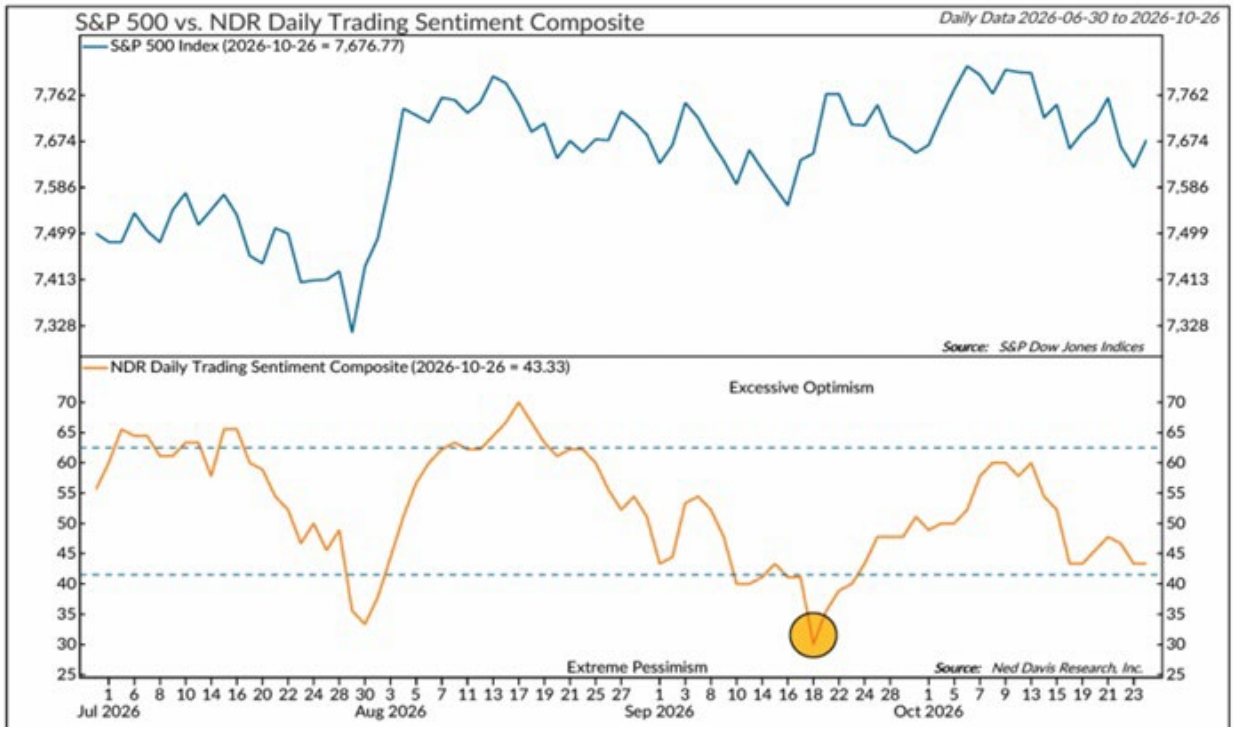
Is Investor Sentiment Pessimistic Enough for a Midterm Rally?

Historically, midterm election years have followed a familiar pattern: investor sentiment becomes increasingly pessimistic, often creating conditions for a market rally as Election Day approaches. With the 2026 midterm elections nearing, the question is whether sentiment has reached the levels typically associated with that opportunity.

Ned Davis Research (NDR) provides a useful perspective through its Daily Trading Sentiment Composite, which measures prevailing investor sentiment. This year, the composite fell to approximately 30 in September, reflecting a notable increase in pessimism.



Source: Ned Davis Research

Although sentiment has weakened, this year's low remains considerably higher than the levels recorded during most previous midterm election periods. To understand why that distinction matters, it helps to examine the historical relationship between investor sentiment and market performance.

Across the 11 previous midterm election periods shown below, the average sentiment low was 15.7, with a median of 15.4. The 2026 reading of approximately 30 is the second-highest low among those periods, suggesting that investors have not yet reached the degree of pessimism that typically characterized these historical lows.

NDR Daily Trading Sentiment Composite Around Midterm Year-End Rallies						
S&P 500 Low Date	**S&P 500 High Date**	**S&P 500 Rally % Gain**	**Sentiment Low Date**	**Sentiment Low Value**	**Election Day**	**Comment**
8/12/82	11/9/82	39.6	8/12/82	15.4	Nov 2	Secular low Aug 12, pullback after Election Day
9/29/86	12/2/86	10.5	9/18/86	9.5	Nov 4	Year-end rally ended early Dec
10/11/90	12/21/90	12.3	8/22/90	8.6	Nov 6	Cyclical bear ended Oct 11, rally into year end
10/6/94	10/28/94	4.7	10/6/94	35.5	Nov 8	Dems lost House, SPX peaked before Election Day
8/31/98	12/29/98	29.7	8/31/98	5.7	Nov 3	Cyclical bear ended Aug 13, rally into year end
10/9/02	11/27/02	20.9	7/24/02	7.7	Nov 5	Cylclical bear ended Oct 9, year-end rally faded in Dec
7/17/06	12/15/06	15.6	7/21/06	17.4	Nov 7	Steady 2H rally despite Republicans losing House
8/31/10	12/29/10	20.1	9/1/10	26.7	Nov 2	Aug 31 successful retest of July low, rally into year end
10/15/14	12/29/14	12.3	10/14/14	11.1	Nov 4	End of QE3 & flash crash transitioned to year-end rally
10/29/18	11/7/18	6.5	10/29/18	18.9	Nov 6	Hawkish Powell triggered 19.9% drop, low on Dec 24
10/12/22	11/30/22	14.1	10/3/22	16.7	Nov 8	Year-end rally faded in Dec after Dems outperformed low expectations
Mean		16.9		15.7		
Median		14.1		15.4		

Sentiment = NDR Daily Trading Sentiment Composite. Pessimism = below 41.5. Source: S&P Dow Jones Indices. Ned Davis Research.

Source: Ned Davis Research

The market's historical performance adds another dimension to this comparison. Across those 11 periods, the S&P 500 gained an average of 16.9% from its low to its subsequent high, while the median gain was 14.1%. These results illustrate a recurring pattern in which substantial market advances have often followed periods of pronounced pessimism.

What does this mean for investors?

Before looking at this data, it would be hard to believe that investors are not “negative” enough this election cycle. Anecdotally, we see negativity everywhere. Most normal people think “it has never been this bad,” but based on this data that is not the case. In fact, saying this another way, investors are less negative than they have been in 10 of the last 11 midterm elections.

Sentiment can provide valuable context for understanding market behavior, particularly when pessimism becomes widespread. However, the current reading suggests that sentiment has not reached the extremes seen in most previous midterm periods, and it remains uncertain whether the historical pattern will repeat in 2026.

It is still very likely that we will have a midterm rally, but the size and scope could be limited this year because we are beginning from a more optimistic starting point. Rather than treating the midterm rally as a foregone conclusion, investors should consider sentiment alongside economic conditions, corporate earnings, interest rates, and other fundamental factors. Historical patterns can help frame expectations, but a disciplined investment strategy should account for what the market is telling us today, not just what it has done in the past.

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