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The Midterms Are Complete. Now Let's Look Forward.

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MARKET PERSPECTIVE | NOVEMBER 2026

Looking Ahead to 2027

Earnings, Market Broadening, and Historical Market Patterns

Data as of October 30, 2026 unless otherwise noted

Key Takeaways

- **Earnings:** Analysts project S&P 500 earnings growth of 16.3% and revenue growth of 9.6% for calendar year 2027, following projected earnings growth of 32.9% in 2026.[1]
- **Broadening:** In Q3 2026, the other 493 companies in the S&P 500 reported faster blended earnings growth than the "Magnificent 7" for the first time since Q4 2022.[1]
- **Post-midterm history:** Since 1950, the S&P 500 has averaged a 15.17% return in the year following midterm elections, compared with 7.30% in all other years, regardless of which party controlled Congress.[4]
- **Year three:** Across several independent studies, the third year of a presidential term has historically been the strongest of the four-year cycle, with average S&P 500 returns of roughly 13% to 17%.[7–10]

Historical patterns and analyst estimates are not guarantees of future results. Please see Risks and Considerations and Important Disclosures.

> *"The party outcome has historically mattered less than expected.*

What's Inside

- The S&P 500 earnings outlook for 2027
- Market broadening beyond the largest companies
- Market returns in the 12 months after midterm elections
- Historical returns in the third year of a presidential term
- Risks and considerations

SECTION 1 | EARNINGS

The S&P 500 Earnings Outlook for 2027

Corporate earnings entered the final months of 2026 on solid footing. With 60% of S&P 500 companies reporting, the blended Q3 2026 earnings growth rate was 30.2%, which would mark the third consecutive quarter above 25% and the eighth consecutive quarter of double-digit growth. Revenue grew 13.4%, and 82% of companies reported earnings above estimates, compared with a 5-year average of 78%.[1]

Consensus estimates call for growth to continue into 2027 at a more moderate pace:

Period	Est. Earnings Growth (Y/Y)	Est. Revenue Growth (Y/Y)
Q4 2026	28.4%	13.1%
Calendar Year 2026	32.9%	13.0%
Q1 2027	19.2%	12.0%
Q2 2027	2.8%	8.0%
Calendar Year 2027	**16.3%**	**9.6%**

Source: FactSet Earnings Insight, October 30, 2026.[1] Figures are consensus analyst estimates, which are subject to revision and may not be realized.

Estimates Have Been Moving Higher

Analysts have historically tended to lower earnings estimates as a period approaches. Recently, the opposite has occurred. The consensus calendar-year 2027 EPS estimate rose from $363.54 at the end of February 2026 to $419.32 on October 2, 2026, an increase of 15.3%.[2] During October, the Q4 2026 bottom-up EPS estimate also increased 1.4%, while over the past 20 years the estimate has declined by an average of 1.9% during the first month of a quarter.[1]

Company guidance has also been constructive: 40% of S&P 500 companies issuing Q4 guidance issued negative guidance, below the 5-year average of 60%.[1]

Growth Driven by Revenue as Well as Margins

Double-digit revenue growth indicates that earnings growth has been supported by sales, not solely by cost reductions or share repurchases. The blended Q3 net profit margin of 14.9% would be the second-highest FactSet has recorded since it began tracking the metric in 2009.[1]

> The low projected growth rate for Q2 2027 reflects a comparison against an unusually strong prior-year quarter. Investors should note that quarterly growth rates may vary considerably even when annual growth remains positive.

SECTION 2 | MARKET BROADENING

Earnings Growth Beyond the Largest Companies

A key theme of the Q3 2026 earnings season has been broader participation in earnings growth beyond the largest technology-oriented companies.

Earnings Growth (Y/Y)	"Magnificent 7"*	Other 493 Companies
Q3 2026 (blended, as of 10/30/2026)	22.6%	32.6%
Q4 2026 (estimate)	22.6%	30.8%

Source: FactSet Earnings Insight, October 30, 2026.[1] *The "Magnificent 7" is a commonly used term for seven of the largest U.S. technology-oriented companies by market capitalization, as defined by FactSet. Q3 figures for several companies were affected by GAAP-basis one-time items.

If Q3 results hold through the end of the reporting season, it would be the first quarter since Q4 2022 in which the "Magnificent 7" reported lower earnings growth than the rest of the index.[1] Other signs of broadening include:

- All eleven S&P 500 sectors reported year-over-year earnings growth in Q3 2026, and seven reported double-digit growth.[1]
- As of mid-2026, the Health Care sector was projected to deliver approximately 19.3% earnings growth in 2027, the second-highest of any sector after Technology.[3]
- Consensus estimates for the Utilities sector pointed to 9.4% earnings growth through 2027, supported by investment in transmission networks and grid modernization.[3]
- The forward 12-month P/E ratio for the S&P 500 was 18.7, below its 5-year average of 19.8 and its 10-year average of 19.1.[1]

> *"Broader participation in earnings growth beyond the largest technology-oriented companies.*

Market Returns in the 12 Months After Midterm Elections

Historically, the 12 months following a midterm election have been among the more favorable periods for U.S. stocks. Several independent analyses, using different time periods and methodologies, reach similar conclusions:

Source	Period	Avg. Return, 12 Mo. After Midterm	Comparison
Hartford Funds / Morningstar[4]	1950–2023	15.17%	7.30% average in all other years
U.S. Bank / Bloomberg[5]	Since 1962	16.3%	8.1% average annual return
The Motley Fool / Shiller data[6]	1874–2022	14% (positive in 32 of 38)	11% average for any 12-month period

S&P 500 Index returns (and predecessor data where applicable). Methodologies differ by source, including the start date of each 12-month window. Past performance does not guarantee future results.

The party outcome has historically mattered less than expected

According to Hartford Funds, investors have often been rewarded after midterm elections regardless of which party controls Congress.[4] U.S. Bank's analysis likewise found that the party or parties controlling Congress, and whether control changes, has not historically been an indicator of market performance. It attributes the pattern in part to reduced policy uncertainty once results are known, and emphasizes that economic fundamentals have played the greatest role.[5]

Some studies that divide results by party configuration find variation between configurations. However, those groupings rest on small sample sizes, and the weakest periods have coincided with broader historical events such as financial panics rather than election outcomes themselves.[6]

> The pattern has not held in every instance. According to U.S. Bank, the most recent negative 12-month return following a midterm election occurred in 1939.[5] The Motley Fool's longer data set includes sharp declines, such as roughly −33% in the year after the 1930 midterm.[6]

Historical Returns in the Third Year of a Presidential Term

2027 will be the third year of the current presidential term. Historically, the third year, also known as the pre-election year, has been the strongest of the four-year presidential cycle.[4] Studies differ in their start dates and methodologies, but they consistently show above-average returns:

Source	Period	Avg. Year-Three S&P 500 Return	Comparison
CFA Institute / Bloomberg[7]	Since 1928	13.5% (positive 78% of the time)	7.7% average, all years
Yardeni Research[8]	Since 1928	12.8%	—
Strategas Research Partners[9]	Since 1948	16.8%	About 11% average, all years
Schaeffer's Investment Research[10]	Since 1949	16.8% (negative in 2 of 18)	Next-best cycle year: about 8%

Calendar-year S&P 500 Index returns. Data periods end at each study's publication date. Past performance does not guarantee future results.

Hartford Funds also identifies year three as the strongest year for stocks since 1950. Some attribute this to efforts to support the economy ahead of the next presidential election.[4] Schaeffer's research notes that historically, much of the year-three gain has come in the first half of the year, with a more modest average return in the second half.[10]

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A Note on Overlap

The 12-month post-midterm window (November 2026 to November 2027) and the third calendar year of the term (2027) largely overlap. These two patterns should therefore not be viewed as independent or additive indicators.

SECTION 5 | A BALANCED VIEW

Risks and Considerations

A balanced view requires acknowledging factors that could cause results to differ from estimates or historical patterns:

- **Concentration within Technology:** The Semiconductors industry is the largest contributor to Information Technology earnings growth. Excluding it, the sector's Q3 2026 blended growth rate would fall to 27.2% from 67.5%.[1]
- **Smaller earnings surprises:** In aggregate, Q3 2026 earnings exceeded estimates by 1.9%, below the 5-year average of 7.5% and the lowest since Q4 2022 if it holds.[1]
- **Valuation:** Although the forward P/E is below its historical averages, the trailing 12-month P/E of 25.9 is above its 5- and 10-year averages.[1]
- **Capital spending and sector deceleration:** As of mid-2026, Communication Services earnings growth was projected to slow to 4.3% in 2027 from 35% in 2026, with uncertainty about the timing of returns on elevated capital spending.[3]
- **Commodity sensitivity:** Energy sector earnings growth has been driven in part by higher oil prices, which averaged 32% higher in Q3 2026 than a year earlier and may reverse.[1]
- **Limits of historical patterns:** Election-cycle studies rely on small samples, are not causal, and vary by methodology. Economic conditions, interest rates, inflation, geopolitical events, and policy changes may outweigh any historical tendency.

Conclusion

Entering 2027, consensus expectations point to continued earnings growth, estimates that have been revised higher, and broader participation across sectors and beyond the largest companies. Historical patterns following midterm elections and in the third year of a presidential term have also been favorable. However, these patterns are not reliable predictors on their own, and estimates may change. We continue to emphasize diversified portfolios aligned with each client's objectives, time horizon, and risk tolerance rather than positioning based on election-cycle tendencies.



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