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The Narrowest of Margins: 2026 Midterm Election Preview

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In this report, we discuss the midterm election and its relationship with economic and market performance.

Key Insights:

- Since 1922, the sitting president's party has lost an average of 30 House seats and four Senate seats in midterm elections; this supports our base case that Democrats are likely to flip the House, leaving Congress gridlocked.
- While the GOP holds the House majority, with the narrowest margin since 1930, the Republican National Committee has approximately eight times more cash on hand than its Democratic National Committee counterpart.
- Morgan Stanley & Co.'s US economists forecast real GDP growth of 2.3% in 2026, up from 2.1% in 2025, marginally supporting the incumbent party.
- Unexpected inflation has historically reduced incumbent vote share by 1.1 percentage points; despite a recent 3.5% CPI reading, elevated prices and weaker wealth effects favor the opposition party.
- Affordability remains a top voter concern: Since 1978, midterm cycles in which gas prices rose from January of the prior year through October of the election year saw the incumbent party lose an average of 32 House seats versus six when prices have fallen.
- Historically, in the 12 months leading up to the midterms, markets have underperformed, with the S&P 500 Index's average cumulative return to Election Day peaking at roughly 3% in the one-month period before the election, but they have rallied 13% in the 12 months following midterm elections.
- A Democratic House and Republican Senate would create split congressional control—a configuration in which the S&P 500 has historically gained approximately 23% in the post-midterm year under a Republican president, compared with 12% across all midterm outcomes.
- Despite expectations for a gridlocked Congress, we view the defense, tech and financial services sectors as beneficiaries of relative policy stability.
- The risks remain for energy, health care and private equity, with likely increased scrutiny and fragmented regulation.

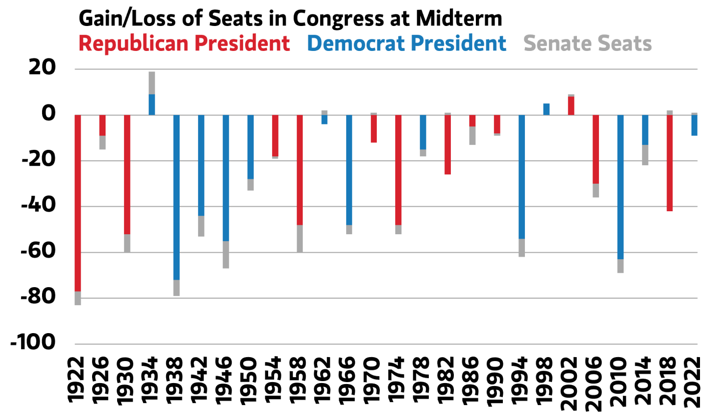
Midterm elections have historically served as a referendum on the party in power, and the GOP enters the 2026 cycle facing both that structural disadvantage and a growing set of economic headwinds. Rising energy costs, renewed inflation pressures and persistent affordability concerns could weigh on voter sentiment, while narrow congressional margins leave Republicans with limited room to suffer losses in closely contested races. Democrats are currently positioned to benefit from the changing of House control every two years; however, congressional redistricting in favor of GOP gains could temper the margin of, and potential for, Democratic control. While we have often emphasized that whichever party occupies the White House does not solely determine market and economic performance, clear patterns emerge when considering the broader partisan makeup of government. This dynamic informs our discussion of the factors that are likely to drive midterm election outcomes. Furthermore, a midterm flip in control of one or both legislative bodies could have significant implications for policymaking. We examine the drivers of historical market performance and identify sector- and industry-level risks and opportunities that may emerge as a result of a changing political landscape.

The Midterm Landscape

Since 1922, the sitting president's party has lost an average of 30 seats in the House of Representatives and four in the Senate during midterm elections (see Exhibit 1). Under the current composition, of the House's 435 seats, Republicans hold 220 and Democrats 215, for the thinnest margin of House control since 1930. This means the Democrats only need a net gain of three seats from the 2024 election result to win control of the House. Republicans can sustain a net loss of no more than two seats to retain a majority, at 218 seats. In the Senate, Democrats must gain a net of four seats to win control. Republicans can lose as many as three seats and retain control through the Republican vice president's tiebreaking vote, although they can lose no more than two seats to retain an outright 51-seat majority. The slim margins of control underscore how quickly unified government can give way to divided control.

In our base case, Republicans are well-positioned to retain control of the Senate but face a meaningful risk of losing the House. The balance of power is likely to hinge on a small number of competitive districts, with redistricting dynamics, political fundraising, concerns regarding inflationary pressures on the cost of living and voter turnout ultimately driving results.

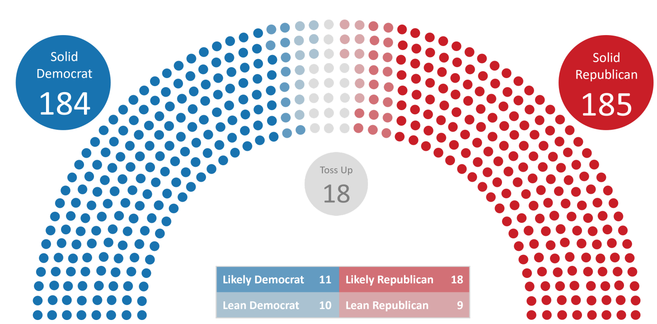
Exhibit 1: The President's Party Has Historically Suffered Midterm Losses



Source: Morgan Stanley Wealth Management Global Investment Office as of July 21, 2026

As of July 21, RealClearPolitics reports that Democrats have a healthy congressional polling lead of 4.7% over Republican candidates. That said, there are approximately four months until Election Day, and the polling margin is likely to compress as we head toward November. When considering the sensitivity of individual House district races, we look to Cook Political Report's (CPR) statistical seat ratings, which also favor Democrats. For example, CPR rates 184 seats as Solid Democrat (not considered competitive) and 21 as Likely Democrat or Lean Democrat. Meanwhile, it rates 185 seats as Solid Republican and 27 as Likely Republican or Lean Republican. If all seats were to be awarded to their projected parties, Republicans would control 212 to the Democrats' 205. However, CPR rates 18 districts as "Toss Ups" (the most competitive), 14 of which are Republican-held. Toss Up districts inject notable risk for the GOP, as it must more competitively defend more than triple the number of districts as Democrats (see Exhibit 2). While midcycle congressional redistricting has provided the GOP with a net 10-seat advantage, the concentration of Republican-held Toss Ups leaves the chamber vulnerable despite that structural benefit.

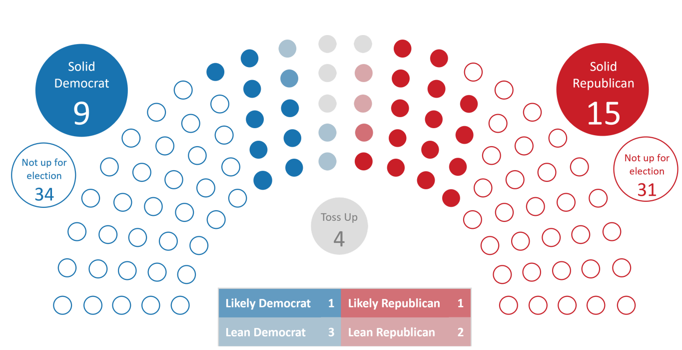
Exhibit 2: House Race Competitiveness



Source: Cook Political Report, Morgan Stanley Wealth Management Global Investment Office as of July 21, 2026

Republicans hold a more durable ratings advantage in the Senate. Unlike the House, where all seats are up for election every two years, Senate terms are six years, with only one-third of seats up for election every two years. Of the seats up this year, CPR currently rates 15 Solid Republican, nine Solid Democrat, three Likely or Lean Republican and four Likely or Lean Democrat. Four are rated Toss Up (see Exhibit 3). This breakdown inherently supports the GOP majority, as Democrats would have to win all four Toss Up races while also defending their more competitive seats to gain control of the chamber.

Exhibit 3: Senate Race Competitiveness



Source: Cook Political Report, Morgan Stanley Wealth Management Global Investment Office as of July 21, 2026

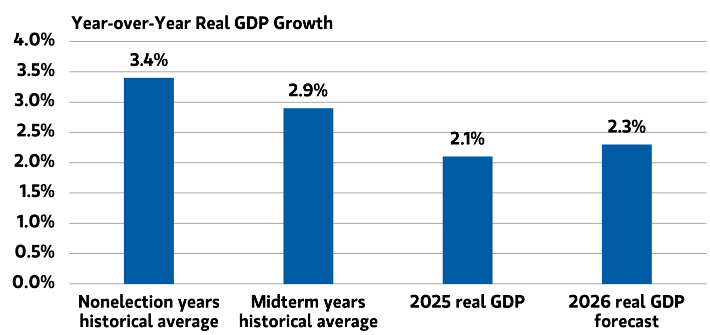
Campaign fundraising is another factor that could influence election results. In campaign finance filings made to the Federal Election Committee (FEC) by July 15, Democrats outraised Republicans in key Senate races. However, the Republican National Committee (RNC) has the overall fundraising advantage, bringing in $16 million in June, while the Democratic National Committee (DNC) brought in roughly $10 million. The RNC has $125 million of cash on hand, while the DNC's cash on hand is approximately $16 million, trailing its $18 million in outstanding debt, leaving the GOP well positioned to defend considerably more Toss Up districts.

The Politics of Macro Factors

Turning to macroeconomic and market indicators, it's important to acknowledge that market performance is more strongly correlated with the business cycle over the long term than with the political party occupying the White House. We also underscore that coincident economic and market data may present limitations based on the timing of the legislative calendar, geopolitical influences and the occurrence of outlier events. However, when analyzing historical data at the intersection of economics, markets and political cycles, distinct trends arise in midterm election years.

In midterm years since 1942, average real GDP growth, at 2.9%, has trailed the level for nonelection years, at 3.4%. This is a descriptive pattern and does not establish that campaign activity, fiscal policy limitations or a truncated legislative calendar cause weaker growth. Rather, business-cycle conditions, policy timing and exogenous shocks may all contribute. Morgan Stanley & Co. Research's US economists expect real GDP growth to reach 2.3% in 2026, up from 2.1% in 2025, primarily driven by the business cycle and artificial intelligence (AI)-related productivity gains (see Exhibit 4). A 2006 International Advances in Economic Research study found that a 1-percentage-point increase in per-capita real GDP growth during a midterm election year was associated with a 1.47-percentage-point increase in the president's party's two-party House-vote share. Given MS & Co.'s estimate for a 0.2% increase to GDP this year, we expect GDP impact on the election to be minimal.

Exhibit 4: GDP Growth Around Midterm Election Years

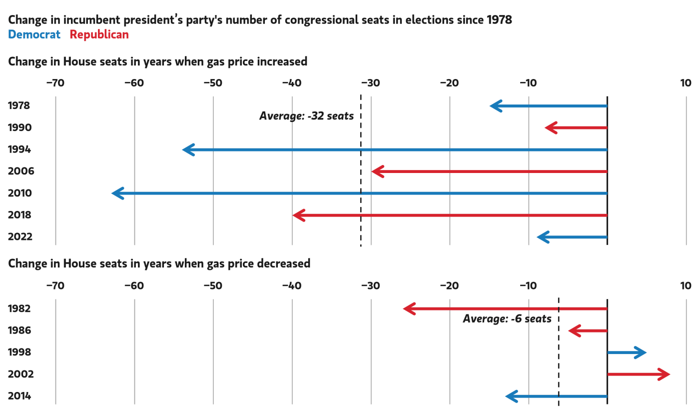


Note: Historical averages include data since 1942.
Source: MS & Co. Research, Morgan Stanley Wealth Management Global Investment Office as of July 21, 2026

Inflation has historically been a powerful midterm variable because it is linked directly to a core voter concern: affordability. It matters politically due to its immediate impact on purchasing power. While the most recent consumer price index (CPI) print showed some relief, with June's headline reading falling 0.4% month over month and easing to 3.5% on a year-over-year basis, prices remain elevated versus the pre-pandemic trend and continue to shape household perceptions of purchasing power. Even when growth is resilient, voters often discount healthy macro data when their lived experience is defined by higher relative costs for gas, groceries, rent and utilities. MS & Co. Research expects inflation to remain elevated through year-end, keeping it in focus and potentially weighing on perceptions of financial well-being. Furthermore, research from Cambridge University has found that unexpected inflationary pressure can reduce incumbent vote share by roughly 1.1 percentage points. In short, inflation politics can overpower growth politics when voters feel their purchasing power is deteriorating.

Gas prices are at the center of this political dynamic, because they are a component of headline CPI and are among the most visible prices consumers encounter. Voters see gas prices posted daily and purchase the fuel frequently, which gives it an outsized role in shaping inflation expectations and perceptions of affordability, even when its CPI weight is smaller than categories like shelter. Since 1978, midterm cycles during which gas prices rose from January of the prior year through October of the election year saw the incumbent party lose an average of 32 House seats, compared with an average loss of only six seats when gas prices declined (see Exhibit 5). The potential for gas-price-related risks is high this cycle, as conflict in the Middle East has strained global oil and gas supply chains and added volatility to prices at the pump.

Exhibit 5: Gas Price Increases May Impact Midterms

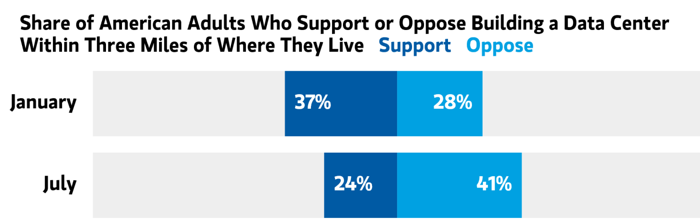


Note: Gas price changes are tabulated from January of the year prior to the election through October of the election year. Prices reflect the national city average retail price for unleaded regular gasoline per gallon.
Source: POLITICO, US Congress, Energy Information Administration, Morgan Stanley Wealth Management Global Investment Office as of July 21, 2026

Beyond just gasoline, voters have faced broad energy cost increases. In some local markets, rapid growth in data-center power demand has pressured power systems and boosted utility costs. Approximately 46% of the world's operational data centers are in the US, and energy costs in localities near data centers have risen substantially, pressuring affordability and resulting in notable implications for households. A Bloomberg analysis found that electricity prices in localities near data centers have risen 267% from 2020 levels. This compares to a 30% rise in electricity costs for the nation broadly over the same period. Those statistics refer to wholesale power prices, not household retail electricity bills, although wholesale costs can ultimately flow through to customers.

This February, we argued that rising energy costs could become a critical campaign issue during the midterm elections, with affordability one of the top concerns. We expected that the sharp upward pressure on energy costs would not only garner community-level pushback but encourage state and local governments to take action ahead of the midterms. That dynamic is now emerging: A July Politico/Public First poll found that 41% of adults would oppose a data center within three miles of their home, up from 28% in January, while support fell from 37% to 24% (see Exhibit 6). Importantly, the rise in opposition is seen in both parties, with Democrats reporting a bigger shift (+20 points) than Republicans (+8 points). We anticipate the electoral relevance to be concentrated in regions with heightened data-center proliferation and underscore that the dynamic could influence voter turnout and pressure partisan control of the House and Senate.

Exhibit 6: Data-Center Opposition Has Grown



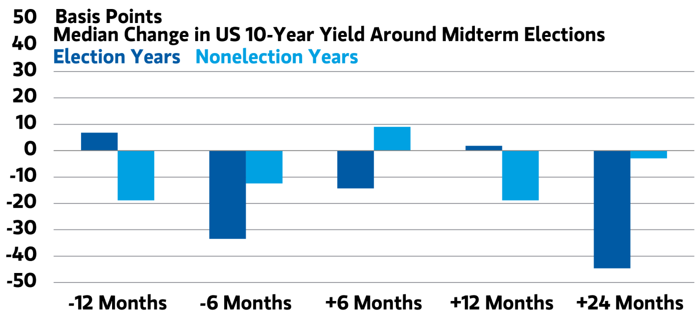
Source: POLITICO, Public First, Morgan Stanley Wealth Management Global Investment Office as of July 21, 2026

Together, growth and broad inflation anchor our macro assessment. We believe gas, electricity and data-center exposure are better viewed as regional amplifiers for incumbent-party midterm momentum.

Market History Before and After the Midterms

Investors should also be aware of patterns that affect fixed income and equity markets. US Treasury rates are sensitive to the midterm electoral cycle, with the median change in the 10-year Treasury yield experiencing more volatility than in nonelection years since 1953. For example, in the six months preceding November midterms, the 10-year Treasury yield fell 33 basis points, on average, during midterm election years, while it decreased 12 basis points in nonelection years over the same period. This likely suggests a combination of seasonal trades, with a risk-off response to anticipated policy changes while signaling investor restraint as the potential for new policies takes shape. That said, Treasury markets have historically received some breathing room in the six months following the election, with risk-on sentiment beginning to emerge and policy objectives becoming clear (see Exhibit 7). While historical precedent suggests that we should expect a declining rate environment in the months leading up to the midterms, inflationary pressures due to the Iran war and higher oil prices, along with hawkish monetary policy inferences, have upended that assumption. That said, we agree with MS & Co. Research's expectations for the Fed to take a less-accommodative position and hold rates steady through year-end.

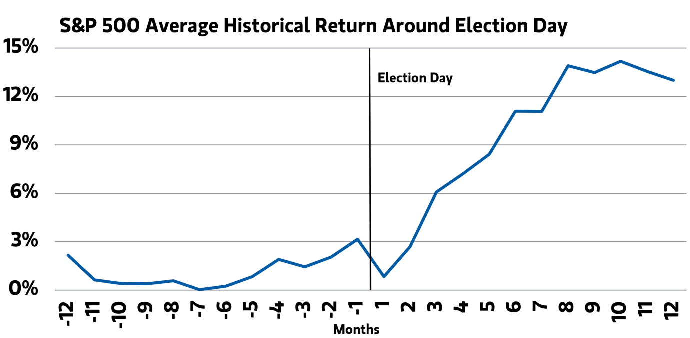
Exhibit 7: US Treasury Yields Have Historically Declined in Months Before Midterms



Source: Bloomberg, Morgan Stanley Wealth Management Global Investment Office as of July 21, 2026

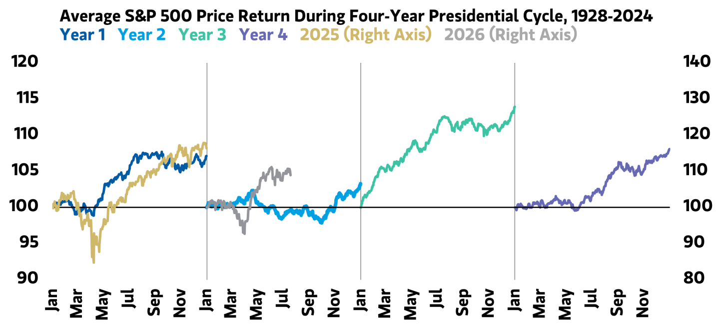
Looking back to 1930, S&P 500 Index performance has been muted in the year leading up to midterm elections, with average monthly returns peaking at roughly 3% in the one-month period before Election Day. Performance has tended to improve meaningfully after the midterms: Following a brief drawdown as election results become clear, the S&P 500 has typically begun to rally about one month later, gaining an average of 13% in the 12 months following midterm elections (see Exhibit 8a). This post-election strength may reflect improved investor confidence as newly elected members of Congress are sworn in and policy agendas begin to take shape. It is important, however, to place this pattern in the context of the broader four-year presidential cycle. Markets have typically underperformed in the second year of a presidential term, with the S&P 500 averaging a 3% annual return, before strengthening in year-three, when the index has outperformed all other presidential years, posting a 14% return, on average (see Exhibit 8b).

Exhibit 8a: Markets Have Rallied as Congressional Policy Agendas Have Become Clear



Note: Each data point represents the average cumulative S&P 500 price return from the labeled month to the midterm Election Day (pre-election) or from Election Day to the labeled month (post-election), across all midterm elections since 1930.
Source: Bloomberg, Morgan Stanley Wealth Management Global Investment Office as of July 21, 2026

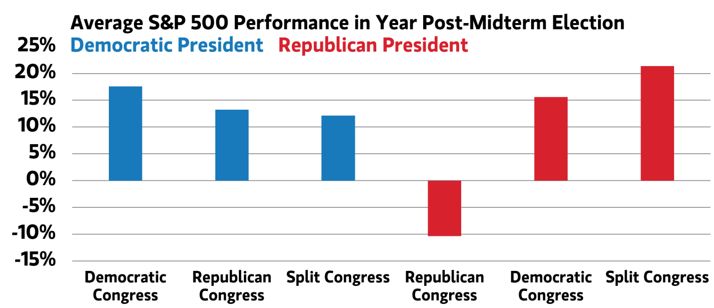
Exhibit 8b: Equities Have Underperformed During the Second Year of a Presidential Term



Source: Bloomberg, Morgan Stanley Wealth Management Global Investment Office as of July 21, 2026

We dissected post-midterm performance further, according to presidential party and congressional partisan composition. Based on our analysis, the strongest S&P 500 average annual returns in the year following the midterm occurred when a Democratic president has been accompanied by a unified Democratic Congress and when a Republican president has served alongside a split Congress, at 18% and 23%, respectively. In contrast, performance has been weakest when a Democratic president has had a split Congress and when the GOP has controlled the White House and the legislature, at 12% and -10%, respectively (see Exhibit 9).

Exhibit 9: Markets Have Outperformed Post-Midterm When a GOP White House Has Been Paired With a Unified Republican Congress



Source: Bloomberg, Morgan Stanley Wealth Management Global Investment Office as of July 21, 2026

We also analyzed S&P 500 sector performance in various midterm election outcomes. As we highlight scenario and sector correlations, it is important to remember that coincident economic and market data may present limitations based on the timing of the legislative calendar, geopolitical influences and occurrence of outlier events. In this review, we isolated sector returns during midterm years according to six scenarios: when the House maintained incumbent-party control, when the House flipped partisan control, when the Senate maintained incumbent-party control, when the Senate flipped partisan control, when the House and Senate remained under unified incumbent-party control and when both chambers experienced a unified partisan regime change.

While all the scenarios exhibited notable differences, performance across all sectors was generally weaker in the six months prior to the midterms. Similarly, the 11 S&P 500 GICs Level 1 sectors registered relative strength in the 12 months following the midterms across all scenarios. The strongest performance in the 12 months following the midterms occurred in periods when the legislature was unified under single-party rule. During those periods, financials, industrials, health care and consumer discretionary all posted solid returns, with information technology reporting the largest average return for the time frame, at 37.6%. These gains suggest markets may reward clearer legislative control and heightened policy visibility. Under a split Congress, performance has been more uneven but still broadly constructive, with tech and consumer discretionary standing out at the 24-month mark while energy and financials have lagged. In short, unified control has historically produced broader and more balanced sector gains, while split control has still supported equities but with more dispersion across sectors, likely reflecting a mix of policy gridlock and reduced legislative risk in the face of more limited fiscal appropriations resulting in more selective market leadership (see Exhibit 10).

Exhibit 10: Sector Performance Has Been Strongest When the House and Senate Have Been Unified

House Hold Average

	-12 Mo.	-6 Mo.	+6 Mo.	+12 Mo.	+24 Mo.
Information Technology	3.4%	-2.8%	20.3%	35.3%	41.0%
Health Care	14.4%	6.1%	12.6%	15.8%	14.7%
Energy	-1.3%	-8.3%	6.5%	1.5%	13.6%
Consumer Discretionary	-0.1%	-8.0%	21.7%	27.4%	33.3%
Consumer Staples	9.8%	1.4%	4.8%	6.3%	14.5%
Communication Services	1.6%	1.4%	4.6%	5.4%	3.8%
Utilities	0.6%	-3.7%	1.6%	5.1%	21.5%
Real Estate	2.3%	-3.1%	4.8%	13.1%	20.6%
Materials	-6.0%	-12.4%	15.9%	16.2%	17.6%
Financials	-5.4%	-10.6%	19.3%	23.2%	35.1%
Industrials	-3.0%	-9.7%	13.6%	16.2%	28.7%

House Flip Average

	-12 Mo.	-6 Mo.	+6 Mo.	+12 Mo.	+24 Mo.
Information Technology	5.7%	2.0%	16.6%	32.1%	48.3%
Health Care	7.2%	7.1%	8.7%	12.2%	24.5%
Energy	15.5%	2.6%	7.0%	8.4%	-2.3%
Consumer Discretionary	3.8%	-1.8%	8.6%	9.7%	22.3%
Consumer Staples	6.5%	5.3%	8.6%	11.7%	22.4%
Communication Services	-0.9%	1.4%	13.9%	21.7%	31.8%
Utilities	1.0%	1.8%	8.6%	12.4%	12.3%
Real Estate	11.2%	0.8%	10.4%	6.8%	2.7%
Materials	5.0%	-2.6%	10.8%	11.8%	12.1%
Financials	-0.2%	-2.8%	6.4%	6.0%	13.1%
Industrials	4.7%	-2.0%	12.2%	13.6%	20.1%

Senate Hold Average

	-12 Mo.	-6 Mo.	+6 Mo.	+12 Mo.	+24 Mo.
Information Technology	-1.7%	-5.9%	20.3%	34.4%	56.7%
Health Care	8.0%	3.4%	9.8%	11.0%	20.0%
Energy	9.6%	-2.8%	6.7%	3.8%	5.9%
Consumer Discretionary	1.0%	-8.4%	17.8%	21.8%	40.7%
Consumer Staples	7.1%	1.6%	6.1%	5.9%	16.9%
Communication Services	-2.7%	-1.0%	11.8%	16.3%	31.3%
Utilities	-1.1%	-3.7%	4.4%	8.1%	22.4%
Real Estate	-0.2%	-7.8%	10.0%	13.3%	24.6%
Materials	-6.4%	-10.8%	14.3%	14.9%	21.7%
Financials	-8.9%	-11.4%	14.8%	15.6%	30.4%
Industrials	-2.1%	-8.2%	14.6%	15.0%	30.5%

Senate Flip Average

	-12 Mo.	-6 Mo.	+6 Mo.	+12 Mo.	+24 Mo.
Information Technology	17.4%	11.3%	14.1%	31.7%	21.9%
Health Care	15.3%	13.2%	11.7%	19.4%	20.3%
Energy	4.9%	-1.1%	6.9%	8.4%	2.5%
Consumer Discretionary	4.0%	3.3%	7.6%	9.0%	0.2%
Consumer Staples	9.7%	7.5%	8.5%	16.1%	22.7%
Communication Services	6.1%	6.2%	5.6%	10.7%	-4.5%
Utilities	4.8%	5.3%	7.8%	11.2%	4.3%
Real Estate	25.0%	14.1%	5.6%	0.2%	-23.3%
Materials	13.2%	0.9%	10.6%	11.6%	0.2%
Financials	10.3%	4.1%	6.8%	9.7%	7.8%
Industrials	7.9%	0.2%	9.3%	14.4%	10.8%

House and Senate Unified Average

	-12 Mo.	-6 Mo.	+6 Mo.	+12 Mo.	+24 Mo.
Information Technology	7.0%	1.6%	19.4%	37.6%	35.6%
Health Care	12.8%	7.9%	12.9%	18.9%	20.3%
Energy	1.5%	-4.7%	8.4%	7.9%	13.7%
Consumer Discretionary	0.7%	-4.7%	16.2%	19.4%	20.1%
Consumer Staples	9.6%	3.6%	6.8%	11.3%	19.2%
Communication Services	4.0%	3.4%	6.0%	10.2%	1.0%
Utilities	0.0%	-1.1%	5.4%	9.7%	15.6%
Real Estate	12.6%	4.0%	6.5%	7.3%	-1.7%
Materials	1.0%	-8.0%	14.8%	17.4%	12.5%
Financials	-1.1%	-6.5%	16.0%	19.9%	27.1%
Industrials	0.0%	-7.0%	13.3%	17.9%	24.1%

House and Senate Split Average

	-12 Mo.	-6 Mo.	+6 Mo.	+12 Mo.	+24 Mo.
Information Technology	0.1%	-3.7%	15.8%	25.4%	63.9%
Health Care	5.6%	4.2%	5.4%	3.5%	19.8%
Energy	21.1%	2.6%	3.4%	0.1%	-13.1%
Consumer Discretionary	4.6%	-4.2%	10.8%	13.8%	41.4%
Consumer Staples	4.5%	3.4%	7.1%	5.4%	18.1%
Communication Services	-7.4%	-2.7%	17.2%	23.0%	56.0%
Utilities	2.7%	0.2%	5.7%	8.0%	17.8%
Real Estate	3.8%	-5.0%	10.6%	10.5%	19.0%
Materials	-1.6%	-4.9%	9.6%	6.5%	18.6%
Financials	-5.2%	-5.8%	4.5%	1.1%	14.3%
Industrials	3.7%	-2.2%	11.8%	8.5%	23.7%

Note: Total S&P 500 GICs Level 1 sector returns are over the designated periods relative to the midterm election date, grouped by legislative outcome.
Source: Bloomberg, Morgan Stanley Wealth Management Global Investment Office as of July 21, 2026

Post-Midterm Risks and Opportunities

Areas of Post-Midterm Opportunity

A divided government could limit prospects for sweeping legislative change while preserving much of the existing tax and regulatory framework. That relative policy stability may benefit sectors exposed to executive branch and agency discretion, particularly defense, technology and financials. National-security spending often retains bipartisan support in Congress regardless of partisan control, particularly when geopolitical tensions are elevated. That could support defense contractors, aerospace suppliers, intelligence platforms, drone manufactures, and space system and cybersecurity providers. The opportunity may extend beyond large prime contractors to companies supplying semiconductors, communications equipment, logistics, maintenance and secure-cloud infrastructure.

Artificial intelligence, semiconductors, cybersecurity and enterprise software could continue to benefit from a federal approach that prioritizes innovation, infrastructure investment and competition with China, although companies would still need to navigate a growing patchwork of state-level rules. The buildout of AI infrastructure could create a broader set of beneficiaries beyond the technology sector. Rising demand for data centers and computing capacity may support utilities, independent power producers, natural gas infrastructure, nuclear generation, renewable energy, grid equipment, engineering firms and water systems. Policy may continue to emphasize “energy addition” rather than the displacement of any one fuel source. Companies positioned to expand generation, transmission and grid reliability could therefore benefit, although local permitting constraints, electricity affordability and regulatory scrutiny may affect project economics.

Financial institutions could see additional upside from greater regulatory clarity, more flexible capital requirements and a potentially more accommodating environment for mergers and acquisitions. While health care opportunities are likely to be more selective, biotechnology, medical technology and life sciences tools could benefit from lower financing costs, stronger research activity, AI adoption and renewed dealmaking.

Areas of Post-Midterm Policy Risk

The primary risk of divided government would be legislative gridlock. Disagreements over spending, taxes and fiscal priorities could increase the likelihood of delayed appropriations, government shutdowns and recurring debt-ceiling confrontations. Although markets have historically treated shutdowns as temporary disruptions, prolonged negotiations could weigh on federal contractors, government-dependent industries and business confidence. A divided Congress may also make it more difficult to address rising deficits or to respond quickly to an economic downturn.

Clean-energy policy could become increasingly fragmented under the GOP-controlled executive branch. A Democratic House could use hearings, investigations and budget negotiations to challenge administration policies, with the executive branch continuing to rely on agency action, permitting decisions and enforcement discretion. States and courts would remain important policy battlegrounds, creating different operating standards across jurisdictions. While the data-center boom may require a broad and inclusive approach to power generation, a regulatory patchwork creates legal hurdles and legislative gridlock reduces opportunities for fiscal support.

Health care could face similar fragmentation. Tariffs on pharmaceuticals or medical products, international reference pricing, Medicare negotiations and shifting reimbursement rules could pressure manufacturers, hospitals, insurers and supply chains. Policy could advance through executive action, agency guidance and narrow legislative compromises rather than through comprehensive reform, thereby increasing compliance costs and reducing earnings visibility.

Private equity firms and portfolio companies in health care, housing and consumer-facing industries could also face greater scrutiny from a Democratic controlled House through investigations into pricing, consolidation, ownership practices and service quality. Until recently, digital assets received widespread bipartisan support, but firms may face increased congressional scrutiny from Democrats as the industry moves to enact regulatory frameworks supporting greater institutional participation in custody, payments, stablecoins and tokenization.

Investment Conclusion

The GOP's narrow majority, the concentration of Republican-held Toss Ups and the historical midterm penalty create a credible path to Democratic control of the House, even after accounting for the GOP’s redistricting advantage. The Senate presents a higher hurdle, supporting our base case of a Democratic House paired with a Republican Senate.

For investors, the election may create near-term volatility, but history suggests that clarity can be more important than party control. Divided government could constrain sweeping legislation while supporting selective opportunities in defense, technology and financials, although fiscal gridlock, shutdown risk and fragmented regulation remain important post-election risks.

Disclosure Section

For index, indicator and survey definitions referenced in this report please visit the following:
https://www.morganstanley.com/wealth-investmentsolutions/wmir-definitions

Risk Considerations

Important note regarding economic sanctions. *This report references jurisdiction(s) or person(s) that are the subject of economic sanctions. Any references in this report to jurisdictions, persons (individuals or entities), debt or equity instruments, or projects that may be covered by such sanctions are strictly incidental to general coverage of the relevant economic sector as germane to its overall financial outlook, and should not be read as recommending or advising as to any investment activities in relation to such jurisdictions, persons, instruments, or projects. Readers are solely responsible for ensuring that their investment activities are carried out in compliance with applicable laws.*

Investing in foreign markets entails greater risks than those normally associated with domestic markets, such as political, currency, economic and market risks. **Investing in currency** involves additional special risks such as credit, interest rate fluctuations, derivative investment risk, and domestic and foreign inflation rates, which can be volatile and may be less liquid than other securities and more sensitive to the effect of varied economic conditions. In addition, international investing entails greater risk, as well as greater potential rewards compared to U.S. investing. These risks include political and economic uncertainties of foreign countries as well as the risk of currency fluctuations. These risks are magnified in countries with **emerging markets and frontier markets**, since these countries may have relatively unstable governments and less established markets and economies.

Investing in commodities entails significant risks. Commodity prices may be affected by a variety of factors at any time, including but not limited to, (i) changes in supply and demand relationships, (ii) governmental programs and policies, (iii) national and international political and economic events, war and terrorist events, (iv) changes in interest and exchange rates, (v) trading activities in commodities and related contracts, (vi) pestilence, technological change and weather, and (vii) the price volatility of a commodity. In addition, the commodities markets are subject to temporary distortions or other disruptions due to various factors, including lack of liquidity, participation of speculators and government intervention.

Equity securities may fluctuate in response to news on companies, industries, market conditions and general economic environment.

Treasury Inflation Protection Securities' (TIPS) coupon payments and underlying principal are automatically increased to compensate for inflation by tracking the consumer price index (CPI). While the real rate of return is guaranteed, TIPS tend to offer a low return. Because the return of TIPS is linked to inflation, TIPS may significantly underperform versus conventional U.S. Treasuries in times of low inflation.

Because of their narrow focus, **sector investments** tend to be more volatile than investments that diversify across many sectors and companies. Risks applicable to companies in the **energy and natural resources** sectors include commodity pricing risk, supply and demand risk, depletion risk and exploration risk. **Health care sector** stocks are subject to government regulation, as well as government approval of products and services, which can significantly impact price and availability, and which can also be significantly affected by rapid obsolescence and patent expirations. **Technology stocks** may be especially volatile.

REITs investing risks are similar to those associated with direct investments in real estate: property value fluctuations, lack of liquidity, limited diversification and sensitivity to economic factors such as interest rate changes and market recessions.

Yields are subject to change with economic conditions. Yield is only one factor that should be considered when making an investment decision.

Environmental, Social and Governance ("ESG") investments in a portfolio may experience performance that is lower or higher than a portfolio not employing such practices. Portfolios with ESG restrictions and strategies as well as ESG investments may not be able to take advantage of the same opportunities or market trends as portfolios where ESG criteria is not applied. There are inconsistent ESG definitions and criteria within the industry, as well as multiple ESG ratings providers that provide ESG ratings of the same subject companies and/or securities that vary among the providers. Certain issuers of investments may have differing and inconsistent views concerning ESG criteria where the ESG claims made in offering documents or other literature may overstate ESG impact. ESG designations are as of the date of this material, and no assurance is provided that the underlying assets have maintained or will maintain and such designation or any stated ESG compliance. As a result, it is difficult to compare ESG investment products or to evaluate an ESG investment product in comparison to one that does not focus on ESG. Investors should also independently consider whether the ESG investment product meets their own ESG objectives or criteria. There is no assurance that an ESG investing strategy or techniques employed will be successful. Past performance is not a guarantee or a dependable measure of future results.

Asset allocation and diversification do not assure a profit or protect against loss in declining financial markets.

The **indices** are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. The indices are not subject to expenses or fees and are often comprised of securities and other investment instruments the liquidity of which is not restricted. A particular investment product may consist of securities significantly different than those in any index referred to herein. Comparing an investment to a particular index may be of limited use.

The **indices selected by Morgan Stanley Wealth Management** to measure performance are representative of broad asset classes. Morgan Stanley Wealth Management retains the right to change representative indices at any time.

Performance of indices may be more or less volatile than any investment product. The risk of loss in value of a specific investment (such as with an investment manager or in a fund) is not the same as the risk of loss in a broad market index. Therefore, the historical returns of an index will not be the same as the historical returns of a particular investment product.

Disclosures

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