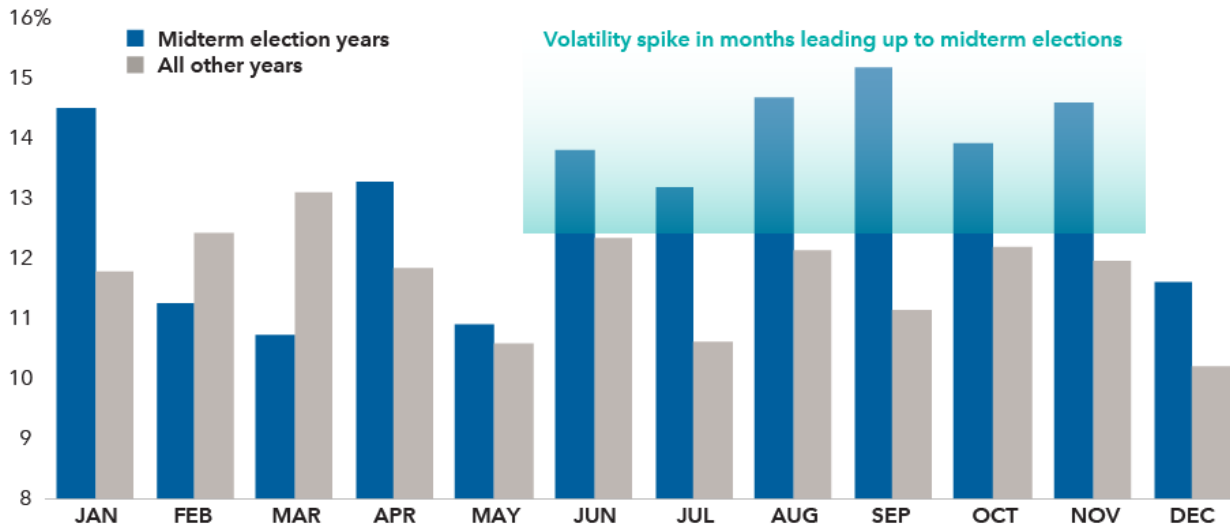


## Volatility is elevated in midterm election years

If you think midterm election years would be more prone to market volatility, then you'd be right. Once again, election year uncertainty seems to translate directly into higher volatility. This is especially true in the months leading up to the election.

### S&P 500 Index annualized monthly volatility since 1970

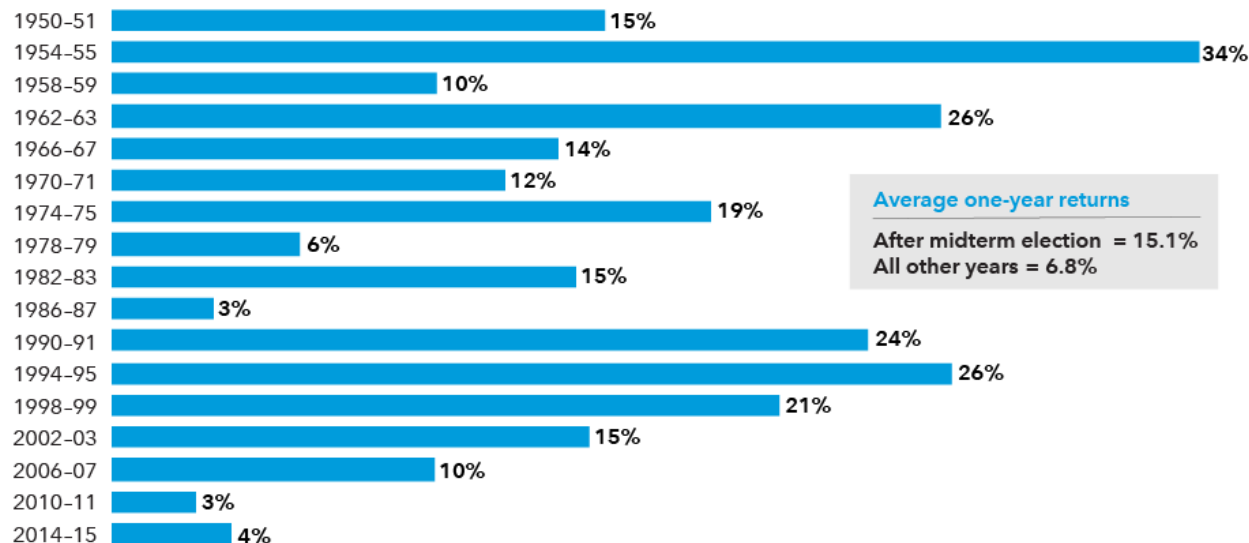


Sources: Capital Group, RIMES, Standard & Poor's. As of 8/31/18. Volatility is calculated using the standard deviation of daily returns for each individual month. The median volatility for each month is then displayed in the chart on an annualized basis. Standard deviation is a measure of how returns over time have varied from the mean. A lower number signifies lower volatility.

## Markets usually bounce back strongly after elections

The silver lining for investors is that after such bouts of volatility, markets tends to rebound strongly in subsequent months. As we saw previously, markets typically rally shortly after midterm elections. History also shows that this isn't just a short-term blip: above average returns are typical for a full year following the election cycle. Since 1950, the average one-year return following a midterm election is 15%, more than double that of all other years during a similar period.

### S&P 500 Index price return one year after a midterm election



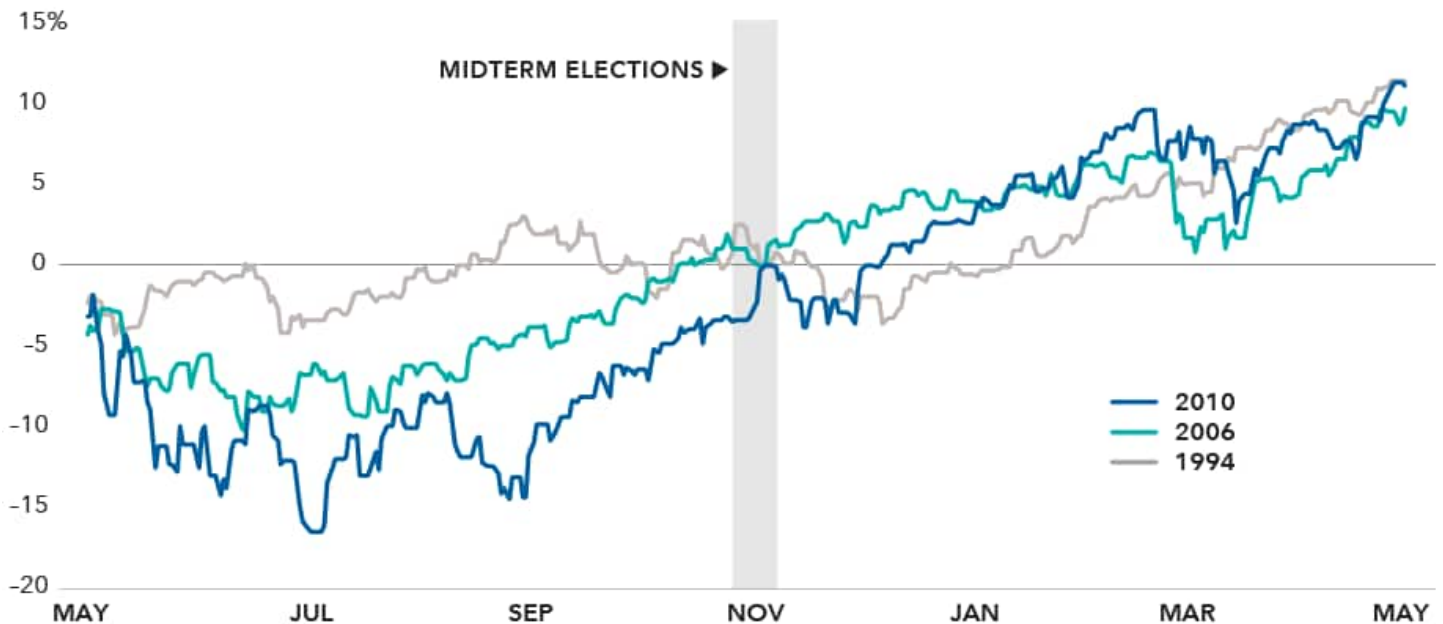
Sources: Capital Group, RIMES, Standard & Poor's. Calculations use Election Day as the starting date in all election years, and November 5th as a proxy for the starting date in other years. Only midterm election years are shown in the chart.

## Even when the House flips control, markets have similar patterns

The consensus among most polls this year is that not only will Republicans lose seats in the House, it likely will be enough to give Democrats the majority. If this comes to fruition, would markets react differently than in a year where the majority simply lost its edge but remained in control?

### S&P 500 Index return in years that House majority switched parties

(Indexed to 0% on November 5)



Sources: Capital Group, RIMES, Standard & Poor's.

Source for all information above: <https://www.thecapitalideas.com/articles/midterm-elections-markets-5-charts#>

Past performance is not a guarantee or indicative of future results.

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