Q1 2026 — VOLUME LXXXVI

CALDWELL TRUST COMPANY QUARTERLY

Midterm Elections & Market Expectations

Staying Disciplined Through Market Volatility

IN THIS ISSUE

Celebrating Roland G. Caldwell:

A Legacy Honored by The Argus Foundation

Marketing That Reflects Who We Are:

Caldwell's Vero Beach Expansion Earns Five ADDY® Awards

Discover the Full Story Inside ›

Midterm Elections & Market Expectations

The 2026 midterms are a focus for investors following key Congressional races and their implications for financial markets. This investment letter will examine:

- **the historical tendencies for markets during midterm years,**
- **the reasons government policy impacts market performance, and**
- **previous midterm elections and market returns under various combinations of presidential and congressional leadership.**

Structure of Congress and the U.S. Election Cycle

The United States Congress is the legislative branch of the U.S. federal government and consists of two chambers - the Senate and the House of Representatives. There are one hundred members of the Senate (two per state) who are elected to serve six-year terms. Senate elections are staggered so that about one-third (33 – 34 seats) are up for election every two years. The purpose of staggering is to ensure continuity; the entire Senate is never up for election at once. The House of Representatives has 435 members. Every state is guaranteed at least one seat, with the remaining seats distributed proportionately based on the decennial population census. House members serve two-year terms; therefore, all 435 seats are up for election every two years.

Midterms occur two years after each presidential election and voters elect all 435 House members and about one-third of the Senate. There is no presidential race on the ballot. Midterm elections often serve as a referendum on the sitting president's performance, and the president's party frequently loses seats in Congress.

Markets' Midterm Year Pattern: Volatility First, Clarity Later

Midterm election years are historically the weakest and most volatile year in the 4-year cycle. The average S&P 500 return during midterm years is 4-5%, well below long-term averages. Further, equity corrections are common and often deep. The S&P 500 has experienced a correction (≥10% decline) in 70% of midterms since 1957. The average intra-year decline in midterm years is 18-19% compared to ~13% in other years of the presidential cycle. Investors should prepare for the volatility that comes with near-bear-market level drawdowns in a full year that ends flat or slightly positive.

Substantial historical data shows a pattern of:

- Weakness, often concentrated in the second and third quarters (spring–summer),
- Market bottom, frequently late third or early fourth quarter,
- Year-end rally, which begins just before or after the election.

During midterm-driven uncertainty, investors often rotate into Treasuries in a "flight to safety." However, bond behavior is less consistent than equities because it depends on inflation trends, Federal Reserve policy, and fiscal expectations tied to election outcomes. Treasuries can diversify equity risk during midterm selloffs, but they are not as cycle-consistent as equities due to macro drivers.

Policy Uncertainty Peaks in Midterm Years

The pattern of weaker and more volatile U.S. equity performance in midterm years is closely tied to government policy uncertainty and timing effects within the political cycle. The connection is not coincidental. It reflects how markets price risk when the future path of fiscal, regulatory, and geopolitical policy is unclear.

Midterm elections determine control of the United States Congress, which directly affects tax policy, government spending, regulation, and fiscal negotiations. This matters for markets because they are forward-looking. When investors cannot confidently forecast policy, they demand a higher risk premium. This leads to lower equity valuations, reduced risk-taking, and increased volatility.

Once elections occur, control of Congress becomes clear, and policy direction becomes more predictable. Markets like this because businesses can make capital spending and hiring plans, and investors can re-risk portfolios. This is why markets often bottom shortly before or after the election, followed by strong 12-month returns. Midterm-year equity weakness is not about elections themselves—it is about policy ambiguity and transition risk.

Markets struggle when rules of the game may change, and they recover when those rules become clear, even if imperfect.

Understanding market behavior in midterm years gets clearer when you look at who controls Washington, specifically the combination of the presidency and the U.S. Congress. The key driver is not ideology alone, but how policy expectations, gridlock, and legislative capacity interact.

The Four Political Configurations

There are four broad combinations:

1. **Unified Government** *(President + both chambers same party)*
2. **Divided Government** *(President vs. Congress split)*
3. **Split Congress** *(House vs. Senate controlled by different parties)*
4. **Post-midterm power shift** *(change in control)*

Each combination has distinct implications for markets, especially in midterm years.

Under a unified government, one party controls the presidency, the House, and the Senate. This creates the greatest policy uncertainty early in the election cycle, given the higher probability of tax changes, regulatory shifts, and large spending programs. Investors fear policy overreach or rapid change. This leads to multiple corrections, elevated volatility, and weak or flat returns in the pre-election period. Midterms matter in this situation because markets anticipate a loss of unified control, which would limit policy swings. If the election does result in a loss of unified control, markets often rally strongly.

In a divided government, the president is of one party, and at least one chamber of Congress is controlled by the other party. This "gridlock" constrains policy change, reducing the likelihood of major tax overhauls and/or aggressive regulation. In other words, gridlock creates predictability, and markets typically experience fewer, shallower corrections and lower volatility than under unified control. There are also strong forward returns after the election.

As the term implies, in a split Congress, the House and the Senate are controlled by different parties. Policymaking is even more constrained with a split Congress than with a standard divided government. However, budget fights and debt ceiling issues can still arise. Financial markets tend to experience only moderate volatility with occasional sharp drawdowns tied to fiscal standoffs.

The most important event relative to midterm elections is a change in control, e.g., when power shifts from unified to divided government. Markets tend to react more to change than to static conditions. Once the change is known, uncertainty collapses quickly, and the policy path becomes clearer (even if the path is gridlock). Strong post-midterm rallies ensue, regardless of party. When control does not change, some uncertainty persists, and the year-end rally may be more muted, but still positive.

Party Control vs. Market Returns: What Actually Matters

Contrary to widespread belief, markets are not consistently better under one party. Instead, the key drivers are policy predictability (higher predictability leads to higher valuations), magnitude of policy change (large, fast changes induce higher volatility), and the trajectory of fiscal and regulatory policy (uncertainty drives corrections).

Here is a table of long-run S&P 500 returns by political configuration, based on Center for Research in Security Prices data:

S&P 500 Returns by Political Configuration *(Long-Run Averages)*

Presidential Party	Congressional Control	Configuration Type	Avg. Annual Return
Democratic	Unified *(Dem House + Senate)*	Unified Government	**~14.0%**
Republican	Unified *(Rep House + Senate)*	Unified Government	**~14.5%**
Democratic	Divided *(Rep or Split Congress)*	Divided Government	**~16.6%**
Republican	Divided *(Dem or Split Congress)*	Divided Government	**~7.3%**

The key takeaways are:

- The structure of government (unified vs. divided) matters more than party identity.
- There is no single "best party" for markets, but there are consistent structural tendencies.
- These averages are based on decades, not hundreds of observations. A few major cycles (e.g., 2008, 2020) can skew results.
- Midterm elections are the mechanism that often changes these configurations, which is why markets react so strongly in the second year of presidential cycles.
- All configurations produced positive returns.

Finally, macroeconomics dominates politics. Recessions, inflation, and Federal Reserve policy often matter more than party control.

Roland G. *and* ***R.G. "Kelly" Caldwell Jr.****, Courtesy Caldwell Trust Company*

A Legacy Honored:
Celebrating Roland G. Caldwell's Enduring Impact & Living Vision

In a community defined by vision, resilience, and leadership, few honors carry the weight and meaning of the Lifetime Achievement Awards presented by The Argus Foundation. This year, that honor holds special significance for Caldwell Trust Company, as our founder, Roland G. Caldwell, will be posthumously recognized for a lifetime of contributions that shaped Sarasota's financial, civic, and intellectual landscape.


Michael Quillen*,*
Courtesy of Watershed Hospitality Concepts

The award ceremony, to be held on November 11, 2026, will also celebrate local hospitality industry leader Mike Quillen, honoring the innovative thinking, strategic leadership, and transformative impact Argus members have brought to their industries and to Sarasota's business and civic life.

A Vision Rooted in Integrity and Insight

Founded in 1993, Caldwell Trust Company was born from Roland's belief that fiduciary responsibility is more than a profession; it is a way of thinking. Emerging from the challenges of the Great Depression, he built a life defined by discipline, independence, and purposeful action, sharing that journey with his beloved wife, Annette Caldwell.

His guiding principles – **'uncompromised decency and honesty'** – remain the foundation of Caldwell Trust today, influencing every decision, relationship, and initiative.

Roland often said that being a fiduciary is not just what you do, but who you are. This philosophy became the cornerstone of Caldwell Trust's culture: integrity, analytical rigor, personal relationships, and a profound sense of responsibility to the families we serve.

Today, as the firm serves more than 3,000 clients and stewards over $2 billion in assets, that founding vision continues to guide every decision, blending principled leadership with forward-looking strategy.

Story continues on next page ›

A Legacy That Inspires

Roland's influence extended far beyond the company he founded. He cultivated a culture of honoring commitments, building multi-generational relationships, and investing meaningfully in the community. A lifelong learner and forward thinker, he explored ideas ranging from economics to emerging technologies, always seeing ways to anticipate change and create lasting impact.

He lived by a simple but powerful motto: **"Do and hope,"** a principle that now animates programs like **Caldwell Cares**, ensuring that the firm's commitment to families, clients, and local non-profits continues in tangible ways.

His son, R.G. "Kelly" Caldwell Jr., now Chairman, President, and CEO, reflects on that enduring legacy:

"My father believed that being a fiduciary was not just what you do, but who you are. His commitment to integrity, keeping promises, and to serving families continues to guide everything we do today - and through programs like Caldwell Cares, we honor that vision by supporting the communities he cared so deeply about."

Under Kelly's leadership, Caldwell Trust remains proudly independent and deeply rooted in the principles that have defined the firm for more than three decades, while embracing innovation and forward-looking strategies.

Kelly is a member and two-time past president of The Argus Foundation, reflecting the Caldwell family's long-standing commitment to leadership, intellectual engagement, and community impact.

Shared Vision, Shared Impact

This year's co-honoree, **Mike Quillen**, embodies a similarly innovative and strategic spirit. Named **Restauranteur of the Year in 2025**, Quillen is the founder of Watershed Hospitality Concepts and a leader behind multiple successful restaurant ventures. He has built a reputation for "relentless hospitality" that goes beyond customer service, reflecting a deep understanding of

***Roland G. Caldwell** at Office in Venice, 201 Center Road, around 1993.*

people, markets, and community dynamics. His work has created jobs, strengthened local partnerships, and brought people together across the region.

Together, the 2026 honorees exemplify Sarasota's most impactful leaders, showing that Roland's vision of service, integrity, and meaningful community engagement lives on today through initiatives like Caldwell Cares and multi-generational client stewardship.

Looking Ahead

For Caldwell Trust Company, this recognition is more than a tribute. It is a reaffirmation of purpose. It reminds us that our work is grounded in something enduring: trust, integrity, and service guided by insight and vision.

As we look to the future, we remain guided by Roland's example. His 1993 pledge in What We Believe to serve with unwavering integrity continues to inspire programs like Caldwell Cares, demonstrating that our work benefits clients, employees, and local non-profits alike – true to his enduring vision.

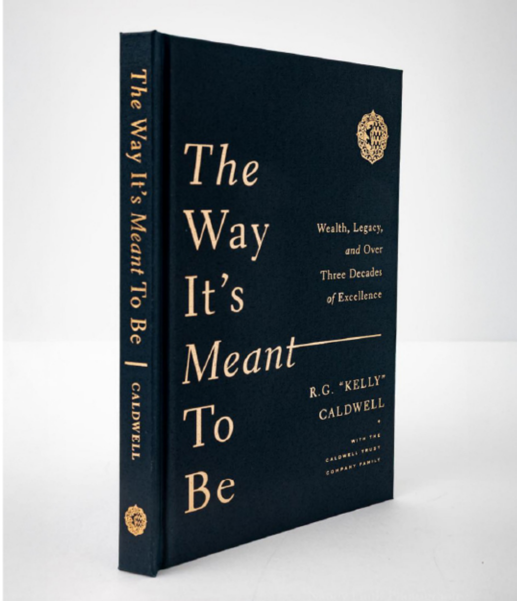
On November 11, we will proudly celebrate a legacy that continues to shape who we are and who we strive to be.

WHAT WE BELIEVE:

"*Each of us in this organization lives and breathes a belief that we are engaged in a truly noble calling, the demands of which are unlike those of any other profession. This is because standards for fiduciaries mandate a level of unwavering conduct, loyalty and personal integrity matched by few other disciplines in this changing and uncertain world. To serve as your trustee or fiduciary, one must find comfort and pleasure being immersed daily in an environment of uncompromised decency and honesty, earning and receiving total confidence from our clients by doing genuine good for them and their families. For this rare individual the personal rewards are high.*

It is with this in mind that we assure you, the prospective customer, that the basic policies of the trust business are steeped in the tradition of the common law, withstanding the test of time. This also serves to gently but clearly remind those of us in this profession over and over of those certain cardinal principles, practices and precedents of long standing, that, if adhered to without fail, will benefit the client, our community – all of us – guaranteeing the personal success in this distinct, increasingly vital and growing profession.

In this tradition, we pledge our honor, reputation and names. — **Roland G. Caldwell**, *Founder*"



Building on a Legacy: Marketing That Reflects Who We Are

Top Left Image: *Sheryl Vieria, Jan Miller, and R. G. "Kelly" Caldwell Jr. hold 5 ADDY® Awards.*

Top Right Image: *"The Way It's Meant To Be" by R. G. "Kelly" Caldwell won a Silver ADDY®.*

Bottom Image: *The Vero Beach grand opening invitations earned a Gold ADDY®, while the full market entry campaign received a Silver ADDY®.*

When Caldwell Trust Company entered Vero Beach last year, the firm brought more than banking expertise. It brought a philosophy rooted in over three decades of disciplined, principled service.

Long before that market expansion, the firm articulated its governance, history, and fiduciary principles in The Way It's Meant to Be, a publication designed to make Caldwell's values tangible and accessible. It was not a marketing tool; it was a declaration of purpose, reflecting the same integrity and transparency that Roland Caldwell instilled when he founded the firm in 1993.

Guided by this foundation, Sheryl Vieira, Vice President of Marketing & Communications, led a year-long effort to translate Caldwell's principles into campaigns that connected with clients and communities alike. From grand opening invitations to thoughtfully targeted market entry communications, every touchpoint reinforced what the firm stands for: trust, independence, and long-term client relationships.

"Our goal was never just to announce our presence in Vero Beach," Vieira explained. "It was to introduce who we are, how we are governed, and why that matters, while actively engaging with the people and communities we serve."

That deliberate approach resonated not only with clients but with the broader marketing community. This year, the American Advertising Federation recognized Caldwell Trust's efforts with five ADDY® Awards, honoring both the Vero Beach campaigns and the foundational publication, The Way It's Meant to Be.

For President and CEO R.G. Caldwell Jr., the recognition reflects more than creative success.

"These awards affirm the disciplined approach we bring to every market we enter," he said. "They show that our principles, transparency, governance, and integrity are not just words on a page. They shape how we build relationships and engage meaningfully with clients, advisors, and communities across Florida."

A year after entering this new market, the story is clear. Caldwell Trust does not just expand. It brings its values along, creating meaningful connections that last for generations.

CALDWELL TRUST COMPANY

PERSONAL • TRADITIONAL • INDEPENDENT

BUILDING WEALTH | PRESERVING LEGACY – THE WAY IT'S MEANT TO BE

Why Caldwell Trust?

INDEPENDENT Your interests, first and only.

FLORIDA-FOCUSED Deep roots. Local insight.

FIDUCIARY Guided by the highest standards.

RELATIONSHIP-DRIVEN Measured in generations.

Board of Directors

Proud Members Of

Greater Sarasota Chamber of Commerce
Lakewood Ranch Business Alliance
Manatee Chamber of Commerce
Venice Area Chamber of Commerce
Vero Beach Chamber of Commerce

WWW.CTRUST.COM • INFO@CTRUST.COM

Venice

1400 Center Road
Venice, FL 34292
941.493.3600
Toll Free: 800.338.9476
Fax: 941.496.4660

Sarasota

27 S. Orange Avenue
Sarasota, FL 34236
941.926.9336
Toll Free: 877.926.9336
Fax: 941.926.9335

Vero Beach

3055 Cardinal Drive
Suite 202
Vero Beach, FL 32963
772.213.9144
Fax: 772.226.5063

Contacts

Scott Antritt
scott@ctrust.com

Alan H. Blair
alan@ctrust.com

Tony Blasini
tblasini@ctrust.com

R. G. "Kelly" Caldwell Jr.
kelly@ctrust.com

Alisa Craton
acraton@ctrust.com

Wendy Fishman
wendy@ctrust.com

Reppard Gordon
rgordon@ctrust.com

Gina B. Jordan
gjordan@ctrust.com

Sonya Kristie
sonya@ctrust.com

Tyler Mahon
tmahon@ctrust.com

Jan Miller
jan@ctrust.com

Leonard Nagel
leonard@ctrust.com

Gail Neujahr
gneujahr@ctrust.com

Jennifer Niedzinski, JD
jniedzinski@ctrust.com

Alyssa "Ali" Orme
aorme@ctrust.com

David L. Osgood
dosgood@ctrust.com

Kendall Peacock
kpeacock@ctrust.com

Sandra L. Pepper
sandy@ctrust.com

Donna Scaglione
donna@ctrust.com

Sheryl Vieira
sheryl@ctrust.com