Adjacent
Event Contract Benchmarking and Indexing

Democrat Political Future Index Methodology

Q2 2026

1. Executive Summary

Adjacent's BLUE index is a forward-looking political index composed of underlying event contracts from Kalshi's prediction market exchange. It provides insight into Democratic power and sentiment projections across five core office categories (i.e., Presidential, Senate, House, Gubernatorial, and Mayoral) using event contract prices from Kalshi, the CFTC-regulated prediction market exchange.

The index is centered at a neutral baseline of 100. When BLUE is above 100, the U.S. is trending more Democratic from a power and sentiment standpoint. Conversely, when below 100, the index conveys that the U.S. is trending more Republican from a power and sentiment standpoint.

The BLUE index is designed as a financial benchmark with multiple use cases (e.g., perpetual swaps, binary options, ETFs and ETPs, etc). BLUE's index value is derived from prices of underlying election event contracts. It is not a poll or survey.

For the BLUE index, Adjacent Markets, Inc. takes on the roles and responsibilities of Index Sponsor, Calculation Agent, and governance authority. BLUE's methodology and all constituent weights are maintained by the Adjacent Index Committee.

BLUE and RED are sister indices. They track the same five office categories using the same methodology - BLUE using Democratic (-D) contracts, RED using Republican (-R) contracts. When BLUE rises, RED will typically fall, and vice versa. They are not combined into a single value; each is a standalone product.

2. Index Overview

2.1 Objective

BLUE measures the extent to which the U.S. is trending Democratic from a power and sentiment perspective using Kalshi's election event contract prices. The composite BLUE index provides a real-time value with insights that can be abstracted at any given moment.

Unlike polling which is backward looking, primitive and ineffectively reflects what people say and think, BLUE is informed by event contract traders who are willing to put their capital at risk. It is a more reliable signal into which way the U.S. is trending politically.

2.2 Design Principles

Price-derived: Every value used to calculate BLUE comes from real money changing hands in CFTC-regulated markets.

Continuous: BLUE updates in near real time. The composite index recalculates every 60 seconds; constituent weights recalculate on the same cadence. Price changes from Kalshi feed into the index with at the absolute most, a maximum 5-minute delay.

Fixed category architecture: The five categories - Presidential (40%), Senate (30%), House (20%), Gubernatorial (8%), Mayoral (2%) - reflect a thoughtful view of relative political significance. These weights are static unless changed as a result of a formal index governance decision.

Transparent: This document is the full specification. It is meant to empower others to replicate the methodology, recalculate values, and ensure BLUE is accurate and reliable.

2.3 Target Users

BLUE is relevant to multiple audiences and introduces different use cases for them:

- Derivatives traders - BLUE introduces opportunities for perpetual swap traders who want to trade Democratic electoral narratives (e.g., thematic and narrative-driven traders and speculators) and momentum, in either direction.
- Institutional investors and hedge funds - Funds and institutions can use financial instruments benchmarked to BLUE for hedging political risk, diversifying their portfolios, and implementing electoral-driven strategies.
- Market makers and OTC desks - BLUE creates opportunities for market makers and OTC desks to more capably price prediction market event contracts, hedge their exposures, and more capably reach delta neutral positions.
- ETF issuers - BLUE also enables ETF issuers to benchmark and launch multi-event ETFs centered upon U.S. political trends that are more robust, informative, and tradable than single-event ETFs.
- International investors - Financial instruments benchmarked to BLUE enable non-U.S. entities to get exposure to trends in U.S. political power and sentiment projections.
- Media and political analysts - In addition to financialization, BLUE provides media and political analysts with an alternative to polling data that is more accurate and effective.
- Democratic campaigns and political operatives - Lastly, BLUE allows campaigns and political operatives to more capably track market-driven implications of candidate positions at scale.

3. Universe Definition

3.1 Eligible Markets

BLUE constituents are Kalshi event contracts that:

1. Represent a binary outcome tied to a U.S. election
2. Are listed on the Democratic side of the relevant contest (ticker suffix -D)
3. Cover one of the five eligible office categories
4. Have a non-zero, non-stale mid price at the time of evaluation
5. Have not yet resolved

Office categories:

- U.S. Presidential elections
- U.S. Senate elections (both regular cycle and special elections)
- U.S. House of Representatives elections (both regular cycle and special elections)
- Gubernatorial elections (U.S. states and territories)
- Mayoral elections (major U.S. cities, as determined by the Adjacent Index Committee)

Kalshi ticker convention for BLUE constituents follows the pattern [OFFICE][JURISDICTION]-[YEAR]-D. Examples:

Ticker	Description
PRESUS-28-D	2028 U.S. Presidential, Democrat
SENATEMI-26-D	2026 Michigan Senate, Democrat
HOUSEPA-05-26-D	2026 Pennsylvania 5th District, Democrat
GOVTX-26-D	2026 Texas Gubernatorial, Democrat
MAYORNYC-25-D	2025 New York City Mayoral, Democrat

For any given election, a BLUE constituent and its RED counterpart represent the two sides of the same underlying market. SENATEMI-26-D and SENATEMI-26-R are priced to sum to approximately 100 cents (less spread). They are structurally linked but tracked separately.

3.2 Inclusion Criteria

A market is eligible for inclusion when:

- It is listed on Kalshi in -D format

- It has at minimum a valid bid and ask (sufficient to compute a mid price)
- It has been active for at least 48 hours following initial listing (evaluation period)
- The Adjacent Index Committee has completed a screening review (weekly, on a rolling basis)

The 48-hour evaluation window exists to avoid inclusion of markets that list with wide, illiquid spreads immediately after launch. Most Kalshi markets normalize within the first day or two of listing.

3.3 Exclusion Criteria

A market is excluded if:

- The contract has resolved (winner declared) - removal is immediate upon resolution
- The mid price has been at 0.0% or 100.0% with no bid/ask activity for more than 72 consecutive hours
- The ticker has been suspended or delisted by Kalshi
- The Adjacent Index Committee determines the contract does not reflect a genuine election contest (e.g., uncontested races, markets with known data quality issues)

3.4 Presidential Constituent Swap

The Presidential category is made up of a party-line market regarding which political party will win the U.S. presidency - i.e., the "2028 Presidential Election winner? (Party)" market. This party-line market generally has less volume than the election winner contract, "2028 U.S. Presidential Election winner?".

Therefore, after both Republican and Democrat Presidential nominees have been identified, the AIC performs a constituent swap at the next weekly scheduled screening review. The party-line market contract is then replaced by the individual election winner market contract. The Republican nominee's contract price becomes the RED Presidential category input, while the Democrat nominee's contract price becomes the BLUE Presidential category input.

This swap is only eligible to occur after both Republican and Democrat nominee markets have resolved. I.e., "2028 [Republican/Democratic] presidential nominee". If only one nominee market has resolved, there is no partial swap. The party-line market remains in effect until both Republican and Democrat nominee markets have resolved.

Lastly, this Presidential constituent swap is pre-approved. It is a standing provision and therefore does not require a separate AIC methodology change vote.

3.5 Special Elections

Special elections, which are infrequent, are eligible to be included under the same criteria and considerations as regularly scheduled elections. Special elections fall under their corresponding office type (i.e., Senate, House, or Gubernatorial) and receive the same category weight treatment.

3.6 Market Lifecycle

Markets undergo a 48-hour evaluation period before they are entered into the index. They then remain in the index until the market resolves (Presidential constituent swap in section 3.4 aside). Upon resolution, the market is removed from the index calculation right away. The remaining constituents then absorb the weight proportionally in that category.

There may be times when the index is temporarily underweight in a particular category if a majority of markets within that category resolve before the next cycle's markets are listed. This is most likely to happen across the Mayoral and Gubernatorial categories and is discussed further in Section 9.

4. Data Sources

Primary source: All BLUE constituent prices are sourced exclusively from Kalshi, a CFTC-designated contract market.

Price type used: Mid price, calculated as:

$$Mid\ Price\ =\ (Best\ Bid\ +\ Best\ Ask)\ /\ 2$$

Kalshi's binary event contracts, per contract, are priced between 0-100. The price reflects the probability of the event occurring based on the underlying trading activity. E.g., an event contract trading at 58 implies a 58% win probability for the Democratic candidate.

No alternative data sources are currently used. BLUE is only comprised of Kalshi's underlying CFTC-regulated event contracts, which includes a broad collection of U.S. election contracts. Adding additional platforms is a potential future enhancement, subject to Governance review.

5. Weighting Methodology

5.1 Category Weights

Category indices' weights are fixed. They reflect Adjacent Markets' view of the relative importance of each office category in the greater context of the U.S. political landscape.

Office Category	Weight
Presidential	40%
Senate	30%
House	20%
Gubernatorial	8%
Mayoral	2%

Equal weighting would not accurately reflect the political landscape. For instance, a presidential election and a mayoral race in a mid-sized city are not equivalent political events, so the index does not treat them as such.

Weights are not derived from a statistical model. Instead, they represent a judgment about political and economic significance.

Category weights do not change in response to market conditions or election calendars. They can only be modified through the formal Governance process described in Section 8.

5.2 Weight Rationale

Presidential (40%). The Presidential election has significant implications concerning U.S. political power and sentiment. It also has the highest trading volume activity across U.S. election markets. Consequently, its weight is greater than the other categories.

Senate (30%). The outcomes of Senate elections carry importance as they inform committee chairmanships, judge confirmations, as well as legislative procedures. Competitive Senate races and cycles (e.g., 2026) drive substantial volume. The 30% composition reflects the Senate's importance when it comes to political power and sentiment.

House (20%). House markets represent a wide cross-section across 435 seats with election cycles every two years. In most cases, individual House district markets have lower volume, but as a whole the category drives meaningful insight into political power and sentiment.

Gubernatorial (8%). Gubernatorial election outcomes matter in the context of state policy and congressional redistricting. A weight of 8% conveys that significance without diluting the weight of federal elections that more directly impact the governance of the U.S. at a national level.

Mayoral (2%). Mayoral elections, particularly in larger populated, world-renowned U.S. cities (e.g., New York City, Chicago, Los Angeles, Houston) drive national political importance and facilitate a great deal of media and social commentary. The 2% weight is purposefully modest, however its inclusion is important given the impacts on national political sentiment.

5.3 Individual Market Weights Within Categories

Constituent markets are not equally weighted in each category. There are 4 sensitivity factors that help determine each market's relative weight:

Factor	Default Score	Applies To
Volume Sensitivity	7	All categories
Time to Expiration Sensitivity	6	All categories
Population Sensitivity	5	House, Gubernatorial, Mayoral only
Impact Sensitivity	8	All categories

Impact Sensitivity scores by category (fixed):

Category	Impact Score
Presidential	10
Senate	8
House	6
Gubernatorial	7
Mayoral	4

Standard formula (House, Gubernatorial, Mayoral - includes Population Sensitivity):

$$marketWeight = ¼ (volumeScore \times volumeSensitivity + timeScore \times timeSensitivity + populationScore \times populationSensitivity + impactScore \times impactSensitivity)$$

Modified formula: $(PresidentialandSenate - noPopulationSensitivity)$:

$$marketWeight = (volumeScore \times volumeSensitivity + timeScoretimeSensitivity + impactScoreimpactSensitivity)/3$$

For the Presidential and Senate categories, population sensitivity is not included. The Presidential election is a single national contest and the Senate is fixed with two seats per state, regardless of population. Population is important to account for the need to clearly differentiate meaningful market distinctions. E.g., a California governor's race versus a Wyoming governor's race will more materially impact political sentiment and power in the United States. In other words, more populous jurisdictions carry more economic weight, media attention, and more electoral votes.

Score construction:

- Volume score: From a 1-10 scale, it is the relative ranking of 24-hour trading volume among constituents within the same category
- Time score: The inverse of days to resolution and normalized to a 1-10 scale within the category (closer to resolution = higher score as the market signal is more accurate, generally speaking)
- Population score: Jurisdiction population relative to peers within the category, normalized to a 1-10 scale
- Impact score: Fixed value assigned by category (table above); does not vary by market

Market weights within a category are normalized to sum to 1.0 after calculation.

Example: Gubernatorial category with two markets

Assume two active markets on a given day, with sensitivity defaults applied (Volume: 7/10, Time: 6/10, Population: 5/10, Impact: 8/10):

	GOVCA-26-D	GOVWY-26-D
Volume score (normalized 1–10)	10	1
Time score (normalized 1–10)	3	3
Population score (normalized 1–10)	10	1

Impact score (Gubernatorial = 7)	0.7	0.7

Using the standard formula (Gubernatorial includes Population Sensitivity):

Using the standard formula:

$$GOVCA - 26 - Dweight = (10 \times 0.7 + 3 \times 0.6 + 10 \times 0.5 + 0.7 \times 0.8)/46)/4$$

$$= (7.00 + 1.80 + 5.00 + 0.56)/4$$

$$= 14.36/4 = 3.59$$

$$GOVWY - 26 - Dweight = (1 \times 0.7 + 3 \times 0.6 + 1 \times 0.5 + 0.7 \times 0.8)/4$$
$$= (0.70 + 1.80 + 0.50 + 0.56)/4 = 3.56/4 = 0.89$$

If we are to normalize the above:
$GOVCA - 26 - D = 3.59/(3.59 + 0.89) = 80.1\%, GOVWY - 26 - D = 19.9\%$

It's clear California's higher volume and larger population meaningfully impact the value as intended. I.e., the governor race in California should carry more political and economic weight than Wyoming's as it has a more material impact on forward-looking political power and sentiment in the U.S.

6. Index Calculation

6.1 Core Formula

$$BLUE = 100 + (DemocraticProbability - 50)$$

The core formula is represented as a percentage. In other words, the DemocraticProbability value is the weighted composite across all five categories (Presidential, Senate, House, Gubernatorial, Mayoral).

We've centered the index at 100. This value reflects the neutral baseline. E.g., when the Democratic probability is exactly 50%, BLUE's value will = 100. Alternatively, when the Democratic probability is 62%, BLUE will = 112, or if the probability is 41%, BLUE will = 91.

Scale interpretation:

BLUE Value	Meaning
> 100	Democrat advantage - markets pricing Democrats as the favorites
100	Neutral - 50/50 across the composite
< 100	Democrat disadvantage - Republicans hold aggregate advantage

Theoretical range: 50 (0% Democratic probability across all categories) to 150 (100% Democratic probability). The practical trading range under normal election cycle conditions is roughly 75-125.

6.2 Probability Extraction

The probability used for each underlying constituent is pulled from the market's mid price:

$$p\_i \; = \; MidPrice\_i \; / \; 100$$

A Kalshi event contract priced at 55 cents would therefore infer p = 0.55 or a 55% Democratic win probability.

6.3 Composite Probability Construction

The composite Democrat probability is built in two stages:

Stage 1 - Category probability:

For each category c, the category probability is the weighted average of constituent probabilities:

$$P_c = \Sigma(w_i \times p_i)$$

Where wi is the normalized market weight for constituent i within category c, and pi is the mid-price-derived Democrat probability for market i.

Stage 2 - Index probability:

$$DemocratProbability = \Sigma(W_c \times P_c)$$

Where W_c is the fixed category weight for category c (40%, 30%, 20%, 8%, 2%).

6.4 Smoothing - 1-Hour Simple Moving Average

The raw BLUE value (recalculated every 60 seconds) is normalized with a 1-hour simple moving average (SMA). The SMA is used to help reduce noise from

significant short-term price movements and to produce a more stable and reliable benchmark that is suitable for derivatives settlement.
Both the raw value and the SMA-smoothed value are available to data subscribers.

6.5 Outlier Treatment

Individual constituent probabilities that have been at 0.0% or 100.0% for more than 72 consecutive hours are flagged as stale. Stale contracts are excluded from the calculation pending review.

The goal is to eliminate the likelihood of a market that has stopped trading and hasn't resolved from heavily influencing a category index's probability at an extreme level. There's more information in Section 9 concerning stale market prices.

7. Index Maintenance

7.1 Update Schedule

Component	Frequency
Constituent prices	Continuous; max 5-minute delay from Kalshi
1-hour SMA	Rolling, updated every 60 seconds
Constituent weights	Recalculated every 60 seconds
Composite RED value	Recalculated every 60 seconds
Category weights	Fixed; changed only via Governance process
New market screening	Weekly review
New market inclusion	48-hour evaluation after listing before inclusion
Resolved market removal	Immediate upon resolution

7.2 New Market Addition

On a weekly cadence new Kalshi markets are reviewed to determine if they satisfy inclusion criteria and should be included in the index. This follows a 48-hour evaluation period. At this time, Adjacent Markets does not have formal, advance

notice of Kalshi's upcoming listing schedule. Consequently, new and eligible election markets may be listed by Kalshi without prior notification, which means the index for a brief period of time will not include them. The goal of the weekly screening process is to identify newly listed and eligible markets that should be added to the BLUE composite index.

7.3 Market Resolution

Underlying constituent markets are removed from BLUE after they've resolved. After markets are removed, the remaining underlying constituent markets will absorb the weight proportionally. There is no smoothing delay.

7.4 Market Disruptions

The most recent valid mid price is held constant for up to 4 hours in the event of a Kalshi exchange outage or halt on trading of a constituent market. If the trading halt exceeds the 4 hour threshold the Adjacent Index Committee (AIC) will determine whether or not to hold the last valid mid price, remove the constituent, or suspend publishing values of the affected index until trading of the affected underlying constituent is restored.

7.5 Non-Partisan Mayoral Elections

There are some election markets for non-partisan races (i.e., candidates who do not appear on the ballot with party affiliation labels). For these particular races, Democratic contract classification will follow Kalshi's listing designation. In other words, if Kalshi lists an event contract using party labels for a non-partisan race, BLUE accepts and uses Kalshi's classification. In the event there is uncertainty, the AIC will determine party affiliation based on candidate voter registration.

8. Governance

8.1 Index Sponsor and Calculation Agent

Adjacent Markets, Inc. takes on Index Sponsor and Calculation Agent roles and responsibilities for BLUE. Outcomes and decisions around calculations, screening, maintenance, and operations are performed by Adjacent.

8.2 Adjacent Index Committee

The AIC is the governance body responsible for all methodology decisions. Membership is currently comprised by Adjacent's leadership team:

- Chief Executive Officer, Adjacent Markets, Inc.
- Chief Operating Officer, Adjacent Markets, Inc.

All AIC decisions require consensus. There are no unilateral decision changes.

8.3 Meeting Schedule

The AIC meets on an ad-hoc basis. Meetings are generally held around:

- Major election dates and the weeks preceding them
- New market listings that require inclusion decisions
- Data quality issues that have been identified
- Requests for methodology reviews

Emergency meetings convene within 48 hours of a qualifying event.

8.4 Methodology Changes

Changes to index methodology require:

1. A formal written proposal submitted to the AIC
2. A 30-day public notice period
3. Consensus approval from both AIC members
4. Publication of updated methodology documentation

Changes taking effect on shorter notice are permitted only in cases of legitimate market emergency (e.g., a Kalshi regulatory action affecting listed contracts), with documentation published as soon as practicable.

8.5 Conflicts of Interest

The AIC is responsible for ensuring that methodology decisions are made on the grounds of index integrity. Decisions should never, under any circumstances, be based on the economic interests of Adjacent Markets or products that reference BLUE.

9. Risk Factors and Limitations

Known issues with the current version of the index:

9.1 Stale Mayoral Markets

A subset of Mayoral -D constituents currently show 0.0% mid prices with no active bid/ask. These markets are excluded per the outlier treatment rules in Section 6.5. The Mayoral category carries only 2% weight, so the impact on the composite is limited - but the cleanup is overdue.

9.2 Backtesting Limitations
Meaningful backtesting of BLUE across multiple election cycles is currently very limited. Users should not rely on short-window backtests as evidence of predictive validity.

9.3 Kalshi Listing Dependency
BLUE's underlying constituent markets are a consequence of the election event contracts Kalshi determines to list. If Kalshi does not list a given Democratic market for a particular election category, the election will be missing from BLUE as Adjacent has no contractual agreement with Kalshi concerning listing schedules. E.g., a competitive Senate race that Kalshi is slow to list may be absent from the index during part of the cycle.

9.4 Temporary Category Underweighting
There will be times when markets resolve and their follow-on markets for the next cycle have not yet been listed. This too will temporarily impact category weights. Mayoral and Gubernatorial election markets are most likely to be affected. Remaining markets and categories will then absorb the weights proportionally when there are gaps in market listings.

9.5 Prediction Market Liquidity Risk
Given market liquidity is varied across constituent markets, there may be some instances of wide bid/ask spreads, making mid-prices noisy and less reliable. Volume sensitivity in weighting is used to help mitigate this by reducing the weights of low-volume constituent markets. It does not however entirely eliminate this risk factor.

9.6 Regulatory Risk
If there are changes to the regulatory framework governing event contracts, including restrictions on political event contracts, this could hamper Kalshi's ability to list contracts. This in turn would of course affect BLUE's collection of underlying constituents. That said, this is a risk to the entire industry, not specific to Adjacent and BLUE.

9.7 Index Concentration Risk
It's important for BLUE data consumers and those trading ETPs benchmarked to BLUE to recognize that the Presidential category carries significant weight at 40%. During presidential year election cycles, the Presidential category has the potential to drive increased index volatility. It's important to understand this when interpreting BLUE movements.

9.8 Inverse Relationship with RED
BLUE and RED are structurally linked. They track opposite sides of the same elections. A user who is long BLUE and long RED simultaneously has largely

offsetting exposures. Products referencing BLUE should be constructed and risk-managed with awareness of this relationship.

Changelog

Version	Date	Changes
1.0	May 2026	Initial publication. Methodology established for RED Index as standalone Republican-side prediction market composite index. Successor to the UPFI Republican-side calculation.

Approvals

Role	Name	Signature	Date
Chief Executive Officer			
Chief Operating Officer			