Monthly Market Commentary

November 6,2026

Midterms and Markets

The people have spoken.

The financial markets are trying to figure it out.

Executive Summary

The midterm elections produced a decisive Democratic victory, shifting approximately 36 House seats and seven Senate seats and resulting in majorities of 253 seats in the House and 54 in the Senate.

- Markets initially welcomed the prospect of greater institutional constraints, policy predictability, and less disruptive changes to taxes, regulation, spending, and trade.
- That optimism quickly gave way to a sharp selloff led by AI-related companies as investors reconsidered elevated expectations and record business investment.

Historical experience remains constructive: since the early 1990s, the S&P 500 has returned approximately 17% in the 12 months following midterm elections.

- Interest rates may also improve if demand-driven pricing pressures ease and greater clarity emerges around geopolitics, energy prices, federal spending, deficits, and Federal Reserve policy. A sustained decline in Treasury yields would support this outlook.
- In equities, the S&P 500 remains up about 10% year to date despite recent volatility, while the equal-weighted index has outperformed the cap-weighted index by roughly 5%. This broadening beyond mega-cap technology could favor financials, industrials, small caps, and value-oriented companies.
- Key confirmation signals include the 10-year Treasury yield holding below 5%, the 2-year yield moving toward 4%, and continued relative strength in equal-weight, small-cap, and value benchmarks.

Solid employment data will keep monetary policymakers on notice, though the potential for an easing of the AI build out and a gradual shift in trade policy could limit longer-term inflationary pressures. Corporate profits are still projected to climb +10.0% in 2027, after a 30% jump this year. Despite the current volatility, the combination of a possible pause in Fed tightening, an easing in market multiples and a broadening of participation may prove supportive for equities in the coming year.

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After essentially two years of campaigning, volatile headlines, and an estimated $12 billion spent on candidates and advertisements, the midterm elections have concluded and decidedly favored the Democratic leadership.

To be sure, the average midterm election has typically seen the sitting president losing 28 seats in the House of Representatives. In this case, ~36 seats switched to Democrats, and seven seats swung in the Senate. As it stands, the Democrats now have solid majorities in both chambers, with 253 seats in the House and 54 seats in the Senate. In addition, many down ballots across the country shifted left, including governors and state legislatures.

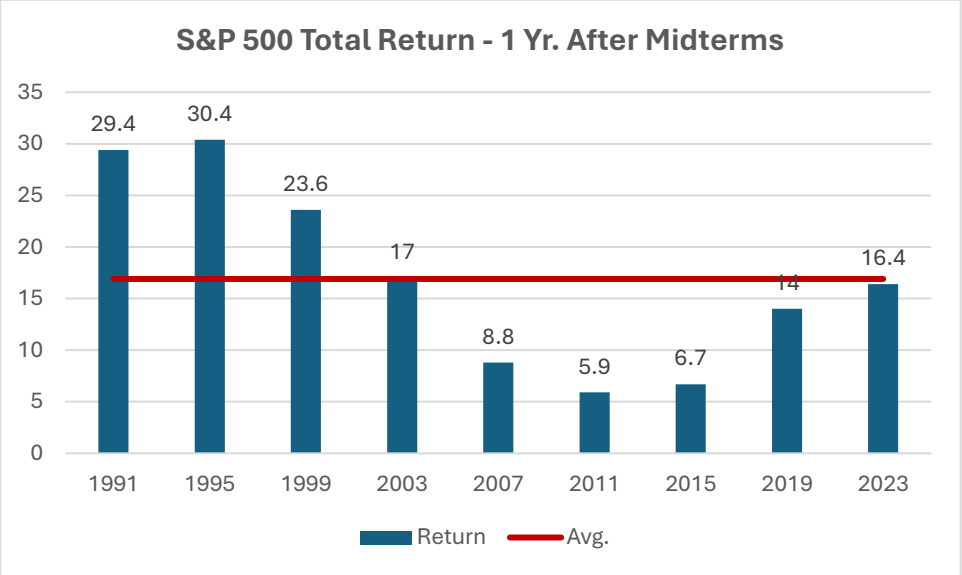
The Democratic party is now positioning for leadership transitions, potential legislative priorities, and the likelihood of investigations. The Republican party is forced to ponder what went wrong and how to regroup.

Initially, the financial markets responded favorably after the results, as bond yields declined and stocks climbed. Investors cheered the potential for divided government and legislative gridlock, which could reduce policy uncertainty. Moreover, expectations of greater institutional constraints and checks on presidential authority are being viewed by some investors as supportive for market stability.

Yet investors quickly reassessed their outlooks for the AI trade, which had already been weakening in recent weeks given outsized expectations and record setting business investment. Indeed, the hopes for stability in the day after the election were suddenly dashed in a major market sell-off in the next trading session. Stocks plunged on Thursday, with the AI-related companies punished the most as the Nasdaq Composite lost an estimated $2.5 trillion in market cap!

Despite the recent volatility, it's important to note that the equity market, as defined by the S&P 500 Index, has historically had a very attractive performance record in the 12 months following a midterm election.

Chart – S&P 500 Index Total Return 1Yr. After Midterms



To be sure, since the early 1990's, the Index has enjoyed a return of approximately 17% in the twelve months following midterm elections. Of course, past performance is not indicative of future returns, but the historical pattern does speak to possibility of a "relief factor" and its longer-term impact on investor sentiment.

Of course, investors are reassessing the dominance of the AI trade and considering whether market leadership could broaden beyond the sectors that have driven recent gains. As traders consider whether the outsized AI spend can result in outsized profits, a broader theme may emerge as the possibility of a "regime change" in markets, with investors may be shifting their assumptions about growth, policy, sector beneficiaries, and investment leaders/laggards.

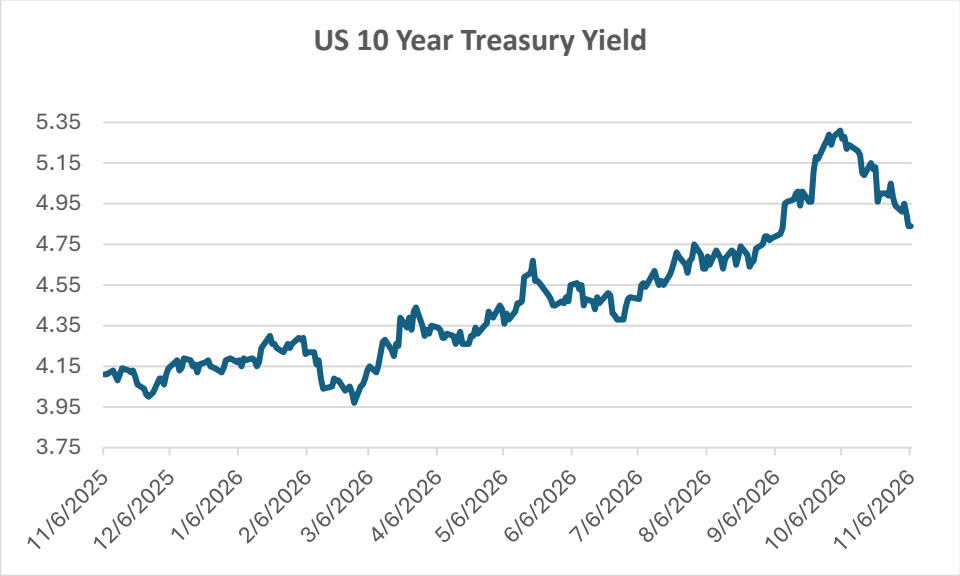
Consequently, I encourage investors to look beyond the volatility of the past few days and instead focus on what could develop into less spectacular, longer-term trends. These include the possibility of a less disruptive policy environment, as gridlock diminishes the potential for major changes in taxes, regulation, spending, and trade. As investors have the chance to place more value on predictability, market volatility may lessen with market leadership broadening.

Interest Rates

To be sure, the interest rate environment may improve as demand driven pricing pressures ease and clarity emerges on geopolitics, trade and energy prices. This could also allow monetary policymakers more time to assess the degree of their tightening cycle.

This could bring a big change for investors as the bond market witnessed a surge in the 10-year Treasury yield this year, driven by a combination of persistent inflation, uncertainty about the new Fed leadership, the war in Iran, and surging federal debt.

Chart – 10-year Treasury Yield



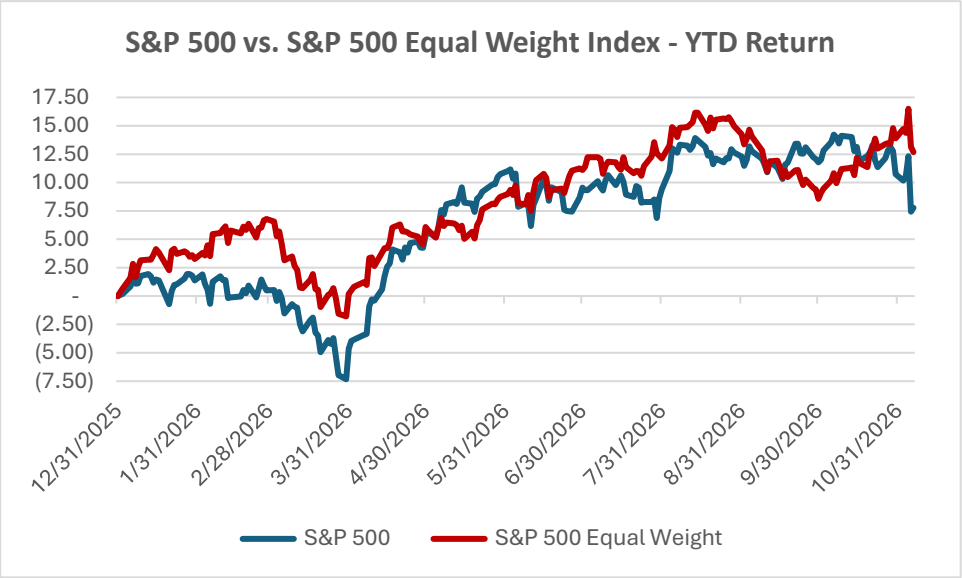
Should expectations for inflation, deficits, and Fed policy evolve more favorably under new leadership in Washington, then the recent downtick in yields may prove sustainable. Treasuries could benefit from slower spending growth, smaller deficits, and a more moderate pricing environment. We'll be closely watching the trends for government spending, AI-related business investment and inflation expectations for confirmation.

Equities

As mentioned earlier, the transition in Washington may result in fewer tailwinds for the runaway AI-related spending patterns, resulting in the potential for more muted equity gains in the cap-weighted Indexes like the S&P 500 and the Nasdaq Composite. As AI spending potentially slows, so too should the mega-cap tech sector's influence on the economy and corporate profit growth.

But even with the recent selloff, the S&P 500 Index is still up approximately 8.0% year-to-date (YTD).

Chart – S&P 500 Index vs. S&P 500 Equal Weight



To the degree the current situation reflects a change from mega-cap tech leadership to a more representative gauge of activity throughout the broader economy, this should result in improved participation in the equity market. This pattern has been gaining traction, as the equal-weighted S&P 500 has outperformed its more popular, cap-weighted Index by approximately 5.0% YTD.

This shift can support a broader mix of stocks going forward rather than another stretch dominated by a handful of mega-cap technology names. This move could favor financials, industrials, small caps, and value-oriented companies.

Looking ahead, it will be important to see if the 10-year Treasury yield can remain below 5.0% and if the 2-year yield can move closer to 4.0%, which would be a good indicator of the market's belief that the Federal Reserve is currently on track in its battle against inflation. Othe factors to watch for confirmation of the broader shift in equity market leadership include the relative performance of small caps vs large caps, value vs. growth, and the equal-weighted S&P 500 vs the cap weighted index.

Should these measures confirm a continued, though less-spectacular, upward trend, then the history of the equity market's success in the 12-months following midterm elections may once again hold true.

We'll be watching closely!

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