After the Wave | 11.06.2026

With the 2026 midterm elections in the rearview mirror, markets are trying to get their bearings. Stocks rose on Wednesday, fell sharply on Thursday, and recovered some of those losses on Friday as investors adjusted to a significant shift in the balance of power in Washington. Votes are still being counted, but Democrats have gained 40 House seats and seven Senate seats, securing control of both chambers in 2027. Affordability, the Iran War, and AI were central issues on the campaign trail. For investors, however, the bigger takeaway is that election uncertainty is now behind us.

History suggests that is good news. The S&P 500 has not declined in the 12 months following a midterm election since 1938, with an average gain of 14.8%. The closest parallels to today, 2006 and 2018, when Republicans also lost significant ground to Democrats, produced more modest gains of roughly 7% and 12%. That is no guarantee, but it is an encouraging starting point.

Divided government should also bring some stability. Major policy changes are unlikely at the federal level, and the key negotiations will likely center on the budget. Markets tend to prefer that predictability. In addition, many households are feeling the pinch of higher prices, and that showed up at the ballot box. Affordability was a top issue, which may make Washington less eager to escalate with Iran.

The bigger changes may come at the state and local level, especially for AI. Voters rejected data centers in nearly every local ballot measure, and governors in several key states campaigned on slowing construction. We expect the buildout to slow rather than stop. Existing data centers become more valuable, and lower spending needs could ultimately benefit the large cloud providers.

AI has been a significant driver of growth, and we are mindful of what a slowdown could mean for the broader economy. For now, the backdrop remains solid. Employers added 165,000 jobs in October, unemployment held at 4.1%, and there is no sign that AI is destroying jobs. Inflation remains the bigger issue, and the Federal Reserve will have to thread the needle carefully, especially considering the new pressure on AI. Company profits continue to look strong. Most companies have reported, and their profits are up 27% from last year. That growth remains concentrated in technology, but we see evidence that it is beginning to spread to the broader economy.

One encouraging sign is that the average stock has outperformed the largest companies, with quality businesses leading the way. In years when the equal-weight S&P 500 has beaten the cap-weighted index through October, it has often stayed ahead through the following year. That does not make it a given, but it suggests these conditions could continue in the months ahead, and they play to our strengths. Weeks like this can feel bumpy, so we will stay focused on owning quality businesses with durable earnings.

Thanks,

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Macro & Policy Strategist

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