Market Commentary | November 4, 2026

Market Update

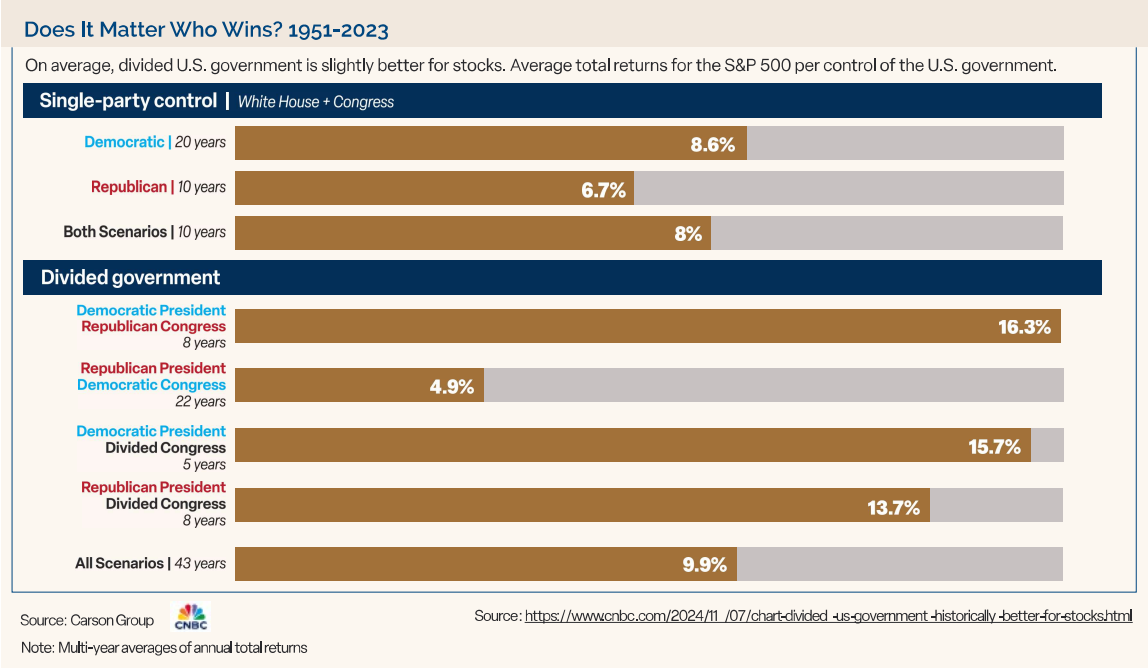
Midterm Elections

Good news! The results are in and the political texts and commercials can stop. As expected, the Democratic party swept both the House and Senate, setting the stage for a divided government for the next two years. As of Wednesday morning, Democrats are expected to hold 54 seats in the Senate and 228 in the House. The vote was a referendum on the party in power, same as 2022, 2018, 2014, 2010, and 2006. Twelve of the past fourteen elections were "change elections," as neither party has figured it out yet. For longer perspective on the outcome, in midterm elections since 1900, the party in the White House has lost House seats 90% of the time and Senate seats 75% of the time.

What might this mean for policy over the next two years? The larger-than-expected majorities could give Democrats greater leverage in negotiations with the White House but will also dilute the influence of small factions within the Democratic caucus. Democrats could use fiscal deadlines to seek to limit the war with Iran, roll back selected tariffs, and reverse spending cuts enacted last year. Judicial and cabinet nominations will likely be blocked, and new investigations could bog down the legislative process. As far as other Trump administration initiatives, if the last two years of the Clinton and Obama administrations are any guide (both of which had the opposing party control Congress), Trump will likely use executive orders to push his agenda and the veto pen to shut down legislation from Congress.

This effectively creates gridlock in Washington, which historically has been good news for the stock market. An old Wall Street adage is "The market loves gridlock." **Chart 1** below shows the government makeup that we will have with the new Congress. This makeup has historically produced mediocre price gains (4.9%), total returns with dividends included averaged 8.58%, with gains 72.7% of the time. Those results are skewed lower by the global financial crisis in 2008, which also happens to be the last time we had a Republican president and a Democratic-controlled Congress.

Chart 1



For illuastrative purposes. Past performance is not indicative of future results.

Market Update

Chart 2 below is telling. Stocks don't see red or blue, they see green. In every midterm election year since 1950, the S&P 500 has been up in the six months starting from late October. That is 19 up markets out of 19 midterm elections with an average return of 15.4%.

Chart 2

Every midterm year since 1950 has been higher six months after October 26 - 19 for 19 10/26/2026

S&P 500 price return from the October 26 close of each midterm year to the same date six months later. Average +15.4%

MIDTERM YEAR	6-MONTH RETURN
1950	+13.00%
1954	+19.94%
1958	+14.07%
1962	+27.80%
1966	+16.89%
1970	+24.76%
1974	+23.53%
1978	+6.23%
1982	+20.32%
1986	+18.16%
1990	+24.39%
1994	+10.82%
1998	+26.83%
2002	+0.13%
2006	+7.57%
2010	+13.63%
2014	+7.79%
2018	+10.58%
2022	+5.88%
Average	+15.39%

2002 was the only close call at +0.13%. From October 31 close the record is the same 19 for 19, averaging +14.98%. At twelve months it is 18 of 19 averaging +16.2% with 1986 the lone exception at -4.4%. S&P 500 price returns; nearest prior trading day where the date fell on a weekend.

Source: Fundstrat

Past performance is not indicative of future results.

Ultimately, it is not Washington that drives stock prices. It is earnings, and the earnings outlook is good. On the heels of a strong second quarter, third-quarter earnings season has been robust. With 70% of the S&P 500 companies having reported, 86% exceeded analyst estimates. Blended year-over-year earnings for companies that have reported and estimates for those that have not yet reported are running at a 31.9% growth rate. It is rare to have such strong growth without the economy having emerged from a recession (easy year-over-year comparisons). That is clearly not the case currently. Since emerging from the COVID recession, the U.S. economy has expanded in 20 of 21 quarters. Third-quarter GDP reported last week exceeded estimates and grew at a 3.4% annual rate.

As always, we think it is important for investors to stay focused and not let short-term swings in the market derail them from their longer-term objectives.

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Market Update

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