InVestra

CLIENT MARKET COMMENTARY | MIDTERM SPECIAL REPORT

Midterm Election Wrap

Crosscurrents, Not Clear Weather

November 5, 2026

Market data as of November 4, 2026

Executive Summary

The 2026 midterm elections have delivered a significant change in Washington. Democrats have secured control of both the House of Representatives and the Senate, establishing divided government for the final two years of President Trump's current term.

Financial markets responded enthusiastically. On Wednesday, November 4, the S&P 500 advanced 1.58%, the Nasdaq Composite gained 1.44%, and the Dow Jones Industrial Average surged 3.03%.

The breadth of the rally suggests investors welcomed greater political clarity, even as the election introduced a new set of policy considerations.

Yet the election has not resolved the fundamental questions facing investors.

Artificial intelligence continues to generate substantial economic opportunity while consuming unprecedented amounts of capital. Interest rates remain elevated as the Federal Reserve confronts persistent inflation. Energy prices and geopolitical developments continue to influence the economic outlook.

These are competing forces, not uniformly favorable conditions.

Our message to investors remains straightforward:

1. **Stay diversified.** Broad market participation is increasingly important as leadership rotates across industries and investment styles.
2. **Focus on the beneficiaries of artificial intelligence, not only the builders.** We see attractive long-term opportunities in businesses translating AI adoption into productivity, earnings growth, and sustainable cash flow.

3. **Remain anchored in fundamentals.** Economic resilience, corporate profitability, and balance-sheet strength matter more than election headlines.
4. **Avoid political market timing.** Portfolio decisions should reflect long-term financial objectives rather than expectations about which political party controls Washington.

History suggests that markets often perform well after midterm elections, but history is neither a guarantee nor a substitute for investment discipline.

Our assessment is that the election has reduced one important source of uncertainty while leaving several economic crosscurrents intact.

1. The Election: Political Change, Constructive Market Response

Investors greeted the Democratic sweep of Congress with a broad equity rally.

<escape>**U.S. Market Performance — November 4, 2026**</escape>

Index	Closing Level	Daily Change
S&P 500	7,688.62	+1.58%
Dow Jones Industrial Average	53,356.12	+3.03%
Nasdaq Composite	25,736.51	+1.44%
Russell 2000	2,856.95	+1.58%

The reaction extended beyond the major averages. Nine of the S&P 500's eleven sectors advanced, led by consumer discretionary. Energy and industrials were the exceptions.

Political developments influenced the market's interpretation of several industries.

Defense: Major defense contractors weakened amid expectations that the administration's proposed spending increases could encounter greater congressional resistance.

Clean energy: Solar and renewable-energy companies benefited from expectations that a Democratic Congress could seek to preserve or restore policy support for the industry.

AI infrastructure: Certain data-center developers and associated businesses came under pressure amid growing expectations of tighter oversight, higher financing scrutiny, and potentially slower infrastructure expansion.

Broader technology: Performance was mixed, highlighting increasing differentiation between companies with strong balance sheets and businesses dependent on continued infrastructure spending.

Oil prices also fell sharply, reinforcing optimism that a changed political environment could improve prospects for diplomacy in the Middle East.

The decline in energy prices helped ease Treasury yields and supported sentiment in economically sensitive sectors.

Importantly, a single market session cannot establish why investors moved in one direction or predict their next move.

Nevertheless, Wednesday's market action was consistent with a reduction in political uncertainty rather than a broad reassessment of the U.S. economy.

Our interpretation: The election changed the political landscape, but it did not fundamentally alter the long-term case for diversified ownership of productive assets.

2. Artificial Intelligence: From Infrastructure Spending to Economic Returns

The artificial intelligence investment cycle remains among the most powerful forces influencing capital markets.

Technology companies continue to commit substantial resources to computing capacity, data centers, specialized semiconductors, networking equipment, and supporting infrastructure.

These investments have helped support economic activity and corporate revenue growth. They have also increased capital intensity and, for some participants, financing requirements.

That distinction matters.

The central investment question is shifting from how much companies will spend on AI to how much economic value that spending will ultimately create.

The infrastructure phase has rewarded companies supplying the tools necessary to train and operate increasingly sophisticated AI models.

The next phase should increasingly reward businesses capable of incorporating AI into their operations and converting it into measurable financial improvements.

We see three especially important characteristics when evaluating those opportunities:

First, sustainable free cash flow. Businesses that can fund innovation internally are better positioned than those dependent on repeated access to external capital.

Second, demonstrable productivity gains. AI adoption should eventually appear in operating margins, employee productivity, customer retention, and earnings growth.

Third, attractive returns on invested capital. Revenue growth alone does not justify unlimited capital spending. The long-term winners will be those able to earn compelling returns on their investment.

We believe this creates opportunities beyond the most recognizable technology companies.

Enterprise software providers, financial institutions, healthcare companies, industrial businesses, and service organizations may all benefit from applying AI to established operations.

This does not mean AI infrastructure companies will necessarily underperform. Many possess durable competitive advantages and valuable intellectual property.

It does mean that valuation, financing needs, and cash-flow generation deserve greater attention as the investment cycle matures.

Our positioning preference is for durable AI earnings exposure rather than dependence on an uninterrupted infrastructure spending boom.

We believe the application and productivity layers of AI offer an increasingly compelling area for selective, long-term investment.

3. Interest Rates: Elevated Policy Rates, Resilient Markets

Interest rates remain a meaningful consideration for equity and fixed-income investors.

At its October 28 meeting, the Federal Reserve maintained the federal funds target range at 3.75%–4.00%.

The decision was not unanimous. Two policymakers favored an additional quarter-percentage-point increase.

Inflation remains the primary challenge.

The Consumer Price Index increased 3.7% over the twelve months ended September 2026, accelerating from 3.4% in August.

Energy prices contributed significantly to the increase, complicating the Fed's effort to return inflation sustainably toward its 2% objective.

J.P. Morgan Global Research has forecast another quarter-point increase in December while stopping short of predicting an extended hiking cycle.

That forecast deserves consideration, but it is not a certainty.

For investors, two observations stand out.

The first is that the economy has demonstrated resilience despite higher borrowing costs.

Domestic spending, business investment, and productivity have remained important sources of economic support.

The second is that longer-term Treasury yields have responded more constructively than might be expected in a persistently inflationary environment.

The benchmark 10-year Treasury yield remained below 5% on November 4, and yields declined as oil prices weakened.

This does not establish that inflation has been defeated. Nor does it eliminate the risk of additional tightening.

It does suggest that bond investors are weighing inflation risks against the possibility that energy-price pressures could moderate.

Our approach is not to position portfolios around a precise Federal Reserve announcement.

Instead, we favor maintaining exposure to high-quality fixed income, recognizing the income opportunities now available while managing duration and credit risk thoughtfully.

In equities, we continue to emphasize companies with strong balance sheets, pricing power, and the ability to generate earnings across different interest-rate environments.

A higher-for-longer interest-rate environment rewards financial discipline.

That principle applies equally to borrowers, businesses, and investors.

4. Oil, Inflation and the Middle East: A Potential Turning Point

Elevated energy prices have been a major economic challenge during 2026.

Disruptions associated with conflict in the Middle East, alongside broader geopolitical pressures, have contributed to higher oil prices and renewed inflation concerns.

These developments affect much more than the energy sector.

Higher fuel and transportation costs can place pressure on household purchasing power, corporate profit margins, and inflation expectations.

They also complicate monetary policy by creating inflationary pressures that higher interest rates cannot directly resolve.

Wednesday's sharp decline in oil prices therefore mattered.

The market reaction suggested increased optimism that the post-election political environment could create opportunities for diplomacy and reduced regional tensions.

We view that possibility constructively, but cautiously.

A diplomatic opening is not the same as a diplomatic resolution.

Supply disruptions may persist. Negotiations can fail. Geopolitical risks can reappear quickly, and energy prices can reverse direction.

Nevertheless, sustained moderation in oil prices would be economically beneficial.

It could reduce headline inflation, ease pressure on consumers, improve corporate cost structures, and potentially give the Federal Reserve greater flexibility.

Conversely, another sustained increase in energy prices would challenge this outlook.

The critical issue is whether inflation expectations remain anchored while the economy absorbs successive external shocks.

For now, we believe the potential for lower energy prices provides a constructive counterweight to the inflation risks that have dominated much of the year.

We would not, however, build an investment strategy on the assumption that geopolitical tensions will resolve quickly.

5. The Historical Midterm Pattern: Encouraging, Not Predictive

Midterm elections have historically coincided with increased political uncertainty and market volatility.

Once an election is complete, investors often redirect their attention toward economic growth, corporate earnings, and monetary policy.

The historical pattern is notable.

Across the 19 U.S. midterm elections from 1950 through 2022, the S&P 500 recorded a positive price return over the subsequent twelve months in every instance, using a commonly cited election-date methodology.

The average gain was approximately 15.1%.

<escape>**Historical S&P 500 Performance Following Midterm Elections, 1950–2022**</escape>

Measure	Historical Result
Midterm elections examined	19
Positive subsequent 12-month periods	19
Average subsequent 12-month price return	Approximately 15.1%

Sources: J.P. Morgan Asset Management and historical market analyses. Methodologies and return calculations can vary. Historical returns exclude dividends where price-index data is used.

This record offers useful perspective, especially for investors tempted to make allocation decisions based on election outcomes.

However, it requires several qualifications.

First, nineteen observations represent a limited historical sample.

Second, economic conditions differ substantially across election cycles.

Third, a positive twelve-month return does not mean the intervening period was free of market declines.

Finally, the relationship does not establish that the election outcome itself caused the subsequent gains.

Monetary policy, earnings growth, valuations, and business-cycle conditions all influence market performance.

Political configurations may affect particular industries or legislation, but they do not independently determine the direction of the broader equity market.

The practical lesson is therefore not that stocks are certain to rise after this election.

It is that political uncertainty has historically been a poor reason for long-term investors to abandon a disciplined investment strategy.

The historical evidence supports patience and diversification, not short-term prediction.

6. What This Means for Client Portfolios

InVestra's investment framework remains grounded in long-term financial objectives rather than attempts to anticipate political or market turning points.

We believe the current environment supports six portfolio priorities.

Emphasize quality and sustainable earnings.

Companies with durable competitive advantages, healthy balance sheets, and consistent free cash flow should remain central to long-term equity allocations.

Expand the opportunity set within artificial intelligence.

We favor a balanced approach that includes established technology leaders while identifying businesses capable of realizing measurable productivity benefits from AI adoption.

Maintain broad diversification.

Market leadership is not permanent. Exposure across sectors, market capitalizations, and investment styles reduces reliance on any single growth narrative.

Retain high-quality fixed income.

Current yields provide meaningful income opportunities, though interest-rate risk remains. Bond allocations should reflect portfolio objectives, liquidity needs, and risk tolerance.

Preserve appropriate liquidity.

Cash reserves should be aligned with anticipated withdrawals, financial commitments, and portfolio risk management rather than maintained solely in anticipation of a market correction.

Remain invested according to plan.

History demonstrates the difficulty of consistently timing market exits and reentries.

We would prefer to manage market volatility within a disciplined allocation framework rather than attempt to predict every short-term movement.

These principles are especially relevant when markets are responding simultaneously to political change, geopolitical developments, technological investment, and monetary policy.

7. Risks to Our Outlook

Our constructive long-term perspective does not imply that the path ahead will be smooth.

Several risks require continued attention.

Persistent inflation and tighter monetary policy. Inflation could remain elevated, requiring the Federal Reserve to maintain or increase policy rates for longer than investors anticipate.

Renewed geopolitical instability. A reversal in the recent decline in oil prices could create additional pressure on consumers, businesses, and financial markets.

AI capital-spending disappointments. If expected financial returns fail to materialize, valuations and financing conditions could deteriorate, particularly for more leveraged businesses.

Congressional gridlock. Divided government can limit policy changes, but it can also increase uncertainty around budgets, appropriations, fiscal negotiations, and other legislative priorities.

Elevated equity valuations. Strong investment themes do not guarantee attractive returns when expectations become excessive.

Historical-pattern risk. The post-midterm market record is encouraging, but there is no assurance that the current cycle will follow the same path.

These risks reinforce the importance of diversification, ongoing portfolio review, and disciplined risk management.

Bottom Line: Stay Focused on What Endures

The midterm elections have altered Washington's balance of power.

They have not eliminated the economic forces shaping investment markets.

Artificial intelligence remains a major source of technological investment and potential productivity growth. Interest rates remain elevated. Inflation continues to present challenges. Energy markets are still vulnerable to geopolitical developments.

At the same time, the U.S. economy has demonstrated resilience, and the market's immediate response to the election has been broadly constructive.

Our view is that the political overhang has diminished, even as the fundamental crosscurrents remain.

We continue to believe the most effective response is not to predict the next political development or Federal Reserve decision, but to maintain a portfolio designed to participate in economic growth while managing risk.

Diversification, sustainable earnings, strong balance sheets, and investment discipline remain the foundation of our approach.

For long-term investors, periods of election-related volatility may create attractive opportunities, provided investment decisions remain consistent with individual objectives and risk tolerance.

The weather is not entirely clear.

But investors do not need clear skies to make progress.

They need a durable strategy, a long-term perspective, and the discipline to stay the course.

Sources and Research References

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Important Disclosures

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