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Market and
Economic **Update**

Resilient Growth Amid Market and Political Crosscurrents

October in Review, Plus What the Midterm Election Results Could Mean for Investors

NOVEMBER 2026

October proved to be a volatile month for stocks, even as year-to-date gains remained solid. Major indices posted mixed results, with technology/AI stocks weighing on performance. Meanwhile, the bond market found some relief as long-term interest rates retreated from recent peaks. These developments reflect investors reassessing key themes surrounding artificial intelligence, interest rates, and Federal Reserve policy. Despite these fluctuations, corporate earnings and the broader economy remained resilient.

Meanwhile, higher oil prices have complicated the inflation outlook and reinforced expectations that interest rates may remain elevated. These crosscurrents, combined with the shift in political control following the midterm elections, underscore the importance of distinguishing short-term headlines from the forces that shape long-term portfolio outcomes.

Key Market and Economic Drivers in October



The S&P 500 and Nasdaq fell -0.9% and -5.3%, respectively, while the Dow Jones Industrial Average rose 1.7% in October. Year-to-date, they have gained 10.7%, 9.4%, and 7.7%, respectively.



Volatility, as measured by the CBOE VIX index, ended the month at 19.4, after falling as low as 14.2 in September.



International developed markets returned -0.8% based on the MSCI EAFE Index in U.S. dollar terms, while emerging markets returned -8.1% based on the MSCI EM Index.



The 30-year Treasury yield fell from its recent highs, closing the month at 5.31%. The 10-year Treasury yield ended the month at 4.93%, falling below 5%. The Bloomberg U.S. Aggregate Bond Index returned 2.4% for the month.



Oil prices rose significantly in October, driven by renewed geopolitical tensions in the Middle East. Brent crude closed the month at $118 per barrel and WTI just below $103.

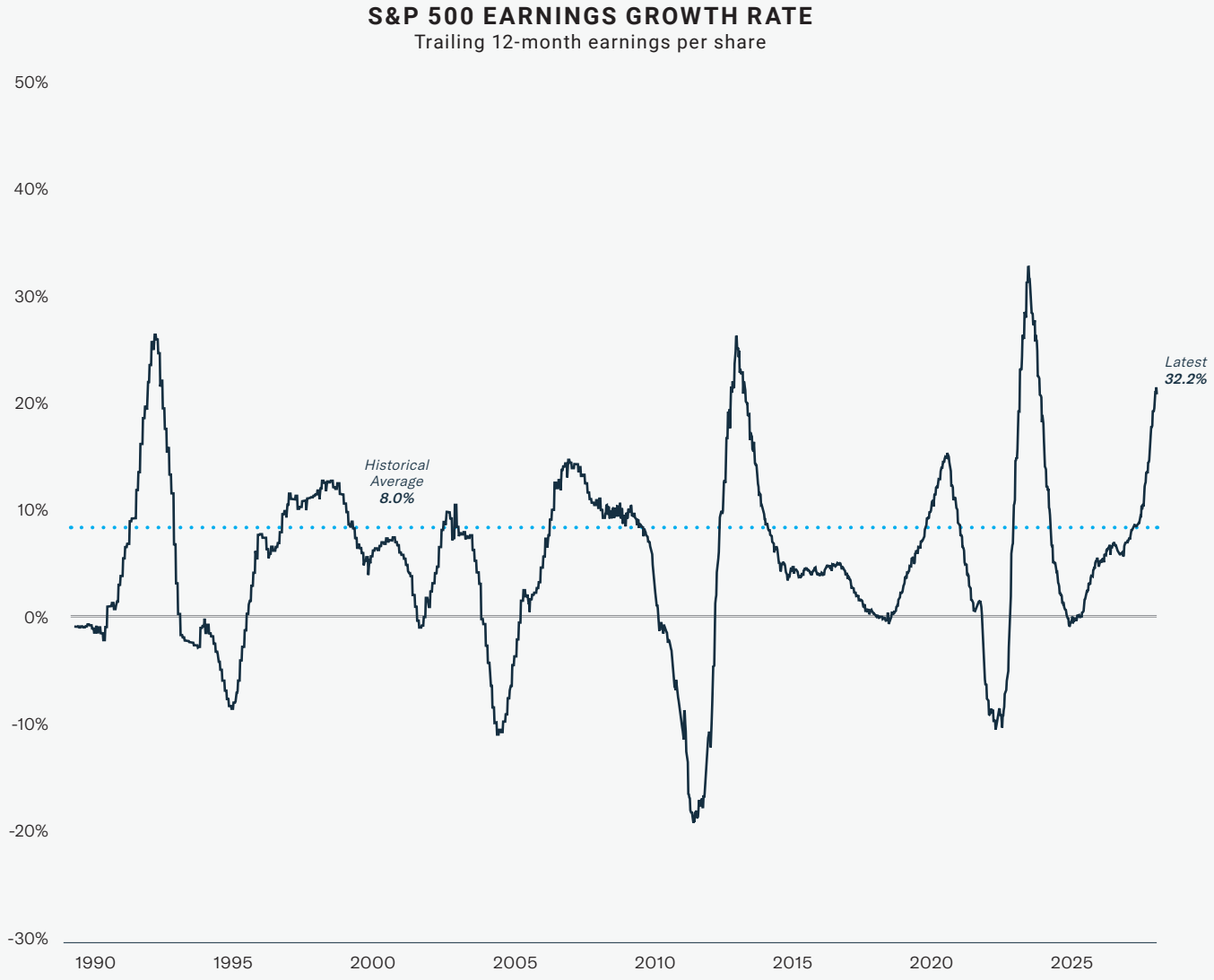


The U.S. Dollar Index fell to 101.9 at the end of October. Gold ended the month at $3,873 per ounce, a recent low.



The Fed held rates within the range of 3.75% to 4.00% at its October meeting, with two officials favoring a 25-basis point increase.

1. Strong Earnings Have Helped Offset Questions About AI Spending



Past performance is no guarantee of future results. *Sources: Clearnomics, LSEG. ©Clearnomics. 1/1/1985 – 11/3/2026*

Artificial intelligence (AI) has remained one of the most important forces shaping markets and the economy. The current impact is being driven primarily by the large-scale buildout of data centers, semiconductor capacity, and energy infrastructure.

These projects require significant capital investment. During October, despite earnings growth, several large technology companies reported pressure on free cash flow related to infrastructure spending.

At the same time, AI-related investment is benefiting a broad range of industries, including construction, electricity generation, equipment suppliers, and semiconductor manufacturers. This activity has contributed to faster corporate earnings growth and stronger business investment. The acceleration in earnings has also helped moderate broad-market valuations compared with their previous highs.

It is worth keeping in mind that AI is only one of many forces influencing markets. Technology stocks also tend to be sensitive to interest rates, given that their cash flows are projected to occur well into the future. As a result, trends in long-term interest rates, Fed decisions, and other factors can affect both these sectors and the broader market.

The Fed's Hawkish Hold

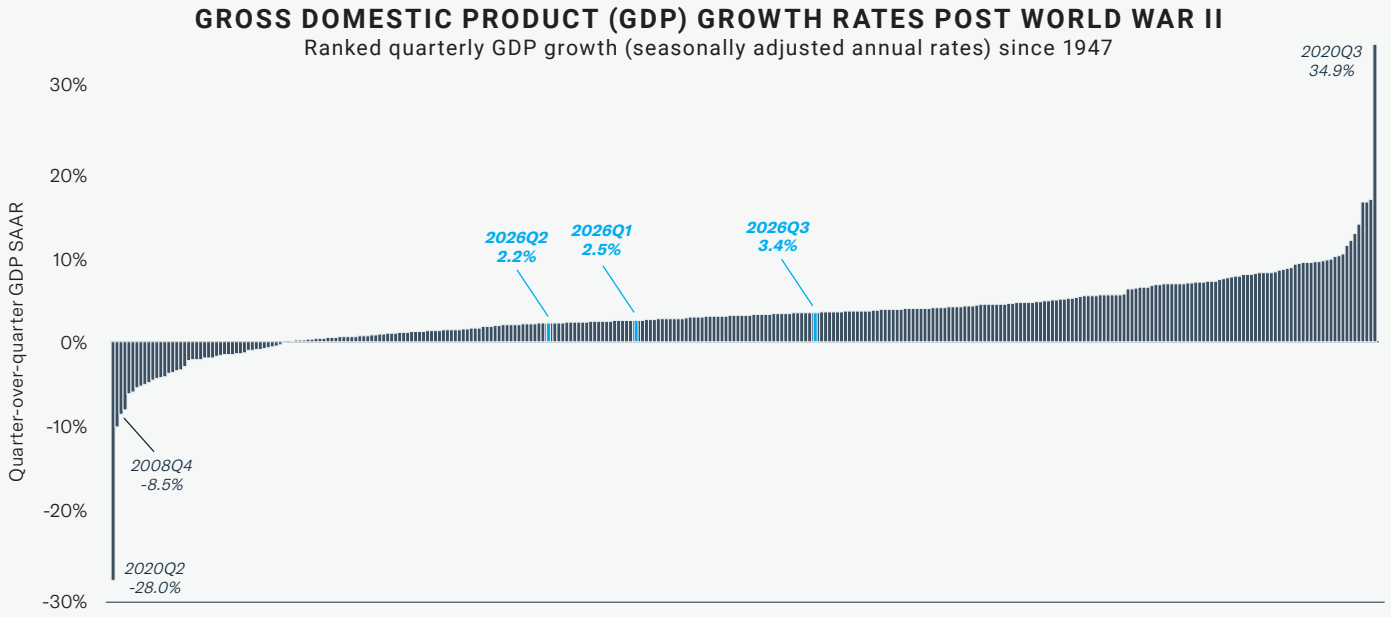
The Federal Reserve faced a complicated policy backdrop in October, with inflation still running above target, economic growth remaining solid, and renewed geopolitical tensions adding to near-term price pressures. Rising energy prices added another wrinkle, as disruptions to shipping and energy infrastructure in the Middle East pushed Brent crude to approximately $118 per barrel and West Texas Intermediate crude to roughly $103.

Against this backdrop, the Personal Consumption Expenditures (PCE) price index rose 0.5% in September and 3.6% from a year earlier, while core PCE inflation was 3.1%.[1] Inflation has now exceeded the Fed's 2% target for 67 months.

This context helps explain why the Fed's October decision to leave its policy rate unchanged at 3.75% to 4.00% has been described as a "hawkish hold." The official meeting statement characterized economic activity as expanding at a strong pace, while noting that additional data would inform the appropriate policy stance.

The combination of elevated energy prices, persistent inflation, and solid growth may limit the Fed's flexibility in the near term. For investors, this may increase the importance of maintaining balance across assets that respond differently to changes in inflation and interest rates.

2. Economic Growth Remained Resilient



Past performance is no guarantee of future results. *Sources: Clearnomics, U.S. Bureau of Economic Analysis. ©Clearnomics. 1/1/1947 - 9/30/2026*

Despite weak consumer confidence, the U.S. economy expanded at a 3.4% annualized rate during the third quarter, its strongest quarterly pace in a year. This expansion was driven largely by strong consumer spending growth which increased 2.5%, and business investment which rose 3.3%.[2] AI-related infrastructure spending contributed to business investment, while the equipment required for these projects also increased imports and weighed on net exports.

Consumer spending has continued to grow even as households express concerns about inflation, housing affordability, energy costs, and the labor market. This divergence illustrates why economic sentiment and actual economic activity do not always move together. Rising financial markets and relatively low unemployment have supported spending for some households, while higher food, fuel, and housing costs have created greater pressure for others.

These conditions point to an economy that remains healthy overall. Solid growth and accelerating earnings provide a constructive backdrop for financial markets, while sticky inflation and elevated interest rates remain key risks.

What the Midterm Election Results Could Mean for Long-Term Investors

The Nov. 3 midterm elections shifted the balance of power in Washington, with Democrats securing control of the House and Senate and creating a divided government for the final two years of President Trump's term. Economic concerns appear to have played a major role in the outcome, particularly voter frustration with the cost of living, tariffs, energy prices, and housing affordability.

The University of Michigan's consumer sentiment index fell to its second-lowest reading on record in October.[3] Nearly 90% of voters surveyed by the Associated Press identified the cost of living as a crucial or major factor in their decision.[4]

This weak sentiment stands in contrast to the resilient spending and GDP growth discussed above. The divergence may reflect a K-shaped economy in which households with substantial financial assets may benefit from rising markets, while households more exposed to food, fuel, and housing costs experience greater financial strain.

Divided Government May Limit Major Policy Changes

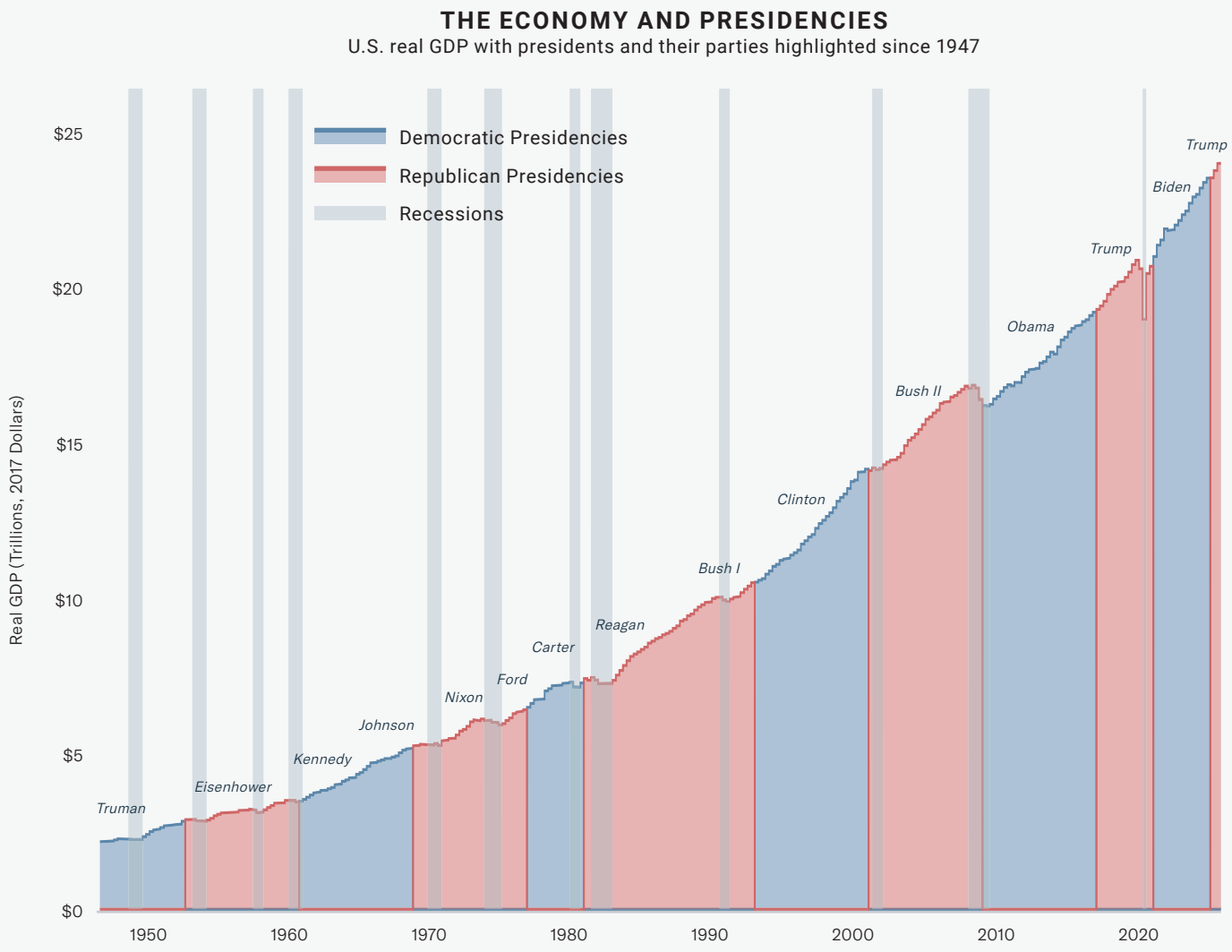
Periods of divided government are common, particularly following midterm elections. While the new balance of power will shape negotiations in Washington, it may also reduce the likelihood of sweeping legislative changes and create a more constrained policy environment.

Federal budget and debt-ceiling negotiations will require bipartisan agreement and could generate periods of short-term volatility. Policy uncertainty surrounding tariffs, taxes, the national debt, and geopolitical conflicts may also continue to influence investor sentiment.

AI infrastructure presents another area to watch. A number of local ballot measures addressed data-center construction, with many favoring additional restrictions. These proposals reflect concerns about electricity demand, water usage, and the local effects of large data centers. Because AI infrastructure investment has been an important contributor to business spending and economic growth, future restrictions could affect individual companies, industries, and communities.

Still, markets have historically adjusted as policy outcomes become clearer and investors refocus on fundamentals such as corporate earnings, inflation, interest rates, and economic growth.

3. Long-Term Growth Has Spanned Many Political Environments



Past performance is no guarantee of future results. *Sources: Clearnomics, Bureau of Economic Analysis, NBER. ©Clearnomics. 1/1/1947 – 12/31/2025*

While political decisions can meaningfully affect taxes, regulation, trade, government spending, and specific industries, election outcomes alone have rarely determined the long-term direction of the economy or financial markets.

U.S. economic growth has persisted under Democratic and Republican presidents, as well as during periods of unified and divided government. Over time, business cycles, technological innovation, productivity, demographics, and corporate earnings have generally had a greater influence on long-term market performance than any single election.

For investors, this history reinforces the importance of separating political views from portfolio deci-sions. Policy changes can create opportunities and risks for certain sectors, but reacting broadly to elec-tion outcomes can lead investors away from their long-term strategies at precisely the wrong time.

The bottom line?

The midterm election results introduce a new political dynamic, but they do not change the broader investment principles highlighted by the month's economic data. Political developments may influence individual industries and contribute to short-term volatility, while long-term portfolio outcomes are more likely to be shaped by economic growth, inflation, interest rates, innovation, and corporate fundamentals.

Maintaining a balanced portfolio and staying focused on long-term financial goals can help in-vestors navigate both changing market conditions and political cycles.

[1] *Bureau of Economic Analysis, Personal Income and Outlays, September 2026, October 29, 2026*

[2] *Bureau of Economic Analysis, GDP (Advance Estimate), 3rd Quarter 2026, October 29, 2026*

[3] *University of Michigan, Surveys of Consumers, October 2026*

[4] *Associated Press, What motivated voters in the 2026 midterm elections, according to The AP Voter Poll, November 4, 2026*

Indexes are unmanaged and it's not possible to invest directly in an index. The S&P 500 Total Return Index is a market-capitalization weighted index of the 500 largest U.S. publicly traded companies. CBOE Volatility Index (VIX) is a measure of implied volatility, based on the prices of a basket of S&P 500 Index options with 30 days to expiration. Dow Jones Industrial Average is comprised of 30 stocks that are major factors in their industries and widely held by individuals and institutional investors. MSCI EAFE Index is designed to measure the equity market performance of developed markets outside the U.S. and Canada. MSCI Emerging Markets (EM) Index is designed to measure large- and midcap representation across emerging market countries. Bloomberg U.S. Aggregate Bond Index is designed to measure the performance of the U.S. investment grade bond market. 10-year Treasury is represented by the Bloomberg US Treasury Bellwethers 10 Year Index that measures the on-the-run (most recently auctioned) U.S. Treasury bond with 10 years' maturity. Diversification does not assure a profit, nor does it protect against loss of principal.

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