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Investment Insights

Midterm Uncertainty Tests the AI Buildout

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Major U.S. Equity indexes sold off today as concerns build around the impact of a blue sweep midterm election outcome on the future of the Artificial Intelligence (AI) investment buildout. While gridlock has traditionally been market-friendly, it's not surprising to us to see more uncertainty in the short-term as investors assess how the policy backdrop could impact data center construction and record capital investment growth. Volatility could persist in the near-term with the conflict in the Middle East and government deficits also top of mind. U.S. Equity performance post-midterms has historically been strong on average, but as we have often observed, markets are rarely linear. Our focus remains on the direction of economic growth and corporate earnings revisions which both remain strong. Below are some considerations as we move through the AI investment cycle:

- AI continues to drive substantial incremental demand for compute.
- Local ballot measures and political opposition add constraints to a buildout already facing hurdles including power, permitting, and financing.
- A slower buildout could help to reduce financing excess and the risk of overbuilding by favoring higher-quality projects/developers.
- Quality may be available via strong hyperscalers and infrastructure providers with healthy operating cash flows and balance sheet capacity while avoiding lower-quality areas ripe with leverage and project-level financing.

We would use weakness in equity markets as a potential opportunity to rebalance equity allocations upward with a focus on high-quality areas of the AI complex. Volatility in the bond markets is likely to persist, creating potential opportunity should bond yields back up after this initial move lower. Looking out to 2027, we continue to expect capital investment growth, solid consumer spending, better productivity, and corporate profits to power this cycle forward.

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