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CHIEF INVESTMENT OFFICE

Investment Insights

Midterms and The Markets

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With a blue sweep of the House of Representatives and the Senate, investors could begin to price in an environment of policy gridlock in the coming weeks, which has traditionally been market friendly to a large degree. However, we believe there could be more uncertainty at least in the very short-term. Investor concerns could grow around Government spending and the unsustainable fiscal deficit, which could push up bond yields; stalemates on data center construction which could call into question the record capital investment growth; and, the conflict in the Middle East extends for longer-than-expected could keep oil prices higher for longer.

The collection of these concerns could also put subtle pressure on valuations for the equity markets which would balance out some of the positives we expect in terms of earnings, corporate margins and productivity heading into 2027. If equity markets experience weakness in the post-Midterm period, we would use this as a potential opportunity to rebalance equity allocations upward.

Moreover, while bonds yields are initially moving lower, if we ultimately see them back up sharper-than-expected, we would also consider repositioning segments of Fixed Income in a more attractive stance. Expect volatility in the bond markets to persist. If the 10-year Treasury yield approaches 5.5%, the institutional and non-U.S. demand for Fixed Income should rise, in our view. For taxable investors in the U.S. this also extends to longer-dated municipal securities and higher-quality credit.

Policy uncertainty is likely to continue with a Democratic sweep. We would use weakness in both Equity and Fixed Income markets as a potential opportunity to reposition portfolios for higher prices. We expect a thematically growth-driven equity market to continue in 2027 given our view that capital investment growth, the manufacturing and biotechnology renaissances, solid consumer spending driven by the boomers, and increasing productivity continue to support better-than-expected economic growth. We also expect commodities, in general, to stay attractive as infrastructure spending remains robust. For those overly concerned about the Artificial Intelligence buildout story weakening, we suggest diversifying parts of the portfolio allocation into higher dividend paying segments of the equity markets.

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