

Market Commentary



Weekly perspective on current market sentiment

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Last week's S&P 500 Index: -2.0%

Don't let Washington drive your portfolio

Key takeaways

- We don't expect the midterm election outcome to change our investment outlook. Economic growth, earnings, inflation, and interest rates should remain more important market drivers than which party controls Congress.
- We would resist making major portfolio moves based on the election outcome alone. Instead, we continue to favor diversified portfolios positioned around durable economic and investment trends.

With the midterms fast approaching, investors may be wondering whether they should make changes to their portfolios before Election Day on November 3. Our short answer: probably not.

That's not to say elections don't matter. As we detail in our October 15 *Policy, Politics & Portfolios* report, depending on which party controls Congress, we could see different proposals tied to spending, energy, health care, and regulation. For example, Affordable Care Act (ACA) subsidies and food assistance benefits remain areas of significant policy debate. But major policy changes may be harder to accomplish than campaign headlines suggest. Congressional majorities are likely to remain narrow under any outcome, and disagreements between and within the parties should limit sweeping legislation.

More importantly, we don't think the election results change the broader economic story driving markets. Regardless of who controls Congress, we expect other forces to remain the bigger drivers of economic growth. These include artificial intelligence (AI)-related investment, consumer resilience, energy prices, and Federal Reserve policy. Our economic outlook is unchanged across the three possible election scenarios: a split Congress, continued Republican control, or Democratic control of Congress under a Republican president. History supports our view: Since 1979, average two-year real economic growth has been nearly identical under single-party congressional control and under divided chambers.

The same idea applies to markets. Elections may create winners and losers in areas such as defense, energy, health care, housing, and AI infrastructure. But for the broader stock market, we believe economic growth, company earnings, inflation, and interest rates will matter much more.

No matter which party or parties control Congress, one area to watch is government borrowing. Federal deficits have widened regardless of the makeup of Congress. In recent decades, disagreements in Washington have centered more on *how* money should be spent rather than *whether* it should be spent. Continued deficits mean more Treasury borrowing, one of several factors we expect to keep longer-term interest rates elevated through 2027.

So, what should investors do? We would resist making major portfolio moves based on the election outcome alone. Our guidance is designed to participate in durable trends and manage policy-related volatility. We favor U.S. Large Cap Equities, short-term taxable fixed income, and Commodities while remaining unfavorable on long-term taxable fixed income.

Bottom line: Take political views to the polls, not to your portfolio. Elections may not always produce majorities capable of making big changes that affect markets. We believe staying diversified and focused on the larger economic trends remains the more disciplined approach to long-term investing.

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