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First to Market

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WHAT MATTERS TO INVESTORS FOR MIDTERM ELECTIONS?



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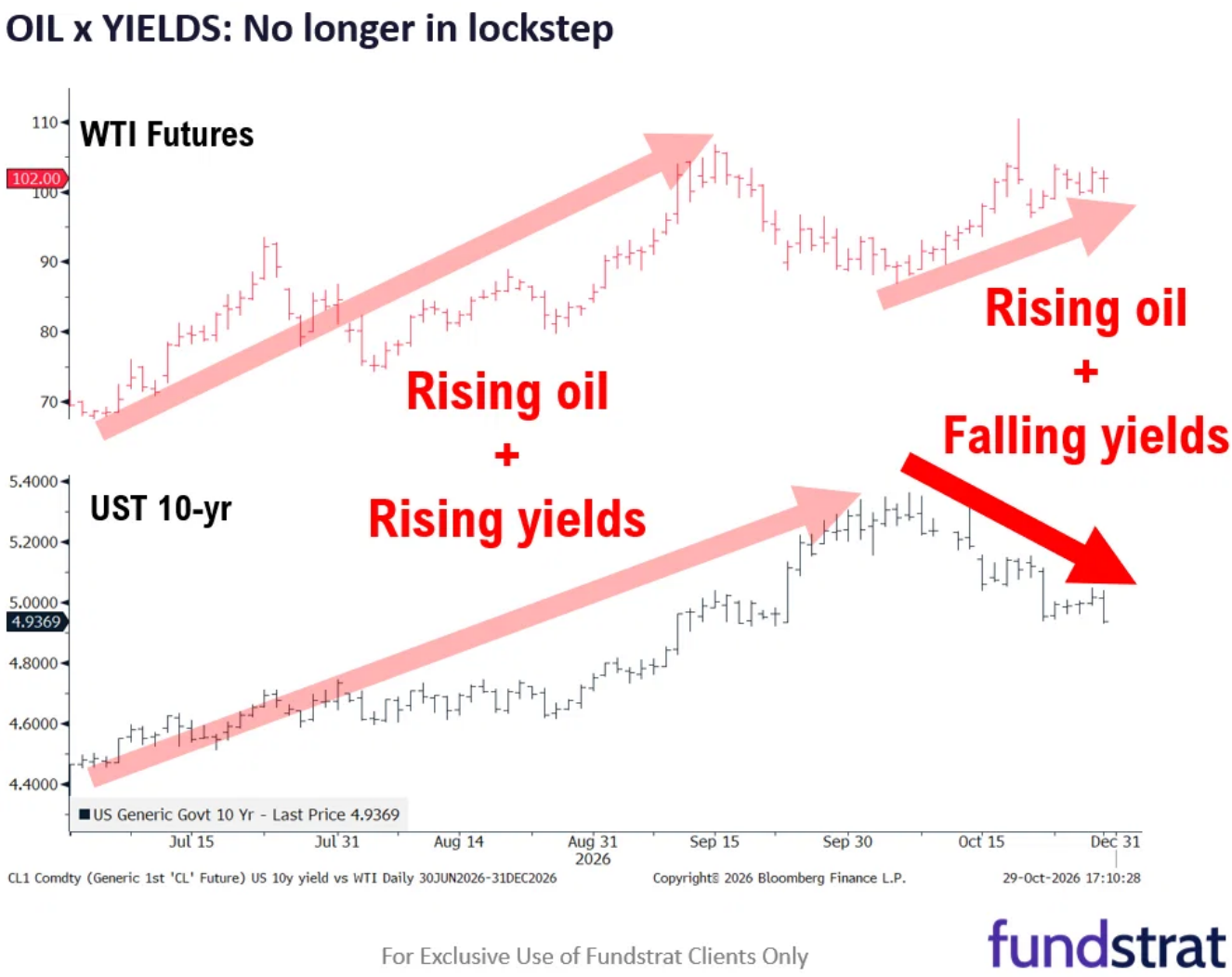
Chart of the Day



Good morning!

Investor sentiment remains depressed heading into the midterm elections.

The twist is that it doesn't really matter which party ends up winning control of the House or the Senate because midterms are a clearing event and stocks arguably remain a "coiled spring," as Fundstrat Head of Research Tom Lee puts it.

Historical data backs up that view. Since 1928, the S&P 500 in the fourth quarter during midterm years has posted an average gain of 5.6% and a median advance of 7.2%, according to Macro Data Scientist Alex Wang. (I also wrote a *Signal From Noise* that was published over the weekend on this if you'd like to go check it out.)

My bet is that these near-term worries will dissipate and stocks will post a gangbusters fourth quarter, even if for the past month, steep losses in tech stocks have been masking strength just about everywhere else in the market.

However, just because the expectation is that stocks typically fare well doesn't mean we should ignore the underlying emotions of voters. How they feel may not matter for the trajectory of stock-market returns immediately, but it'll certainly weigh on stocks in the coming years. The political backlash that's slowing data center buildout currently could also spread to rising costs of living, which could drag down consumer spending and punish corporate margins.

It probably comes as little surprise that the economy and healthcare are the most important issues to voters in the 2026 midterm elections, according to a Gallup poll. It's ironic in a way, though, because U.S. economic growth has far outpaced that of other G-7 countries—Canada, France, Germany, Italy, Japan, and the United Kingdom—during Trump's second presidency. In fact, it's done so ever since the pandemic ended. For healthcare, too, hiring has been epic and the reason why we can confidently say the labor market is resilient, instead of faltering, but jobs there have done little to make voters feel better about the quality or affordability of their health care.

The reasoning is simple; it's because of the K-shaped economy. Spending by the top 10% keeps growing, partially thanks to stocks hitting records, but the rest aren't faring so well.

The war in Iran shows no signs of slowing down and might even pick up after the midterms, meaning that in addition to dealing with higher gas and diesel prices, households now have to gear up for higher home heating bills, too. Driven largely by the war, the September consumer-price index report showed that the energy index increased 20.4% from a year ago, while the food index increased 2.5% over the last year.

The percentage of voters saying the situation in Iran is "extremely important" in midterm elections is at 47%, compared to 50% for both the economy and healthcare, the Gallup poll shows.

The job market has offered little reprieve in the meantime. Most workers are having a tough time switching jobs, but younger workers are finding it nearly impossible to find a job in the first place. A *New York Times* story highlighted Gen Z's job hunting perspective, and the quotes are haunting. Excerpt below:

This summer, after months of radio silence, he finally got what seemed like a golden opportunity: a video interview with two real people for a role at a utility company. But shortly after Hernández joined the call and began making his pitch, the recruiter onscreen closed his eyes and leaned back in his chair.

He seemed to have fallen asleep mid-interview.

"At that point, just give me the A.I.," said Hernández, who did not end up getting the offer.

Wage growth has consistently lagged behind inflation, tracked via the personal-consumption expenditures, for six straight months, the longest losing streak since the 16-month long stretch ending in February 2023.

Healthcare premiums are expected to skyrocket next year, as well. According to another *New York Times* story, "the cost per worker is projected to go up an average of 11 percent next year, or somewhat lower if workers' insurance benefits are reduced, according to a U.S. survey released Wednesday."

So some consumers are not only getting squeezed by the higher costs of living but also if they try to switch to a higher paying job, they're getting the short end of the stick.

The takeaway here is that the markets can ignore voters' moods for a quarter and maybe even another, but it can't ignore them forever. The key to a sustainable and durable stock-market rally lies in the underlying strength of the economy and affordability of healthcare, along with the situation in Iran improving. Until then, I think we should expect a choppier road in 2027.

Share your thoughts

What are your expectations for tomorrow's midterm elections? Click here to send us your response.

✍Here's what a reader commented ✍

Q: Do you favor a SpaceX-Tesla merger?

A: Joining forces does seem inevitable. It’s the meme of the day. Give it another seven years and they’ll break up to focus on “efficiencies” and other business school buzzwords. See GE, Dow, etc.

Catch up with Fundstrat

Looking at the bigger picture, last week was an overall win for markets as we got several positive developments including, a less hawkish Fed, better internals on Core PCE and importantly, bond yields that are not acting “unhinged.” This is why we see markets as a coiled spring and perhaps the strongest segment of a rally is post-midterms.

Technical

Friday saw a horrendous sell-off in technology and the S&P 500 broke down under the lows from earlier in the week. Yet equal-weighted S&P 500 really did not see much damage at all and continues to show a steady uptrend. We saw something very similar in May through late July, and in the past, that resulted in at least a minor breakout into August.

Crypto

Binance appears to be the latest victim of an increasingly challenging cybersecurity environment. Onchain tracing shows ~$6.3B drained from Binance hot wallets across

eight chains on 10/29, ~$6.1B of it in the first 55 minutes.

News We're Following

Breaking News

- US stock futures rise as oil prices drop easing AI-led selloff BBG

Markets and economy

- Oil prices down on hopes of Gulf talks progress SEM

Business

- Binance says customers pulled net $4.7 billion after hack as crypto world weighs risk REU
- Alphabet is paying up for euro bonds in test of AI appetite BBG
- Marvell to buy Lumentum in $115 billion deal in AI data-center bet CNBC
- Marriott lifts annual room revenue growth forecast on resilient travel demand REU

Politics/U.S.

- Stevens shocks Democrats with last-minute Rogers endorsement HILL
- Trump Justice Dept breaks with tradition to intervene in midterms REU
- Chris Murphy is hospitalized after stroke POL
- Nine killed as small jet crashes on Florida street BBC

Overseas

- Fake alerts warn of nuclear danger as Ukraine and Russia report emergency app hacks NBC
- China expels a record number from Communist party amid Xi’s intensified purges of top officials GUA
- Supermarket freezers in Belgium, Sweden and Luxembourg hit by suspected cyber-attack BBC
- Germany blames infiltrators as Gen Z protests turn violent CNN

Of Interest

- Karl Bushby completes 28-year, 31,000-mile walk around world and returns to mother's house AP

Overnight	
S&P Futures	+38 ▲ point(s) (+0.50% ▲)
overnight range:	+11 ▲ to +45 ▲ point(s)

APAC	
Nikkei	-0.33% ▼
Topix	-0.88% ▼
China SHCOMP	+1.08% ▲
Hang Seng	+0.42% ▲
Korea	+2.24% ▲
Singapore	-1.36% ▼
Australia	-0.58% ▼
India	+1.68% ▲
Taiwan	-0.65% ▼

Europe	
Stoxx 50	+0.43% ▲
Stoxx 600	+0.12% ▲
FTSE 100	+0.12% ▲
DAX	+0.34% ▲
CAC 40	+0.45% ▲
Italy	+0.52% ▲
IBEX	+1.06% ▲
Canada	-1.74% ▼

Canada	-1.74% ▼
Mexico	-0.01% ▼
Brazil	-0.75% ▼

FX

Dollar Index (DXY)	-0.20% ▼ to 101.68
EUR/USD	+0.40% ▲ to 1.1205
GBP/USD	+0.09% ▲ to 1.3403
USD/JPY	-0.26% ▼ to 157.97
USD/CNY	+0.09% ▲ to 6.6487
USD/CNH	+0.09% ▲ to 6.6465
USD/CHF	+0.43% ▲ to 0.8215
USD/CAD	-0.05% ▼ to 1.3981
AUD/USD	-0.30% ▼ to 0.7011

UST Term Structure

2Y-3M Spread narrowed	-0.7bps ▼ to 49.2bps
10Y-2Y Spread narrowed	-1.2bps ▼ to 32.5bps
30Y-10Y Spread narrowed	-1.1bps ▼ to 36.6bps

USD HY OaS

All Sectors	+7.6bps ▲ to 380bps
All Sectors ex-Energy	+7.9bps ▲ 341bps
Cons Disc	+11.8bps ▲ to 642bps
Indu	+8.4bps ▲ to 274bps
Tech	+3.3bps ▲ to 204bps

Comm Srvcs	+11.4bps ▲ to 366bps
Materials	+3.2bps ▲ to 281bps
Energy	+8.4bps ▲ to 294bps
Fin Snr	+3.2bps ▲ to 216bps
Fin Sub	+6.7bps ▲ to 319bps
Cons Staples	+20.2bps ▲ to 471bps
Healthcare	+8.2bps ▲ to 368bps
Utes	+2.7bps ▲ to 228bps *

DATE	TIME	DESCRIPTION	ESTIMATE	LAST
11/2	9:45 AM	Oct F S&P Manu PMI	56	56
11/3	10:00 AM	Sep JOLTS	7155	7079
11/3	10:00 AM	Sep F Durable Gds Orders	1.8	1.8
11/4	8:30 AM	Sep Trade Balance	-107.9	-105.572
11/4	9:45 AM	Oct F S&P Srvcs PMI	57.9	57.9
11/4	10:00 AM	Oct ISM Srvcs PMI	54.8	54.9
11/5	8:30 AM	3Q P Nonfarm Productivity	2.6	1.4
11/5	8:30 AM	3Q P Unit Labor Costs	0.5	1.2
11/6	8:30 AM	Oct AHE m/m	0.3	0.1
11/6	8:30 AM	Oct Unemployment Rate	4.2	4.2
11/6	8:30 AM	Oct Non-farm Payrolls	65	29
11/6	10:00 AM	Nov P UMich 1yr Inf Exp	4.7	4.7
11/6	10:00 AM	Nov P UMich Sentiment	48	48

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