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Equity Market Commentary

SLIMMON'S TAKE | APPLIED EQUITY TEAM | November 2026

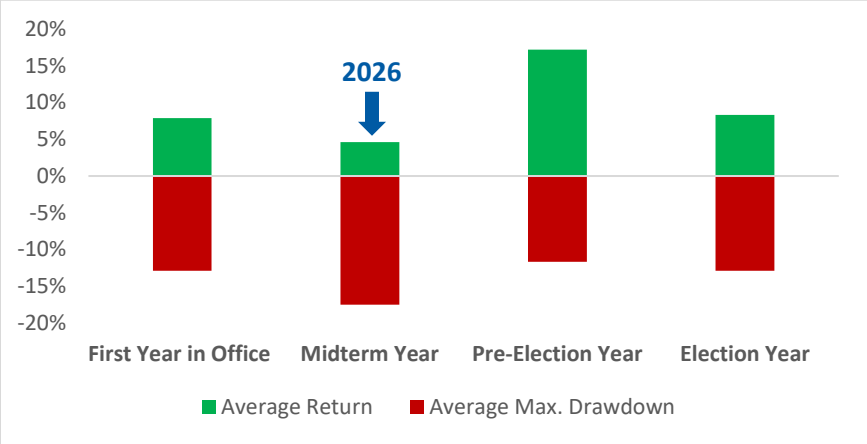
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All year I have used the following chart to warn that during midterm election years we should anticipate more volatility and bigger drawdowns in the stock market.

For most of 2026 I have felt like a dope, as we experienced very little volatility.

Bad call.

S&P 500 Performance During the US Presidential Cycle



Source: LPL Research, Bloomberg, Fundstrat, Strategas. 1950 – 2026.
Past performance is no guarantee of future results. The index performance is provided for illustrative purposes only and is not meant to depict the performance of a specific investment.

Until October.

When the mid-terms were right around the corner.

We have certainly experienced plenty of volatility since then!

AUTHOR



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2 The most important message of this Slimmon TAKE is straightforward:

> *When equity markets are consumed with what is occurring in Washington DC, it's almost always a good buying opportunity.*
>
> *Markets have a history of overstating the economic importance of perceived policy change.*

I would point out that since the S&P 500 started in 1950, the stock market has been higher 6 and 12 months later 19 out of 19 midterm elections.[1]

3 An unpopular Republican President. An unpopular war in the Middle East. The result? The Democrats win the midterms and retake the House and Senate.

Yes, that's what happened in **2006**. We had George Bush and the Iraq War. *(Did you think I was talking about 2026?)*

Yet, post the 2006 midterms, the S&P 500 was up +5% three months later, up +9% six months later…, and of course, up one year later too.[2]

My point is that I don't think 2026 will be an aberration.

Every mid-term election feels like an aberration, and yet not one has been.

4 While we have recently experienced volatility, the S&P 500 was only down about -6% as of the close last Thursday night November 5th.[3]

Not much of a market correction.

So, I don't think the market overall is offering an unusual buying opportunity.

While the average annual S&P 500 return is somewhere around 9-11% a year, the 12-month return only becomes statistically more attractive when the S&P 500 is down close to -15% from its high.[4]

Therefore, we need to see the SPX down below the 7,000 market level for me to become more interested than normal.

5 In my opinion, a key reason why we have not seen a broad selloff is that despite very little decline, the market has significantly derated, as I pointed out last week.

A forward P/E of 17.8x (lower valuation) combined with the continuous upward revision in earnings (better fundamentals) has limited the downside risk, in my opinion.[5]

6 Yet I think the performance extremes do make for interesting opportunities.

Consider as of last Thursday night's close:

> The iShares SOXX was down -40% from its June high.
>
> The DRAM was down -55%.

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[1] Strategas.
[2] Bloomberg.
[3] Bloomberg.
[4] Slimmon TAKE. April 2025.
[5] Factset.

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The Ai beneficiaries basket was down -46%.[6]

Therefore, looking under the S&P 500 hood, there is a lot of carnage.

That is where the opportunities lie, in my opinion.

7 Of course, with the Democrats' sweeping victory you could argue that everything has changed for companies benefitting from Ai infrastructure development.

I do agree that there will be a slowdown in the buildout.

However, the magnitude of the Ai infrastructure selloff suggests the market is pricing in not a slowdown, but a buildout cessation.

I question that.

In last week's Slimmon's TAKE, I suggested reading what occurred with Meta in Louisiana or Oracle in New Mexico as examples of what can happen when the hyperscalers work with local communities.

The following is a quote from the new Texas Governor, Gina Hinojosa during last Thursday's CNN interview after her victory:

> *"It is not that I hate data centers. I hate the way they are taking advantage of Texas, and that stops when I'm governor… We can have a strong economy, strong industry, and protections for the people of Texas. Those things are not mutually exclusive."*

I think there is too much money in Ai infrastructure for politicians to reject the buildout.

I interpret Hinojosa's comments as saying, "we need them to fund more into the communities."

As Meta and Oracle already have.

Again, a slowdown, but not cessation of buildout.

8 Money moved out of technology and communications services, into consumer staples and healthcare, not out of the market, another reason for a less than meaningful selloff in the S&P 500.

The move was into what are perceived to be defensive sectors of the market.

October was the best month for consumer staples in 20 years!

Healthcare in the S&P 500 also charged ahead, outperforming the NASDAQ by +16%.

Both are 3-standard deviation events.[7]

Yet earnings revisions breadth across healthcare and consumer staples have deteriorated, suggesting there has been no material improvement in the fundamentals.[8]

9 This is one of the reasons our portfolios have only limited exposure to staples and healthcare.

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[6]Bloomberg as of Thursday, November 5, 2026. IShares SOXX is an ETF that corresponds to the ICE Semiconductor Index.
DRAM is an ETF providing exposure to selective memory companies.
MSXXAIB is an index of stocks perceived to be the beneficiaries of the Ai buildout.
The ETF performance is shown for illustrative purposes only and is not a recommendation for these ETFs

[7] These moves are extraordinarily large compared with normal historical market movements.

[8] Morgan Stanley Research/Trading call Friday November 7th, 2026.

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As articulated in my December 2025 Slimmon's TAKE, fundamental improvement is a key aspect to our stock selection process.

Not just suddenly receiving more investor love.

And fundamental improvement has not occurred for these two sectors.

Therefore, when calmer heads prevail, the questions to ask are:

Is it really this bad for technology?

Has it really gotten this much better for staples/healthcare?

I say, "no" and "no!"

10 However, we clearly underestimated the crowding of the fast money into Ai stocks and shorting of the perceived defensives.

The big Democratic victory simply ignited the eruption under those positions.

The hedge fund deleveraging unwind has been brutal since October, as evidenced by what was highlighted in point #6.

While retail investors remain calm and long-term oriented, levered institutional hedge funds have acted as "chickens with their heads chopped off" (IMO), moving daily stock prices around at nonsensical speeds.

Whether that is a good thing (creating large short-term divergences between fundamentals and stock prices) or a bad thing (watching the sometimes-painful daily volatility in our stocks) is up for interpretation.

I favor the former!

11 I remain in the camp that the direction and trajectory of Fed rate policy is a far bigger issue for equities.

It's all about inflation.

If inflation begins to show a path towards the Federal Reserve's target of 2%, perhaps due to lower oil prices, then the depressed market P/E can rerate higher.

2027 will be a more challenging year for equites if inflation does not improve and the Fed is forced to raise rates more than Wall Street anticipates.

12 In the meantime, I think the market has overreacted to the midterms intra-sectorally, offering intriguing opportunities.

Andrew

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