After the Midterms: Market Commentary

November 5, 2026

PALLAS CAPITAL ADVISORS

Election Results

Democrats won control of both the House and the Senate in the November 3, 2026 midterms, ending unified Republican control of Washington. Democrats also won several governors' races. The new Congress takes office in January 2027.

Unlike October, when we saw a rotation in equities, today we are seeing across-the-board selling as part of a market de-risking and de-leveraging event. Price action is highlighting the increased chance of a potential economic slowdown, although not an outright recession, on the back of slower anticipation of AI CapEx spending. For clients looking to add risk, we believe today is a good time to put money to work. We reduced market-driven overweights to equities last week and reallocated that capital to fixed income as part of our normal rebalancing process here at Pallas.

We have been discussing how much AI contributes to growth in our economy today and have highlighted risks around a lack of computing power, a lack of electric power, and NIMBY concerns about the expected AI data center buildout. The midterm elections brought the third concern front and center, as changes in governors in certain states like Texas have increased the risk of delays or outright moratoriums on building future data centers.

At Pallas, we continue to maintain a long-term focus on the markets, emphasizing diversification in portfolios through both U.S. and international equities, fixed income, and private market investments. We continue to believe the foreseeable future will be one with above-average economic growth and above-average earnings, driven by government spending and the existing pipeline of the AI infrastructure buildout here in the United States. We will continue to monitor the ongoing effects of the election results on growth, earnings, and interest rates over the coming weeks. We will look to take advantage of areas of emotional, indiscriminate selling to find bargains in the marketplace where we have conviction in business models as a reason to buy with a long-term view.

Market Reaction

The first reaction to concerns about the AI buildout sent neocloud stocks, semiconductor stocks, and stocks related to the AI data center buildout lower.

However, the S&P 500 and Nasdaq each rose more than 1% on November 4, and oil dropped on expectations of a move toward peace in the Middle East, after President Trump told the Financial Times he has no immediate plans for further strikes on Iran. On the back of lower oil prices globally, 10-year Treasury yields fell, and international equities rose in anticipation of lower inflation.

After a day of digestion, we are seeing substantial moves in risk assets lower. We believe the market is in a state of de-risking and de-leveraging as part of a short-term knee-jerk reaction to concerns around the slowdown of the AI data center buildout. Interest rates continue to move lower on concerns about lower growth. Equities are moving lower in a deleveraging sell-off that started with semiconductors and neocloud providers and has now spread to U.S. stocks, emerging market equities, and international equities, while oil prices have stabilized.

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