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WASHINGTON REALIGNED: ASSESSING POLICY AND MARKET IMPLICATIONS

November 2026

WHAT'S NEXT FOR POLICY?

- **Fiscal deadlines:** Less scope for major legislation; funding and debt-limit negotiations could trade concessions for added social spending, limiting fiscal expansion while raising shutdown and debt-ceiling risks.
- **AI capital expenditure (CAPEX) regulation:** Federal artificial intelligence (AI) or data-center legislation faces veto hurdles. Texas alone holds roughly 25% of planned U.S. capacity and could bring moratoria, tighter permitting, and changes to tax incentives, delaying investment important to GDP growth. AI regulation will also grow as an issue heading into 2028.
- **Senate and appointments:** Confirmation power over Federal Reserve (Fed) governors, Supreme Court justices, and cabinet officials gives Democrats leverage, risking scrutiny, delays, or vacancies. This can be especially consequential for markets if it impedes reshaping the Fed's Board.

Democrats Take Control of the House and Senate

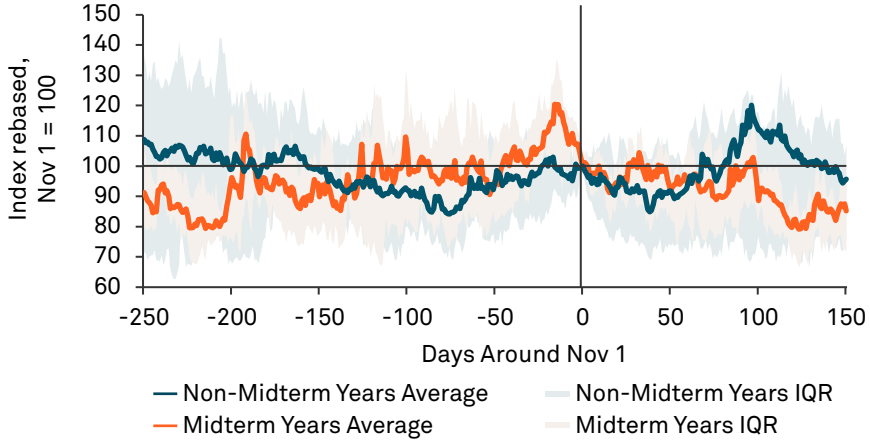
Democrats secured both chambers of Congress in the U.S. midterm elections, ending unified Republican control. This shift points to a more divided government heading into 2027-2028.

The result constrains the administration's legislative agenda while giving Democrats greater leverage over fiscal policy, oversight, and appointments, though the administration retains authority over sanctions, tariffs, and geopolitical policy.

What Are the Market Implications?

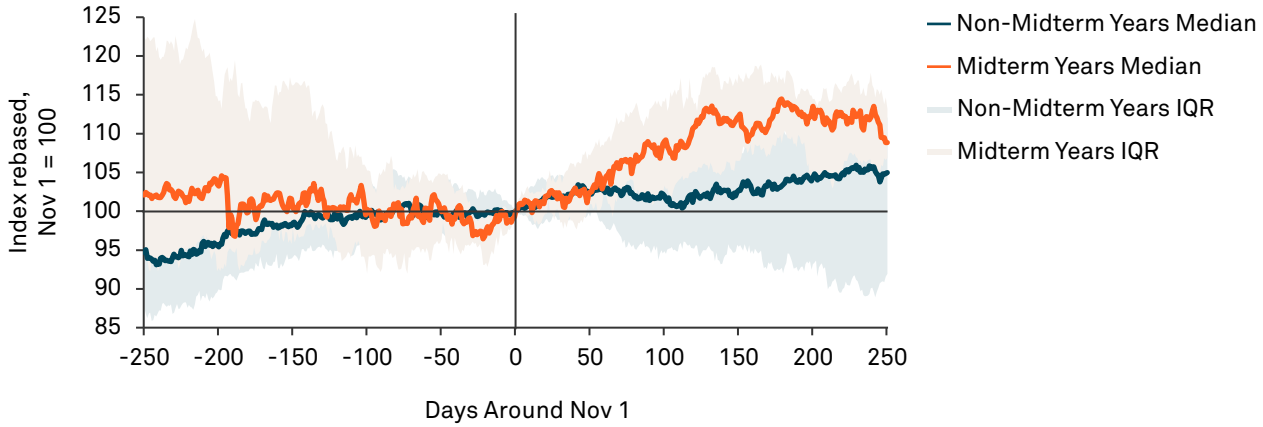
Elections bring a degree of uncertainty as they reshape expectations around fiscal policy, regulation, and the broader economic outlook. Equity markets have historically reflected this scenario, with implied volatility peaking heading into election day. The days and weeks after the election can remain volatile as markets adjust positions and reassess expectations, but as clarity builds, volatility tends to subside. The CBOE Volatility Index (VIX) has historically fallen over 10%, on average, in the six months after midterm elections.

VIX Around Midterm Election Years and Non-Election Years Since 1991



Source: Macrobond, BNY Investment Strategy and Research Group, CBOE VIX, as of November 4, 2026. IQR = Interquartile Range. Chart is for illustrative purposes only. Past performance does not guarantee future results.

S&P 500 Price Return Over Cash Around Midterm Years and Non-Midterm Years
Since 1995



Source: Macrobond, BNY Investment Strategy and Research Group, S&P 500 Index, as of November 4, 2026. S&P 500 price return over cash measures change in the index price level (excluding dividends) minus the risk-free return on cash (typically a Treasury bill yield). IQR = Interquartile Range. Chart is for illustrative purposes only. Past performance does not guarantee future results.

Historically, Fading Volatility Has Been Supportive of Risk Asset Performance

Since the mid-1950s, the S&P 500 has had a median excess return (over cash) of about 9% at 12 months following the election date. The strongest phase typically occurs in the first six months, with a roughly 12% median excess return, consistent with fading volatility. Recent House control flips have been more muted with a median equity market gain of around 7% over the subsequent 12 months, with 92% of those returns occurring in the first six months.

The Macro Backdrop Matters

Our models point to firm expansion territory, where growth remains solid over the tactical horizon, but risks increase. We view macro data staying robust and positive, but given the amount of good news priced in, we could be entering a period where upside surprises are less frequent.

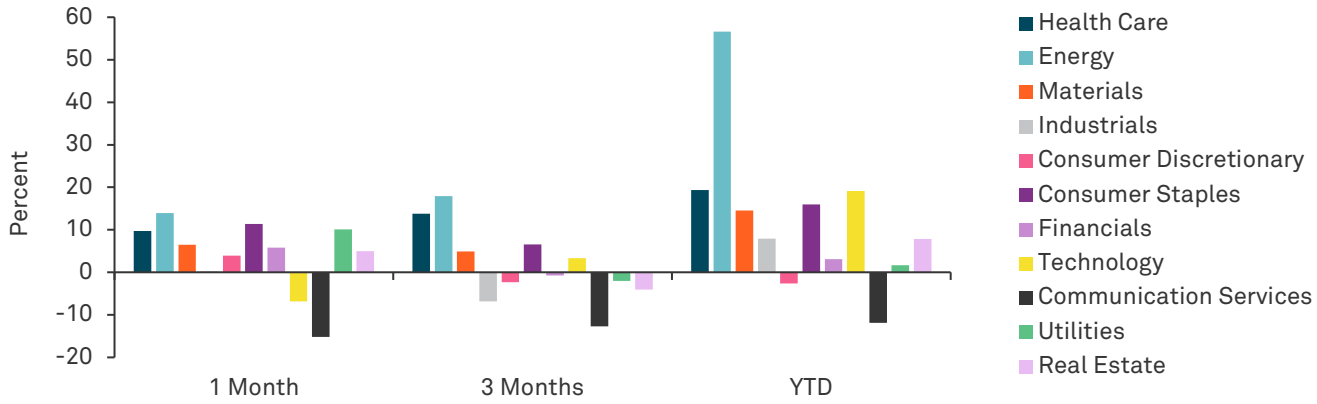
AI Overinvestment Concerns Are a Key Focus

Two recent signals stand out. First, after inflation came in higher than expected, the yield curve flattened as short-term rates rose on expectations of a more hawkish Fed while long-term rates reflected growth concerns. Second, tech stocks sold off even as Brent crude fell over 7% on November 2. Concentration is also a risk: The S&P 500 is more concentrated than in past periods, with a narrow group of mega-cap companies driving a large share of returns.

Positioning for Volatility

In our view, pure beta exposure is likely a risky strategy this cycle. We favor value over growth and defensive sectors. The midterms are unlikely to change the narrative around AI overinvestment, and concerns will likely drive rotation within equity markets, as seen during the recent tech sell-offs.

S&P 500 Sector Returns



Source: Macrobond, BNY Investment Strategy and Research Group, S&P 500 Index, as of October 31, 2026. Chart is for illustrative purposes only. Past performance does not guarantee future results.

Macro Outlook

Elections have historically produced different patterns in market returns, but many of these effects tend to fade over time. With the election behind us, fundamentals should increasingly take the lead, with the macro backdrop, AI investment risks, and Iran remaining key drivers.

S&P 500 Performance Following Elections

Presidential Election	1 Day	5 Days	1 Month	3 Months	1 Year	Midterm Election	1 Day	5 Days	1 Month	3 Months	1 Year
2024	2.5	3.5	5.1	4.2	16.4	2026	1.6	-	-	-	-
2020	2.2	5.2	8.8	14.9	38.3	2022	-2.1	4.3	3.5	6.6	13.6
2016	1.1	1.9	5.0	7.9	21.3	2018	2.1	-1.2	-4.4	-1.7	12.0
2012	-2.4	-3.8	-1.0	5.7	24.0	2014	0.6	1.4	3.0	2.5	4.5
2008	-5.3	-10.6	-16.0	-15.9	4.1	2010	0.4	1.7	2.3	9.3	2.1
2004	1.1	3.0	5.3	5.5	6.4	2006	0.2	0.8	1.8	4.0	6.6
2000	-1.6	-3.4	-6.2	-6.9	-22.1	2002	0.9	-3.5	-1.0	-8.4	14.9
1996	1.5	2.2	4.2	9.0	31.7	1998	0.7	1.6	3.5	12.4	22.0
1992	-0.7	-0.3	2.4	6.5	11.6	1994	-0.1	-0.1	-4.3	3.3	25.9
1988	-0.7	-2.5	0.5	8.5	21.7	1990	-1.8	1.9	5.6	14.9	24.7
1984	-0.7	-2.6	-4.5	5.9	12.9	1986	0.2	0.4	2.8	13.6	1.9
1980	1.8	1.7	5.8	-0.3	-3.3	1982	3.9	4.0	1.0	4.0	19.0
1976	-1.1	-3.7	-1.0	-0.5	-11.4	1978	0.6	-1.4	3.4	3.5	7.8
1972	-0.6	0.9	4.1	0.6	-6.1	1974	-0.5	-1.9	-12.0	5.1	17.8
1968	0.2	1.5	4.8	-0.2	-6.0	1970	0.2	0.7	5.1	14.5	10.2
1964	0.0	-0.4	-1.6	2.8	7.9	1966	0.8	1.2	1.2	8.2	17.6
1960	0.4	1.3	1.7	12.9	24.2	1962	0.6	1.9	7.8	13.6	25.6
1956	-1.0	-2.8	-2.5	-6.3	-14.5	1958	0.9	2.8	1.9	7.5	8.6
1952	0.3	0.7	4.5	7.2	-1.2	1954	2.0	4.3	6.9	13.8	34.0
1948	-4.2	-9.7	-9.7	-8.5	-4.3	1950	-0.1	1.5	-0.6	12.2	17.3
1944	0.0	-1.8	0.2	5.1	26.8	1946	-3.9	-2.1	-3.5	2.6	2.9
1940	-3.1	2.0	-5.0	-9.6	-12.3	1942	-0.1	1.7	-1.5	10.5	25.3
1936	1.4	2.6	-1.4	3.4	-29.2	1938	3.5	0.2	-5.9	-7.7	-1.8
1932	-2.7	4.5	-3.1	-8.2	32.8	1934	2.2	2.7	6.3	0.7	36.9
Mean	-0.5	-0.4	0.0	1.8	7.1	Mean	0.5	1.0	1.0	6.3	15.2
Median	-0.3	0.8	0.3	3.8	7.2	Median	0.6	1.4	1.9	6.6	14.9

Source: Macrobond, BNY Investment Strategy and Research Group, S&P 500 Index, as of November 4, 2026. Chart is for illustrative purposes only. Past performance does not guarantee future results.

AI capital expenditure (CAPEX) regulation is the set of rules governing investment in AI infrastructure, including data centers and computing hardware.

S&P 500® Index is a widely accepted, unmanaged index of U.S. stock market performance. **CBOE Volatility Index (VIX)** is a real-time market index that measures the stock market's expectation of 30-day forward-looking volatility, derived from the prices of S&P 500 Index options. An investor cannot invest directly in any index.

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