The Election Changed Washington. It Didn't Change the Rates of Investing.

By Peter Madlem, CFA | Chief Investment Officer and Valeria Chepilev, Associate Portfolio Manager

Vote according to your values.

Invest according to your objectives.

The voters have spoken and Washington is divided again.

Democrats have won control of both the House and Senate, ending Republican control of Congress and setting up divided government for the final two years of President Trump's term. The economy appears to have played a major role in that outcome. AP's voter polling found that roughly four in ten voters identified the economy as the country's most important issue, while nearly nine in ten said the cost of living was a major or crucial factor in their vote.

That probably shouldn't surprise anyone.

Gasoline remains above $4 per gallon nationally. Mortgage rates remain above 7%. Inflation was 3.7% in September. The conflict with Iran has pushed energy costs higher. And many households continue to feel as though their paychecks simply don't stretch as far as they used to.

Politics has changed, household economics haven't, and for investors, that's an important distinction.

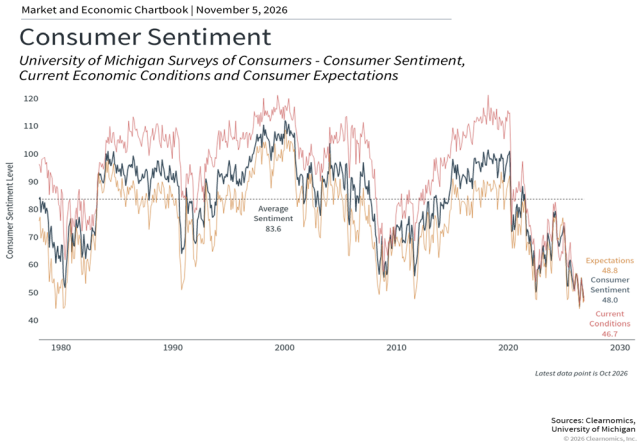
It's Still the Economy, Stupid

James Carville famously summarized the 1992 presidential election with four words:

"It's the economy, stupid."

Thirty-four years later, the phrase still works.

Consumer sentiment finished October at just 48.0, down 10% from a year earlier and extraordinarily depressed by historical standards. University of Michigan researchers specifically noted that purchasing power continues to dominate consumers' views of the economy.[1] Why? Because consumers don't experience inflation as an economic statistic



They experience it at the grocery store, at the gas pump, when renewing insurance, when buying a home, and when financing a car. The national average for regular gasoline was still approximately $4.12 per gallon immediately after the election. Thirty-year mortgage rates averaged 7.24% at the end of October. And September CPI inflation remained 3.7% year over year, with gasoline alone rising 9.1% during the month.[2]

Those numbers affect people every day, the stock market doesn't. And that helps explain one of the stranger features of today's economy.

Consumers Feel Terrible. The Economy Doesn't.

If you looked only at consumer sentiment, you might assume the economy was in recession. It isn't. Real

GDP grew at a 3.4% annualized rate during the third quarter, accelerating from 2.2% in the second quarter. Consumer spending, business investment, and government spending all contributed to the expansion.[3]

This is the disconnect investors need to understand.

Consumer sentiment and economic activity are related. They are not the same thing.

Part of the explanation is what economists call the K-shaped economy. Households with substantial financial assets have benefited from rising markets, higher investment income, and appreciating wealth. Households whose budgets are dominated by food, fuel, rent, insurance, and borrowing costs are experiencing something very different.

The University of Michigan has observed exactly this divide. Consumers with larger stock portfolios have reported relatively little change in the burden of higher prices, while households with limited financial assets have become much more concerned about the effect of inflation on their finances.

Both groups live in the same economy, but they just don't experience the same economy. That distinction helps explain the election results.

It also explains why investors should be careful about translating political dissatisfaction directly into market expectations.

Washington Is Divided Again. That's Not Unusual.

A president losing congressional control during the midterms is hardly a political anomaly. It happened under Biden, Obama, George W. Bush, Clinton, and Trump during his first administration. Midterm elections frequently become an opportunity for voters to express dissatisfaction with the party occupying the White House. This time was no different.

What changes now is the policymaking environment. Major legislation becomes considerably more difficult. Tax changes, entitlement reform, immigration policy, energy legislation, and additional large fiscal initiatives will require negotiation between a Democratic Congress and Republican White House.

That will be described constantly as **gridlock**. Markets may have another word for it:

Predictability.

Gridlock can reduce the probability of dramatic policy changes because neither party can simply impose its preferred agenda. That does not mean Washington becomes irrelevant.

Budget negotiations, government funding, the debt ceiling, regulatory policy, executive actions, trade, and foreign policy remain consequential. But it does mean the range of potential legislative outcomes may narrow.

Markets generally appreciate fewer surprises.

The Biggest Political Risk May Not Be Congress

Ironically, one of the most important election outcomes for investors may have happened far away from Capitol Hill. It happened in local communities.

Artificial intelligence has become one of the most powerful capital-investment cycles in modern history. Data centers require extraordinary amounts of electricity, water, land, transmission infrastructure, natural gas, cooling equipment, and local resources. Voters are beginning to notice and they are pushing back.

This year's ballots included at least 50 local measures related to data-center development across 13 states. The early results are striking. As of November 4, voters had decided 47 of those measures.[4]

Forty-six favored greater restrictions on data-center development.

Only one produced an outcome favorable to development, Harwood, North Dakota, where voters rejected additional industrial-development review requirements. That is not a subtle message.

Communities are increasingly questioning who pays for the electricity, who provides the water, who builds the transmission, and who absorbs the infrastructure costs. AI is beginning to encounter something every major investment boom eventually encounters:

Constraints.

The technology may be digital, but the infrastructure most definitely is not.

This Could Actually Be Healthy for AI

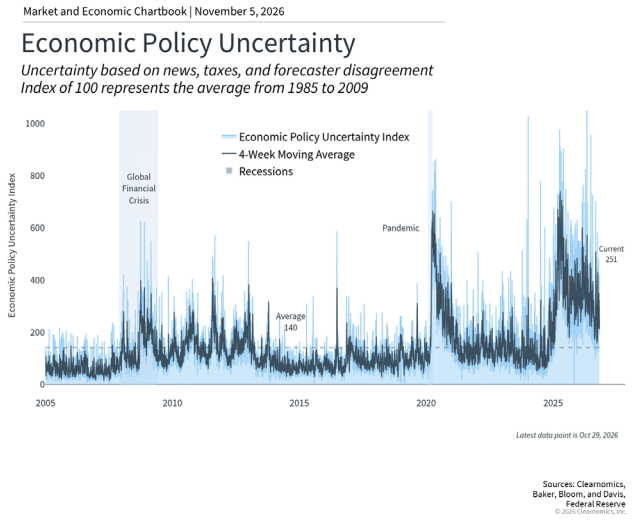
At first glance, additional restrictions on data-center development sound bearish for artificial intelligence. Perhaps in the short run, but there is another interpretation. Constraints force capital to become more disciplined.

Not every proposed data center should necessarily be built. Not every AI infrastructure project will generate acceptable returns. Not every location has sufficient electricity, water, transmission capacity, or community support.

Higher financing costs are already imposing discipline on the AI buildout and local governments may now impose another layer. That could slow the pace of development. It could also reduce the risk of massive overinvestment.

There is a difference between slowing a boom and ending one. History frequently confuses the two.

Politics Matters. Just Not the Way Investors Think.



None of this means elections are irrelevant to markets.

- Taxes matter.
- Regulation matters.
- Tariffs matter.
- Energy policy matters.
- Defense spending matters.
- Government deficits matter.

Policies create winners and losers across industries. But there is a considerable difference between analyzing policy and trading political preferences.

Markets ultimately care about:

- Earnings.
- Interest rates.
- Inflation.
- Productivity.
- Capital investment.
- Credit conditions.
- Liquidity.
- Economic growth.

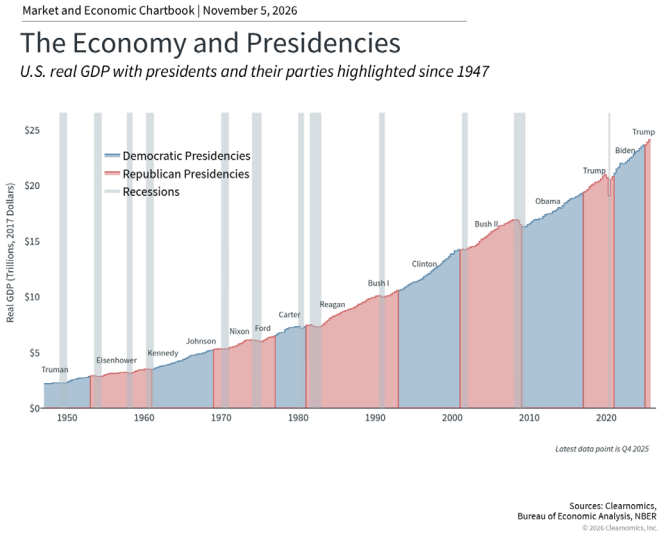
Those forces tend to persist long after campaign signs have disappeared. This is why investors should resist one of the most expensive habits in behavioral finance:

Voting with their portfolios.

Your ballot box and your brokerage account have different jobs. It's usually best to keep them that way.

What Divided Government Means for Markets

The investment implications of the election are less dramatic than the headlines suggest. Divided government probably reduces the likelihood of sweeping new legislation over the next two years. That could create greater policy stability for businesses. But several major questions remain unresolved.



The federal budget remains enormous, government debt continues to rise, treasury financing requirements remain substantial, energy prices remain sensitive to the Middle East conflict, AI infrastructure increasingly faces financial, physical, and now political constraints, and the Federal Reserve is still balancing economic growth against inflation that remains above target. None of those problems disappeared Tuesday night. Neither did the opportunities.

The U.S. economy continues growing, corporate profits remain healthy, AI is beginning to generate measurable productivity gains, energy and infrastructure investment remain substantial, and higher bond yields have restored meaningful income to fixed-income portfolios.

Washington changed. The economic investment cycle did not.

The Bottom Line

The midterm elections tell us something important about how Americans feel. They do not necessarily tell us where markets are going. Voters are frustrated by inflation, energy prices, housing costs, tariffs, and the general affordability of everyday life. Those concerns are real, but consumer dissatisfaction can coexist with economic growth. Political change can coexist with rising corporate profits and divided government can coexist with strong markets.

The lesson for investors is not to ignore Washington. It is to keep Washington in perspective. Policies matter, politics matters, but over longer periods, productivity, innovation, earnings, interest rates, and economic growth tend to matter more.

So, yes, the election changed who controls Congress. It did not change the rules of investing. **Vote according to your values. Invest according to your objectives.** They don't have to be the same decision.

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