Graystone Consulting
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Capital Markets Commentary – November 2026

October carries a reputation on Wall Street. Some of the most memorable declines in market history arrived in October, including 1929, 1987, and 2008, and the month tends to make investors jumpy regardless of what the economy is doing. This October came nowhere near those moments, but it did leave a mark. Technology stocks were hit hard, more "defensive" sectors led, and a long list of macro worries competed for attention: the war, interest rates, and an election just days after the month closed. Beneath all of it, one thing kept moving in the right direction. Corporate earnings estimates continued to rise. This month we will start with October's numbers, then turn to the election and what history says tends to follow. From there, we will give our thoughts on why stock prices have lagged an extraordinary run in earnings, and close with one of the questions we believe will mater the most heading into 2027.

The S&P 500 slipped 0.9% in October, leaving it up 11.7% for the year. The Nasdaq fell 5.3%, while the Dow Jones Industrial Average gained 1.8%. Beneath the headline numbers, October was a story of rotation, as investors sold technology and other growth stocks in favor of areas like Consumer Staples and Healthcare. Overseas, markets offered little shelter. The Eurozone STOXX 50 fell 3.7%, Japan's Nikkei 225 fell 5.3%, and Hong Kong's Hang Seng fell 5.2%. The Nikkei 225 remains up a staggering 26.8% for the year. Bonds were the bright spot. Treasury yields fell sharply, with the 10-year closing the month at 4.93% and the 30-year at 5.31%, down from 5.28% and 5.63% at the end of September.[i]

As we move away from October's performance, we'd be remiss not to mention the volatility experienced in early November. In our view, pullbacks like we saw in the first week of the month may create attractive opportunities across the equity market for long-term investors, particularly

while the earnings backdrop remains as strong as it is today. More to come on earnings, but first, let's take a look at how the market has historically performed after a change in Washington.

The biggest news, arrived just after the month closed and the result was decisive. Democrats won control of both the House and the Senate, overcoming the Republican majorities that held both chambers heading into Election Day. Come January, Congress and the White House will be divided like a line between two dots.

We will not offer an opinion of the outcome. That has never been our role. What we can offer is perspective on how markets have historically behaved once the votes are counted.

Midterm years tend to be noisy for markets, and the months that follow have historically been far calmer. Once results are known, campaign rhetoric gives way to the slower business of governing, and investors are left with one less unknown. Andrew Slimmon of Morgan Stanley Investment Management, who has tracked this pattern closely, notes that it has held regardless of which party picks up seats, and that markets have generally been comfortable with a divided Washington. The numbers he cites are striking: since 1950, the S&P 500 has produced a positive 12-month return following every midterm election, averaging roughly 16%.[ii] The timing of any post-election lift is impossible to pin down, and the lift itself is never guaranteed, which is why we believe staying the course with your long-term objectives matters more than reacting to any single election.

One question we have heard is whether a shift in Congress could slow the build out of AI data centers, given the local opposition some projects have faced. Slimmon is skeptical and we are too. He argues that once the campaigns end, state and local governments working within tight budgets may find this kind of investment difficult to turn down, particularly if it comes paired with commitments to infrastructure and public services.[ii] Markets have also not seen evidence that demand for AI computing power is slowing. If anything, it could be accelerating.

Slimmon also expects that if a year-end rally materializes, it would more likely be led by the growth stocks that struggled in October, along with some financials, than by the defensive names that led during the month.[ii] That is his view, and it's important to note that market leadership can shift quickly in either direction. A perfect post-midterm record is encouraging, but we want to be careful with it. Past performance is no guarantee of future results, and every one of those years arrived with its own risks. This one is no different. Long term treasury yields remain near levels not seen in two decades, the Federal Reserve is weighing future rate hikes, and the conflict in the Middle East continues to influence energy prices. The election removed one source of uncertainty. It did not remove all of them. And to everyone who boarded the ship this November, however you chose to steer, thank you for taking part.

With the election behind us, the more important story for markets is one that has been building all year. Over time, a stock's price comes down to two things: the earnings a company produces, and what investors are willing to pay for each dollar of those earnings, known as the price to earnings or P/E multiple. In 2026, those two forces have pulled in opposite directions.

At the beginning of the year, S&P 500 earnings were expected to grow about 14.8% in 2026. As of October 30th, the estimate has risen to 32.4%.[ii] Third quarter results reinforce the trend according to FactSet, the index is on pace for blended earnings growth of 30.2% for the quarter, its third straight quarter above 25%. Notably, the strength is broadening. The "magnificent 7" are reporting blended growth of 22.6%, while the other 493 companies in the index are reporting 32.6%.[iii]

Expected earnings growth for 2026 has more than doubled this year, yet the market has not kept pace, because investors are paying less for each dollar of those earnings. S&P 500's forward P/E fell from 22.1x at the start of the year to 18.3x at the end of October.[ii] One main reason is higher interest rates and a Federal Reserve that has pivoted to raising them. When lower risk assets pay more, investors tend to pay less for future corporate earnings.

Another important consideration is that earnings season rarely makes for gripping television. Outside our industry, most people have never tuned in after the closing bell to catch an earnings call, and the financial networks know it. With hours of airtime to fill, "earnings estimates rose again", won't keep anyone from changing the channel; a war or a heated election, on the other hand, can carry a broadcast for weeks. That is, in our opinion, one of the reasons the market often overreacts to the news and underreacts to the numbers. Think of the headlines as the weather and earnings as the climate. October brought plenty of storms on the surface and steadily improving earnings underneath. Over time, it has been the climate, not the weather, that decides where returns end up.

If earnings are strong and the multiple is the swing factor, then the question for investors is not about the election or the latest headline. Slimmon frames it simply: What is the duration and depth of the tightening cycle? The answer matters a great deal as a drawn-out series of increases could place further pressure on valuations, so even strong earnings could translate into modest returns.

We expect the monthly inflation reports to remain an important indicator of the monetary-policy outlook. Sticky inflation would likely keep valuations under pressure, as investors try to gauge how much further the Fed will push. In our view, this is the story to watch heading into 2027. The Fed's next decision comes December 9th, alongside updated projections. We'll be tuned in with open ears.

So, where does all of this leave us? October tested investors patience. Growth stocks were hit hard, more "defensive" sectors led, and the headlines highlighted a range of risks. Yet, the fundamental story held: earnings estimates kept rising and the strength is reaching well beyond the market's largest names. The election has now delivered divided government, removing a meaningful source of uncertainty. The larger question, how long and how far the Fed will tighten, will likely take well into 2027 to answer, and the monthly inflation data will be important in assessing the likely path of monetary policy. The weather may likely stay unsettled, with each new headline shifting the forecast period. We would rather plan for the climate than chase the weather, and that is how we intend to keep managing portfolios.

As Thanksgiving approaches, it is a nice reminder of how blessed we are. Whatever you think of the elections outcome, there is something to be said for waking up each morning in the greatest country in the world. We have our share of storms, as any good forecast will tell you, but this country has a long habit of weathering them.

From all of us at Graystone Charleston, we wish you and your families a happy Thanksgiving. As always, please never hesitate to reach out with questions or concerns. We look forward to hearing from you.

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[i] Source: Morgan Stanley Wealth Management GIO, Bloomberg, FactSet.
[ii] Source: Andrew Slimmon, "Equity Market Commentary – November 2026," Slimmon's TAKE, Morgan Stanley Investment Management, November 2026. Sector performance per Bloomberg as of October 31, 2026; forward P/E per Bloomberg, market defined as the S&P 500; post-midterm returns per LPL Research, Bloomberg, Fundstrat, and Strategas, as cited therein.
[iii] Source: Factset, "Earnings Insight," John Butters, October 30, 2026.

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