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U.S. MARKET REPORT

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Trump Rebuked

The Democratic Party experienced a resounding victory in last night's midterm elections. Trump has accepted the losses, and the markets have rallied as there will not be ongoing disputes over the results. The Democratic victory, in part, reflects poor choices of Republican candidates, like Trump's decision to support the inexperienced sister of the late Senator Lindsey Graham in the South Carolina Senate race. Trump also supported Ken Paxton in the Texas Senate race despite Paxton's long list of corruption charges. Trump liked Paxton because he was like an obsequious servant. But the signs are everywhere that the election was less about individual races, and more about widespread repudiation of Trump. Democrats won races in which they were not even expected to be competitive. Even Texas now has a Democratic governor.

The markets are reacting very positively to the results. With the Democrats controlling both the House of Representatives and the Senate, but with Trump remaining as president, there is not likely to be significant legislation passed in the two years ahead. Trump has already pledged to veto legislation passed by a Democratic controlled Congress, and the Democratic Congress is unlikely to pass anything Trump would sign. Markets often embrace such gridlock because it limits the damage to the economy that a dominant party could cause by passing laws that lack widespread support. The American system is designed for inaction without widespread support. As for a couple of specific issues:

Tariffs – Trump has been imposing tariffs without Congressional support, and the election results won't change that. Constraints on Trump's tariffs are in the courts and will be resolved by the courts. We shouldn't expect any near-term changes.

Taxes and Spending – markets may be relieved that, at least for the next two years, there are unlikely to be any new major tax laws or spending packages. Markets like certainty. But defense spending may be pressured. The Iran war has been very unpopular. Congress has the power over setting budgets, and it is quite possible that future defense budgets may now be reduced or constrained.

Foreign Policy – Under the U.S. Constitution, the president has authority over foreign policy and Trump still technically has full control. However, his recent announcement that the U.S. will cut off economic aid to Israel already shows that he can wilt under pressure. It seems likely that Trump will now be less inclined to resume military activities in Iran. This is why we see oil prices sharply lower today.

The markets are rallying following the election results, but not all sectors will be impacted equally. The Democrats have been very successful in presenting data center construction as something that harms communities, rather than enriches them through job creation and surging tax revenues. The changes are particularly important in Texas, where the construction of a large number of new data centers is now in question. Slowed or reduced data center construction will help those companies that already operate them, or already have the approvals in place. Users of data centers, like OpenAI and Anthropic, may now find that their lease payments will be rising under constrained supply.

New restrictions on data centers may also have other effects on the economy and markets. Almost daily, we have been hearing about new issuances of both stock and debt to finance data centers. To the extent that the need for such capital falls, interest rates may fall, as we are already seeing this morning. Furthermore, capital may be redirected to other areas of the economy, which may explain why auto manufacturing, housing, and other consumer stocks are up big this morning.

In summary, investors should remain generally bullish on the huge U.S. economy since a divided government reduces the risk of injurious legislation. Trump and his family will now undoubtedly come under endless investigation by various congressional committees, but that circus will not deter markets from allocating capital to the most attractive opportunities, nor will it stop businesses from innovating and improving methods of production.

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