Same Script, New Headline

What happened
Markets got a case of post-election whiplash this week. On Wednesday, stocks rallied after the midterms, and the S&P 500 posted its best day since June. By Thursday the mood had flipped. Democrats' larger than expected sweep of both the House and Senate, along with wins in key data center states such as Texas, where the governor-elect has called for a moratorium on new data center approvals, sent investors back to the drawing board on the AI build-out. Chipmakers and data center names led the decline, and the Nasdaq slipped into correction territory, more than 10% below its October record. The selling was concentrated in the market's most crowded corner, not spread evenly across the economy.

Why it matters
In our view, this is less a referendum on the election and more a conversation about valuation. AI-related industries now make up more than half of the S&P 500 by J.P. Morgan's count, and investors were already questioning the payoff from heavy AI spending before Tuesday. The prospect of tighter data center regulation simply gave them a fresh reason to ask what they are paying for growth. Some of the move also appears mechanical: rules-based volatility-control strategies, which were sitting near record stock exposure heading into the election, tend to sell when volatility jumps, regardless of fundamentals. Meanwhile, the earnings picture remains healthy, with more than eight in ten S&P 500 companies beating third-quarter estimates and FactSet putting the index's forward P/E at 18.7x, below its five- and ten-year averages. Repricing expectations in one segment is not the same as a breakdown in earnings.

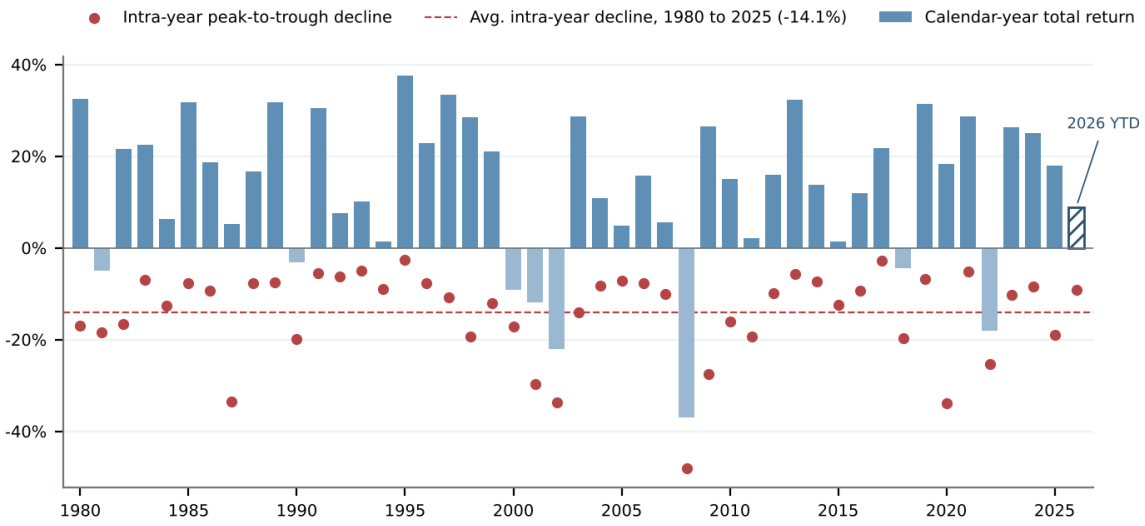
Performance
Even after one of the sharpest sessions since April 2025, US large caps remain in positive territory for the year, and markets outside the US were far calmer. As of the close on 11/5/2026:

- S&P 500: -4.4% on the day, +7.4% YTD, about 5.9% below its October 6 record close
- Nasdaq Composite: -5.5%, +5.1% YTD
- Dow Jones: -3.4%, +8.5% YTD
- Bloomberg World Large/Mid: -2.42%, +8.10% YTD
- Abroad: Euro Stoxx 50 -0.55% (+10.5% YTD), Nikkei -1.79% (+19.6% YTD)
- VIX: from 16.6 at Wednesday's close to roughly 28.2 on Thursday

This is exactly the kind of day diversification is built for.

Normal Is Bumpy
Our own look at S&P 500 total returns back to 1980 tells a familiar story. In the average year, the index has fallen 14.1% from peak to trough at some point along the way, and 43 of the last 46 years included a decline of at least 5%. Yet the index finished higher in 38 of those 46 years, with an average annual total return of 13.6%. Even the rougher years have been forgiving more often than not: of the 24 years that saw a decline of 10% or more, 16 still ended in positive territory. Last year is the freshest example, with an 18.9% peak-to-trough slide that gave way to a 17.9% full-year total return. This year's largest drawdown to date stands at 9.1%, comfortably inside the long-run average. A mid-single-digit dip from record highs sits well within the range of what a normal year looks like.

Chart: Drawdowns are a regular feature of the market, even in years that finish higher



Source: Bloomberg, Arkadios calculations. S&P 500 Index total return, 1980 to 2025; 2026 year to date as of 11/5/2026 intraday.

Portfolio lens

Pullbacks are the price of admission for long-term returns, and declines of 5% or more have historically arrived about twice a year, with 10% corrections about once every 18 months. Midterm years have historically been bumpier still: First Trust calculates an average midterm-year pullback of -16.7% since 1950, followed by an average gain of +36.5% in the year after the low. Goldman Sachs notes the S&P 500 has risen in the 12 months following each midterm since 1954, averaging +15.5%. History is not a forecast, but it suggests post-election turbulence has more often been a detour than a destination. Well diversified portfolios are allocated with drawdowns like this one in mind do not necessitate major reactions.

Built for the Bumps

Nobody enjoys a day like Thursday, but nothing about it changes the long-term playbook, in our opinion. Our portfolios are diversified across regions, sectors and asset classes precisely so that a sharp move in one corner of the market does not define the whole outcome. We will keep watching ongoing economic developments and the path of policy in Washington, but we will not let a headline-driven week override a disciplined, long-horizon process. Volatility is uncomfortable. It is also normal, and our portfolios are built to absorb it.

Jeff Keefe, AIF®; Senior Financial Advisor, Founding Principal
Mark H. Tucker, CFA; Senior Portfolio Manager
Mason King; Portfolio Manager

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Performance data reflects market index returns through October 15, 2026. Sources include Bloomberg, FactSet, Morningstar Direct, and other third-party providers believed reliable. Index performance is not indicative of future results and investors cannot invest directly in an index.

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