Putting Last Week's Market Volatility in Perspective

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Markets were volatile last week, and we wanted to share some perspective on what's behind the moves. Stocks fell sharply on Thursday, November 5, just one day after a broad rally that followed the midterm elections. Swings like this can be unsettling, especially after a long stretch of gains and with so many headlines competing for attention. In this letter, we review what happened last week, the questions investors are weighing, and the broader impact on the market and the economy.

What Happened Last Week

On Wednesday, markets welcomed the election results. Democrats won both the House and the Senate, creating a divided government. Markets tend to favor certainty over uncertainty, and divided government has historically been viewed as a more predictable policy environment, reducing the likelihood of major changes to the status quo. The S&P 500 rose +1.6%, and the Dow Jones had its best day after a midterm election in more than 40 years.

On Thursday, attention turned to data centers. The S&P 500 fell more than -4%, its largest one-day decline since April 2025, while the Nasdaq fell more than -5% as technology stocks led the selling. The Nasdaq traded lower nearly -12% below its October high, so you may see headlines calling it a "correction," the common term for a decline of 10% or more from a recent high. The VIX, a widely followed measure of expected stock market volatility, rose to its highest level since late March.

However, the selling pressure was heavier in some parts of the market than in others. The S&P 500 is about -6% below its record and remains up about +7% this year. In contrast, the equal-weight S&P 500, which gives every company the same weight, set a record high on Wednesday, an indication of relative strength outside the largest technology companies.

Questions About the Pace and Cost of AI Investment

The selloff centered on AI, the theme that has led the stock market in recent years. The largest technology companies are spending hundreds of billions of dollars a year on data centers and computer chips, and for several of them that spending now exceeds the cash their businesses bring in. More of it is being financed with debt, and investors are asking when that spending will pay off. Demand doesn't appear to be the issue: one major chipmaker reported that its data-center sales nearly doubled from a year ago, and another described its main challenge as supply rather than demand. Meanwhile, demand for computing power continues to grow, even as investors debate the pace and cost of the buildout.

The midterm elections raised a second question: how quickly new data centers can be built. Nationally, Democrats won control of both the House and the Senate, setting up a divided government when the new Congress begins in January. Locally, voters in about ten states voted on roughly 40 ballot measures related to data centers, and most of the results went against new development. The votes reflected concerns about electricity costs, land use, and the strain on local power grids, concerns shared across the political spectrum. Investors are now weighing whether tighter rules could slow construction. Delays and higher costs are not the same as cancellations, but they can change how quickly companies earn a return on what they spend.

Stock prices reflect expectations for future earnings and how much investors are willing to pay for them, and those expectations can change quickly even when hiring and spending hold steady. That's especially true for companies whose shares were priced for years of rapid AI growth. A market decline doesn't by itself mean a recession is coming, and the latest data describe an economy that's still growing.

Putting Last Week Into Perspective

The selling has been heaviest in a narrow group of large technology companies, while several other parts of a diversified portfolio have done their job. The equal-weight S&P 500 set a record high the day after the election. Bonds traded higher as stocks fell: the 10-year Treasury yield has declined from about 5.3% in early October to below 4.9%, and bond prices rise when yields fall. High-quality bonds are also paying meaningful income again, something that was hard to find for much of the past decade.

Recent data suggest the underlying fundamentals remain solid. The economy is growing, corporate earnings are rising, and demand for AI computing power remains strong. The debate is about the pace and cost of the buildout, not whether the demand exists. Valuations have also come down. Because earnings have grown much faster than stock prices over the past year, the S&P 500 now trades at about 18 times expected earnings for the next 12 months. That is down from about 23 times a year ago and closer to its long-term average.

Finally, history argues for patience. Since 1980, the S&P 500 has dropped -5% or more at some point in nearly every year. Some of the market's strongest days have historically come shortly after its weakest, so stepping out after a decline can mean missing the recovery. No one can say how long this volatility will last, but a portfolio built around long-term goals is designed with periods like this in mind.

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