Markets Rally Post-Election

Democrats took control of Congress last night, with both the House and Senate flipping in a decisive midterm victory. The results are a political setback for the Trump administration, and the policy direction in Washington will shift as Democrats pursue their own legislative agenda. Markets now face a divided government and are embracing the outcome, with stocks rallying today and Treasury yields moving lower.

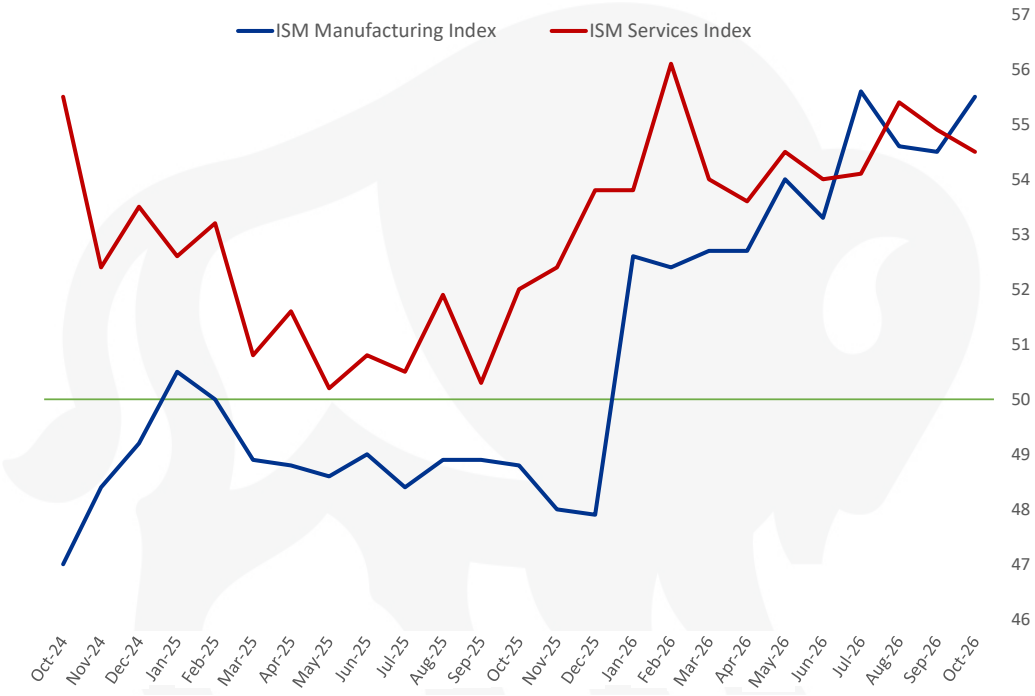
Looking at the Senate, Democrats flipped seven Republican-held seats, moving from 47 before the election to at least 54. The flips came in Iowa, Kansas, Maine, North Carolina, Ohio, South Carolina and Texas. Alaska and Mississippi remain uncalled, but Democrats have already secured enough seats to control the chamber. With 51 seats needed for an outright majority, 54 represents a significant majority.

On the House side, Democrats entered the election with 214 seats and needed a net gain of four to take control. They have already picked up enough Republican-held districts to win the majority, although dozens of races remain uncalled, but the final tally could be around 80 seats.

October Institute of Supply Management (ISM) Surveys

Starting with the manufacturing index, which came out Monday, the composite factory index increased to 55.5 from 54.5, its second-highest level in more than four years. Factory production reached its highest level since late 2021, while demand remains healthy as the sector has now expanded for 10 consecutive months.

ISM Purchasing Managers Index



Source: Institute for Supply Management

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Please see disclosure starting on page 3.

Strong consumer demand, economic growth and business investment related to AI and data centers are helping support the numbers. The concern continues to be inflation, as the prices-paid component remains elevated amid tariffs and pressures related to the Iran war.

Although markets tend to place more emphasis on the manufacturing report, services constitute a much larger portion of the U.S. economy. Earlier today, the ISM Services Index for October cooled slightly to 54.5 from 54.9, and while new orders fell to a four-month low, they remain well within expansion territory. One positive was the employment component, which improved to 51.4 from 50.1. In total, 15 of 18 service industries expanded in October, up from 13 in September. Just like manufacturing, however, inflation remains a concern. The prices-paid index eased to 73.0 from 74.0 but remains extremely elevated, registering its second-highest reading since mid-2022.

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JOLTS and Friday's Jobs Report

Earlier this week we got our last piece of September employment data with the Job Openings and Labor Turnover Survey. Job openings rose to 7.5 million, above expectations of 7.2 million, showing labor demand remains healthy. Meanwhile, the layoff rate was unchanged at 1.0%, while the quits rate increased from 1.9% to 2.1%, suggesting workers may be becoming somewhat more confident in their ability to leave their current jobs.

Attention now turns to Friday's October jobs report. Today, the ADP National Employment Report showed private employers added 86k jobs. The official BLS report is due Friday, with economists expecting roughly 65k jobs to be added to non-farm payrolls, while the unemployment rate is expected to remain unchanged at 4.2%. September payroll growth was just 29k.

Markets

Looking ahead to next week, we'll get October inflation data, which will be another important piece of the puzzle for the Fed ahead of its December meeting. October CPI is scheduled for November 10 and will be the last CPI report available before the Fed's December 9 decision.

Treasury rates moved lower over the past month, particularly in the intermediate and longer portions of the curve. The 2-year Treasury fell about 24 basis points to 4.59%, while the 5- and 10-year yields declined roughly 35 basis points. The very front end remained relatively stable, producing a flatter curve. Even after the rally, however, Treasury yields remain considerably higher than they were a year ago.

The next Fed meeting is still a little more than a month away, giving policymakers plenty of economic data to study between now and then. We'll also get more fallout from the election and a better understanding of Democrats' legislative priorities. With growth remaining solid and inflation pressures still elevated, the debate heading into December will continue to revolve around whether the Fed needs to keep rates level or tighten further.

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Market Indications as of 2:16 P.M. Central Time

DOW	Up 1,579 to 53,365 (HIGH: 54,349)
NASDAQ	Up 424 to 25,796 (HIGH: 27,600)
S&P 500	Up 130 to 7,699 (HIGH: 7,819)
1-Yr T-bill	current yield 4.38%; opening yield 4.38%
2-Yr T-note	current yield 4.58%; opening yield 4.62%
3-Yr T-note	current yield 4.63%; opening yield 4.68%
5-Yr T-note	current yield 4.68%; opening yield 4.74%
10-Yr T-note	current yield 4.89%; opening yield 4.95%
30-Yr T-bond	current yield 5.28%; opening yield 5.32%

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