WisdomTree Minds on the Markets



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Hitting Reset: Top Reasons for Market Optimism Post Elections

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The midterm elections arrived after one of the more punishing stretches for equities in recent years. October was the worst month in roughly 40 years for the Momentum factor relative to the market, which trailed by 11 percentage points.[1]

Declines of that size usually accompany a recession. This one arrived while earnings were growing at double digits. In our view, that makes it a reset, not a breakdown. Here are our top reasons for why we are optimistic about equities heading into 2027.

What Did the Midterms Settle?
Democrats swept the House, the Senate, and several key governorships and state legislative races. Historically, we knew that the party in power tends to lose seats in both houses of Congress, on average. However, even though the "Blue wave" was the most likely outcome heading into the election, Democrats handily outperformed some of the most optimistic polls. While it's easy to get swept up in politics, the fact remains that U.S. equities have tended to perform positively, on average, over the 1 to 12 months post-midterm.

While Democrats won a resounding victory, we're anticipating political gridlock vs. sweeping changes. The Senate's 60-vote filibuster threshold and a presidential veto limit how much can pass, and the President still holds considerable influence over trade, tariffs, sanctions and regulation through executive action. Room for bipartisan deals exists on government funding, defense authorization, the debt ceiling, and tax and healthcare extensions. Fewer surprises from Washington tend to help valuations.

Could Market Leadership Broaden?
We think so. Capital has initially rotated out of AI and tech toward high dividends, value, cyclicals, and rate-sensitive companies. We think it's still too early to throw in the towel on the AI trade, but adding these complimentary exposures is something we've largely been focusing on in our own model portfolios. While the S&P 500 Index still has a high degree of concentration in the Technology and Telecom services sectors, we've seen strong performance from many other sectors year to date.

Is the AI Buildout Still on Track?
In our view, the election did not end the data center debate, but it may have slowed the pace of construction starting in 2028. Democrats won governorships in key data center states such as Texas, Georgia, and Ohio.

Most analysts expect 2027 capex to be relatively insulated because it funds projects already under construction.[2] But the growth curve may flatten ahead of 2028 as permitting gets harder. Put another way, we believe the risk is delay rather than cancellation. While this is frustrating for businesses, it could positively impact operating free cash flow of the hyperscalers in the short run.

Are Earnings Still Holding Up?
Yes, and this is the reason we weigh most heavily. Consensus 2026 and 2027 EPS estimates rose 9% and 12%, respectively, in the first half of 2026. J.P. Morgan estimates roughly 20% S&P 500 EPS growth in 2027.[3] Revisions at the index level have been broadly flat since May, so the market's decline reflects lower multiples, not weaker profits. Given our view of the U.S. economy, we think that this could continue to be a constructive environment for equities.

In Sum
Risks remain, but a clearer political backdrop, broadening leadership, a 2027 AI capex plan that looks largely funded and insulated, and rising earnings estimates give us reason to approach 2027 with optimism.

For more information, contact your WisdomTree representative or visit WisdomTree.com/us.

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[1] MSCI, FactSet, as of 10/31/26.
[2] JPMorgan, as of 11/6/26.
[3] Bloomberg, as of 11/6/26.

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