LPL Financial

# Weekly Market Commentary

*Retain Your Focus on Economic Fundamentals*

**Dr. Jeffrey Roach**
Chief Economist

**Jeffrey Buchbinder, CFA**
Chief Equity Strategist

**Adam Turnquist, CMT**
Chief Cross-Asset Strategist

## Client Summary

The economy remains on solid footing, supported by healthy growth, resilient corporate profits, and significant investment in artificial intelligence (AI). While elections and the rapid AI buildout may create periods of uncertainty, LPL Research believes long-term investors should remain focused on economic growth, earnings, inflation, and interest rates.

**Positive Factors**

- **Economic fundamentals remain supportive.** The economy grew at a healthy 3.4% annualized pace in the third quarter, while corporate profits remain resilient. These conditions continue to provide an important foundation for markets despite political and policy uncertainty.
- **AI investment could support long-term productivity.** Businesses are spending heavily on data centers, semiconductors, computing equipment, and workers who can help put AI to use. If these investments help companies become more productive and profitable, AI could provide a lasting boost to economic growth beyond the current construction boom.
- **Post-election conditions have historically been favorable.** Since 1950, the S&P 500 has been higher 12 months after all 19 midterm elections, with an average gain of 15.1%. While history is not a forecast, resolving election uncertainty may allow investors to refocus on economic and corporate fundamentals.

**Concerning Factors**

- **The AI boom is creating economic trade-offs.** Strong demand for imported servers, semiconductors, and technology equipment widened the trade deficit, subtracting 3.3 percentage points from third-quarter growth. Competition for components and power could add to pricing pressures elsewhere in the economy.
- **AI development may face more obstacles.** Data center expansion is drawing greater attention to electricity needs, permitting, local opposition, and costs. Additional regulatory scrutiny could slow projects or raise expenses for parts of the AI infrastructure ecosystem.
- **Heavy investment must eventually deliver results.** The question is shifting from how much companies spend on AI to whether investments produce enough productivity and earnings growth to justify their cost. Investors may become selective as they look for evidence today's spending can generate attractive returns.

**LPL Research's Perspective**

- **Fundamentals matter more than politics.** Elections can influence taxes, regulation, and spending, but growth and profitability have mattered more to long-term market performance than which party controls Washington. LPL Research believes political views are best expressed at the polls, not through portfolio shifts.
- **Maintain balance within fixed income.** LPL Research favors a neutral position on interest-rate sensitivity, or "duration," relative to benchmarks. Treasury yields may provide income and cushion if growth slows, while longer-term bonds warrant caution because deficits and borrowing could keep longer-term yields elevated.
- **Stay disciplined as the AI cycle evolves.** AI remains a powerful long-term investment theme, but not every company will benefit equally. Rather than chasing the boom, investors should emphasize diversification and focus on sustainable earnings, productivity, and financial strength.

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