CAPITAL INVESTMENT COUNSEL

The Columns

October 2026

I loved Sesame Street as a kid. Every episode closed with a line like: "Sesame Street has been brought to you today by the letter B." In that spirit, this month's Columns is brought to you by the phrase, "In Spite Of".

Think about it, the market has absorbed over the last few months: the highest interest rates in two decades, surging oil prices and an unpredictable midterm election. **In spite of** all that, the S&P 500 sits just 2% below its all-time high.

What if the bears threw a party and nobody came? The Doomers got the kind of headlines that usually knock stocks down, yet overall, stocks held up and even rallied. Much of that resilience comes from rotation. Investors aren't leaving the market so much as moving within it, out of the crowded winners and into the overlooked corners.

Exhibit A is the semiconductor ETF (SMH). After a huge run, semis have cooled off and are currently down 11% in October, while the less glamorous equal-weight S&P 500 (RSP) is up 3%. RSP holds the same 500 stocks as the S&P 500, but each one carries the same weight, so Nvidia counts no more than Hershey. That rotation has lifted some old-school names nobody was talking about: Pepsi is up 7% this month to-date, Procter & Gamble 11%, and believe it or not, Cracker Barrel 35%. Almost no one saw it coming.

This is a healthy development, because the "S&P 41" has carried the market for most of 2026. It isn't a real index. It's my shorthand for the AI royalty that dominates the S&P

500's weighting. Through mid-October, those 41 stocks returned 22.7%, compared with just 7.7% for the other 459, and they accounted for 10.4 of the S&P 500's 14.6 percentage points of gain this year. Top-heavy is the polite way to put it.

Picture an alligator with its jaws wide open. The upper jaw is the S&P 41, the lower jaw is everyone else. For the jaws to close, the AI giants cool off while the rest of the market climbs to meet them. That's been October so far, in a nutshell, and I personally like the setup heading into year-end.

AI stocks have been the go-to sector this year, but there's a reflexive loop running through the stocks lately. Think of it as cause and effect. The data center build-out needs so much capital that it helped push interest rates higher, and higher rates make that data center capital both more expensive and harder to raise. I see it as the spending boom setting its own speed limit.

Interest rates are the hand brake. Higher rates aren't telling the AI builders to stop. Instead, it's telling them to stay on the path where *growth turns into profit*. Equities are enforcing the same discipline one company at a time. The message to the hyperscalers is clear: keep building, but profitability needs to arrive sooner rather than later.

Ease off the excessive spending or the market may make you pay for it. We have Google and Microsoft, two of the largest AI spenders on deck this week for earnings. The actual earnings are important, but the amount of AI spending potentially sets the tone for the next few months.

By next Tuesday, the mid-term elections will be in our rearview mirror. If you're worried about the outcome, a little history may help you rest easier. Most voters want their party to control the White House and both houses of Congress. Your portfolio prefers something else: gridlock. Under a Republican president, stocks have historically

done best with a split Congress, meaning Democrats control either the House or the Senate, but not both. Since 1951, that scenario has produced an average annual S&P 500 gain of 13.7%, compared with 7.6% when Republicans controlled everything. Thanks to Ryan Detrick at Carson Investment Research for that stat.

My backbone stat for 2027 is this one: the S&P 500 has been higher in the 12 months following every mid-term election since 1946, with an average gain of about 15%. This time, that window runs from Election Day, November 3, 2026, through early November 2027. That doesn't mean go all in tomorrow. It means history leans toward a positive year ahead, and I use that to keep myself from turning too negative if stocks sell off. If they do, it's more likely an opportunity than a warning.

My tagline is, if we get a drop, shoot your shot and buy some of your favorite companies. No one said the ride would be smooth; we've got oil, interest rates and an election on deck. No matter what your market view is, let's remember that the markets will not wait for *each problem to be fixed* before potentially moving higher. We're not trying to call a bottom; we just want to be ready when it arrives. If you have any comments, feel free to contact me at heddins@capital-invest.com or call at 919-656-0836.

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