Week in Review | Reinhart Fixed Income
By Madison Investments

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U.S. Elections

The Democratic Party had a very strong showing in the midterm elections, flipping control of both the House and the Senate. Democrats are expected to have strong majorities in both chambers but will remain short of the numbers needed to override vetoes or prevent filibusters.

Our Take: Democratic majorities are expected to act to curtail the administration's imposition of tariffs and prosecution of the Iran conflict, both of which are likely to help contain inflation and support growth. The new majorities are also likely to slow the pace of deregulation and to slow data center construction, and these actions are likely to reduce the growth impulse from the AI infrastructure buildout. Federal legislative action will require bipartisan support in order to get past filibusters and vetoes, but much of the restriction on data center construction happens at the state level, where Democrats also made strong gains and many referendums on slowing construction passed.

Employment

The economy added 165,000 jobs in October, exceeding expectations of a 70,000 increase. Revisions for August-September were +84,000, for a net change of +240,000. The unemployment rate fell from 4.2% to 4.1%. Average hourly earnings rose from 0.1% to 0.4% for the month and are up 3.1% year-over-year. The labor force participation rose from 61.8% to 61.9%.

Our Take: The October jobs report came in notably stronger than expected, signaling continued resilience in the labor market. Solid job growth, declining unemployment, and accelerating wage growth further reinforce the labor market's underlying strength. With inflation still elevated, this report gives the Fed a free hand to act to bring inflation back toward its 2% target.

Iran

Iranian President Pezeshkian indicated that Supreme Leader Khamenei has granted his government more authority to negotiate an end to the conflict. The U.S. held off on airstrikes following the midterm elections, and reports are surfacing that Iran is now discussing its nuclear program as part of a resolution to the conflict. Crude prices fell during the week.

Our Take: The lack of post-midterm re-escalation of the conflict and the inclusion of Iran's nuclear program in discussions are both encouraging signs that the two sides may be moving towards a resolution of the conflict. After multiple false starts of a peace process, markets are wary of bringing crude prices down too far without more tangible progress.

Contact

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