Same Script, New Headline

What happened
Markets got a case of post-election whiplash this week. On Wednesday, stocks rallied after the midterms, and the S&P 500 posted its best day since June. By Thursday the mood had flipped. Democrats' larger than expected sweep of both the House and Senate, along with wins in key data center states such as Texas, where the governor-elect has called for a moratorium on new data center approvals, sent investors back to the drawing board on the AI build-out. Chipmakers and data center names led the decline, and the Nasdaq slipped into correction territory, more than 10% below its October record. The selling was concentrated in the market's most crowded corner, not spread evenly across the economy.

Why it matters
In our view, this is less a referendum on the election and more a conversation about valuation. AI-related industries now make up more than half of the S&P 500 by J.P. Morgan's count, and investors were already questioning the payoff from heavy AI spending before Tuesday. The prospect of tighter data center regulation simply gave them a fresh reason to ask what they are paying for growth. Some of the move also appears mechanical: rules-based volatility-control strategies, which were sitting near record stock exposure heading into the election, tend to sell when volatility jumps, regardless of fundamentals. Meanwhile, the earnings picture remains healthy, with more than eight in ten S&P 500 companies beating third-quarter estimates and FactSet putting the index's forward P/E at 18.7x, below its five- and ten-year averages. Repricing expectations in one segment is not the same as a breakdown in earnings.

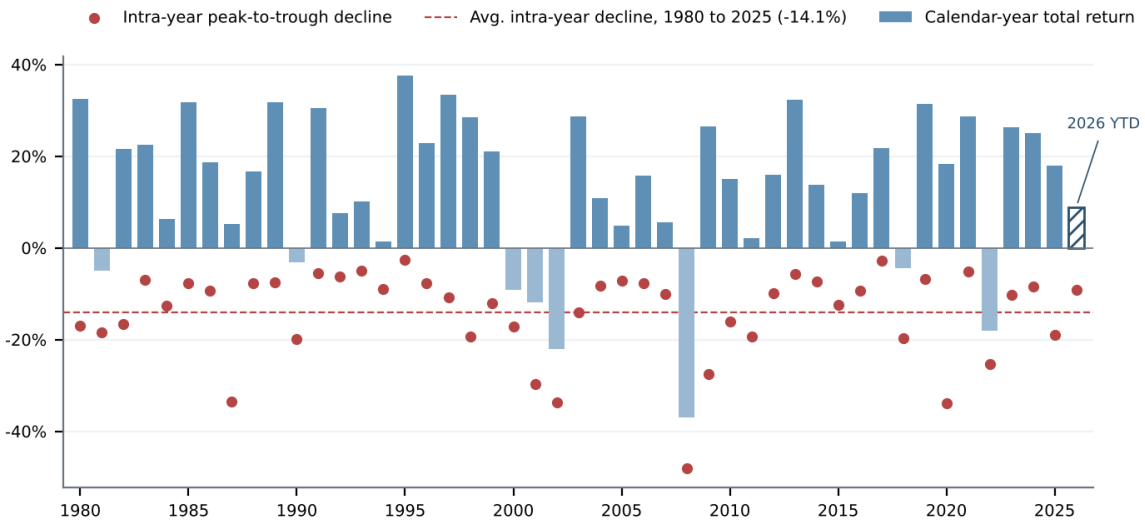
Performance
Even after one of the sharpest sessions since April 2025, US large caps remain in positive territory for the year, and markets outside the US were far calmer. As of the close on 11/5/2026:

- S&P 500: -4.4% on the day, +7.4% YTD, about 5.9% below its October 6 record close
- Nasdaq Composite: -5.5%, +5.1% YTD
- Dow Jones: -3.4%, +8.5% YTD
- Bloomberg World Large/Mid: -2.42%, +8.10% YTD
- Abroad: Euro Stoxx 50 -0.55% (+10.5% YTD), Nikkei -1.79% (+19.6% YTD)
- VIX: from 16.6 at Wednesday's close to roughly 28.2 on Thursday

This is exactly the kind of day diversification is built for.

Normal Is Bumpy
Our own look at S&P 500 total returns back to 1980 tells a familiar story. In the average year, the index has fallen 14.1% from peak to trough at some point along the way, and 43 of the last 46 years included a decline of at least 5%. Yet the index finished higher in 38 of those 46 years, with an average annual total return of 13.6%. Even the rougher years have been forgiving more often than not: of the 24 years that saw a decline of 10% or more, 16 still ended in positive territory. Last year is the freshest example, with an 18.9% peak-to-trough slide that gave way to a 17.9% full-year total return. This year's largest drawdown to date stands at 9.1%, comfortably inside the long-run average. A mid-single-digit dip from record highs sits well within the range of what a normal year looks like.

Chart: Drawdowns are a regular feature of the market, even in years that finish higher



Source: Bloomberg, Arkadios calculations. S&P 500 Index total return, 1980 to 2025; 2026 year to date as of 11/5/2026 intraday.

Portfolio lens

Pullbacks are the price of admission for long-term returns, and declines of 5% or more have historically arrived about twice a year, with 10% corrections about once every 18 months. Midterm years have historically been bumpier still: First Trust calculates an average midterm-year pullback of -16.7% since 1950, followed by an average gain of +36.5% in the year after the low. Goldman Sachs notes the S&P 500 has risen in the 12 months following each midterm since 1954, averaging +15.5%. History is not a forecast, but it suggests post-election turbulence has more often been a detour than a destination. Well diversified portfolios are allocated with drawdowns like this one in mind do not necessitate major reactions.

Built for the Bumps

Nobody enjoys a day like Thursday, but nothing about it changes the long-term playbook, in our opinion. Our portfolios are diversified across regions, sectors and asset classes precisely so that a sharp move in one corner of the market does not define the whole outcome. We will keep watching ongoing economic developments and the path of policy in Washington, but we will not let a headline-driven week override a disciplined, long-horizon process. Volatility is uncomfortable. It is also normal, and our portfolios are built to absorb it.

Matthew “Teddy” Roberts; Managing Partner
Robert Warnock; Managing Partner
Mark H. Tucker, CFA; Portfolio Manager
Mason King; Portfolio Manager

Securities offered through Arkadios Capital. Member FINRA/SIPC. Advisory services through Arkadios Wealth.

Past performance does not guarantee or is indicative of future results. This summary of statistics, price, and quotes has been obtained from sources believed to be reliable but is not necessarily complete and cannot be guaranteed. All securities may lose value, may not be insured by any federal agency and are subject to availability and price changes. Market risk is a consideration if sold prior to maturity. Information and opinions herein are for general informational use only and subject to change without notice.

This material does not constitute an offer to sell, solicitation of an offer to buy, recommendation to buy, or representation as the suitability or appropriateness of any security, financial product or instrument, unless explicitly stated as such. This information should not be construed as legal, regulatory, tax, personalized investment, or accounting advice.

The information is current only as of the date of this communication and we do not undertake to update or revise such information following such date. To the extent that any securities or their issuers are included in this communication, we do not undertake to provide any information about such securities or their issuers in the future. The views expressed reflect the author(s) personal view and not the view of Arkadios Capital or Arkadios Wealth. This report is provided on a "where is, as is" basis, and we expressly disclaim any liability for any losses or other consequences of any person's use of or reliance on the information contained in this communication.

Any Arkadios model portfolio holdings and benchmark data are for illustrative purposes only and should not be construed as any type of research. This data is not meant to replace Adviser's portfolio management/performance reporting systems or brokerage statements. Please consult your reports for actual performance data before making any decisions based on this information. Accordingly, reliance upon information in this data is at the sole discretion of the reader. Assumptions on returns are just that and may or may not come to fruition. Actual returns may not be as projected and are for illustrative purposes only.

Forecasts, projections, and forward-looking statements are based on current assumptions and, expectations and are subject to change, and actual. Actual results may be materially different.

International and emerging market investments involve additional risks including currency fluctuations, political risk, and differing accounting standards.

Bond prices generally move inversely to interest rates. Rising interest rates may cause bond prices to decline.

Performance data reflects market index returns through October 15, 2026. Sources include Bloomberg, FactSet, Morningstar Direct, and other third-party providers believed reliable. Index performance is not indicative of future results and investors cannot invest directly in an index.

Probability estimates referenced herein are derived from market-implied pricing, futures markets, prediction markets, or third-party research and do not represent forecasts by Arkadios. Such estimates may change significantly and are not guarantees of future outcomes.

Certain probability estimates are derived from publicly available prediction markets whose methodologies differ from traditional economic forecasting tools.