



Ready or Not, Midterms Have Started

Report for the Week Ending 10 January, 2026

Dylan Smith

Monologue

The US midterm election that will determine control of Congress for the final(?) two years of the Trump presidency may still be just under 300 days away, but for markets, they have already arrived.

Midterm positioning and narrative crafting are the common threads among a range of highly significant policy announcements from the Trump administration this week, including capping credit card rates, barring large investors in the housing market, and rushing to get Venezuelan oil flowing. We analyze all of these announcements in the context of political positioning for the midterms, and try to paint a picture of what to expect as the elections approach.

With opinions on most aspects of the Trump administration's agenda hardened and immovable (immigration, social issues, foreign policy), the election fight is centering on one swing issue: **it's affordability, stupid.**

Since 2021, the headline consumer price index has risen by a cumulative 26%. House prices are up 45.2% over the same period, and food prices are up 31%. The Trump administration has not arrested or reversed any of these increases, so Democrats are framing this as a major failure on a key election promise.

That said, inflation is currently running somewhere between 2.5% and 3.0%. That's above target (and we see risks skewed to the upside), but not enough to erode real income with wage growth running above 4%. Indeed, real income growth (i.e., adjusting for inflation) has improved since 2020 despite the post-COVID-19 inflation spike. In purchasing power terms, **the median American is nearly 10% better off than they were in 2019** (this statement is true even at the lower end of the income distribution).

So why is perceived affordability such a major issue?

First, there is lingering **sticker shock**. No matter what has happened to your wages, the step-change in prices makes it feel like things are out of control.

Second is **concentration and visibility**. It matters where inflation is showing up. Consumers all along the income distribution are allocating more of their incomes to items at the bottom of Maslow's pyramid (groceries and shelter), eroding any sense of prosperity, despite offsetting relative price declines in other categories.

Finally, **recency bias** is at play. Consumers are benchmarking against the best of recent times, which was the 2021-2023 period of "revenge spending" supported by tight labor markets, ultra-low rates, public stimulus money, and the spend-down of accumulated COVID-19 era savings. That level of discretionary spending is no longer possible, even if monthly incomes are a bit higher in real terms.

The difference between perception and reality creates an enormous political challenge. Without destroying jobs and incomes by triggering a recession, there is no way to actually bring down the general price level.

As a response to this challenge, Trump's actions this week look politically astute, if overtly populist and concerning for markets. The move to **bar large investment funds from the residential property market** can be sold as a direct attempt to improve housing affordability while pinning the issue on an easy scapegoat (large private equity and real estate funds), even if it will have little effect on house prices.

The same can be said for the President's announcement that government-sponsored mortgage providers Fannie Mae and Freddie Mac will be ordered to **purchase \$200 billion worth of mortgage bonds**, with the intention of narrowing the spread between the mortgage rate and the base interest rate. These types of demand-side measures are generally a wash in true affordability terms – cheaper mortgages raise prices, and artificially tighter spreads discourage bank lending.

If banks were worried about mortgage rates, the President's idea to **temporarily cap credit card interest rates at 10%** for one year (i.e., until just after the vote) will have raised the blood pressure in many a New York C-suite. We think this particular measure very unlikely to see the light of day.

Moving beyond the financial sector, it's not that hard to read an affordability angle into the surprising urgency of the Trump administration to **get Venezuelan oil under U.S. control ASAP** (starting with sales of 30m to 50m barrels with the proceeds to be controlled by the U.S. and firewalled against claims from Venezuela's public creditors). Gas prices are low (dipping below \$3 per gallon this week), but the lower

the better from a political standpoint. In the long run, controlling the world's largest national oil reserve will increase U.S. influence on global oil prices.

If you needed any more evidence of the importance of perceptions of affordability in driving policy, remember that the President **rolled back individual tariffs** with large and obvious effects on U.S. prices, such as the tariffs on Brazil and Argentina that exacerbated coffee and beef price inflation.

The question for markets now is: if we know that "affordability narrative" is a core driver of policy, what should we expect?

First and foremost, **pressure on the Federal Reserve** for easy monetary policy will stay high or increase. Lower interest rates support wage growth, and, for consumers paying off floating-rate loans or considering taking out mortgages, are a direct affordability improvement.

It's also looking increasingly likely that we'll see some form of direct fiscal handout, probably framed as some sort of **"tariff dividend rebate"** (in reality, a naked pre-election boondoggle).

This is a policy setup **straight out of the populist playbook**, and the outcomes have been demonstrated time and again across the globe: a short-term boost to growth, followed by higher inflation and economic malaise – very much in line with the "Slow Stagflation" scenario we outlined in our [2026 Outlook](#).

There will probably be other measures that, like the housing market exclusion, create tensions between the Trump base and the traditional business-friendliness of the Republican Party. The **implicit deal for investors** is that favorable tax policy and a light regulatory touch that encourage M&A deal flow will be maintained.

Let's not forget **how much is at stake for the President**. He's starting from a losing position. The combined picture of polls and prediction markets implies a 75%+ chance that Democrats will take the House, although Republicans don't look in danger of losing control of the Senate. This week the President told Republican lawmakers that he'd be impeached if he failed to win the House, and told the New York Times that the only restraint on him is his "own morality." A Democrat-controlled House would seek to reassert Congressional authority on a range of issues from appropriations to tariffs and foreign policy, which have essentially been ceded to Trump over the past year.

Be prepared for a major doubling down on the administration's key policies and a grab bag of populist "affordability" measures that juice the economy pre-election, and leave the costs to be picked up later.

Reads of the Week

- **The Incidence of Tariffs: Rates and Reality**: In an important new paper (backed up by a [piece in the FT](#)), former IMF Chief Economist and First Deputy Managing Director Gita Gopinath argues that U.S. tariffs have already been costly for American consumers, and that more significant structural damage will emerge over the medium term.
 - **Who Uses AI for Pricing?**: Using job postings as a proxy for AI use in pricing, Kansas City Fed researchers find that larger service-sector firms are leveraging the technology to gain an advantage over smaller rivals.
 - **Timeline: University endowments' annus horribilis**: An earthquake hit U.S. university endowments in 2025, in the form of funding cuts and lack of cash flows from illiquid private markets investments. The aftershocks will shape allocation strategies and secondaries activity in 2026, but they are probably through the worst.
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Macro Monitor

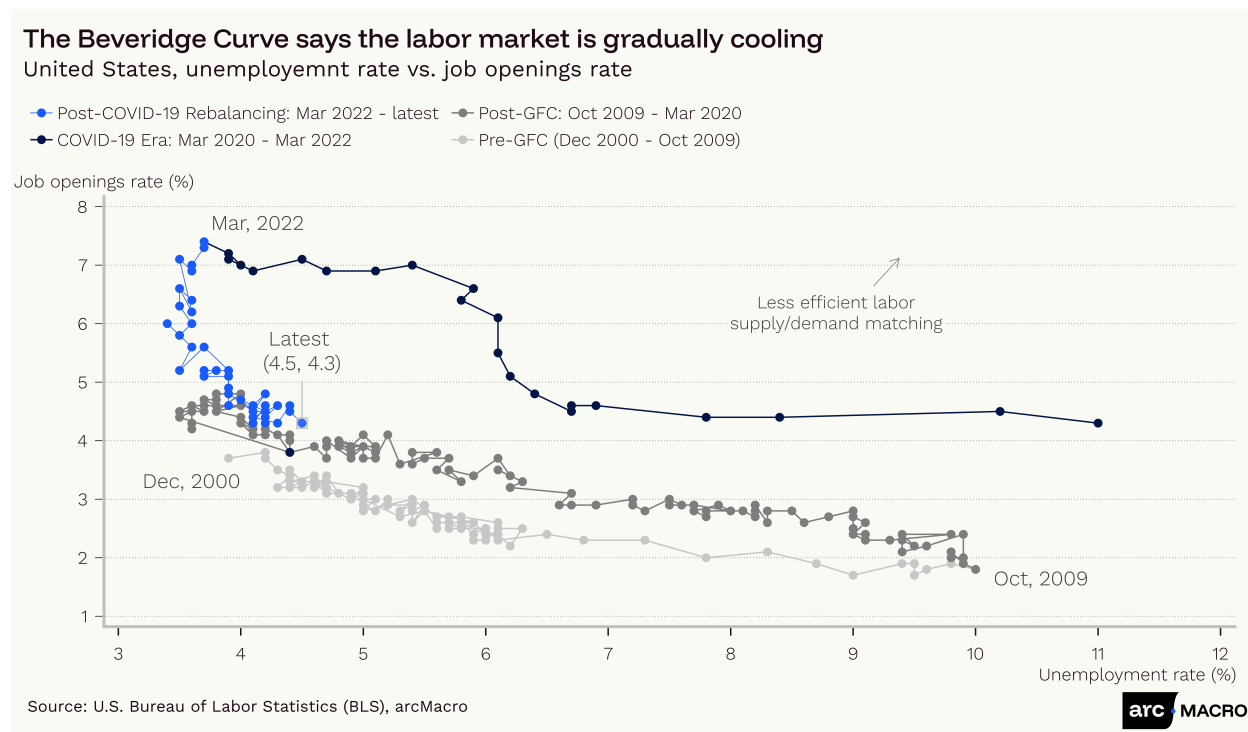
U.S. Labor Market Cooling at a Slower Pace

For the first time since the 2025 government shutdown, we got a normal U.S. labor market data week. That means the privately produced reports (ADP and Revelio employment reports, Challenger Job Cuts tracking, Morning Consult unemployment rate index) and BLS data (JOLTS employment turnover report, nonfarm payrolls and unemployment rate).

That's too much to go through in detail, but the overall message is that job growth slowed a little in December to somewhere around +50k, which, along with fading distortions from the shutdown period, improved the unemployment rate a touch (it's now sitting at 4.4%). In all, it looks like the pace of cooling is slowing and is less severe than many feared. Forward interest rate markets agree – they're now pricing

a 95% chance that the Fed leaves rates unchanged later this month, up from 85% a week ago.

As always, our guide to the state of the labor market is the Beveridge curve, which plots the relationship between the job openings rate (number of open jobs as a share of the labor force) and the unemployment rate (number of people looking for a job as a share of the labor force) over time and under different economic regimes. It's still telling us that the process of labor market normalization has basically finished, and we're close to where we were in the tightish labor markets over the latter half of the 2010s, albeit with what looks like a structurally higher job openings rate (posting job ads online has become much easier and standard practice since then).



U.S. Trade data still heavily distorted

A word of caution on the latest U.S. trade balance data, which appeared to show the smallest deficit since 2009 (\$29.4 billion), thereby validating tariff policies. Two items – a drop in gold and pharmaceutical imports – account for the entire shift in the trade balance. These are distortions. Pharma imports were front-loaded in September as new tariffs were anticipated to come into effect, while gold has been subject to volatile monthly swings. Excluding these two items reverses the change in

the trade balance: imports rise +1.5% instead of falling -3.2%, and exports are +0.7% higher rather than -2.6% lower.

A Word on Canadian Employment

Statistics Canada published a weaker-than-expected Labour Force Survey for December. A sharp rise in the labor force (more jobseekers) more than offset modest job gains of 8.2k to send the unemployment rate to 6.8%, up from 6.5% in November. The rise in the labor force is difficult to attribute given that population growth has flatlined, so there may be some give-back in January.

For 2025 as a whole, Canada managed only a +1.1% increase in total employment, just enough to hold the unemployment rate below 7% as population growth slowed. The Canadian economy was not destabilized by tariffs to the degree many feared (credit to the Bank of Canada for anticipating the shocks and moving rates lower to weaken the Canadian dollar and offset part of the shock), but it's working hard to tread water.

We're still cautiously optimistic on a longer horizon, and have noted some green shoots in the business community (see chart below).

Green Shoots in the Great White North

Canada, Ivey Purchasing Managers Index, Employment, SA, 3-month moving average



Source: Richard Ivey School of Business, University of Western Ontario, arcMacro

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See the appendix for arcMacro proprietary Factors and the Key Macroeconomic Indicators tracking chart.

What we'll be watching next week

- *Supreme Court rulings (United States)*: The exact timing is uncertain, but at some point in the next few weeks, the Supreme Court will rule on the market-moving cases of the legality of President Trump's unilateral tariff regime, and the legality of his firing of Federal Bank Governor Lisa Cook.
 - *December Inflation (United States)*: The final CPI print of 2025 will be published on Tuesday. We'll be assessing the report for reliability after major problems with the shutdown-affected November data. PPI will follow on Wednesday.
 - *Fedspeak (United States)*: A host of voting Federal Reserve bank officials will speak next week, the most important being NY Fed President Williams, who is perceived to lead the swing votes on the FOMC.
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Market Monitor

Public markets

Market action this week indicates that rising geopolitical uncertainty is having no impact on voracious investor risk appetite. Equities have risen strongly, with several indices making new all-time highs. Higher-risk categories saw the strongest gains, with the Russell 2000 small-cap index up a ripping +4.9%. Fixed income moves were more muted, with the 10-year benchmark U.S. Treasury yield holding steady at 4.28% and European spreads little changed, while the dollar gained +0.6%.

There was some concern that commodity markets, particularly Gold and Silver, would come under pressure as technical sales from commodity index rebalancing brought supply onto the market. There was no need to worry. Potent demand for Gold saw it close the week up 3.2% and fast approaching the \$4,500 per ounce mark. The broader commodity index followed suit, with geopolitical developments boosting industrial metals and soft commodities too. Meanwhile, the oil price has more than made up for its losses in the wake of America's raid on Venezuela. At \$58.7 per barrel, WTI crude has found a high for the year so far.

The Week in Markets

| | Latest* | Change since last week (units) | Change since last week (%) | 3-month change (units) | 3-month change (%) | Year-to-date change (units) | Year-to-date change (%) |
|-------------------------------|---------|--------------------------------|----------------------------|------------------------|--------------------|-----------------------------|-------------------------|
| Equity | | | | | | | |
| S&P 500 | 6966 | 108 | 1.6 | 213 | 3.1 | 121 | 1.8 |
| Information Technology | | | 0.0 | | -1.1 | | 0.1 |
| Financials | | | 1.4 | | 4.1 | | 1.6 |
| Consumer Discretionary | | | 5.8 | | 5.8 | | 4.6 |
| Communication Services | | | 2.4 | | 10.3 | | 2.0 |
| Health Care | | | 1.1 | | 8.9 | | 1.6 |
| Industrials | | | 2.5 | | 4.2 | | 4.4 |
| Consumer Staples | | | 2.1 | | 2.3 | | 2.0 |
| Energy | | | 2.1 | | 5.3 | | 4.3 |
| Utilities | | | -1.6 | | -6.3 | | -0.4 |
| Real Estate | | | 0.4 | | -1.3 | | 0.4 |
| Materials | | | 4.8 | | 6.8 | | 6.4 |
| Nasdaq Composite | 23671 | 436 | 1.9 | 628 | 2.7 | 429 | 1.8 |
| Dow Jones Industrial Average | 49504 | 1122 | 2.3 | 2902 | 6.2 | 1441 | 3.0 |
| Russell 2000 | 6522 | 288 | 4.6 | 349 | 5.6 | 354 | 5.7 |
| Sovereign Fixed Income | | | | | | | |
| US: 2-year Treasury Note | 3.54 | 0.07 | | -0.040 | | 0.070 | |
| US: 5-year Treasury Note | 3.75 | 0.01 | | 0.030 | | 0.020 | |
| US: 10-year Treasury Note | 4.18 | -0.01 | | 0.050 | | 0 | |
| FRA: 10-year OAT benchmark | 3.52 | -0.09 | | 0.010 | | -0.040 | |
| GER: 10-year Bund benchmark | 2.86 | -0.01 | | 0.17 | | 0.0100 | |
| CHN: 10-year CGB benchmark | 1.88 | 0.03 | | 0.0177 | | 0.0309 | |
| CAN: 10-year GoC benchmark | 3.4 | -0.02 | | 0.21 | | -0.020 | |
| Corporate Bond Spreads | | | | | | | |
| US: A-rated | 68.8 | -0.5 | | -2.3 | | -1.0 | |
| US: BBB-rated | 103 | -1.5 | | 0.6 | | -1.9 | |
| Leveraged Loan Spreads | | | | | | | |
| US: B-rated | 391 | -0.26 | | 0.58 | | -0.64 | |
| US: BB rated | 255 | -0.98 | | -3.84 | | -0.9 | |
| US: CCC-rated | 1565 | 10.1 | | 184 | | 1.69 | |
| Foreign Exchange Rates | | | | | | | |
| DX US Dollar Index | 99.1 | | 0.7 | | 0.2 | | 0.8 |
| EUR/USD | 1.17 | | -0.6 | | 0.1 | | -0.6 |
| USD/CAD | 1.38 | | 0.6 | | -1.2 | | 0.6 |
| USD/CNY | 6.98 | | -0.1 | | -1.9 | | -0.1 |
| USD/JPY | 157 | | 0.3 | | 4.2 | | 0.3 |
| GBP/USD | 1.34 | | -0.1 | | 0.1 | | -0.1 |
| USD/CHF | 0.797 | | 0.6 | | 0.0 | | 0.6 |
| Commodities | | | | | | | |
| WTI Crude | 58.7 | 1.44 | 2.5 | -3.02 | -4.9 | 1.32 | 2.3 |
| Gold | 4494 | 141 | 3.2 | 454 | 11.2 | 126 | 2.9 |
| S&P GSCI Commodities | | | 2.2 | | 0.7 | | 2.1 |
| S&P GSCI Industrial Metals | | | 3.8 | | 16.1 | | 4.3 |
| S&P GSCI Agriculture | | | 1.1 | | -0.8 | | 0.8 |

* Weekly closing value. Color indicates positive (green) or negative (red) change since prior week.

Source: S&P Global, Russell Investment Group, Nasdaq, U.S. Department of Treasury, Macrobond Financial AB, Central Bank of Germany (Deutsche Bundesbank), Bank of Canada, Intercontinental Exchange (ICE), International Monetary Fund (IMF), LBMA (London Bullion Market Association), Robert Shiller, Chicago Board Options Exchange (CBOE), U.S. Department of Labor, Pitchbook | LCD, arcMacro



Private markets and thematic developments

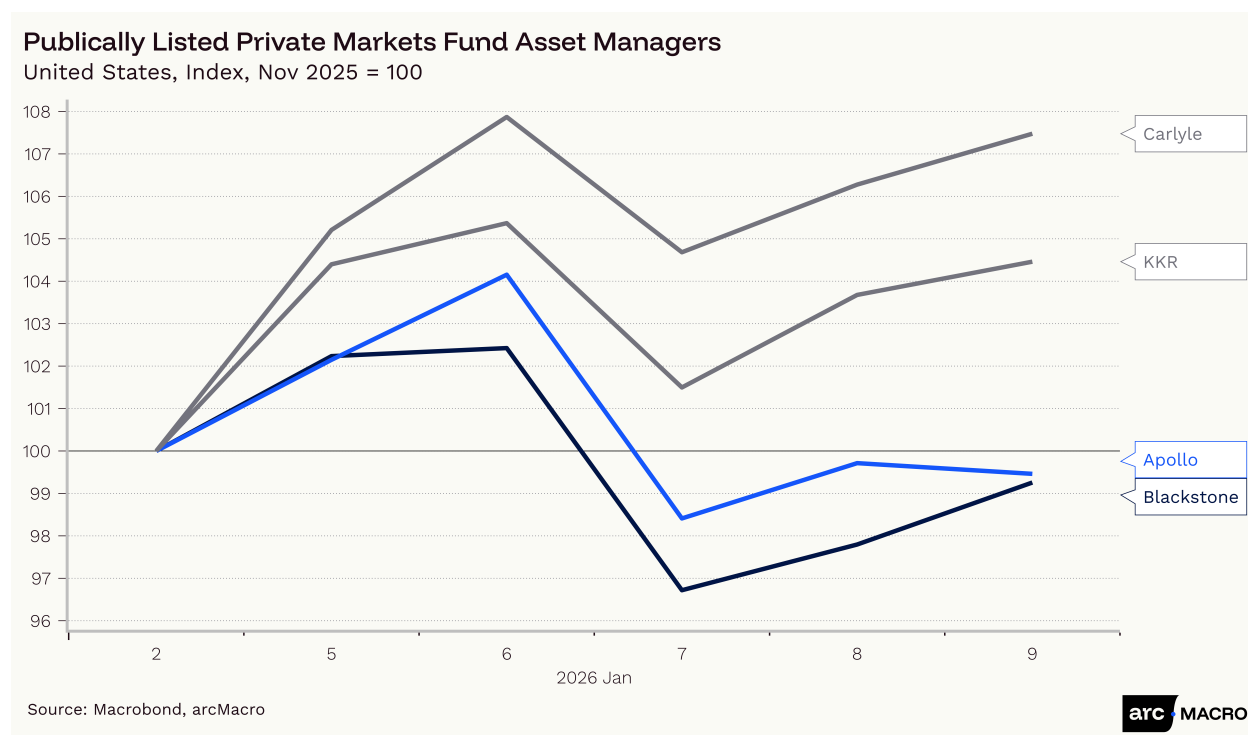
Large private investors to be excluded from residential housing

Wall Street was blindsided this week by President Trump's announcement that institutional investors would be banned from buying single-family homes.

That's all we know for now. We've discussed the politics and implicit signals in the Monologue, but as far as actual details go — we don't have any, except that Congress has been directed to start putting together some legislation (firing the starting gun on a massive lobbying effort), and that it's likely to apply to investors

who own 100 or more properties. It seems unlikely that existing investments will be affected, so this only matters on a go-forward basis.

Stocks in listed private equity groups with significant U.S. housing exposure fell sharply (see chart below). The move was overdone and reversed fairly quickly. Institutional investors were highly active in the space after the 2008 financial crisis, arguably playing a critical role in supporting and revitalizing the moribund real estate market, and again during the COVID-19 pandemic, but have not actively grown in the segment in recent years. According to UBS analysis, Blackstone has been a net *seller* of single-family rental units in 2025.



Duly Noted

- The [Bloomberg Deals](#) newsletter this week published an overview of the "mega-IPOs" on deck (SpaceX, Databricks, Deel, and Cerebras Systems are the biggest names). After a year in which private M&A was dominated by large deals in 2025 (we expect the momentum to move down market this year), will we see the same in the listings market in 2026?
- The [FT reports](#) that "hedge funds boom as investor enthusiasm for private equity falters." In our view, this is a reflection of the very high levels of global macro uncertainty dampening long-term illiquid investment demand, and the

more immediate pitch for macro hedge funds who benefit from volatility. Not to talk our own book, but private markets GPs need to learn how to tell a compelling macro resilience story when fundraising.

- [PitchBook](#) is out with its "First Look" summary of 2025. The highlight: surging global exit activity as evidence that the "post-COVID-19 freeze" is thawing.

Memo

What Lies Beneath the U.S. Labor Market

Bottom line: Below the surface of a seemingly calm labor markets are pockets of tightness. A significant pickup in demand in certain industries (including construction) amid suppressed immigration could rapidly increase wages.

The recently released December labor market data have told us that, on aggregate, the labor market is still cooling gradually, but at a slower pace then over the prior five months.

However, the aggregates smooth out important variation in labor market conditions in different sectors of the economy, as the table below shows using employment growth, total hours worked, and earnings. The availability of labor, and its influence on the bottom line of a given company depends far more on that company's industry than the aggregate macro picture.

Some parts of the labor market are tighter than others
United States

| | Employment year-over year % | Employment 3-month annualized % | Hours year- over year % | Hours 3- month annualized % | Earnings year-over year % | Earnings 3- month annualized % | Relative Momentum Score |
|----------------------------------|-----------------------------------|---------------------------------------|----------------------------|-----------------------------------|---------------------------------|--------------------------------------|-------------------------------|
| Utilities | 1.3 | 2.2 | 2.6 | 10.3 | 3.5 | 7.0 | |
| Leisure & Hospitality | 1.1 | 1.8 | 1.5 | 3.6 | 3.9 | 4.8 | |
| Education & Health Services | 2.6 | 2.1 | 2.0 | 1.9 | 2.6 | 4.1 | |
| Other Services | 1.0 | 0.9 | 1.1 | 1.1 | 3.1 | 4.7 | |
| Construction | 0.2 | -0.1 | 0.4 | -1.4 | 3.7 | 3.8 | |
| Financial Activities | 0.4 | 0.3 | -0.6 | -1.8 | 4.7 | 5.2 | |
| Manufacturing, Non-Durable | -0.2 | -0.3 | -0.9 | -1.3 | 4.0 | 5.4 | |
| Transportation & Warehousing | -0.9 | -2.2 | 0.4 | 3.0 | 3.3 | 2.7 | |
| Professional & Business Services | -0.4 | -0.2 | 0.1 | -0.3 | 4.0 | 3.2 | |
| Retail Trade | 0.0 | -1.7 | -1.1 | -5.8 | 4.8 | 6.9 | |
| Manufacturing, Durable | -0.7 | -0.8 | -1.2 | -0.9 | 4.7 | 4.2 | |
| Information | -1.0 | -1.4 | -0.4 | -4.3 | 5.0 | 5.6 | |
| Wholesale Trade | -0.3 | -0.3 | -0.3 | -2.2 | 3.8 | 2.2 | |
| Mining & Logging | -2.6 | -1.9 | -1.0 | -5.4 | 2.3 | 5.2 | |

Note: Relative momentum index is calculated by multiplying the sign on 12-month change by the three month absolute growth and averaged over the three labor market measures.
Source: U.S. Bureau of Labor Statistics (BLS), arcMacro

Before we dig into the more interesting industries, one broad puzzle needs resolving. If a majority of industries have seen employment fall in 2025, and if hours have been trimmed in nine of the fourteen industries, **why have earnings accelerated across the board?**

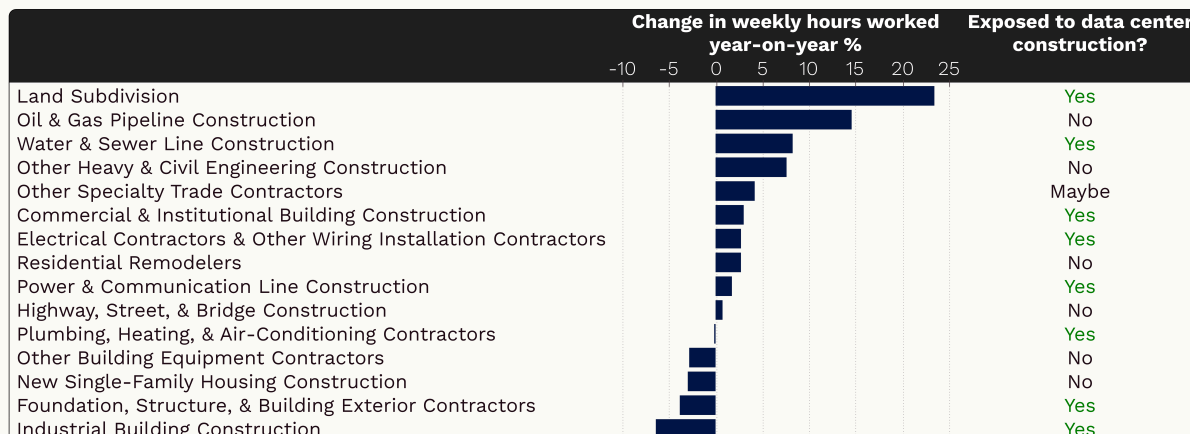
The answer, we believe, is **immigrant labor suppression** (inward immigration restrictions, deportations and discouragement from working). The population and labor force are growing slowly, and scarce skills are harder to come by. In response, firms are retaining employees by keeping wages growing, but are not hiring aggressively. In this environment, stronger demand could easily prove inflationary.

Moving back to the current state of employment, the table above is rich in information, but four industries struck us in particular, prompting us to dig into the sub-industry data to work out what underlying trends are driving their labor markets. We analyzed total hours worked, because it summarizes how much labor firms are actually using, combining how many people are on the payroll (what economists call the "extensive" margin of adjustment), and how long they're working on average (the "intensive" margin).

First, construction industry employment looks still to be driven by Biden-era support for large-scale infrastructure investment If a further boost from data center building is in the pipeline, the construction sector could heat up quickly. Remember that actual construction employment lags investment announcements and outlays by 1-2 years. But it's very clearly not here yet. The segment of the construction sector containing data centers – Industrial Building Construction – has seen the sharpest *drop* in weekly hours worked.

Construction employment looks more related to Biden-era programs than AI-buildout

United States, Weekly Hours Worked, Construction Industry, YoY change



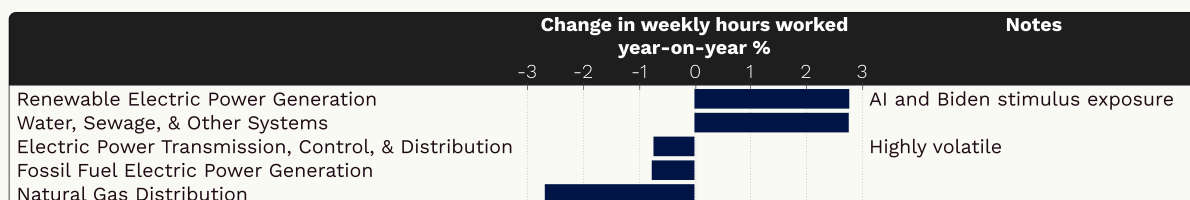
Source: U.S. Bureau of Labor Statistics (BLS), arcMacro

Second, renewable energy projects are the engine of utility industry activity,

with the sub-industry growing employment by 2.8% in 2025. In contrast, fossil fuel industry hours were down by nearly a percent, and natural gas hours down nearly 3%.

Renewables are powering employment and wage growth in utilities

United States, Weekly Hours Worked, Utilities Industry, YoY change

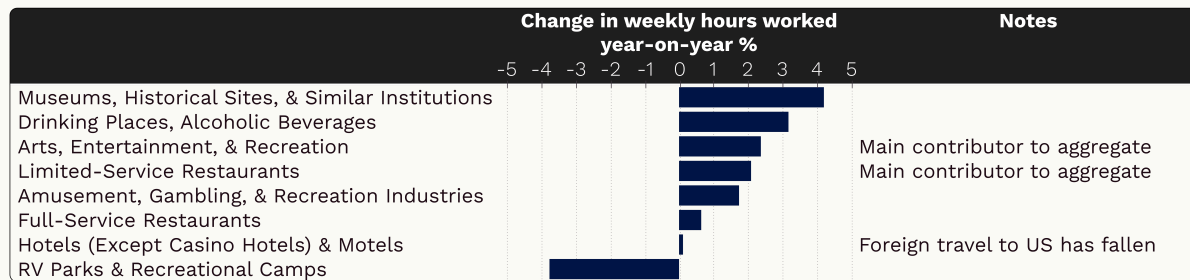


Source: U.S. Bureau of Labor Statistics (BLS), arcMacro

Third, fast food outlets and entertainment businesses are expanding hours. If hotel demand recovers, the labor market in the leisure and hospitality industry will start to run hot, especially in light of its traditional reliance on foreign-born workers (this depends to a large degree on the Canadian and European travel boycott fading).

Fast food and entertainment is offsetting weak hotel activity

United States, Weekly Hours Worked, Leisure and Hospitality Industry, YoY change

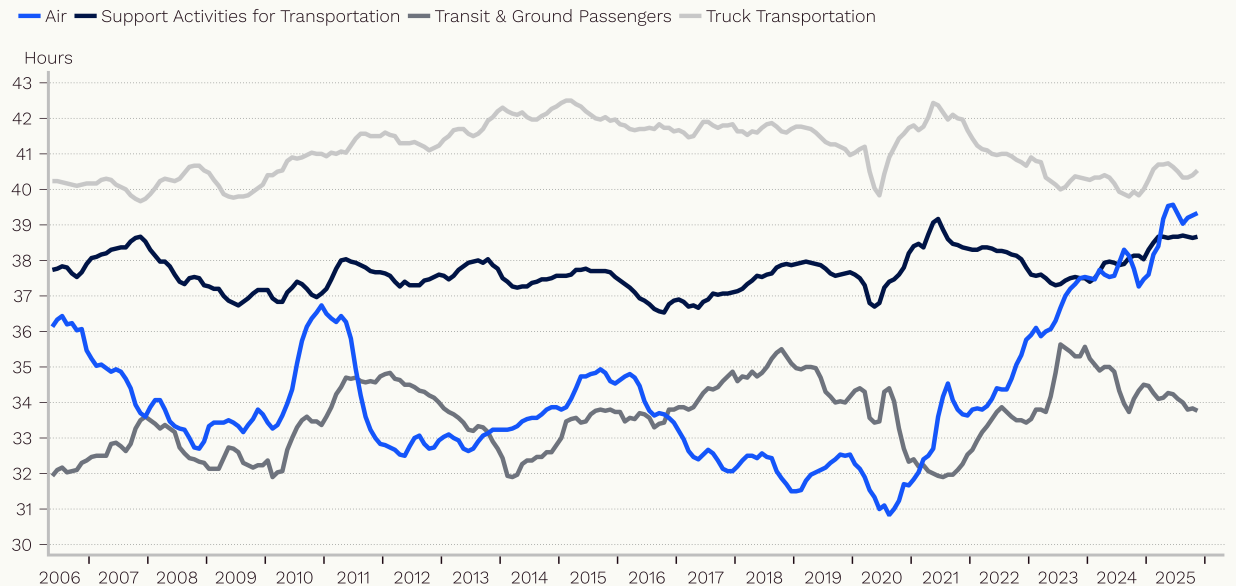


Source: U.S. Bureau of Labor Statistics (BLS), arcMacro

Finally, a dramatic structural shift in airline work is still underway. This explains the odd pattern in the Transportation and Warehousing industry in the table at the top of the piece, where wages are growing rapidly despite employment and total hours worked in the industry falling. As the chart below shows, airline staff are working longer and longer hours. An acute skills shortage post-COVID-19 and the relentless drive for efficiency amid volatile demand have meant that staff are working longer hours (9 more per week). They're also being better remunerated.

Airlines have changed tactics amid post-COVID-19 shortages: higher wages for harder work

United States, Average Weekly Hours, Transport Industry, 3mma



Source: U.S. Bureau of Labor Statistics (BLS), arcMacro

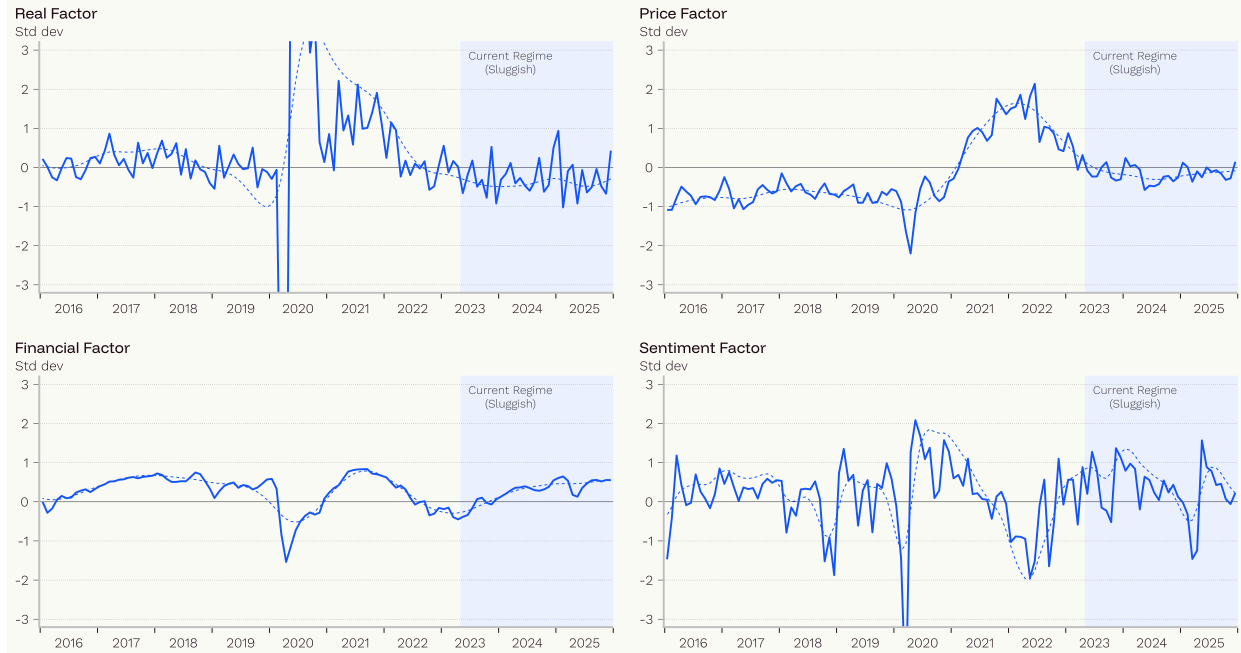
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Appendix

Proprietary Factor and Regime Model and Key Macro Indicators

arcMacro Real Time Factors

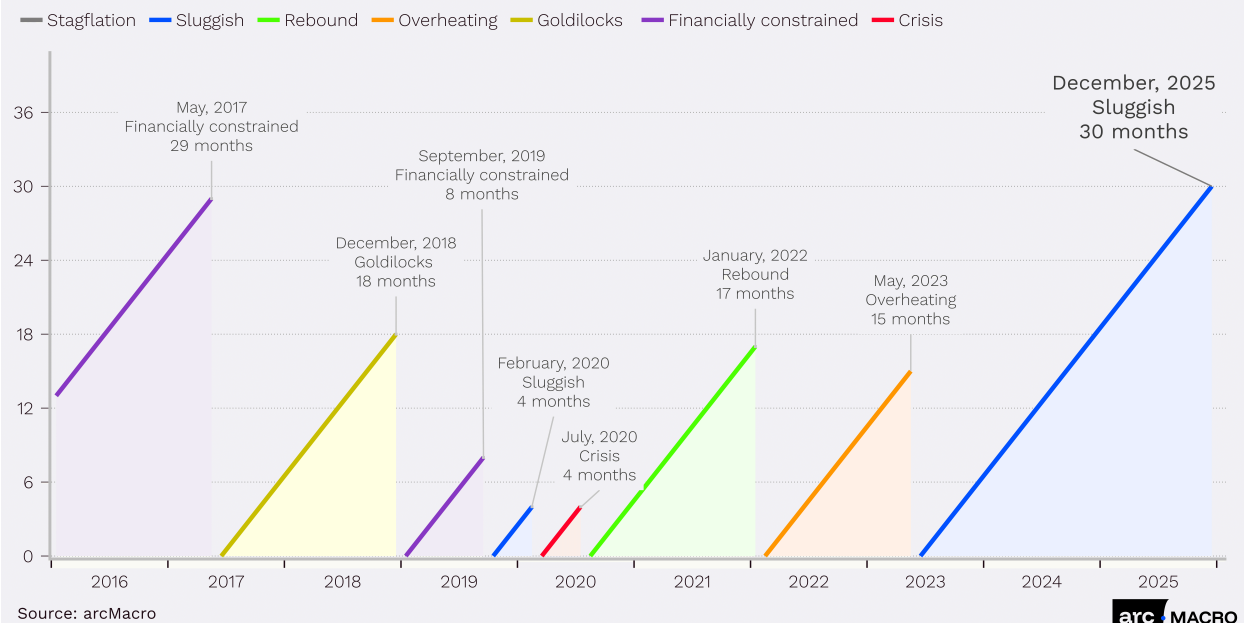
United States, z-score



Source: arcMacro

arcMacro Regime Summary

United States

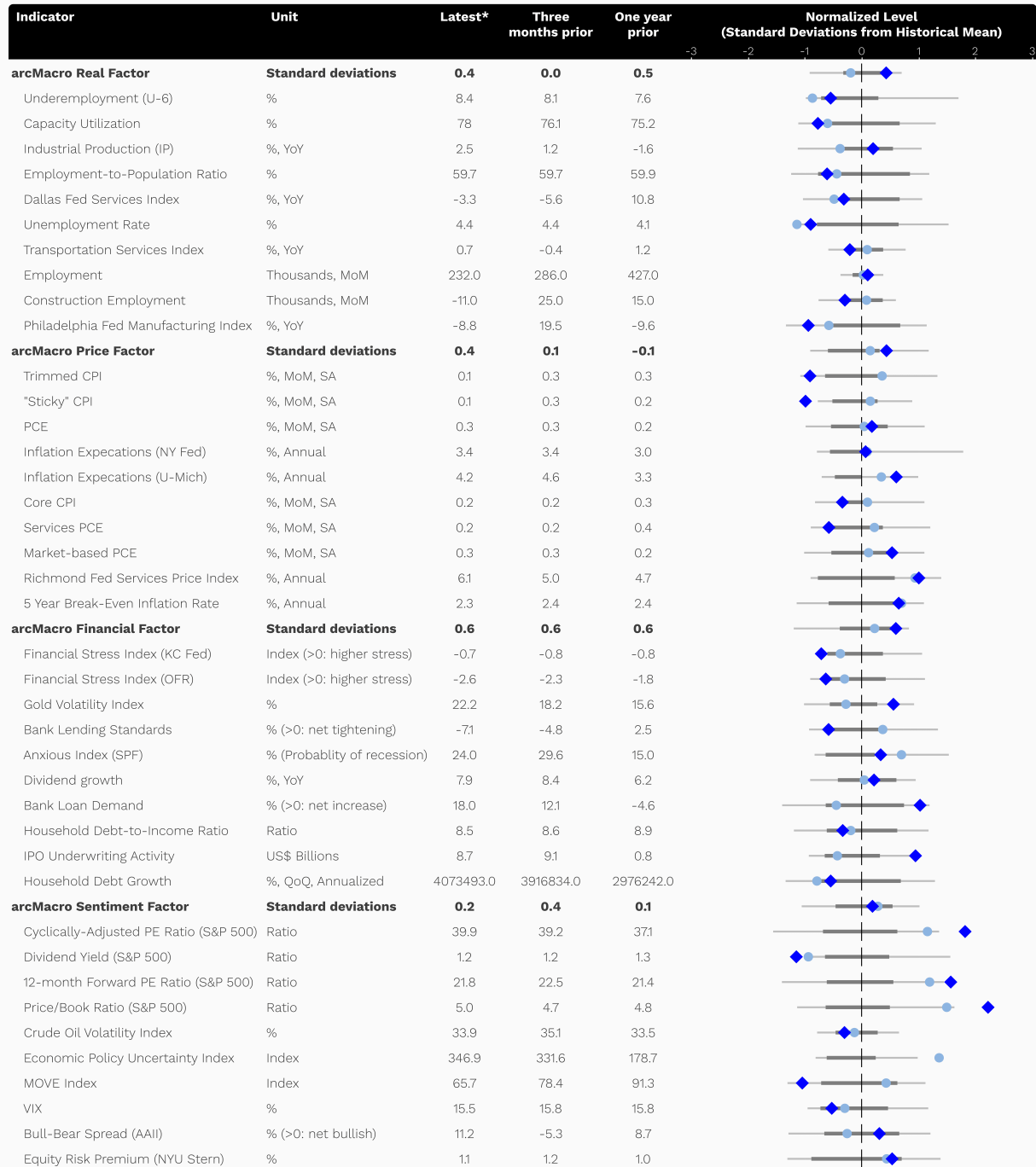


Source: arcMacro

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arcMacro Factor Input Monitor

Top 10 inputs by factor loading



■ 10th-90th Percentile ■ 25th to 75th Percentile ● Mean of past 5 years ◆ Latest Value

Source: arcMacro, BLS, Fed, Dallas Fed, DOT, Philadelphia Fed, Cleveland Fed, Atlanta Fed, BEA, New York Fed, University of Michigan, Richmond Fed, Macrobond, Kansas City Fed, The Office of Financial Research (OFR), CBOE, S&P Global, SIFMA, Robert Shiller, Economic Policy Uncertainty, ICE BofAML, LJKmf, AAIL
*Most recent published data point. Time period and frequency do not necessarily align.