



Navigating the Noise: Rate Cycles, Political Seasons, and the Anchor of Quality

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If you examine human behavior under stress, a common pattern emerges: when faced with macro uncertainty, our natural instinct is to try to exert control over our surroundings. In everyday life, this drive can be beneficial—it fuels ambition, focus, and personal drive. But when applied to the global economy or financial markets, the urge to manage external outcomes or time short-term cycles can become a significant liability.

Consider a classic behavioral study conducted by researchers at the University of California, Davis. Analyzing thousands of individual brokerage accounts over several years, researchers found that female investors outperformed male investors by approximately 1.5% annually. The primary driver wasn't superior market forecasting, but temperament: male investors exhibited higher levels of overconfidence, trading far more frequently and incurring higher friction costs and taxes. Female investors tended to be more deliberate, trading less and holding quality positions through short-term market noise.

In investing, as in life, overactivity is often the enemy of long-term progress. Trying to outguess central bank policy maneuvers or game short-term election outcomes is a game stacked against the individual investor.

Controlling the Controllable

As we evaluate the market landscape over the next 6 to 12 months, it is worth drawing a firm line between what is within our sphere of influence and what is wildly outside of it.

What You Cannot Control	What You Can Control
Federal Reserve Rate Decisions	Your Portfolio Allocation & Strategy
Short-Term Market Volatility	Reinvestment & Savings Discipline
Midterm Election Outcomes	Emotional Temperament & Perspective
Geopolitical & Macro Headlines	Focus on High-Quality Businesses

When we step back from the daily news cycle, our investment thesis rests not on predicting headline events, but on evaluating individual companies from the bottom up—analyzing balance sheet health, pricing power, and fundamental durability.

Navigating the Federal Reserve Rate Cycle

The dominant narrative in financial media today centers on the Federal Reserve and whether they intend to increase rates one or two more times later this year. Questions around how long rates will stay elevated, whether monetary tightening will slow economic growth, how much will the interest expense on our national debt service become, or where bond yields will settle are constantly circulating.

While tightening cycles introduce market friction and choppy trading, history offers important perspective:

1. Tightening Cycles Reflect Underlying Resilience: The Fed raises rates primarily when the broader economy shows baseline strength, persistent inflation, and sticky demand. While higher borrowing costs create a headwind for highly leveraged or speculative companies, high-quality businesses with low debt and strong cash flow continue to operate smoothly. One thing to note, the Fed Funds rate has little impact on what the price of oil is. Should there be some sort of resolution in the Middle East conflict, the broad impact of high energy prices on inflation will subside.

2. Rate Expectations Are Continually Discounted: Financial markets are forward-looking mechanisms. Long before the central bank reaches the end of its rate adjustments, equity markets process and price in the terminal rate environment. Waiting for the Fed to officially signal a pivot or to ease policy often means missing significant market advances that occur while headlines remain cautious. AI is also a wildcard - we don't know what impact it will have on productivity, which in a world of abundance, could be deflationary.

Attempting to time portfolio decisions around individual Fed meetings or policy statements is rarely effective. A far more prudent strategy is holding businesses whose profitability isn't reliant on cheap leverage.

Midterm Elections: Historical Patterns & the Fourth Quarter Opportunity

With the midterm elections roughly five weeks away, political headlines are intensifying. It is entirely natural to have strong personal feelings about political candidates, policy agendas, and party platforms. However, conflating political preferences with investment strategy has historically proven counterproductive.

In fact, historical market data shows a clear and consistent pattern during midterm election years.

Period	Midterm Election Years	All Historical Years
1st Quarter	1.1%	2.3%
2nd Quarter	-0.7%	3.5%
3rd Quarter	0.1%	2.5%
4th Quarter	6.7%	3.9%

Average Quarterly S&P 500 Returns (1/1/1926 – 3/31/2026). Source: Morningstar, Bloomberg.

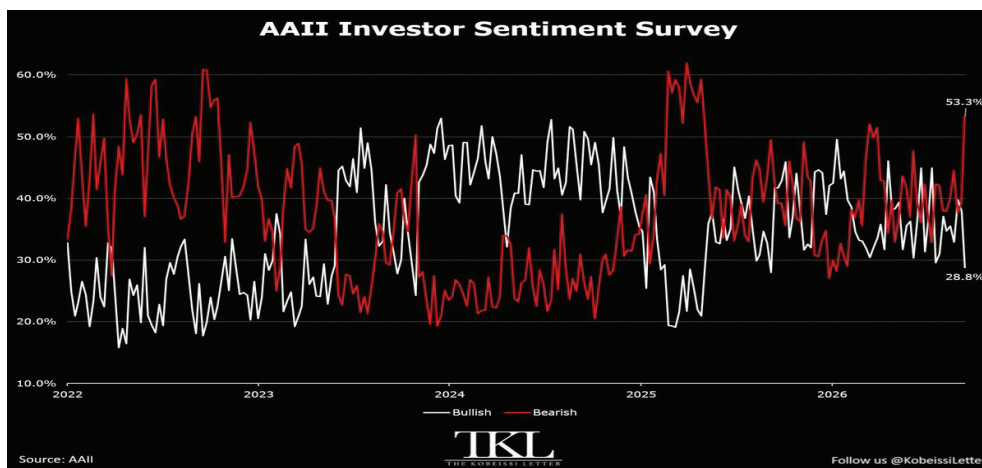
As the historical data illustrates, the stock market often experiences a ‘slug fest’ during the first three quarters of a midterm election year as policy uncertainty peaks. Average returns during the first three quarters lag significantly behind non-election years, with the second quarter historically showing negative performance (-0.7%) and the third quarter remaining virtually flat (0.1%). This year the market has been resilient, but that can largely be explained by the fact that S&P 500 earnings have grown a remarkable 32% over last year. In fact, earnings have grown faster than stock prices and the price to earnings ratio has declined in 2026. It’s cheaper to own stocks today than it was on January 1st.

As we roll towards November 3rd and the election approaches and uncertainty clears, the market has historically experienced a powerful fourth-quarter rally. The average fourth-quarter return in a midterm election year jumps to 6.7%—substantially outperforming the 3.9% average across all other years.

Looking at trading days before and after midterm elections going back to 1970, index data demonstrates that equities tend to bottom shortly before the election and enter a sustained upward trend as the political results are finalized.

The takeaway for long-term investors is clear: selling out of equities due to pre-election nervousness or attempting to time an exit before November risks sitting on the sidelines during what has historically been one of the strongest quarterly environments for stock market performance. Seeking to ‘game’ election outcomes frequently backfires, while remaining disciplined has historically allowed you to capture the market’s post-election recovery.

AII Sentiment Survey = Contrarian Signal: Investors Becoming Bearish



53.3% of individual investors expressed bearish sentiment over the next 6 months in the AAll survey for the week ending September 17th, the highest reading since May 2025. Meanwhile, just 28.8% of individual investors were bullish over the same period, the lowest reading since September 2025. That is the lowest in over a year. As a result, the bull-bear spread is down to -24.5 percentage points, the widest gap since the first week of May 2025. Recall what was happening last year in April and May – it was the Trump Tariff tantrum correction. If you review the data closely, this is also comparable to readings seen during the 2022 bear market. This would suggest investor fears over Fed rate hikes and the election might be getting “priced in” and some traders may ultimately find themselves offside.

Valuations and the Anchor of Dividend Growth

Periods of macro uncertainty and headline volatility often create the most attractive long-term entry points. When market sentiment turns cautious, share prices frequently trade at discounts relative to their underlying corporate earnings power.

During these cycles, our fundamental anchor remains unchanged: cash flow and growing dividends.

Historically, a substantial portion of long-term total equity market returns has come directly from dividends. While share prices fluctuate daily based on headlines, liquidity, and sentiment, well-capitalized companies with strong balance sheets rarely cut or suspend their payouts. Companies with a commitment to growing their dividends provide two tangible benefits during volatile periods:

- **Realized Return in Any Environment:** Cash dividend payouts deliver a reliable, positive return even when market indexes are trading sideways or digesting rate hikes.
- **Compounding Advantage:** Reinvested cash dividends automatically purchase additional shares when valuations are low, steadily expanding your future income capacity. At CORDA, we use the dividend cash flow to provide your income needs, and if that is not a priority, we can selectively reinvest where we feel there is good value.

Looking Ahead

Whether the coming weeks bring further interest rate debates, political surprises, or conflicting economic commentary, our core strategy remains steady. We do not make speculative bets on central bank timing or politicking. Instead, we maintain a disciplined, bottom-up focus on businesses that are priced right and capable of increasing their payouts across all phases of the market cycle.

We encourage you to maintain a calm, deliberate perspective. Volatility creates long-term opportunity for patient capital, and our focus remains squarely on positioning your portfolio to compound wealth effectively for years to come.

As always, if you have questions about your portfolio or would like to review your broader financial plan, please don't hesitate to reach out.

Warm regards,
The CORDA Team

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