DISCLAIMER: This briefing is for educational purposes only and does not constitute financial advice. It is not a recommendation to buy or sell any asset or security. All investment carries risk, including the loss of principal. This briefing is FTC compliant. Past performance is not indicative of future results.

AI STOCKS · MIDTERMS · INTEREST RATES · RISK

November 3rd: the unthinkable is about to happen to stocks

$3.46 trillion has come off the biggest AI stocks in a month, and your index fund is hiding it. A pattern that has turned up 7 times in over 70 years could be lining up again within days.

AUTHOR

Felix Nikolas Prehn
Economist
The Prehn Institute

SCOPE

Educational companion to the video of the same title.

RATING

None

PRICE TARGET

None

About $3.46 trillion has been wiped off the biggest AI stocks in a month. The Nasdaq 100 is down 10% from its record, which is a correction, while the S&P 500 is only about 3.5% below its high. Same market, 2 completely different stories.

Today America votes. History says that whoever wins, stocks have been higher a year later almost every time. But in 1 of the 7 times this exact set-up turned up, it got a lot worse first, and that year looks like this one.

16.6%

average S&P 500 gain in the year after each of the 19 midterms since 1950. It rose every single time (BNY Investments)

© 2026 The Prehn Institute. Published by Skillset Solutions FZ-LLC.

About Felix Nikolas Prehn and The Prehn Institute

Felix Nikolas Prehn

Felix Nikolas Prehn is an economist and former investment banker. He writes and lectures on how the financial markets work, with a focus on how ordinary savers can protect what they have built.

The Prehn Institute

Felix Nikolas Prehn is the founder of The Prehn Institute. It publishes research on the financial markets and provides instruction in how they work. It gives no financial advice.

It takes no sponsorships and no endorsements, ever. So its work answers to its readers and to nobody else.

The purpose of this briefing

This is the written companion to the video of the same title. It follows the same material in the same order, so you can read it beside the video or on its own.

Nobody can tell you who wins today, or what the market does tomorrow. So this briefing doesn't try. It shows you what this set-up has tended to do, and how to check your own holdings against it.

Find the work

youtube.com/@felixprehn

© 2026 The Prehn Institute. Published by Skillset Solutions FZ-LLC.

Contents

Executive summary: the crash your index fund is hiding 4

Act 1: the damage hiding inside the average 5

Act 2: why AI cracked now 6

Act 3: the midterms, and why a blocked Washington suits Wall Street 7

Act 3: up a year later, almost every time 8

Act 4: when the pattern hurts first 9

Act 5: the other side of the argument 10

Act 6: the plan, whoever wins 11

The Great Pivot: free live training 12

Sources and disclosures 13

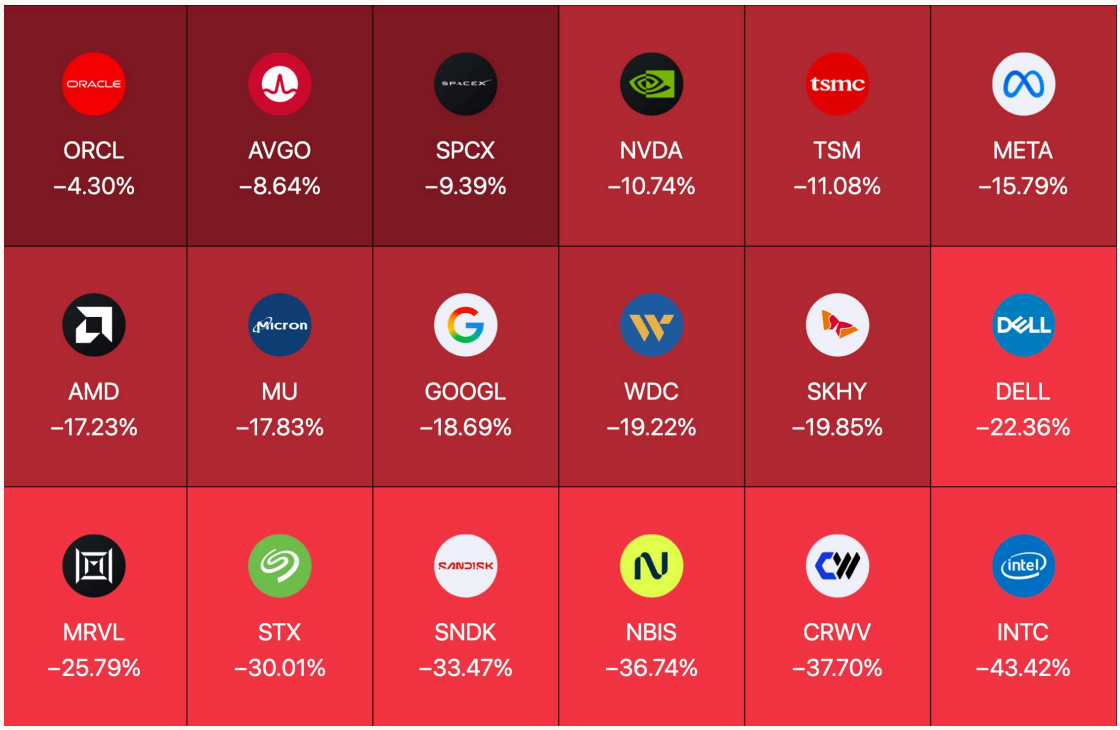
How to use this briefing.

Read it beside the video. Every chart has a source at the back, so you can check the work rather than take anyone's word for it.

© 2026 The Prehn Institute. Published by Skillset Solutions FZ-LLC.

SAME MARKET, 2 STORIES

The crash your index fund is hiding



The 18 big AI names and their October falls, from Intel down 43% to the broad chip winners. Source: market tally circulated on X (BullTheory). Aggregator figure, not independently verified.

-3.5%

S&P 500 below its record high

-10%

Nasdaq 100 from its record, a correction

23

CNN Fear and Greed Index, extreme fear

Prices ran far ahead of profits → **Earnings season punished the big spenders** → **High rates and a nervous oil price** → **The crowd heads for the exit**

Your pension app looks calm because the damage is hiding inside the average. The S&P 500, which tracks America's 500 biggest companies, is only about 3.5% below its record. The Nasdaq 100, packed with the big technology names, is down 10%. Both are true at once.

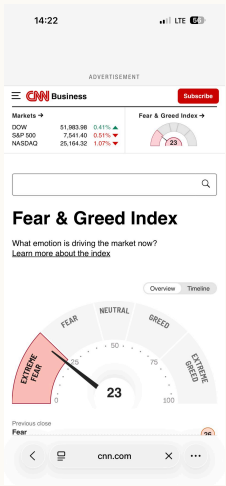
How? An index is weighted by size. When money sells out of a handful of giant tech stocks and moves into the other 490 companies, the tech index falls hard while the broad index barely moves. The selling is real. It is just being averaged away.

And today America votes on who runs Washington for the next 2 years. That is where the title comes from, because a specific election result has a specific history behind it.

© 2026 The Prehn Institute. Published by Skillset Solutions FZ-LLC.

THE DAMAGE HIDING INSIDE THE AVERAGE

Money isn't leaving the market. It's changing seats.



The CNN Fear and Greed Index at 23, extreme fear, with the Dow up 0.41% on the same day the Nasdaq fell 1.07%. Source: CNN Business, via Barchart on X.

You could see it in a single day last week. The Nasdaq fell 1.07%. The Dow Jones, which leans towards older industrial companies, actually rose 0.41% on the very same day. A 10% fall from a high has a name: a correction, the stage professionals watch before a proper crash. The Nasdaq 100 is there now.

And people are frightened. CNN's Fear and Greed Index measures how nervous or greedy the market is, from 0 for blind panic to 100 for wild greed. It is sitting at 23, extreme fear. Scared people sell, and they usually sell near the bottom, not the top.

PUT THE DAMAGE IN MONEY

A $200,000 technology-heavy fund	What the fall costs
A 10% fall	$20,000 gone
A 20% fall, and some names are well past that	$40,000 gone

That is not a number on a screen. That is a kitchen you don't get to redo, or a year of retirement you now have to work. And the people it hurts most are not the gamblers. Picture a careful 55-year-old who put money in a big fund years ago, set it, forgot it, and never touched a meme stock. Because the fund was weighted towards the winners of the last few years, they now hold the exact stocks falling fastest, and have no idea.

CHECK IT IN THE WINSTON APP: THE DANGER ZONE

The Danger Zone filter flags the names in your holdings carrying the most risk right now. Run it today and the loudest names are the ones you have already heard about.

-50%	-40%+	-52%
CoreWeave from its high	Nebius from its high	Intel, more than halved

Spotting that before everyone else is a skill. One you were never taught, which is not your fault, but is your responsibility to learn if you want to keep what you have spent your working life building.

© 2026 The Prehn Institute. Published by Skillset Solutions FZ-LLC.

WHY AI CRACKED NOW

3 things lined up at once

The cause	What happened
Price	They got expensive. When a share climbs far faster than the company's actual profits, you pay more and more for every dollar it really earns. The moment the belief in those profits wobbles, the most expensive stocks fall the hardest, and the AI leaders were some of the most expensive stocks in the world.
Spending	These companies are pouring tens of billions into data centres and chips. Investors cheered it for 2 years. This earnings season the mood flipped, and the market started punishing the ones spending the most, asking when all that money comes back as profit. That is how a strong-looking result can still see shares drop double digits the next morning.
Backdrop	The rate the American government pays to borrow for 10 years sets the tone for everything else. When it is high, a safe government bond paying a decent return looks more attractive than a risky, expensive tech stock whose payoff is years away. Add a nervous oil price, with conflict in the Middle East keeping energy costs twitchy, and the crowd heads for the exit on the names that ran up the most.

> Pull up Nvidia, pull up Google's parent Alphabet, and pull up the big chip fund, which trades under the ticker SMH. The chip fund alone is down close to 20% from its high. These were the generals of the whole bull market, and right now the generals are retreating.

None of this means AI is finished. It means the price got ahead of the reality, and the market is repricing. The real question is whether something tips that repricing into something much worse. And there is a very big something on the calendar, because today America votes on who writes the rules for the next 2 years.

© 2026 The Prehn Institute. Published by Skillset Solutions FZ-LLC.

THE MIDTERMS

Why a blocked Washington suits Wall Street

Going into today	House	Senate
Who holds it now	218 Republicans, 214 Democrats, 1 independent, 2 vacancies	53 Republicans, 45 Democrats, 2 independents who vote with the Democrats
On the ballot today	All 435 seats	35 seats
What flips control	A handful of seats either way	Democrats need to net 4; a 50-50 tie is broken by Vice President Vance

Heading into today the Democrats were favoured to take the House, leading by about 9 points on the generic ballot, the national polling question of which party you would vote for. They were narrowly favoured in the Senate too, and betting markets had a Democratic sweep at somewhere between 66% and 71%. First polls close at 6pm New York time, the last at 1am, and some races take days or weeks to call. Whoever wins, Congress has to fund the government by 11 December or risk a shutdown.

Most people treat midterms as a coin toss. They are not. The president's party has lost House seats in 18 of the last 20 midterms since the Second World War, and has gained House seats only 3 times since 1906. A split Washington after today is not a shock. It is the normal, boring, historical outcome.

> When the White House and Congress are run by different parties, very few big new laws get through. Tax rates mostly stay put. Regulation mostly stays put. A company can plan its spending, hiring and prices for 2 years knowing the rules won't move under its feet. Think of a landlord who can't change your rent or the house rules for 2 years: you might not love the rent, but you can plan around it. Wall Street pays more for a company when it can see further ahead, because less change means less risk.

The numbers back it up. From 1951 to 2023 the S&P 500 returned about 9.9% a year under divided government against 8% under one-party rule. After elections that left no single party fully in charge, the market averaged about 15% over the following year, and was positive 14 times out of 15.

© 2026 The Prehn Institute. Published by Skillset Solutions FZ-LLC.

UP A YEAR LATER, ALMOST EVERY TIME

The set-up in the title, 7 times since 1954

After every single one of the 19 midterms from 1950 to 2022, the S&P 500 was higher a year later, on average 16.6% higher (BNY Investments). Fidelity, using data back to 1938, puts it at 95% of the time rather than every time, so let us be honest and say almost always. It barely mattered which party won: colour every midterm by who ended up running Congress and every bar is still positive.

The set-up America might get today is specific: a Republican president coming out of the midterm facing a Democratic Congress. That has happened 7 times since 1954. A year later, stocks were up all 7 times, by about 15.5% on average.

Republican president, Democratic Congress	1 month after	6 months after	1 year after
1954, Eisenhower	+6.9%	+19.7%	+33.2%
1958, Eisenhower	+1.9%	+11.8%	+11.1%
1970, Nixon	+5.1%	+22.6%	+12.7%
1974, Ford	-10.3%	+19.9%	+18.7%
1986, Reagan	+3.1%	+17.5%	+1.1%
1990, G.H.W. Bush	+5.9%	+22.0%	+25.1%
2006, G.W. Bush	+2.2%	+9.2%	+6.7%
Average	**+2.1%**	**+17.5%**	**+15.5%**

Election-day basis, 1954 to 2006. Source: historical S&P 500 seasonality data circulated on X (burrytracker). Note: 1974 is the only negative 1-month bar. Figures should be verified against primary S&P data before any on-screen credit.

A narrower count by CNBC, looking at the 3 most recent of these, found stocks dipped half a per cent the day after the vote, then were up about 3.4% a month later and nearly 11% a year later. Same story at different speeds.

Some studies find almost no gap in yearly returns between one-party and divided government, and others find the difference too small to mean much. Gridlock lowers 1 risk. It does not remove the others. In 2018 the Democrats took the House, a textbook split, but the Federal Reserve raised rates 4 times and the S&P still finished the year down 6.2%, before rising nearly 12% a year on from the vote. The pattern held. The path there still hurt.

© 2026 The Prehn Institute. Published by Skillset Solutions FZ-LLC.

WHEN THE PATTERN HURTS FIRST

1974 is the one that looks like now

There is 1 year in those 7 that didn't go up smoothly. It went down hard first, and it is the year that looks most like right now.

The only one of the 7 that was lower a month after the vote, down 10.3%. A year on it had recovered and was up 18.7%, right in line with the others. But that first month was brutal, and the months before were worse: in the 12 months leading into the vote, American stocks fell almost 32%. What made it the ugly one? Weak growth and high inflation at the same time, largely driven by an oil shock. An oil price kept twitchy by conflict, and inflation that won't quite lie down, are both back on the table today. RBC found that in the 7 midterm periods that came alongside an inflation problem, the market went on to make a new high the following year less often than usual.

It should have been a calm, market-friendly set-up. Instead Washington turned a routine vote to raise the debt ceiling into a standoff. On 5 August 2011 the rating agency S&P stripped America of its top AAA credit rating, dropping it to AA+, and blamed political brinksmanship. The market fell about 17%, nearly 20% on one measure. Gridlock didn't help. It was the problem. The modern version of that exact risk is on the calendar now: the government funding deadline on 11 December.

THE UNCOMFORTABLE NUMBER

Average S&P 500 return a year, since 1932, by control	Per year
Republican sweep	about 13%
Democratic sweep	about 10%
Republican president, split or Democratic Congress	**about 5%, the weakest of any combination**

Source: RBC Capital Markets US Equity Strategy, Haver Analytics, price returns since 1932.

So both things are true at once. The year after a midterm has been strong. The whole 2-year stretch, for this particular set-up, has been the slowest of the lot. The pattern can be completely right and still hurt you first. That is why the plan uses alerts, not panic selling, and why it starts with checking what you actually own.

© 2026 The Prehn Institute. Published by Skillset Solutions FZ-LLC.

THE OTHER SIDE

The strongest argument against all of this

In fairness, not everybody thinks this ends badly. The strongest version of the other case, which you will hear from parts of Wall Street right now, is that the market is pricing the wrong future entirely.

Interest rates come down → **The 10-year rate drifts towards 4%** → **Oil sells off after the midterms** → **S&P towards 10,125 by the end of 2027**

In that world the very thing that scared everyone, high oil and high rates, reverses, and the pressure on these stocks comes off. It could be right. You should always know the strongest argument against your own position.

But notice what it rests on: oil falling and rates falling. If those 2 things go the other way, the case weakens fast. And even if it is dead right about the market as a whole, a rising tide does not lift the most expensive, most crowded names first. Plenty of this cycle's tech winners could stay underwater even while the broad index makes new highs, because the money that was hiding in them has already started looking for the next leaders.

> Being right about the index and wrong about your specific holdings is one of the most expensive mistakes there is. Which is exactly why the plan starts with what you own, not with a market call.

© 2026 The Prehn Institute. Published by Skillset Solutions FZ-LLC.

THE PLAN, WHOEVER WINS

4 steps that don't need you to guess tonight

- ✓ **Check every holding you own.** Not the headline on your pension app, the actual names underneath. Run your holdings through the Danger Zone filter in the Winston app and find out how much of your money is sitting in those 18 AI names. A lot of people are far more concentrated in tech than they ever intended. You can't manage a risk you can't see.

- ✓ **Do not trade the election result.** Whatever happens tonight, resist the urge to buy or sell on it. Vote in the booths, not in your portfolios. The market has gone up after midterms almost every single time regardless of who won, so betting your savings on the result is betting against the clearest pattern there is.

- ✓ **Use alerts, not panic.** Instead of selling in fear, or setting automatic sell orders that can dump your stocks at the worst possible moment, set price alerts. Let the app tell you when something you own hits a level that matters, then make a calm decision with a clear head.

- ✓ **Build a watchlist to study, not a shopping list to buy.** If the leadership of this market really is changing, you want to see where the money goes next before it is obvious.

Watch in the Winston app	What it is	Why it matters
QQQ	The tech index itself	So you can see when the selling stops
SMH	The chip fund	Chips usually lead both the falls and the recoveries
RSP	The S&P 500 with every company weighted equally	The real health of the average stock under the top-heavy headline index

Know what you own. Don't trade the result. Use alerts. Study where the money's moving. And to say it plainly: this is about understanding your own risk, not chasing the next hot thing.

© 2026 The Prehn Institute. Published by Skillset Solutions FZ-LLC.

LEARN TO READ A MARKET PIVOT

The Great Pivot

This sell-off is not over. It might pause, it might even bounce for a few weeks and tempt everyone back in. But when the real move comes, it won't be a few per cent, and it will hit the people who felt safest, because the index looked calm right up until it didn't.

Spotting a change in market leadership early is a skill. Nobody taught it to you at school, and that isn't your fault. But if you want to protect what you have built, it is worth learning.

THE PREHN INSTITUTE

prehninstitute.com

The Institute publishes research and provides instruction. Its published research is open to any reader, and its instruction is given by people who have worked in professional markets. The Institute does not manage money and does not advise on investments.

The goal is not to hand you a long stock list to run out and buy. The goal is to give you the skill, so you can make your own list, for this pivot and for the next one. We're not going to panic. We're going to have a plan.

© 2026 The Prehn Institute. Published by Skillset Solutions FZ-LLC.

Sources and disclosures

1. BNY Investments, How Do Midterm Elections Impact Markets Over Time? (main chart, S&P 500 up an average 16.6% a year after all 19 midterms 1950 to 2022). **bny.com**
2. Fidelity Viewpoints, The surprising truth about midterms and stocks (S&P up 95% of the time in the 12 months after midterms since 1938; markets love gridlock; vote in the booths, not in your portfolios). **fidelity.com**
3. American Century, Looking Beyond the Headlines During the 2026 Midterm Election Season (president's party lost House seats in 18 of 20 midterms since WWII; every post-midterm year positive, coloured by party control). **americancentury.com**
4. U.S. Bank, How midterm elections affect the stock market (seat counts as of 26 Oct 2026; funding deadline 11 December; divided versus one-party returns). **usbank.com**
5. CNBC, Stock market after midterm elections: what S&P 500 history shows, 2 Nov 2026 (3 most recent Republican-president, Democratic-Congress outcomes: -0.5% day, +3.4% month, +10.9% year; divided-government averages). **cnbc.com**
6. CNBC, Some investors have midterm election jitters, 29 Oct 2026 (generic-ballot lead; president's party gained House seats only 3 times since 1906; midterm-year volatility near 16% since 1970 versus 13%). **cnbc.com**
7. CNBC, What a divided US government has meant for stocks, 7 Nov 2024 (Carson Group data: S&P about 9.9% a year under divided government versus 8% under single-party rule, 1951 to 2023). **cnbc.com**
8. RBC Wealth Management, Equities and the election effect (average annual S&P return by party control since 1932; 7 inflation-hit midterm periods made a new high the following year less often). **rbcwealthmanagement.com**
9. Al Jazeera, US midterm elections 2026 in maps and charts, 26 Oct 2026 (seat counts; Vance breaks a 50-50 Senate tie; results can take days or weeks). **aljazeera.com**
10. Fox News, Everything to know: House, Senate control, poll closing, 1 Nov 2026 (first polls close 6pm ET, last 1am ET). **foxnews.com**
11. CNN Business, Fear and Greed Index (reading of 23, extreme fear). **cnn.com/markets/fear-and-greed**
12. CME Group, Debt Ceiling: Lessons from the 2011 Budget Debate (S&P stripped the US rating from AAA to AA+ on 5 Aug 2011; market fell about 19% around the fight). **cmegroup.com**
13. U.S. Treasury, The Potential Macroeconomic Effect of Debt Ceiling Brinkmanship (S&P 500 fell about 17% around the 2011 debt-limit debate). **home.treasury.gov**
14. Wellington-Altus, November Market Insights: Wall Street is pricing the wrong future (the other side: rates fall, 10-year towards 4%, oil sells off after the midterms, S&P towards 10,125 by the end of 2027). **wellington-altus.ca**
15. S&P 500 return after a Republican president loses Congress to Democrats, 7 episodes 1954 to 2006, election-day basis, circulated on X (burrytracker). Figures to be verified against primary S&P data. **x.com/burrytracker**
16. AI wipeout heatmap, about $3.46 trillion off 18 big AI stocks in October, circulated on X (BullTheory). Aggregator figure, primary source not stated. **x.com/BullTheoryio**
17. Financial Modeling Prep, historical end-of-day prices (Nasdaq 100 down 10.36% and SMH down about 20% from early-October records; S&P 500 down 3.55%; CoreWeave, Nebius and Intel falls). **financialmodelingprep.com**

This briefing is for educational purposes only and does not constitute financial advice. It is not a recommendation to buy or sell any asset or security. All investment carries risk, including the loss of principal. Past performance is not indicative of future results. The Prehn Institute takes no sponsorships or endorsements.