EFFICIENT GROUP



ECONOMIC COMMENTARY

Dr. Francois Stofberg

YOUR WEEKLY ECONOMIC UPDATE

11 November 2026

For every one to attain financial well-being

THE GROWTH RISK BEHIND AMERICA'S BLUE WAVE

Voters can punish a government for the cost of living and still elect policies that make future growth harder. Wall Street's second thoughts about America's midterm elections expose this uncomfortable possibility.

After the Democrats' sweeping victories, share prices rose on 4 November. The following day, the S&P 500 fell by more than 4% and the Nasdaq by more than 5%. Investors had started to reconsider what the new winners might do. Markets value businesses according to the profits they expect them to earn. Higher-than-anticipated taxes or longer delays before a project opens can lower valuations immediately. Gross domestic product (GDP) can remain healthy while investors mark down the growth they previously expected.

Republicans had encouraged investment through the 2025 tax law, which restored immediate deductions for domestic research spending and permanent full first-year deductions for qualifying assets. These provisions improve cash flow when businesses commit capital, making some otherwise marginal projects worthwhile.

Democratic Senator Ron Wyden has proposed a data-centre excise tax and withdrawal of investment incentives. These measures require legislation, and Trump retains his veto. But, Democratic gains increase their political weight. In Texas, Governor-Elect Gina Hinojosa supports extending restrictions on data-centre approvals beyond Republican Governor Greg Abbott's existing pause. For developers, this prospect means more uncertainty over when investments will start earning.

The evidence that incentives matter extends beyond this election. A 2024 research review estimated that the 2017 corporate-tax reforms raised the level of tangible corporate investment by about 11%. The fiscal cost was substantial and estimated long-term GDP gains were below 1%, but the investment response was real. A separate study of twentieth-century America found that higher personal and corporate taxes reduced the quantity of innovation and affected where inventors worked, without reducing average patent quality. Taxing successful innovators can, therefore, influence where the next breakthrough is developed.

Abandoning a worthwhile project also forfeits the productive capacity and learning it could have generated. This can weaken future output and productivity. Tax-funded public investment may offset these losses, but its benefits must be weighed against the private activity that is discouraged.

New York illustrates the Democrats' more interventionist wing. Mayor Zohran Mamdani has advocated higher taxes on incomes above $1 million and corporations, requiring state approval. The city's Rent Guidelines Board has frozen increases on rent-stabilised leases. Existing tenants benefit, while rising costs can weaken landlords' ability and incentive to reinvest. The investment risk does not require a millionaire exodus. An entrepreneur can retain a Manhattan address while opening their next office elsewhere. Such decisions can erode future employment and tax receipts without producing a dramatic departure photograph. The missing investment becomes gradually visible.

An especially awkward consequence is that restrictions can protect the companies that politicians want to restrain. In the sell-off, Alphabet, Amazon, Meta, and Microsoft held up better than many firms supplying new infrastructure. Companies already owning extensive data-centre networks may benefit if rivals struggle to build. An intervention presented as taming corporate power can make incumbent power harder to challenge. This is where the conservative economic case has substance. Predictable rules and returns that justify taking risks encourage investment. This standard also exposes Republican contradictions: Tariffs on metals raise construction costs and undermine incentives offered through tax relief. A market-friendly label cannot rescue an expensive policy.

Heavy selling also reflected crowded positions and funds unwinding trades. The decline cannot establish how much future output might be lost, and a proposed restriction may never become law. It does show how quickly investors can reassess political promises when those promises threaten expected earnings.

For South Africans with offshore savings, this reassessment matters immediately. Its deeper significance concerns the businesses that never expand and the competitors that never get started. An economy can continue growing while policy quietly reduces how prosperous it might have become.

Efficient Group

Your holistic financial services partner for **more than** 20 Years