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From the ballot box to the stock market: What US elections mean for investors

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The US midterm elections are bringing politics into even sharper market focus. Yet history shows that although elections can cause short-term market fluctuations, economic growth, interest rates, inflation, and corporate earnings are the main drivers of market direction over the medium to long term. Politics still matters to markets, however, because policy programs—including energy, trade, and immigration policies—can shape entire sectors over longer periods. With numerous elections ahead in Europe, investors should therefore avoid speculating on election outcomes. Instead, they should build resilient portfolios, reduce concentration risks, and invest selectively in structural beneficiaries of themes such as infrastructure, defense, energy, and artificial intelligence.

For investments, elections usually matter less than the headlines suggest. The current focus is on the US: The midterm elections will determine the balance of power in Congress—and therefore the president's political room for maneuver. Many investors are asking whether and, if so, how they should adjust their portfolios. History shows, however, that elections often lead to short-term fluctuations. Over the medium to long term, economic growth, interest rates, inflation, and corporate earnings—not elections—are the main drivers of market direction.

The political backdrop in the US is tense. Polls point to a shift from unified Republican control to divided government. In our base case, we assign an approximately 50% probability to a Democratic sweep, followed by a divided Congress at 40% and a continuation of the Republican status quo at 10%. In all three scenarios, the White House retains considerable

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latitude in key areas such as trade, foreign policy, and immigration. Many economic policy parameters are therefore likely to remain broadly unchanged.

History also shows that the immediate market reaction to US elections is usually limited in scale and duration. Past midterms have generated increased volatility but no lasting reversal in equity market trends. What matters most is therefore not the governing party but the direction of global interest rates, energy prices, corporate earnings, and technological trends.

That does not mean politics is irrelevant to investors. Certain decisions can reshape entire sectors over the medium term. One example is Germany's decision to phase out nuclear power, which structurally changed energy market dynamics and also affected the competitiveness of industry. In the US, tariffs and trade policy under President Donald Trump have contributed to higher import prices and additional inflationary pressure. The administration's immigration policy could also negatively affect the future labor supply and, in turn, the US economy's growth potential.

Looking ahead to the US midterms, a Democratic victory could bring further changes in several areas. In health care, some planned cuts to health and social programs could be reversed. In energy and climate policy, tax credits for renewable energy and efficiency programs could be strengthened. And in the regulation of artificial intelligence and data centers, future permits could require operators to bear a larger share of grid and infrastructure costs. Investors should also prepare for heated debate over the debt ceiling in 2027, which could cause market turbulence. Democrats could use the new balance of power in Congress during these discussions to advance their legislative agenda.

This nuanced perspective will also be important for Europe in the coming quarters, with numerous elections ahead there as well. Here, too, headlines can move markets. But investors who turn every poll and talk show into a trading decision risk chasing short-term market moves and missing long-term opportunities. It makes more sense to view political events as one of many influencing factors. The more important question is whether they strengthen or weaken structural trends in areas such as defense, infrastructure, energy, and artificial intelligence.

The bottom line: Elections can move markets in the short term, but they are rarely the main driver of long-term returns. More important are resilient portfolios that are prepared for different scenarios and strategically positioned for growth themes such as infrastructure, digitalization, and artificial intelligence. Rather than speculating on election outcomes, we recommend regularly reviewing strategic asset allocation, reducing concentration risks, and selectively gaining exposure to structural beneficiaries of policy changes in the US, Europe, and Asia.

Appendix

Non-traditional asset classes are alternative investments that include hedge funds, private equity, private credit, real estate, and managed futures (collectively, alternative investments). Interests of alternative investment funds are sold only to qualified investors, and only by means of offering documents that include information about the risks, performance and expenses of alternative investment funds, and which clients are urged to read carefully before subscribing and retain. **An investment in an alternative investment fund is speculative and involves significant risks.**

Specifically, these investments (1) are not mutual funds and are not subject to the same regulatory requirements as mutual funds; (2) may have performance that is volatile, and investors may lose all or a substantial amount of their investment; (3) may engage in leverage and other speculative investment practices that may increase the risk of investment loss; (4) are long-term, illiquid investments, there is generally no secondary market for the interests of a fund, and none is expected to develop; (5) interests of alternative investment funds typically will be illiquid and subject to restrictions on transfer; (6) may not be required to provide periodic pricing or valuation information to investors; (7) generally involve complex tax strategies and there may be delays in distributing tax information to investors; (8) are subject to high fees, including management fees and other fees and expenses, all of which will reduce profits.

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In addition to the risks that apply to alternative investments generally, the following are additional risks related to an investment in these strategies:

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