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What will the US midterm elections mean for markets?

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The US midterms on 3 November will determine control of Congress at a time when investors are already focused on government borrowing, elevated bond yields, trade policy, and regulation. Our base case is that Democrats will control at least one chamber after the election.

CIO assign a 50% probability to a Democratic sweep of Congress, a 40% probability to split control (Democrats win the House while Republicans retain the Senate), and a 10% probability that Republicans retain both chambers.

The most visible effects of a change in congressional control would likely be greater oversight of the administration and more difficult fiscal negotiations. Democratic control could soften or delay some spending cuts, while debt-ceiling negotiations in 2027 may create volatility and result in less fiscal tightening than currently expected. However, narrow congressional majorities and the president's veto should limit the prospects for sweeping legislation. The president would also retain considerable authority over tariffs, foreign policy, and regulation. We do not expect a change in congressional control to derail data center expansion, since many relevant decisions are made at state and local levels.

So, we would not treat the midterms as a binary directional event for equities, bonds, or the dollar. The election result may affect the path of fiscal negotiations and generate near-term volatility, but economic growth, corporate earnings, AI investment, inflation, and interest rates should remain more important market drivers. We continue to expect Treasury yields to settle slightly lower over the next 12 months, as easing inflation should ultimately prove more powerful than persistent fiscal concerns. Investors should avoid positioning portfolios around one political outcome and instead remain diversified across durable sources of growth and income.

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