GRIDLOCK *in* WASHINGTON:

4 November 2026

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what the MIDTERMS *mean for* INVESTORS

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Democrats have taken control of Congress, putting President Trump's agenda under pressure, but with neither side able to legislate freely, gridlock could limit sweeping policy changes and ease uncertainty for markets.

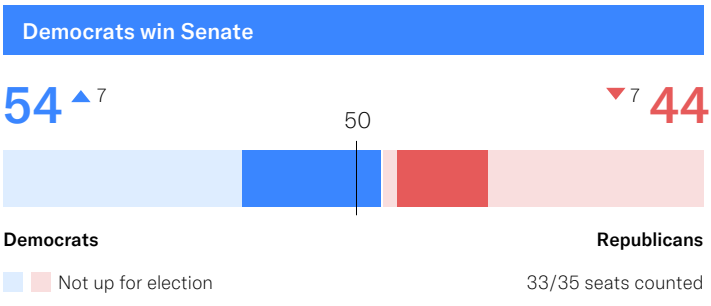
The votes are in, and the balance of power in Washington has shifted. Democrats have won control of both chambers of Congress, with a larger-than-expected victory that included Republican strongholds such as Texas and Iowa. The new Congress takes office on 3 January 2027; until then, the current Republican-controlled Congress remains in place and can still act.

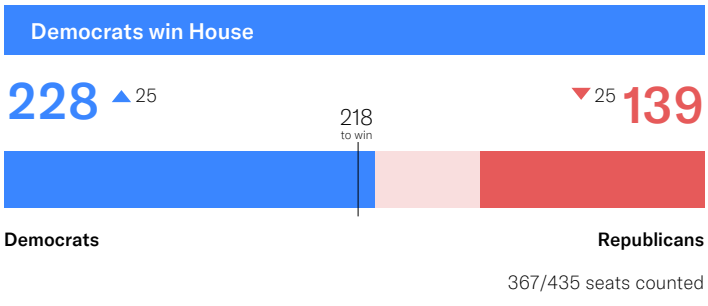
In part one, we considered the risks facing President Trump and his party before the vote. Part two explored why a divided Washington can suit markets. In this final piece, we look at what the results changed and what investors should take from them.

A check on Trump's agenda

Trump tied the election closely to his own record. The Democratic gains leave his administration facing greater scrutiny and give Democrats more influence over congressional committees. They can set hearing agendas, request documents and launch investigations. That could keep political tension in the headlines and make it harder for the White House to focus attention on its own priorities.

Results as at 12:00 GMT, 4 November 2026





The scale of the Democratic gains may also reflect voter concerns about inflation, higher diesel prices and the administration's foreign policy. It is too early to know how much each issue contributed to the outcome.

Some of those concerns featured in the Democratic campaign. Democrats campaigned on affordability, including housing, energy and care costs. They have also called for restoring enhanced tax credits that help people buy health insurance through the Affordable Care Act and reversing some Medicaid cuts.[1] On technology, members of the New Democrat Coalition have proposed requiring data centres to cover more of the electricity costs they create.[2]

Control of Congress does not give Democrats a free hand to enact their programme. Major proposals on healthcare, housing affordability or AI data-centre policy would need to pass both chambers and reach the president's desk. Trump can veto legislation, and overriding a veto requires a two-thirds majority in both the House and Senate. Democrats did not secure that margin, so proposals President Trump opposes would need his support or enough Republican votes.[3]

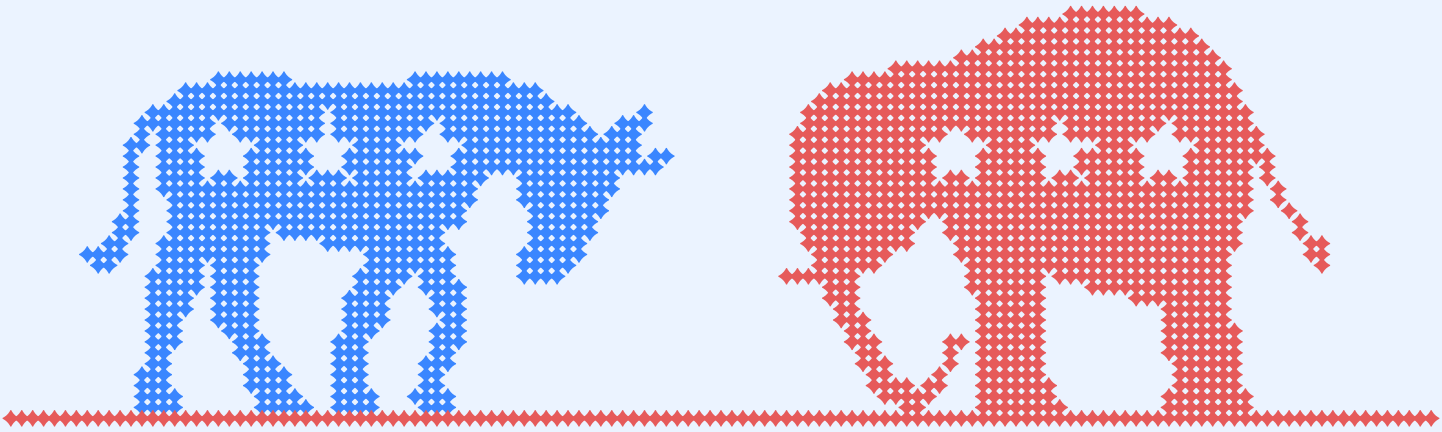
The president retains executive powers, too. He can continue to direct policy through the administration, within the limits set by existing laws and the courts. A Democratic Senate majority could make nominations more contentious, slowing or blocking some appointments. With major legislation likely to face gridlock, Trump may put greater emphasis on executive action and foreign policy. This could mean more domestic political conflict, while leaving the administration somewhat more room to act overseas, although Congress would retain important checks on its decisions.

Why markets may welcome gridlock

Investors tend to look beyond which party wins and consider what the result means for policy. With control divided between the White House and Congress, neither side has a clear path to all its objectives. That could reduce the chance of abrupt changes to taxes, regulation or spending, making the outlook easier for companies and investors to assess.

Markets had anticipated a Democratic victory in both the House and the Senate, although the scale of the result was greater than expected. The market reaction has remained subdued, perhaps because investors expect gridlock: Democrats can set the congressional agenda, but without a two-thirds majority they cannot override Trump's veto.

As we discussed in part two, markets have often performed well after midterms as uncertainty clears. That lift may be more muted in 2027, given the strong gains US shares have already made this year.[4] The result does not point to a particular party being better for markets: investors are more concerned with how policy affects the outlook for businesses and the wider economy.



Policy implications for markets

For markets, the question is what these priorities could mean in practice, and how likely they are to become policy. Changes to healthcare support could affect parts of the healthcare industry. Proposals on data-centre energy costs could influence the economics of new projects, with potential knock-on effects for technology companies involved in the AI buildout. The scale would depend on how any costs were allocated and whether they changed investment plans or expected returns.

Fiscal policy is another part of the picture. Gridlock could make large new spending plans harder to agree, though it would not resolve the US deficit or determine the government's borrowing needs.[5] The debt ceiling is likely to return to the headlines around mid-2027, when the Treasury is expected to run short of room to meet payments already approved by Congress. The timing will depend on tax receipts and government spending.[6] Negotiations to increase the debt ceiling could therefore add to the political noise and delays could increase borrowing costs in the short term as the bond market prices in increased near-term fiscal risks. However, to add historical context, Congress has always acted to raise or suspend the limit, and the US has never defaulted on its debt.[7] For investors, this is a familiar source of temporary uncertainty.[8]

Markets look ahead and adjust as new information emerges. They move on probabilities, not possibilities: a campaign promise alone is unlikely to change a company's prospects, particularly when a proposal would need Trump's support or enough votes to overcome his veto. Investors are more likely to respond when a measure has a credible path to becoming law and could materially affect businesses. Until then, it is something to monitor, not a reason to react to every headline.

Keep the portfolio in view

The results have made political compromise harder, but they have not made the market outlook easier to call. Investors will have to judge whether the new balance of power leads to changes in policy, extended budget disputes or simply more political noise.

As always, we suggest investors should construct portfolios in a broad and balanced fashion, which does not rely on a single political or economic outcome. A diversified, multi-asset portfolio can help manage different outcomes across shares, bonds, currencies and other investments. Keeping it aligned with personal goals and time horizons remains more useful than trying to anticipate every development in Washington.

The value of investments can fall as well as rise, and investors may get back less than they invested. Currency movements may increase or decrease returns for sterling-based investors. Past performance is not a guide to future performance. The content in this article is not intended to constitute advice or a recommendation, and you should not make any investment decision based on it. Our opinions may change without notice.

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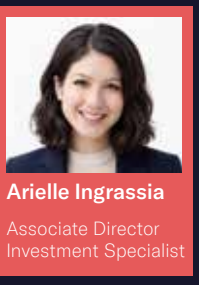
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