6 November 2026

FX Viewpoint

Currencies
Global

USD strength to persist despite midterm surprise

- The stronger-than-expected Democratic mandate initially weakened the USD but that move may not persist
- Markets may refocus on US foreign policy and its resulting implications on inflation and risk appetite
- We retain our forecast for modest USD strength, supported by US economic resilience and hawkish Fed policy

Democratic gains surprised, initially weighing on the USD

Markets had expected Democrats to control both chambers of Congress after the US midterms, but the scale of their victory exceeded expectations. The surprise was therefore the strength of the mandate, rather than the outcome itself. The USD initially weakened as investors anticipated **tighter constraints on the administration's legislative agenda** and reassessed the "US exceptionalism" narrative.

CHF and JPY rose but sustained USD weakness isn't assured

In the broader G10 space, the CHF and JPY initially outperformed against the USD, reflecting their safe-haven status amid heightened political and economic uncertainty. However, we would **caution about extrapolating the initial USD sell-off** into a sustained USD decline, as the necessary drivers are not yet evident.

Fiscal implications remain mixed

The fiscal implications are mixed. The result could imply less scope for US fiscal expansion, lower yields and a weaker USD, although much of this was already priced in. Congressional gridlock does not guarantee an improvement in the fiscal position, and debt-sustainability concerns may continue to weigh on the USD. Conversely, **reduced prospects for further fiscal expansion could reassure investors**.

AI regulation could challenge US exceptionalism

A stronger Democratic mandate could also challenge the AI-led US exceptionalism narrative if it increases expectations of greater technology-sector scrutiny or tighter AI regulation, potentially weighing on the USD. However, President Trump's veto power means that larger **Congressional majorities do not necessarily translate into new legislation**.

Markets may refocus on economic data and Fed policy

Ultimately, markets are likely to return to the outlook for US foreign policy, especially the prospect of further military action against Iran or de-escalation, and the resulting **implications for energy prices, inflation and risk appetite**. The US data pulse and Federal Reserve (Fed) policy remain the other principal drivers.

We continue to see USD strength in the months ahead

The election result does not, in itself, alter the US growth or inflation outlook. Upcoming data will determine whether market expectations for at least two further 25bp Fed rate hikes in 2026/27 persist. **We retain our forecast of modest USD strength** over the coming months, despite the potential setback from the midterm election results.

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