

Special Coverage: US midterm elections

Key takeaways

- ◆ The 2026 midterms could change control of Congress and with it, the legislative, fiscal and oversight environment. However, we wouldn't reposition portfolios around a single political outcome. Refer to our scenario analysis of the potential policy and market implications under a Republican status quo, divided government, or Democratic control of Congress.
- ◆ Control of both chambers remains closely contested, according to the Cook Political Report. Cook currently rates 22 House races and seven Senate races as Toss-Ups. Assuming all other House races follow their current ratings, Democrats would need 10 of the 22 Toss-Ups to reach 218 seats, while Republicans would need 13. In the Senate, Republicans can retain organisational control with 50 seats, given the vice president's tie-breaking vote, while Democrats need 51.
- ◆ Our investment conclusions remain anchored in fundamentals rather than the election outcome. We remain overweight on US equities with a growth bias, supported by strong earnings visibility, broadening earnings growth and structural themes, including AI, re-industrialisation and energy independence. In fixed income, we see opportunities in 5-7-year duration through high-quality developed-market investment grade credit, while remaining selective in higher-risk credit.



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What happened?

- The 2026 midterms are the nationwide federal elections held halfway through President Trump's four-year presidential term. The president will not be elected in 2026. Instead, voters will determine the composition of Congress, the US federal legislature consisting of the House of Representatives and the Senate.
- Control of either chamber matters because most federal legislation must pass both the House and the Senate in the same form before it can be sent to the president. Losing control of either chamber can therefore materially constrain an administration's ability to advance its legislative agenda.
- At the federal level, voters will elect all 435 members of the House of Representatives and 35 of the 100 members of the Senate. In addition, 36 states will elect governors, the chief executives of their state governments. Three US territories will also hold gubernatorial elections. Election Day is Tuesday, 3 November 2026.
- The current configuration is a unified Republican government, which means the president's party controls both chambers of Congress. A divided government means that at least one chamber is controlled by the other party.
- In the 2024 election, Republicans won 220 House seats and Democrats 215. Using that elected baseline, Democrats need a net gain of 3 seats to reach the 218-seat House majority. In the Senate, the Democratic-aligned caucus starts with 47 seats and needs a net gain of 4 seats to reach 51.

- The Cook Political Report, which is an independent, nonpartisan election-analysis publication, rates races from Solid to Likely to Lean to Toss-Up, with Toss-Up representing its most competitive category.

House: 218 seats are required for a majority. Cook currently categorises the 435 House races as: 208 Democratic-rated | 22 Toss-Ups | 205 Republican-rated.

- Democrats would need 10 of the 22 Toss-Ups to reach 218.
- Republicans would need 13 of the 22 Toss-Ups to reach 218.

Senate: A party needs 51 seats for an outright majority. However, because the vice president can break a 50-50 Senate tie and the current vice president is a Republican, Republicans can retain organisational control with 50 seats.

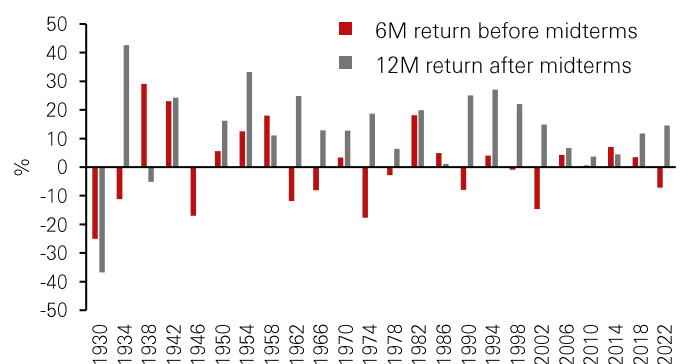
Based on Cook's current classifications and seats not being contested, the 100 Senate seats are categorised as: 46 Democratic-aligned/non-Toss-Up | 7 Toss-Ups | 47 Republican/non-Toss-Up.

- Republicans need at least 3 of the 7 Toss-Ups to reach 50.
- Democrats need at least 5 of the 7 Toss-Ups to reach 51.
- Redistricting means redrawing the boundaries of House congressional districts. Because House members represent individual districts, changing those boundaries can alter the political composition and competitiveness of a seat. Redistricting affects the House, not the Senate, because senators are elected statewide. This matters because control of the House may come down to a relatively small number of districts.

Investment implications

- We would look through the midterm elections rather than position portfolios around a single political outcome.
- The election could generate periods of policy-driven volatility, particularly around fiscal, trade and regulatory policy, but our broader investment views remain anchored in the macro backdrop, earnings fundamentals and structural trends.
- Our constructive view on US equities and growth bias remain intact, supported by broadening earnings growth and structural investment themes including AI, re-industrialisation and energy independence. While higher-for-longer interest rates and midterm-related uncertainty could periodically weigh on sentiment, we believe the earnings tailwind and structural growth drivers should more than offset these concerns. The election could influence sector leadership and create policy-driven dispersion, but we continue to favour areas with strong earnings visibility and exposure to longer-term structural trends while maintaining appropriate diversification.
- Election uncertainty and fiscal concerns could keep longer-dated US yields volatile. At the same time, markets are currently pricing in more Fed tightening than we expect. US Treasury yields appear fairly valued, and we continue to see opportunities in 5-7-year duration through high-quality developed-market investment grade credit. We remain selective in higher-risk credit, while identifying opportunities in areas such as Asian high yield and selected emerging-market debt.
- The midterms may add to currency volatility through changing expectations around fiscal and trade policy, but relative monetary policy and growth should remain the more important drivers.

Historically, equities rebound after midterm elections in the US



Sources: Bloomberg, HSBC Private Bank and Premier Wealth as at 2 October 2026. Forecasts are subject to change.

Three policy and market scenarios for 2027

- To translate the potential election outcomes into policy and market implications, we group them into three broader scenarios. In all three, President Trump remains president; what changes is control of Congress and therefore the legislative, fiscal and oversight environment.
 - Scenario A, Status quo:** Republican President / Republican House / Republican Senate.
 - Scenario B, Gridlock:** One chamber of Congress is Republican-controlled and the other is Democratic-controlled, making major new legislation more difficult.
 - Scenario C, Democrats get Congress:** Republican President / Democratic House / Democratic Senate. Democrats control Congress, while President Trump retains executive authority and the power to veto legislation.

	Status quo	Gridlock	Democrats get Congress
Economic growth	Positive: Trump would maintain his pro-business aggressive agenda. This has helped drive secular themes of re-industrialisation in the US and the tech and AI revolution.	Neutral: Unlikely there would be any new initiatives at the federal level.	Neutral: Secular drivers remain in place, but Democrats may try to swing votes to provide relief for the consumer through some discretionary spending for middle- and lower-income groups.
Deficits & fiscal policy	Negative: Trump could become even more aggressive with trade and foreign policy, resulting in further uncertainty and volatility. This could result in larger fiscal deficits or concerns around fiscal deficits and spending, which could create further volatility in fixed income.	Neutral: Budget battles could become quite intense, which could result in a government shutdown.	Positive: If Democrats controlled both houses of Congress, they could exert further pressure on trade and foreign policy. In theory, they could even try to end US involvement in geopolitical and military conflicts. Could be viewed as a positive for fixed income as the potential for further deficits could be minimized.
Fed & monetary policy	Negative: Trump's aggressive fiscal plans have created consternation, especially for fixed-income investors surrounding budget woes and deficits. Continuation of the war efforts could keep inflation higher, limiting the Fed's maneuverability and forcing it into a more hawkish stance longer term.	Neutral: Unlikely there would be any new initiatives at the federal level, leaving the Fed ample room to look at fundamentals in determining monetary policy.	Positive: If Democrats control both houses of Congress, they claim they would look to lower deficit spending by cutting back on on-budget military spending. However, we must remember that they have also said they would be in favor of increasing discretionary spending for lower- and middle-income consumers.
Government policy initiatives	Greater ability for the administration to continue and advance its existing policy agenda, including tax, trade, energy, immigration, defence and regulatory priorities.	Major new legislation becomes more difficult. Executive actions, trade policy and regulation become relatively more important, while budget negotiations and congressional oversight take a larger role. An executive action is a policy step taken by the president or executive branch using existing legal authority rather than through new legislation passed by Congress.	Democrats would control the congressional agenda and committees, increasing congressional oversight and their ability to block or modify administration-backed legislation. However, the Republican president retains veto power, so major new legislation would generally require compromise. A Democratic Senate would also control the confirmation process, meaning Senate consideration and voting on presidential nominees for positions such as federal judges, regulators and senior administration officials.
Equities	Positive: Continued pro-business policies and investment incentives could remain supportive of re-industrialisation, technology and AI-related investment. Risks include tariffs, geopolitical uncertainty, inflation and higher long-term interest rates.	Positive: US markets typically tend to do well in gridlock. Fewer major legislative changes could reduce policy-change uncertainty, although budget battles and shutdown risk could periodically increase market volatility.	Neutral: Congressional control would shift committee leadership, oversight and legislative priorities, creating greater potential for sector-level differentiation, particularly across regulated industries. However, major legislative changes would still require presidential approval or sufficient congressional votes to override a veto, limiting the scope for unilateral legislative change.
Fixed income	Negative: Continued large fiscal deficits and elevated Treasury issuance could keep upward pressure on long-term yields and contribute to rate volatility. Tariffs and geopolitical risks could also add to inflation uncertainty.	Positive: Less scope for major new fiscal initiatives could limit incremental deficit expansion, although budget and shutdown battles could create short-term volatility.	Neutral: Changes in spending and revenue priorities could affect the fiscal outlook, but the net impact on deficits would depend on the overall policy mix. With a Republican president retaining veto power, major fiscal changes would generally require compromise, leaving the ultimate impact on Treasury issuance and yields uncertain.

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