

Special Coverage: US midterm elections - Key races, policy risks and implications

Key takeaways

- ◆ The US midterm elections on 3 November could reshape the legislative, fiscal and regulatory environment during the final two years of President Trump's second term. A blue sweep scenario could lead to some short-term volatility led by technology, but we don't think this would be lasting and don't want to reposition portfolios around a single political outcome. Our analysis examines the key election issues, congressional scenarios and their potential investment implications.
- ◆ Inflation, affordability, fiscal policy, trade and tariffs, and the Iran conflict remain central concerns. The continued AI and data-centre buildout is also bringing electricity costs and energy infrastructure into focus. Congressional control could influence spending priorities, regulation and oversight, although significant legislative changes may require bipartisan agreement.
- ◆ We remain overweight on US equities but focus on areas with structural support, including AI, energy security and re-industrialisation. Within fixed income, we favour developed-market investment-grade credit with a medium duration stance, while remaining selective in higher-risk credit.



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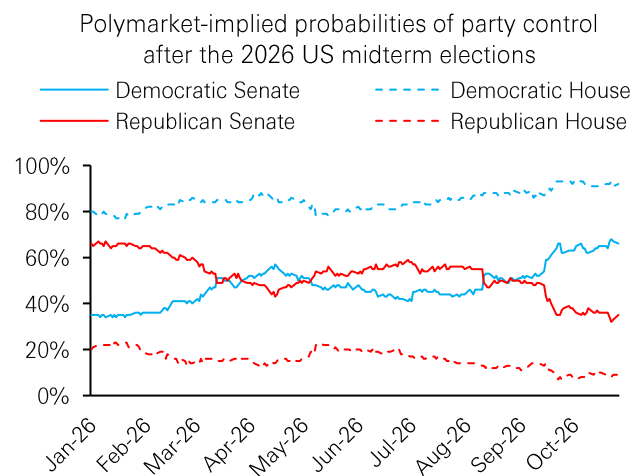
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What happened?

- The 22-26 October Reuters/Ipsos survey found 47% of registered voters supporting Democratic congressional candidates, compared with 36% supporting Republicans, an 11-percentage-point lead. Among likely voters, Democrats led 53% to 44%, while President Trump's approval rating stood at 32% among US adults.
- **Election outlook:** At the time of writing, the Cook Political Report rates 220 House seats as Solid, Likely or Lean Democratic, and 198 as Solid, Likely or Lean Republican, with 17 Toss-Ups, alongside seven Senate Toss-Ups. Prediction markets imply a 91–92% probability of Democratic control of the House and a 65–66% probability of Democratic control of the Senate, with the latter remaining more closely contested.

Polymarket prices higher odds of Democratic control in both chambers



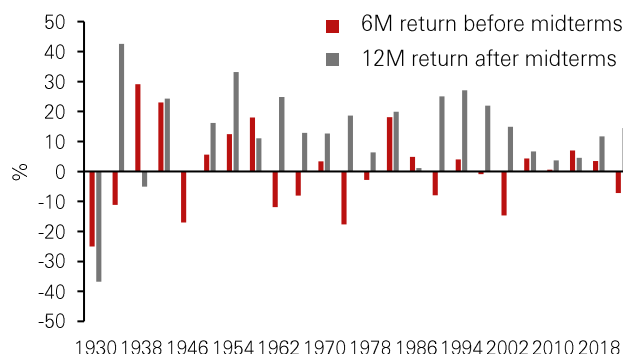
Sources: Bloomberg, HSBC Private Bank and Premier Wealth as at 26 October 2026. Forecasts are subject to change.

- Unlike presidential elections, congressional midterms are determined by individual House districts and statewide Senate races. The most closely contested Senate races are particularly important given the narrow margin required for either party to secure control.
- **Key battlegrounds:** Senate races in Michigan, Maine, Ohio, Texas, Iowa, Alaska and Kansas will be important in determining control, while competitive House districts across Michigan, Pennsylvania, New York, Texas and other states could influence the legislative balance.
- The risks to monitor following the election include fiscal negotiations and Treasury yields, developments in the Iran conflict and energy markets, trade-policy changes, the path of interest rates and regulatory shifts across individual sectors.

Investment implications

- Our broader investment views remain anchored in earnings fundamentals and structural growth trends, regardless of the congressional outcome. We would continue to look through midterm-related volatility rather than position portfolios around a single election outcome.
- We remain overweight on US equities with a growth and quality bias, supported by resilient corporate earnings, broadening market participation and structural investment in AI, energy security, infrastructure and North American re-industrialisation. While higher-for-longer interest rates and midterm-related uncertainty could periodically weigh on sentiment, the structural trends should continue to support selected opportunities.
- The continued AI buildout should provide opportunities across cloud infrastructure, AI adopters, industrial equipment and energy infrastructure, although rising financing costs, competition and electricity constraints reinforce the importance of selectivity. We continue to favour companies with strong earnings visibility, resilient balance sheets and exposure to sustainable long-term growth.
- Our conviction in high-quality fixed income has strengthened as G7 bond yields remain attractive. Although identifying the peak in yields remains difficult, elevated yields provide an attractive income cushion against further interest-rate volatility. We maintain our preferred duration of 5-7 years through high-quality developed-market investment-grade corporate bonds, while remaining selective in higher-risk credit. Election-related fiscal uncertainty, Treasury issuance and uncertainty over inflation could contribute to yield volatility, but we believe current yield levels offer opportunities for medium-term investors.
- Relative monetary policy and economic growth should remain the primary currency drivers. The election could create temporary volatility through changing expectations around fiscal and trade policy.

Historically, equities rebound after midterm elections in the US



Sources: Bloomberg, HSBC Private Bank and Premier Wealth as at 21 October 2026. Forecasts are subject to change.

Three policy and market scenarios for the midterm elections

- To assess the potential policy and market implications of the midterm elections, we consider three broad scenarios: continued unified Republican control, divided government and Democratic control of Congress.
- In all scenarios, President Trump remains in office. Under divided government, either party could control the House or Senate, with Senate control particularly important for judicial and senior administration confirmations.

	Status quo	Gridlock	Democrats get Congress
Economic growth and inflation	Continued tax and investment policies could support domestic growth and re-industrialisation. However, higher energy prices, tariffs and inflation could constrain consumption and corporate margins.	Fewer major legislative changes could provide policy stability, although budget negotiations and uncertainty may weigh on business confidence. Earnings and private-sector investment remain important growth drivers.	Greater emphasis on consumer affordability and government spending priorities. However, major changes would require presidential agreement, limiting immediate effects on growth and inflation.
Deficits and fiscal policy	Continued fiscal spending, tariffs and higher energy costs could sustain inflation pressures and reinforce a higher-for-longer rate environment. However, markets already price in substantial tightening, potentially limiting further upward pressure on yields.	Reduced scope for major fiscal initiatives could moderate incremental inflation pressures. The Fed would remain focused on inflation, employment and underlying economic fundamentals, with monetary policy remaining independent of Congress.	Fiscal negotiations could influence growth and inflation expectations. A Democratic Senate would control the confirmation process for the Federal Reserve nominees. While monetary policy decisions would remain the responsibility of the independent Fed, driven by economic fundamentals.
Fed and monetary policy	Continued fiscal spending, tariffs and higher energy costs could sustain inflation pressures, potentially reinforcing a higher-for-longer interest-rate environment.	Reduced scope for major fiscal changes could moderate incremental inflation pressures. The Fed would remain focused on inflation, employment and underlying economic fundamentals.	Fiscal negotiations could influence growth and inflation expectations, while a Democratic Senate would control Fed nominations. Monetary policy decisions would remain with the independent Fed.
Trade, tariffs and industrial policy	Greater legislative alignment with existing trade, tariff and domestic manufacturing priorities. Investment incentives could support re-industrialisation, although tariffs may raise costs for businesses and consumers.	Increased congressional scrutiny could complicate new trade legislation, although the president retains substantial tariff authority. Domestic manufacturing investment would continue to depend on private-sector demand and policy incentives.	Greater scrutiny of tariffs and trade agreements, with potential legislative efforts to modify existing policies. Presidential veto authority would limit unilateral changes, while domestic investment priorities could remain broadly supported. Markets could fear more AI-related regulation.
Iran conflict, energy security and foreign policy	Greater alignment on defence funding, domestic energy production and foreign-policy priorities. However, continued geopolitical tensions could sustain energy-price volatility and inflation uncertainty.	Increased oversight and potentially more difficult defence funding negotiations. The president would retain substantial foreign-policy authority, while Congress could influence appropriations and legislative restrictions.	Greater congressional oversight of military commitments and defence spending. Democrats could seek changes to funding priorities, although the president retains executive authority and veto power. Energy-market developments would remain the key driver of near-term inflation risks.

Source: HSBC Private Bank and Premier Wealth as of 26 October 2026. Forecasts are subject to change.

Three policy and market scenarios for the midterm elections (cont')

	Status quo	Gridlock	Democrats get Congress
Healthcare, immigration and government regulation	Greater ability to advance existing healthcare, immigration and deregulatory priorities. The Republican Senate would retain control over judicial and senior administration confirmations.	Major legislative reforms would become more difficult, increasing reliance on executive actions and existing regulatory authority. Oversight would increase in Democratic-controlled chambers, while Senate control would determine confirmations.	Democrats would control congressional committees, oversight and confirmations, potentially increasing scrutiny of healthcare, immigration and regulatory policies. Major legislative changes would generally require compromise with the Republican president.
AI, data centres and energy infrastructure	Continued support for AI investment, domestic energy production and infrastructure development could facilitate the build-out. However, higher financing costs, electricity constraints and competition reinforce the importance of selectivity across the AI investment cycle.	Private-sector capital expenditure should continue to support AI and data-centre expansion, although grid availability, and electricity costs could influence development. Opportunities remain across cloud infrastructure, power generation and AI adopters.	Greater emphasis could be placed on consumer electricity costs, environmental standards and infrastructure funding, potentially affecting project economics. However, structural demand for AI and computing capacity should continue to support investment, with quality and financial strength becoming increasingly important.
Currencies and USD	Continued fiscal spending, tariffs and higher interest rates could provide some near-term USD support, although concerns over deficits and fiscal sustainability may limit appreciation.	Reduced scope for major fiscal initiatives could moderate policy uncertainty. Relative monetary policy and economic growth should remain the primary currency drivers.	Changes in fiscal and trade-policy expectations could create short-term currency volatility, although presidential veto power limits major legislative shifts. Our currency outlook remains unchanged regardless of the congressional outcome.
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 during periods of 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.

Source: HSBC Private Bank and Premier Wealth as of 26 October 2026. Forecasts are subject to change.

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