

Special Coverage: US midterms: The political pendulum shifts; but fundamentals remain anchored

Key takeaways

- Democrats secured control of both chambers of Congress in the US midterm elections, ushering in a period of divided government. The result is expected to constrain President Trump's legislative agenda, increase congressional oversight and complicate fiscal negotiations. The broadly positive market response suggests much of the electoral outcome was already priced in.
- The political pendulum has historically shifted against the president's party during midterm elections, suggesting that changes in congressional control are recurring in US politics. Opportunities for bipartisan cooperation remain in AI infrastructure, energy affordability and US re-industrialisation, although regulatory developments and fiscal negotiations warrant monitoring.
- We remain overweight on US equities, maintaining our growth and quality bias, supported by resilient corporate earnings, broadening market participation, and structural investment in AI, infrastructure and re-industrialisation. We maintain our preference for high-quality DM investment-grade corporate bonds, with a preferred duration of 5-7years. Elevated yields provide attractive income opportunities, although fiscal uncertainty and Treasury issuance could contribute to volatility. Relative monetary policy and economic growth differentials remain the primary currency drivers.



Jose Rasco
Chief Investment Officer, Americas, HSBC Private Bank and Premier Wealth



Michael Zervos
Investment Strategist, HSBC Private Bank and Premier Wealth

What happened?

- The 3 November midterm elections delivered a decisive victory for Democrats, who secured majorities in both the House of Representatives and the Senate, ending two years of unified Republican control in Washington. Democrats secured at least 54 Senate seats, including two independents who caucus with the party, and surpassed the 218 seats required for a House majority, with several races still being counted. The outcome establishes a divided government from January 2027, with President Trump remaining in the White House and Democrats controlling both chambers of Congress.
- Looking ahead, divided government could complicate the fiscal outlook and constrain the administration's ability to advance major legislative priorities. The immediate focus will be the 11 December government funding deadline, while the federal debt ceiling is expected to require action in 2027, with the current USD41.1trn limit potentially reached amid continued fiscal deficits. With Democrats controlling both chambers of Congress beginning in January, major fiscal legislation will become increasingly dependent on bipartisan negotiations. The prospects for additional budget reconciliation measures could also diminish, limiting the administration's ability to advance significant tax and spending legislation.
- Moreover, the US fiscal impulse could moderate in 2027 following the stimulus provided by the One Big Beautiful Bill Act in 2026. Several provisions of the legislation, including tax deductions for qualifying tips and overtime, are scheduled to expire at the end of 2028, potentially prompting renewed negotiations over tax policy. While Democrats will have greater influence over the legislative agenda, their own policy initiatives could face constraints from Senate filibuster rules and President Trump's veto authority.

- Historically, US midterm elections have served as a political counterbalance to the party occupying the White House, with voters frequently shifting support towards the opposition. Between 1946 and 2022, the president's party lost House seats in 18 of 20 midterms, an average loss of approximately 26 seats, reinforcing that changes in congressional control are recurring in US politics.
- Opportunities for bipartisan cooperation remain in AI infrastructure, energy affordability and US re-industrialisation. We believe these structural investment themes can continue to advance, although regulatory developments and fiscal negotiations warrant monitoring.

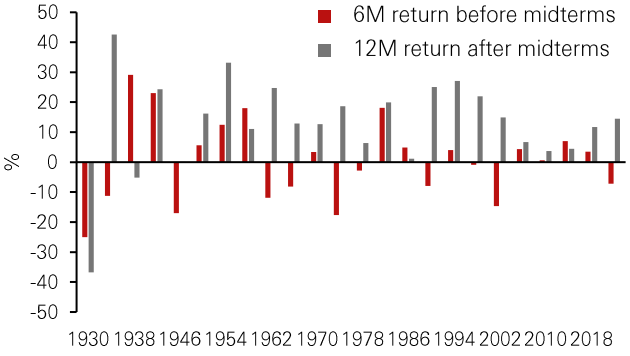
Potential policy issues and opportunities

- **Artificial intelligence:** We have probably heard the worst of the anti-AI rhetoric now that the election is over. The AI revolution is just beginning and any attempt to slow it down is unrealistic. Significantly, at the federal level, there will probably be no attempt to slow down the AI revolution or to increase regulatory burdens. On a state-by-state basis, we may see local legislators impose restrictions or slow the growth of AI in their states, especially when it comes to hyperscalers. We would look for legislation at the federal level aiming to mitigate the issues related to energy, electricity and water demand. President Trump has talked about imposing a tax on hyperscalers who use excessive amounts of water or electricity. This type of legislation seems likely to have bipartisan support. Tech stocks have already sold off substantially, with Price/Earnings near 5-year lows and below the ratios of most other sectors.
- **Energy:** At the federal level, we may see bipartisan efforts to mitigate the higher gasoline, diesel and heating oil prices paid by consumers. This could come in many forms, but some type of federal relief, at least in the short term, would be a popular piece of legislation.
- **Re-industrialisation:** This is a theme that resonates with both sides of the political aisle. President Trump was a proponent of these strategies in his first term and has continued to pursue them in his second term. Many legislators in Congress have been supportive as well, and there is scope for bipartisan support to encourage further investment in the US and create additional jobs in the next two years.

Investment implications

- Our investment views remain unchanged following the election. While Democratic control of Congress introduces the potential for greater legislative gridlock and fiscal negotiations, we believe corporate earnings and the macroeconomic outlook will remain the primary drivers of the US equity market. We continue to favour looking through election-related volatility rather than positioning portfolios around a single political outcome.
- We remain overweight on US equities, maintaining our growth and quality bias, supported by resilient corporate earnings, broadening market participation, and structural investment in AI, infrastructure and re-industrialisation. The continued AI build-out should create opportunities across cloud infrastructure, industrial equipment, energy infrastructure and AI adoption. However, rising financing costs, competition and electricity constraints reinforce the importance of selectivity and strong balance sheets.

Historically, equities rebound after midterms



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

- In fixed income, we maintain our preference for high-quality developed-market investment-grade corporate bonds, with a preferred duration of 5-7 years. Elevated yields continue to provide attractive income opportunities, although fiscal uncertainty and Treasury issuance could contribute to periodic volatility. We remain selective in higher-risk credit.
- Relative monetary policy and economic growth differentials should remain the primary currency drivers. While the election could create temporary volatility through changing expectations around fiscal and trade policy, we would not position currencies around a single political outcome.

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