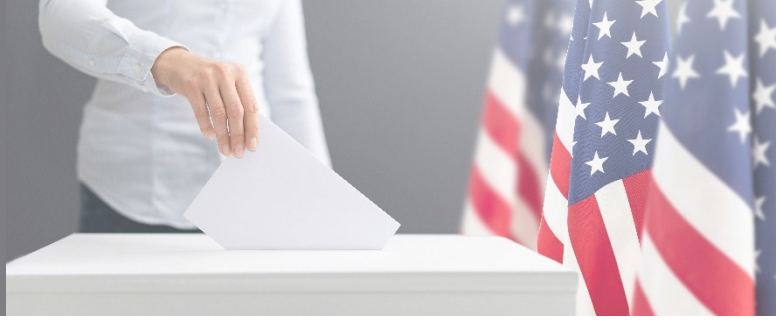

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The Investor's Landscape

Congress May Change. Will Markets Care?

By Ellen Hazen, CFA, Chief Market Strategist

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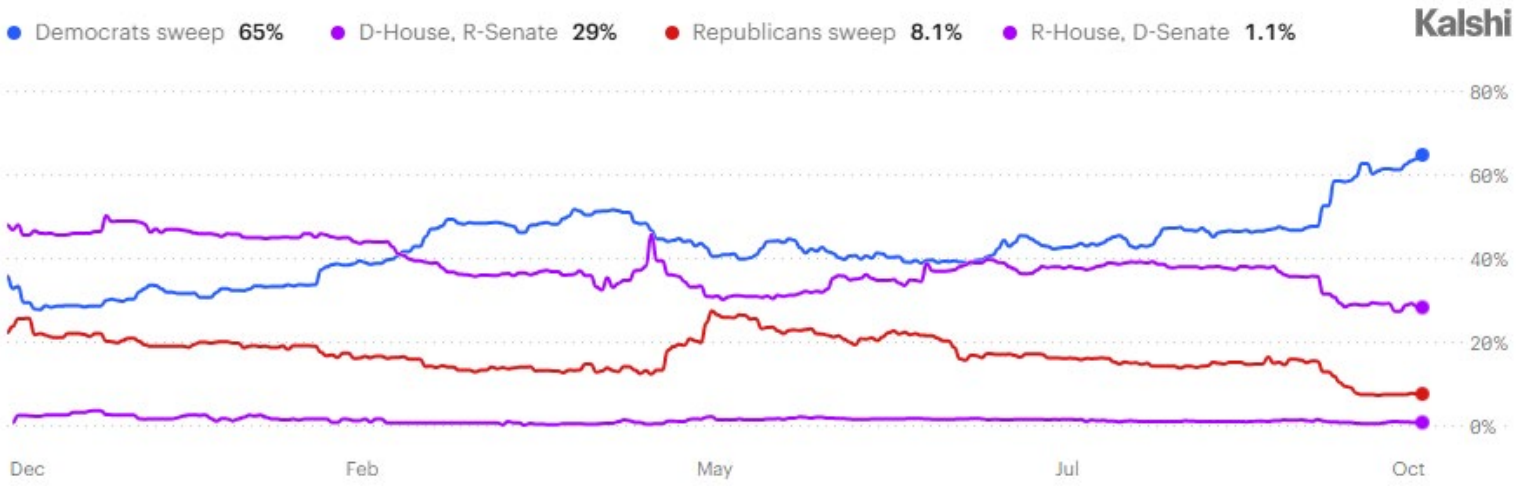
Election night will produce a great deal of red and blue on television screens, but for investors, the more useful information will be what is revealed beneath the headlines: debates over public benefits, resistance to rapid AI datacenter expansion, and opinions on progressive taxation. Congressional composition is unlikely to change markets, but the choices voters make could show us where economic and political pressure is building.

- **Voter dissatisfaction may drive an anti-incumbent election.** Consumer confidence has materially declined from its early 2025 highs, while above-target inflation, limited real-wage progress, and anxiety about AI-related job disruption may be contributing to public frustration.
- **A change in congressional control would likely not create an investible market shift.** Historically, anti-incumbent elections do not result in materially different 12-month forward returns compared to other periods.
- **A divided government would also constrain near-term policy change.** Executive authority over tariffs and trade, Senate procedural hurdles, and presidential veto power would limit either party's ability to enact major legislation without bipartisan support.
- **The debt ceiling may be the clearest market-relevant item.** Congressional negotiations could revisit scheduled SNAP and Medicaid changes, with possible implications for lower-income consumers, selected retailers and restaurants, state finances, municipal bonds, federal deficits, and Treasury issuance.
- **State and local results may be more informative than the congressional headlines.** Ballot questions concerning taxation and redistribution, together with state-level debates over datacenter construction and electricity costs, could provide evidence about policy directions that could ultimately impact specific industries.
- **The midterms are unlikely to serve as a reliable forecast for 2028.** Both issues and electoral coalitions can change substantially between election cycles, making a midterm "wave" an unreliable presidential indicator.
- **Bottom line:** Investors should pay more attention to potentially useful longer-term signals embedded in voter choices than to any immediate impact of a change in congressional control.

American consumers are unhappy. Both the University of Michigan Consumer Sentiment Index and the Conference Board Consumer Confidence Index have materially declined since the highs seen in early 2025 : the Michigan index is down by 27% while the Conference Board index is down by 22%. Several factors may be contributing to the dissatisfaction, including above-target inflation (CPI currently 3.4% and PCE currently 3.4%); flat real wages for the last five years (nominal average hourly earnings have increased by 21.4% over this time period while inflation has increased by 20.5%); and continued declining wages as a percentage of corporate profits. Moreover, consumers are concerned about AI (including potential job losses), which is manifesting in part by citizens pushing back against datacenter construction.

Often consumers express dissatisfaction with the current economic environment by voting against the incumbent party. Therefore, it's reasonable to believe that Congress could switch parties for one or both chambers in the November 2026 elections, as current polling suggests. Current polling generally points toward a change in House control; however, polls are divided on whether the Democratic Party will also gain control of the Senate. Betting platforms give a higher probability of the party taking both houses.

Kalshi's 'Midterms: Congress Balance of Power?'



Source: Kalshi - is a prediction market whose event-contract prices provide a market-based gauge of the likelihood of specific outcomes.

Of course, close races could be subject to recounts or legal challenges, potentially delaying clarity about control of one or both chambers. That uncertainty could create short-term volatility, but investment implications would still depend on the eventual outcome rather than the timing of the result.

What is likely to happen in the markets if congressional control changes in the House and/or both the House and the Senate? Historically, an anti-presidential party "wave" has no predictable durable impact on the equity or fixed income markets. Looking back at elections over the past 50 years where the political leadership has gone from trifecta to divided (either one or both houses of Congress), subsequent 12-month equity market returns are indistinguishable from non "wave" years; the average 12-month return for the "wave" years was 12.5%, while the average 12-month return for all other years was 13.1%. Likewise, forward returns for bonds are not sensitive to an anti-incumbent wave. During non-anti-incumbent years, the 2-year bond returned an average of 3.4%, while it returned an average of 4.0% in anti-incumbent years.

Even if history is not deterministic, an anti-incumbent wave is unlikely to drive material policy differences this time. There are a few different reasons for this. First, many of the issues relevant to the markets are today largely determined solely by the Executive branch (e.g., trade, tariffs, Iran conflict), so a change in control of Congress will not make much difference. Second, because the majority party is unlikely to have the 60 votes that would be necessary to stop a Senate filibuster, it may be difficult to get legislation through the Senate. Third, because the presidency will remain Republican and thus will still be able to veto any legislation, even if Democrats are able to pass legislation through both the House and the Senate, they are unlikely to have the two-thirds votes in both houses that would be necessary to override a presidential veto. Consequently, because of the executive branch authority over issues like trade and tariffs and because of the likely narrow majority, we do not see major changes to the policies most impacting the markets.

A "blue wave" would also likely not portend anything about which party could win in 2028.
While the 2006 midterms correctly predicted that the Democrats would take the presidency in 2008; the 2010's "red wave" did not drive a Republican White House in 2012. Sometimes an anti-incumbent wave drives a White House flip two years later, and sometimes it doesn't. The issues that rise to the top don't always carry over either. Over the past several decades, issues at the forefront during an anti-incumbent midterm election are often not the most important issues two years later. For example, in 2018, one key issue was healthcare insurance, while in 2020 the pandemic and racial inequity rose to the fore. In 2022, inflation was the most important issue, while in 2024 abortion and immigration became relevant.

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We can still glean some insights from what happens in the November election.
If a change in congressional control is not going to change the big picture outcome, what CAN we learn from the upcoming midterms? Although an anti-incumbent wave or divided government is unlikely to directly materially impact equity or fixed income markets, nor to predict how the 2028 election cycle will play out, some specific investment areas could be impacted by the congressional midterms. There are also longer-term potentially market-moving impacts that may result from Democratic control of Congress, and there are other local elections that may reflect how the electorate feels about various issues like redistribution and AI regulation.

If one or both chambers changes hands, the Democratic Party may use the impending 2027 debt ceiling deadline to demand that OBBBA SNAP/Medicaid cuts are delayed. The OBBBA 2025 mandated changes to both SNAP and Medicaid over the 2025-2034 period. These changes comprised both tighter eligibility requirements and some cost-shifting to the states. We envision that a new congressional majority could use the requirement to lift the debt ceiling as leverage to extract concessions from the Republicans, delaying these cuts and cost-shifting. If delayed, lower-income consumers could benefit and hence those areas of retail or restaurants particularly exposed to lower-income consumers could benefit as well. Some states may benefit if the cost-sharing shifting is delayed, which could benefit those states' municipal bonds. At the same time, because higher federal spending on SNAP and Medicaid would mean a larger deficit, then we could see higher Treasury issuance to fund this spending.

Local elections this November may reveal citizens' attitudes toward wealth and income redistribution. Given the increasing fiscal deficit that will eventually need to be addressed, we can see how the population currently views higher taxes. California is voting on Proposition 40, a so-called "billionaire's tax" that would impose a one-time 5% wealth-based tax on California residents whose net worth exceeds $1 billion. Proceeds would theoretically be used to cover healthcare, education, and food-assistance costs. Washington state has a ballot question to repeal a recently enacted 9.9% annual income tax on earnings over $1 million. If Californians and Washingtonians vote to implement / retain these taxes on high wealth / high-earning households, other states could follow suit in the coming years. Conversely, if residents vote these taxes down, it could indicate popular resistance to this more progressive tax framework.

Local elections may reveal how important AI datacenter pauses versus cost-allocation policies are to the electorate. An August 2026 survey by Morgan Stanley claimed that 72% of 2026 voters say candidates' positions on AI are "somewhat" or "very" important. This finding is bipartisan; this was true for 70% of conservative respondents and 74% of liberal respondents. If this is a driving issue for voters, then several state-level elections could illuminate where voters stand on using state policies to limit datacenter growth. For example, in Pennsylvania, incumbent Democratic governor Josh Shapiro recently issued an executive order requiring datacenters to cover electricity costs (while permitting construction to continue), while Republican challenger Stacy Garrity is calling for a construction pause. Because President Trump has publicly advocated for fewer restrictions, we believe that the November elections are unlikely to materially change AI capital expenditure (capex) expectations for 2027 and 2028, even if voters express preferences for pauses versus cost concessions.

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Conclusion

We believe that what appears to be an anti-incumbent "blue wave" of Democrats gaining House and perhaps Senate seats is unlikely to result in material market impacts for a few reasons. Historically, anti-incumbent wave years do not result in material differences for either stock or bond markets as compared to other years. Policy-wise, any majority in either house of Congress will likely be narrow enough that Democrats will not be able to pass meaningful legislation without Republican support. Even if they are able to pass legislation, President Trump retains veto power and the Democrats will likely not have the votes to override a veto. They may, however, choose to leverage the required debt ceiling increase to tweak changes to the OBBBA-mandated changes to SNAP and Medicaid. The November elections still bear watching, however, as local elections may reveal the populace's attitude toward wealth redistribution and AI datacenter policies.

When the red and blue map is complete, investors should look beyond the Congressional totals to discern voter attitudes toward the cost of living, AI infrastructure, fiscal tradeoffs, and progressive taxation. The midterms may not tell us where markets will go next, but they can provide clues to what issues voters care about today and where policy pressure could emerge tomorrow.

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