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Institute Alert

Timely Commentary



First analysis of issues or topics that may affect investor portfolios **November 4, 2026**

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Capital markets after the midterm elections

What's moving markets

- Democrats won sufficient majorities in both chambers of Congress last night to lessen the risk of disruptive, intraparty factionalism in negotiating policy with the president.
- We do not expect sweeping policy changes. More likely in our view is a split-government alignment on affordability, energy policy and opportunities from artificial intelligence (AI).
- For example, must-pass legislation on defense spending, the budget (in December) and debt-ceiling (autumn 2027) could become leverage in negotiating health-care subsidies and food assistance.
- Attention now shifts to the upcoming lame duck session of Congress, where debate over a new continuing resolution, defense spending and an expired farm bill will move to center stage.
- The prospect of Washington gridlock helped the Nasdaq futures rebound from roughly -2.0% to +0.9% and S&P 500 Index futures recovered from earlier losses to +1.0%.
- Upbeat technology earnings provided another boost to equities and supported AI-linked shares.
- The two-year Treasury yield was flat, while the 10-year Treasury yield declined 0.02% to 4.93%.
- Gold was up 3% while the U.S. dollar was marginally lower overnight. These reactions may recognize less political certainty in the U.S. going forward, as well as lower inflation-adjusted interest rates.
- Oil is flat and may be driven more by uncertainty about the president's next move in the Middle East than by the election results. The election results may pressure the president to seek to end the war more quickly.

Our perspective

- Major policy changes still face significant hurdles. The shift in congressional control could create near-term uncertainties for equity markets. However, we see no need for wholesale changes to portfolios.
- While the composition of government spending may change, persistent deficits and government borrowing will continue to drive increasing Treasury issuance and elevated bond yields.
- Democratic control could slow the push for deregulation in financials, energy and digital assets. We still believe both parties have an incentive to compromise on data center location and AI generally.
- The commodity supply-demand balance could shift under democratic control, but it doesn't change our broader neutral outlook on the energy commodity sector. Gasoline and diesel supplies remain constrained by the war, but fossil fuel production could face greater policy constraints and oversights, while renewables, electrification, and grid infrastructure investment remain supportive of industrial metal demand.

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Implications for investors

A Democratic sweep of Congress represents a significant change in Washington's balance of power and could add to near-term market volatility, particularly as investors reassess policies affecting AI, data centers, energy, trade, health care, and the federal budget. At the same time, we favor not allowing political views or initial market reactions to drive portfolio decisions. Economic growth, inflation, interest rates, and corporate earnings have historically mattered more to broad investment performance than the party composition of Congress, especially if the president and congressional leadership come from different parties. The election may alter policy risks and the industries that lead, but we do not believe it changes the value of a disciplined, diversified portfolio.

In equities, we would not chase perceived post-election winners or sell into an initial decline. We continue to favor U.S. Large Cap Equities, where strong balance sheets and earnings growth should provide support as investors become more discerning about AI spending and returns. A Democratic Congress could increase scrutiny of AI development and data-center power demand, potentially moderating the pace of some projects, but we believe the broader investment cycle remains intact. We favor high-quality companies positioned to convert investment into durable earnings and cash flow, with particular opportunities in Industrials, Communication Services, and Materials. Machinery, electrical equipment, semiconductor infrastructure, construction materials, industrial gases, and specialty chemicals remain important to the buildout of computing capacity, power generation, electrical grids, and more resilient supply chains.

The change in congressional control does not resolve the longer-term fiscal challenge. Democratic priorities may shift the composition of spending, but budget negotiations and attempts to reverse or limit existing program cuts could sustain large deficits and heavy Treasury issuance. With inflation risks still elevated and longer-term yields likely to remain volatile, we continue to favor U.S. Short-Term Taxable Fixed Income and high-quality securities. We would keep duration (a measure of a bond's interest rate sensitivity) short and add it gradually as yields rise rather than attempt to identify the peak in interest rates.

We also remain favorable on Commodities as a source of portfolio diversification. Data-center construction, grid investment, and supply-chain realignment should support demand for energy and industrial metals, while Middle East tensions and constrained energy infrastructure may sustain a geopolitical risk premium. Pullbacks may offer opportunities to add exposure. We expect economic growth, inflation, interest-rate differentials, and fiscal deficits to remain more important to the U.S. Dollar Index than the election result itself. A comparatively hawkish Federal Reserve, elevated Treasury yields, and relatively favorable U.S. growth should support modest U.S. dollar appreciation through 2027, although policy uncertainty could produce periods of near-term volatility.

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Definitions

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