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Beyond the Headlines

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**The US Midterms: Political
Risk, or a Boom for Markets?**

The US Midterms: Political Risk, or a Boom for Markets?

On 3 November, American voters re-draw the balance of power in Washington. For markets the event is less about who wins than about what the winner can, and cannot, do. This note explains what a midterm actually decides, walks through every plausible outcome, and isolates the two tail risks that could genuinely move prices: a debt-ceiling standoff and a third Trump impeachment.

Midterm elections sit at the mid-point of a presidential term and routinely reshape Congress without touching the White House. That gap - a president of one party, a legislature drifting towards the other, is exactly what makes them matter to investors. As of early October 2026, prediction markets and forecasters lean the same way: Democrats are strongly favoured to take the House of Representatives, the Senate is closer to a coin-toss that tilts modestly their way, and a divided or Democratic-controlled Congress is the base case against a Republican president.

The instinct is to ask which result is 'good' or 'bad' for stocks. The more useful framing is that the market cares about the capacity to legislate, not the colour of the majority. Below we set out the mechanics, the scenarios, and the risks - deliberately without taking a political side.

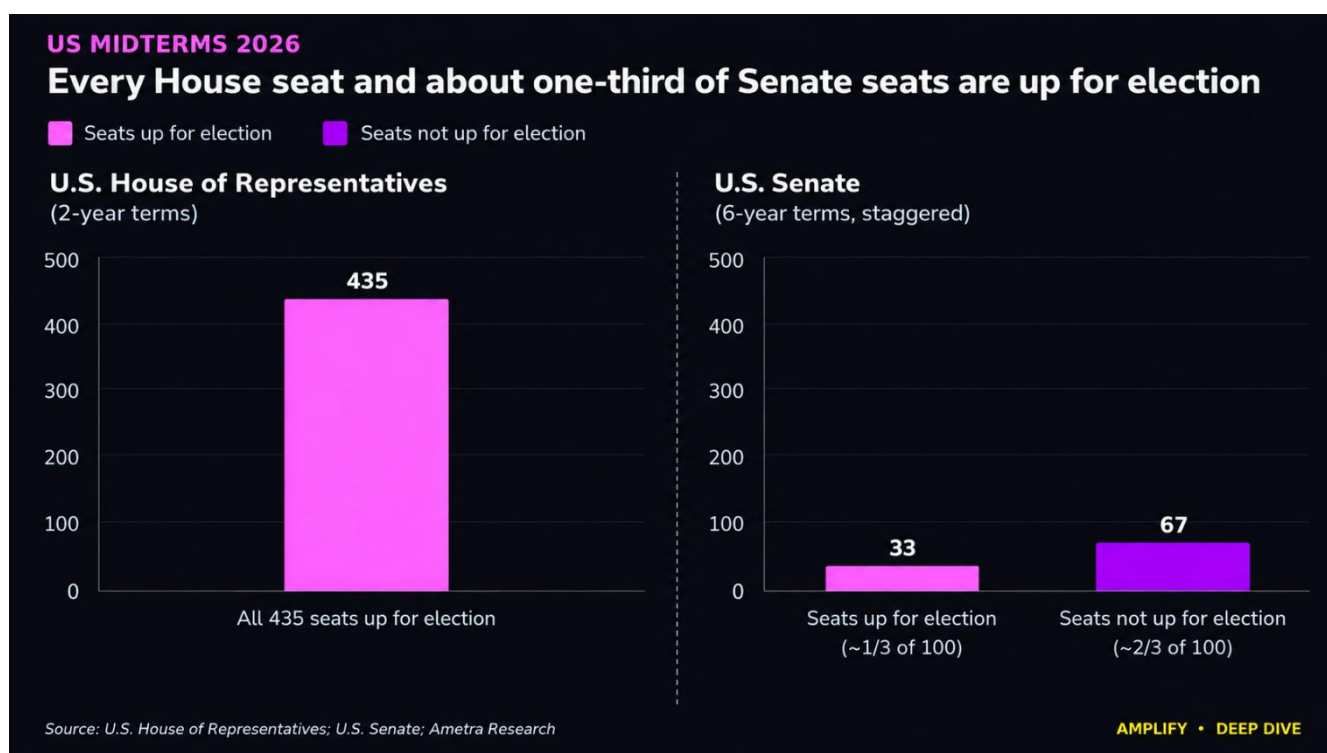
Situation Snapshot (as of 8 October 2026)

Item	Reading	Read-through
Election day	3 November 2026	All 435 House seats; ~35 Senate seats contested
House (market-implied)	Democrats strongly favoured	Most forecasters/markets in the mid-80s% or higher
Senate (market-implied)	Lean Democrat / toss-up	Democrats modestly ahead; a handful of seats decide it
Base case	Split Congress or Democratic sweep	Gridlock against a Republican president is the central path
Debt limit	US\$41.1 trillion	X-date most likely mid-to-late 2027
Lame-duck trigger	Govt funding expires 11 Dec 2026	Possible shutdown / debt-limit skirmish before new Congress
Impeachment (markets)	~66–69% before 2028; removal ~17%	House can impeach on a majority; Senate conviction needs 2/3
Historical pattern	Gridlock broadly fine for equities	But 'GOP president + Democratic Congress' is the softest bucket
Dominant drivers	Earnings, rates, AI capex	These outweigh the election configuration over any full cycle

1. Midterms 101 – What is Actually on the Ballot, and why Divided Government Matters

A US midterm is the congressional election held two years into a four-year presidential term. The presidency is not contested; what is at stake is the legislature. Every one of the 435 seats in the House of Representatives is up for election, because House members serve two-year terms, and roughly a third of the 100-seat Senate is contested, since senators serve staggered six-year terms. Control of each chamber flips to whichever party wins a simple majority. Historically the president's party tends to lose ground in the midterms, which is why the exercise so often produces a Washington split between an executive of one party and a Congress leaning to the other.

That split is the heart of the matter for markets. When the president and at least one chamber of Congress belong to different parties, the administration's ability to pass new laws collapses. Major tax, spending or regulatory legislation needs both chambers, and in the Senate most bills effectively need 60 of 100 votes. What rises in its place is oversight: a chamber controlled by the opposition gains the power to launch investigations, issue subpoenas, and hold hearings. Two levers also become contested rather than routine - the annual government funding bills and the statutory debt ceiling, because the opposition can withhold its votes to extract concessions. And with the legislative route blocked, the administration leans harder on the tools it still controls: executive orders, regulatory rule-making, trade and tariff powers, and agency enforcement. In short, divided government means less new law, more investigation, and periodic fiscal brinkmanship, which is a combination the market has learned to price.



2. What is Generally Expected – The Base Case

The consensus, across both betting markets and forecast models, is a Congress that at minimum hands the House to the Democrats, with a reasonable chance they also take a narrow Senate. Either way, the working assumption is gridlock against a Republican White House: a president who cannot pass sweeping new legislation and an opposition that cannot either, but can investigate and obstruct.

Counter-intuitively, markets have historically been comfortable with exactly this. The logic is simple. Gridlock means policy stability and few surprises, which is what capital prefers. One widely-cited JPMorgan study finds congressional gridlock has coincided with stronger average S&P 500 returns since 1950 than single-party control. We would add a firm caveat: these historical averages are extremely sensitive to the sample period, and other studies reach the opposite conclusion, so they are context, not a trading signal. The honest base case is that a split result is neither a boom nor a crisis in itself; it removes the tail of radical policy change in either direction and hands the wheel back to earnings, interest rates and the AI capital-expenditure cycle.

3. If the Democrats Win – the House, or a Sweep

A Democratic House is the single most likely outcome, and a Democratic sweep of both chambers is a live possibility rather than a remote one. The near-term market effect of either is less about new laws. A Republican president would veto most of the Democratic agenda, and vice versa, and more about friction and scrutiny. Expect intensified oversight of large technology platforms and energy producers, a harder line in budget and debt-limit negotiations, and a general rise in headline risk around hearings and investigations.

There is one historical wrinkle worth flagging honestly: among all the configurations, a Republican president facing a Democratic-controlled Congress has tended to produce the softest average equity returns in some long-run datasets. That is a statistical tendency drawn from few episodes, not a law, and it is easily overwhelmed by the macro cycle. The more reliable read is sectoral: areas exposed to federal scrutiny or subsidy, like big tech, fossil-fuel energy, parts of healthcare and defence procurement, face more political noise, while the broad index continues to take its direction from profits and the cost of capital.

4. If the Republicans Hold – or Somehow Sweep

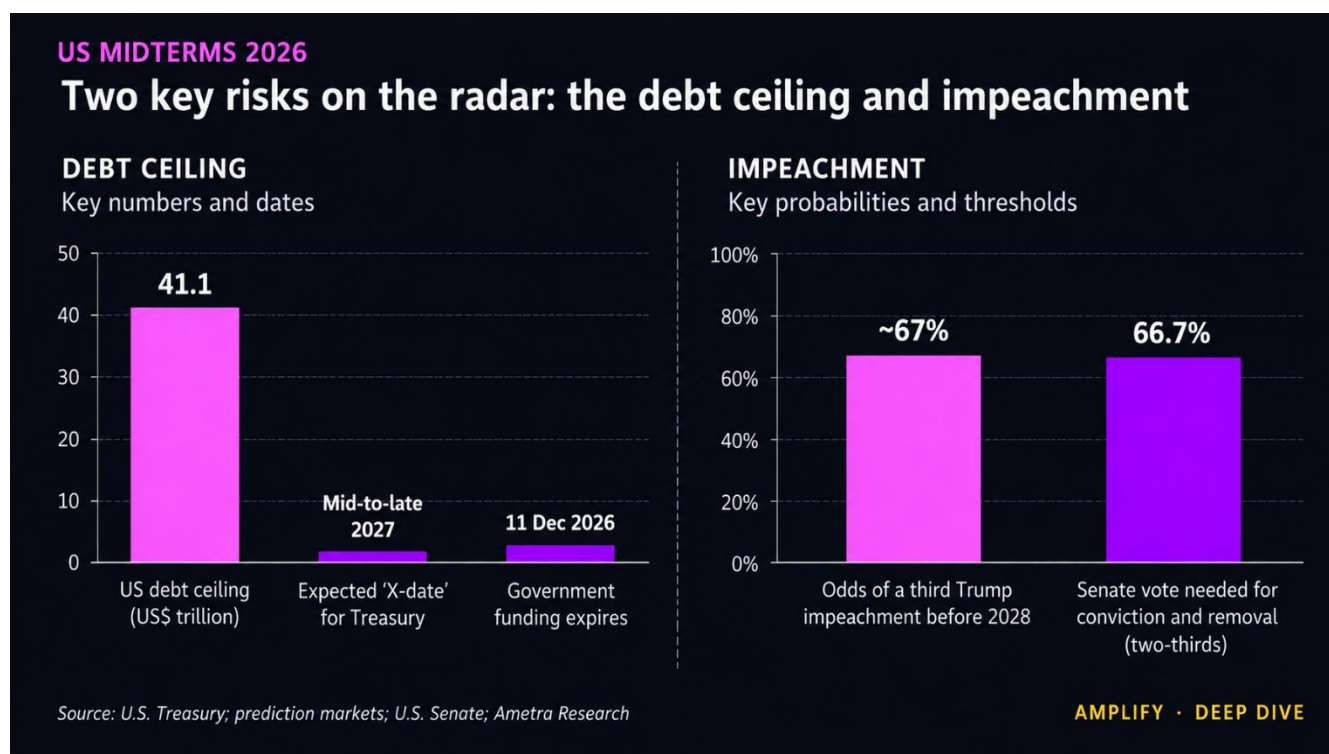
The less-expected outcome is that Republicans defend their majorities, preserving unified government. For markets this is a continuity trade: the existing tax and deregulation posture stays intact, and the risk of a bruising, opposition-driven debt-ceiling fight falls sharply, because a single party can, in principle, raise the limit on its own. Unified control is historically associated with solid equity returns, and removes the overhang of impeachment and aggressive oversight.

The trade-off sits in the bond market, not the stock market. Unified government that extends tax cuts and spending without offsetting restraint points to wider deficits and heavier Treasury issuance - the very dynamic behind the multi-decade-high long-end yields we examined in our recent sovereign-debt note. In other words, a Republican sweep lowers the near-term political-event risk but can raise the structural fiscal-supply risk. It is a different distribution of outcomes, not an unambiguously better one.

5. The Two Tail Risks – The Debt Ceiling and Impeachment

The debt ceiling is the more market-relevant of the two. The statutory limit stands at US\$41.1 trillion, and the Treasury is most likely to exhaust its room - the 'X-date' - somewhere in mid-to-late 2027. A divided Congress turns that deadline into leverage: an opposition majority can refuse to lift the ceiling without policy concessions, dragging negotiations to the wire. The nearer flashpoint is the lame-duck session. Government funding expires on 11 December 2026, and a debt-limit skirmish could be folded into it. The precedent is instructive: after the 2023 standoff, Fitch stripped the US of its AAA rating, citing repeated brinkmanship. A genuine standoff would most likely show up first in short-dated Treasury bills around the X-date, in a wider term premium, and in episodic equity volatility, rather than in an actual default, which remains a very low-probability event.

Impeachment is the noisier but, for markets, usually the shallower risk. Prediction markets put the odds of a third Trump impeachment before 2028 at roughly two-thirds, with the risk concentrated in 2027 under a new Democratic House. But impeachment is not removal. The House can impeach on a simple majority; conviction and removal require a two-thirds supermajority in the Senate, a bar that even a slim Democratic majority would fall well short of. History is clear on the market consequence: impeachment proceedings that do not credibly threaten removal generate headlines and sentiment wobbles, not durable drawdowns. The signal to watch is not the impeachment vote itself but whether it ever becomes paired with a realistic path to conviction; absent that, it is political theatre with a short market half-life.



6. What It Means for Markets and for Indian Investors

Pull the threads together and the conclusion is deflationary of the drama. The election redistributes political risk rather than creating or destroying it: a Democratic win raises oversight and debt-ceiling friction but caps radical policy change; a Republican sweep lowers political-event risk but raises fiscal-supply risk. In every branch, the dominant drivers of US equity returns over the next year remain earnings growth, the path of interest rates and the AI investment cycle — not the seating plan in Congress.

For Indian portfolios the transmission is indirect but real, and it runs through three familiar pipes: the US dollar, US Treasury yields, and global risk appetite. A messy debt-ceiling episode that lifts the term premium, or a growth scare, tends to strengthen the dollar and pressure emerging-market flows in the short run; a resolution typically reverses it. The practical implication is the one we keep returning to: these are episodic, mean-reverting bouts of volatility, not regime changes, and for a domestically-driven market like India, they are better treated as opportunities to add than as reasons to de-risk wholesale.

Ametra’s Read

The midterms are a volatility event, not a directional one. The base case, which is a divided Congress against a Republican president, is historically unremarkable for equities and simply returns the narrative to earnings and rates. We would not position portfolios on the election result itself; we would prepare for the specific, datable risks it creates. Our stance:

- **Do not trade the outcome; prepare for the calendar:** The 11 December funding deadline and the mid-to-late-2027 debt-ceiling X-date are the datable risks, far more actionable than guessing the seat count.
- **Gridlock is a feature, not a bug:** A split Congress removes the tail of radical policy change in either direction; treat the 'who's better for stocks' debate as sample-dependent noise.
- **Separate impeachment noise from removal signal:** A House impeachment is probable and largely price-irrelevant; only a credible two-thirds path to Senate conviction would be a genuine market event, and that bar is very unlikely to be met.
- **Watch the bond market under a Republican sweep:** Lower political-event risk, but wider deficits and heavier issuance, the long-end supply story from our sovereign-debt note would intensify.
- **For India, play the dollar and the yield, not the party:** The transmission is via USD, UST yields and risk appetite; episodic election-driven volatility is an opportunity to add to quality domestic exposure, not a reason to de-risk.

The bottom line: this is neither the 'political risk' catastrophe nor the 'boom' that headlines will promise. It is a redistribution of known risks with two clear flashpoints to diarise. Markets reward investors who treat the noise as noise and the calendar as calendar.

Positioning Map

Area	What matters most	What to Watch
AI and big tech	Spending, borrowing costs and power politics	Spending guidance in this earnings season
US government bonds	Deficit, weak buyers, Japan	The 4 November refunding and the 11 December deadline
Energy and transport	Diesel and the Hormuz route	Iran talks and Hormuz shipping volumes

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