In light of the US midterm elections held on Tuesday, 3rd of November 2026, I thought I would send you a short piece looking at the potential implications for markets, both in terms of the immediate outlook and what history can tell us about what has tended to happen after previous midterm elections.

There will inevitably be plenty of commentary around the results over the coming days. Rather than focusing too heavily on the politics themselves, it is perhaps more useful to consider what the changing political landscape could mean for markets, particularly technology and AI, while putting the immediate reaction into the context of how the S&P 500 has behaved after previous midterms.

A change in Washington

The US elections held on Tuesday have produced a significant shift in the political landscape. Democratic control of both chambers has now been called, which leaves President Trump facing a very different political environment for the remaining two years of his term. Individual races may still be unresolved, but the overall control of Congress is no longer uncertain. For markets, however, attention is already moving beyond the election itself and towards what a change in congressional control might mean in practice.

The most obvious consequence is the prospect of greater political gridlock. Democratic control of Congress is expected to make it considerably more difficult for President Trump to pursue parts of his domestic legislative programme without compromise, but from an investment perspective that can cut both ways. Divided government can make significant changes to tax, spending or regulatory policy harder to pass, potentially limiting some of the more dramatic policy changes markets might otherwise have to absorb. Equally, it can make negotiations around government funding, spending and the debt ceiling considerably more difficult.

That matters because the fiscal position of the United States is already receiving considerable attention from investors. The level of government borrowing, the behaviour of the Treasury market and the direction of bond yields may ultimately prove considerably more important for markets than the political composition of Congress itself. The election changes the balance of power in Washington, but investors will continue to judge policy principally through its impact on inflation, economic growth, government borrowing and corporate earnings.

Technology and AI will remain firmly in focus

Artificial intelligence has been one of the defining investment themes of recent years, while investment in semiconductors, data centres, cloud infrastructure and power generation has grown enormously. A change in Congress raises the prospect of greater scrutiny of AI, data-centre development and some of America's largest technology businesses.

It would be easy to construct too simple a narrative from this: Democrats take control of Congress, regulation increases and technology suffers. The reality is more nuanced when political headlines are considered alongside the underlying investment cycle, company earnings and the scale of demand for AI infrastructure. Greater regulation does not necessarily mean less investment, while

requirements around safety, security and monitoring could themselves create additional demand for technology and computing resources.

The opportunities created by AI remain significant, but the scale of investment increasingly needs to demonstrate an economic return. The key things to watch are therefore earnings revisions, the direction of capital expenditure, returns on invested capital and whether AI adoption begins to deliver genuine productivity improvements outside the technology sector. These are the measures that should ultimately tell us whether the current investment cycle is sustainable.

There are also genuine constraints. Financing conditions and the cost of capital matter as investment increases, while power availability, grid infrastructure and the practicalities of building sufficient data-centre capacity could restrict the pace of expansion. These are meaningful risks, but they need to be considered alongside continued demand for computing capacity and the earnings being generated across the sector.

This also makes simple comparisons with the technology bubble of the late 1990s less helpful. Many of today's leading technology companies are highly profitable and generate substantial cash flows. The more relevant question is therefore whether future earnings and returns on capital are sufficient to justify current expectations, rather than whether the underlying technology or demand is real.

Looking back: what happened after previous midterms?

This is perhaps the most interesting part of the exercise. Looking back at the previous 15 completed US midterm elections, covering the 60 years from 1966 to 2022, the subsequent performance of the S&P 500 over three, six and 12 months is striking, particularly at the six and 12-month points. The attached table sets out the individual election results and subsequent market performance. The figures are S&P 500 price returns and therefore exclude dividends. We've highlighted two midterms elections which most closely mimic the situation we are seeing today.

U.S. Midterm Elections and Subsequent S&P 500 Returns

Last 15 completed midterms (1966-2022). Price returns are measured from the election-day close to the nearest trading-day close 3, 6 and 12 calendar months later.

Year	Election date	President	President party	House result	Senate result	3m return	6m return	12m return
1966	8 Nov 1966	Lyndon B. Johnson	Democratic	Democratic hold	Democratic hold	8.2%	14.7%	13.0%
1970	3 Nov 1970	Richard Nixon	Republican	Democratic hold	Democratic hold	14.6%	23.9%	11.4%
1974	5 Nov 1974	Gerald Ford	Republican	Democratic hold	Democratic hold	8.1%	20.0%	20.6%
1978	7 Nov 1978	Jimmy Carter	Democratic	Democratic hold	Democratic hold	6.4%	6.5%	10.7%
1982	2 Nov 1982	Ronald Reagan	Republican	Democratic hold	Republican hold	3.1%	16.3%	17.5%
1986	4 Nov 1986	Ronald Reagan	Republican	Democratic hold	Democratic gain	14.3%	18.0%	2.3%
1990	6 Nov 1990	George H. W. Bush	Republican	Democratic hold	Democratic hold	9.3%	22.1%	22.6%
1994	**8 Nov 1994**	Bill Clinton	Democratic	Republican gain	Republican gain	4.1%	15.4%	27.7%
1998	3 Nov 1998	Bill Clinton	Democratic	Republican hold	Republican hold	14.4%	21.8%	21.9%
2002	5 Nov 2002	George W. Bush	Republican	Republican hold	Republican gain	-7.8%	1.2%	14.9%
2006	**7 Nov 2006**	George W. Bush	Republican	Democratic gain	Democratic gain	4.9%	9.0%	6.7%
2010	2 Nov 2010	Barack Obama	Democratic	Republican gain	Democratic hold	9.3%	14.0%	3.7%
2014	4 Nov 2014	Barack Obama	Democratic	Republican hold	Republican gain	1.5%	5.1%	4.5%
2018	6 Nov 2018	Donald Trump	Republican	Democratic gain	Republican hold	-0.9%	6.4%	11.7%
2022	8 Nov 2022	Joe Biden	Democratic	Republican gain	Democratic hold	7.6%	8.1%	14.5%

Across the period analysed, the S&P 500 was higher six months after all 15 midterm elections and remained higher after 12 months in all 15 cases. Fifteen observations clearly do not provide a forecast for what happens following the 2026 elections. What is more interesting is the consistency of the historical experience despite the enormous differences between the political and economic circumstances surrounding each election.

Sixty years of very different market environments

Over those 60 years investors have had to contend with the inflation and oil shocks of the 1970s, double-digit US interest rates, recessions, the 1987 market crash, the technology boom and subsequent dot-com collapse, the global financial crisis, the European sovereign debt crisis, the pandemic and, more recently, the sharp return of inflation and rising interest rates. Political control has also moved repeatedly between Republicans and Democrats, including changes in control of the presidency, House and Senate. Despite those very different starting points, the S&P 500 was higher six months after all 15 midterm elections in the analysis and remained higher after 12 months in all 15 cases.

That cannot be interpreted as evidence that midterm elections themselves cause markets to rise. Politics cannot sensibly be isolated from everything else happening at the same time. Interest rates, inflation, economic growth, corporate profitability, valuations and unexpected external events have all played a much greater role in determining the eventual market outcome.

What matters from here?

For that reason, the result of the election is best viewed as one new piece of information within a much broader investment picture**.** In Washington, the immediate questions will be how a divided political environment affects fiscal policy, government funding, the debt ceiling, taxation and regulation. In bond markets, the focus will remain on inflation, the level of Treasury issuance and investors' willingness to finance continued US government borrowing at prevailing yields.

Within equities, earnings remain crucial. Technology deserves particular attention because of its importance to the S&P 500 and the extraordinary scale of the AI investment cycle, but the question increasingly needs to move from how much is being spent to what return that expenditure is producing**.** Capital expenditure, earnings revisions, credit conditions and evidence of AI-driven productivity will therefore remain important indicators. Equally significant will be whether the benefits of AI begin to broaden beyond the businesses building the infrastructure and into the companies actually using the technology, because that could potentially represent a much more significant development for the wider economy.

Looking forward from here

There will undoubtedly be further noise as the remaining results are confirmed and markets assess what the balance of power in Washington means in practice. Some of the immediate conclusions drawn from the election will prove correct and others will almost certainly be overtaken by subsequent events This is where the historical work is useful. It does not provide us with a prediction for where the S&P 500 will be in three, six or 12 months. Instead, it puts the election

into context and reminds us that the market outcome following previous midterms has rarely been determined by politics alone.

From here, the more interesting questions concern the interaction between fiscal policy, bond yields, economic growth and corporate earnings, alongside whether the enormous investment in AI begins to deliver the productivity and financial returns currently expected of it. The political landscape has changed. The investment implications will become clearer over time, and it is the evidence in earnings, valuations, credit markets, inflation and economic growth that will ultimately tell us far more than the election result itself.