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U.S. midterms: Riding the wave.



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- Democrats outperformed already-favorable expectations in Congressional and state-level elections.
- The party's agenda for the next Congress has not been formally articulated, and party leadership will have to manage competing legislative and other objectives.
- Economic and financial market risks arising from the election run in both directions, and we'll be watching closely as a clearer legislative agenda begins to take shape. The more immediate risks for investors have to do with U.S. government funding.

While the Democratic Party was expected to regain the U.S. House of Representatives, it outperformed expectations in both the House and the Senate, as well as several state-level races, resulting in a "blue wave." The outcome sets up an interesting dynamic for the last two years of Donald Trump's current presidency, and investors will have to determine how to best navigate the resulting effects.

The initial legislative plans of the next Congress have not been articulated formally, but we can piece together a fairly obvious list of priorities, including reversing cuts to Affordable Care Act (ACA) subsidies and Medicaid, the Iran war, trade policy and inflation, as well as House-led investigations of administration officials and perhaps some private-sector connections. While there will be both upside and downside risks, there are still plenty of uncertainties, of both the known and unknown varieties.

A favorable outcome would consist of a prudent approach to regulation and constructive engagement on the federal budget, military conflict, and trade. Less favorable would be heavy-handed regulation, aggressive fiscal measures, and bitter division with the White House that result in continued upward pressure on interest rates and costs of living.

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A tsunami of discontent

Democrats' performance at the federal and state levels was notably better than anticipated. As with real estate, most elections are local or regional (especially in the case of midterms), so voter motivations were diverse. But plausible ones include dissatisfaction with certain policies of the Trump Administration, frustrations with stubbornly elevated energy, food, and healthcare costs, and overall political momentum shifting away from Republicans and toward Democrats.

Policy ambitions will run into Senate and veto realities

Exhibit 1 lists the likely priorities of the next Congress based on public remarks, primarily those of presumptive House Speaker Hakeem Jeffries.

Exhibit 1: Summary of the next Congress' policy aims

PRIORITY	IMPLICATIONS
Restore ACA tax credits	Plausible, at least partially, especially as a narrow restoration or implementation delays.
Reverse Medicaid cuts	Full repeal unlikely. Potential for narrow or partial reversal via fiscal negotiations.
Oppose Iran war	Largely symbolic. Funding measures are subject to a narrow Senate balance and presidential veto.
Reverse tariffs	Prior delegations of statutory authorities to the executive branch may limit the scope of possibilities but could enjoy bipartisan support.
Investigations	Highly likely, although probability of impeachment proceedings is unclear, and the probability of a Senate conviction is quite low for most potential targets.
Cost of living	Challenging given high nominal growth, external factors, and federal budget deficits.

Source: Associated Press, NBC News, Congressman Hakeem Jeffries, SEI. Based on remarks about a post-election House agenda by presumed 2027-2028 House Speaker Jeffries in press interviews and on websites associated with his office. As of 4 November 2026.

Reducing cost-of-living pressures has received significant attention. However, given the important role played by factors that are largely outside the control of legislators—wars in Eastern Europe and the Middle East, the massive artificial intelligence (AI) capital expenditure (capex) cycle, persistently large government deficits around the world, supply chain resilience objectives, growing military expenditures, rising old-age dependency in many countries, etc.—Democrats need to carefully manage expectations on this front. Inflation pressures have helped take down a number of incumbent governments around the world, whether left- or right-leaning, in recent years.

The House typically initiates investigations as part of the U.S. government's system of checks and balances, and it seems quite likely that there will be investigations of various individuals within, and connected to, the Trump Administration. Despite Democrats' larger-than-expected margin in the Senate, the balance of power seems likely to prevent conviction of any impeached individuals, including the president. It's also worth noting that a number of individuals within the administration may resign in coming months as the current Trump presidency winds down in 2027 and 2028. Desires to investigate and prosecute could vary quite a bit among individual Democratic representatives and senators. How much time and effort is ultimately dedicated to this remains to be seen.

It is likely that trade policy, an area where Congress has ceded significant authority to the executive branch over many decades, will receive attention. It's not yet clear where it will initially fall on the list of Congressional priorities. However, if President Trump were to enact additional tariffs on trade partners (in retaliation towards investigations, for example), trade could move up the list. It's also worth noting that reasserting the role of Congress in trade policy and rolling back some of the president's protectionist measures have a degree of bipartisan support, so some action on this front is plausible.

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Efforts to constrain the Iran-U.S. conflict are likely. As with trade, this is an area where Congress has gradually ceded powers to the executive branch over time, but it retains important authorities through the War Powers Resolution and control over appropriations. However, the practical effectiveness of those authorities could be limited by narrow margins in the Senate and the presidential veto.

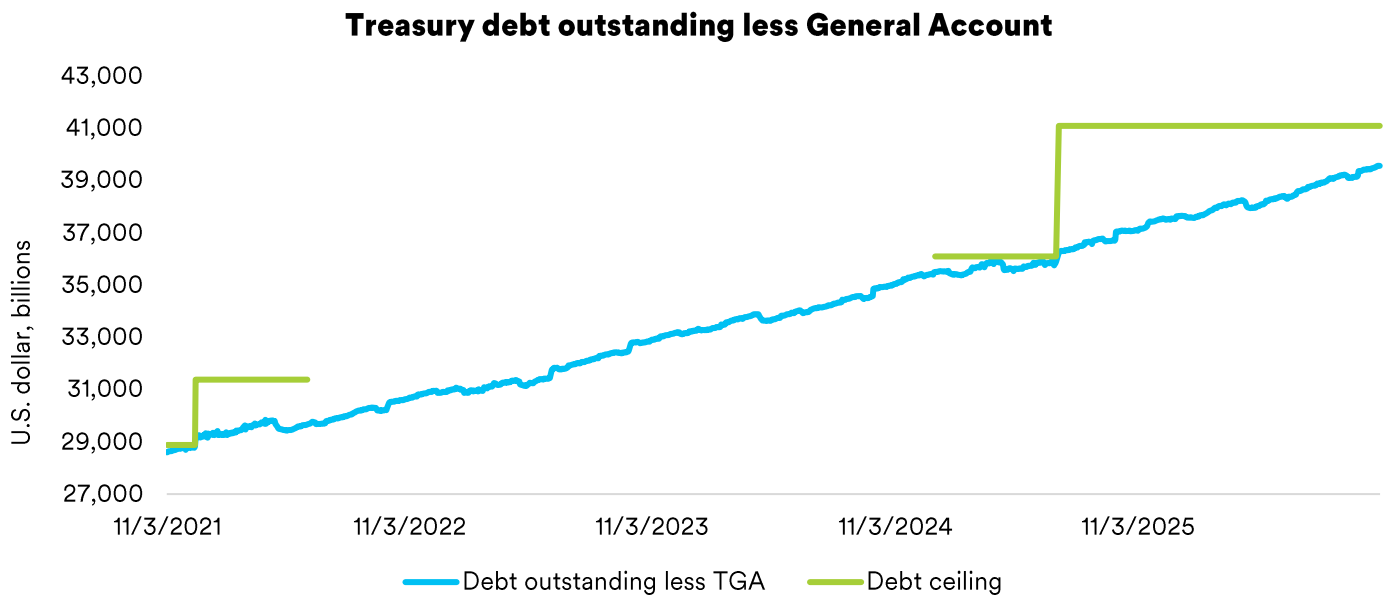
Reversing recent reductions to projected Medicaid spending, driven largely by work and eligibility requirements, more frequent eligibility reviews, and restrictions on state Medicaid financing, may be an early target of congressional legislation, but would remain subject to President Trump's veto.

Finally, it's important to pay attention to fault lines between Democrats in the incoming Congress. While the impressive gains in both chambers of Congress may reduce the influence of far-left members, these priorities will nonetheless be subject to internal negotiations that could be intense at times.

U.S. government budget realities are the next wave on the horizon

Exhibit 2 indicates that the U.S. Treasury is going to run into its current debt-ceiling limit sometime during the next Congress. According to the Bipartisan Policy Center, the ceiling is likely to be reached by mid-2027, with extraordinary measures likely to provide another two or three quarters of payments, including debt service. In other words, Congress and the Trump administration will need to hammer out some sort of fiscal agreement by late 2027 or early 2028.

Exhibit 2: Treasury debt ceiling on the horizon



Source: U.S. Treasury, Congressional Research Service, SEI. Proximity to debt ceiling is proxied by subtracting assets held in Treasury General Account from total Treasury debt outstanding. Green line depicts statutory debt-ceiling limit (which was suspended from 3 June 2023 through 1 January 2025). Daily data from 3 November 2021 through 2 November 2026 as of 4 November 2026.

In addition, the current continuing resolution funds the government only through mid-December of this year. Therefore, the current Congress also has a role to play in the U.S. budget outlook. And it's possible that a short-term stopgap measure will place a new budget resolution front and center for the next Congress.

The bottom line is that, while legislative and investigative agendas of the next Congress may have limited impact on the global economy and financial markets, there's a very real risk of fiscal negotiations causing market volatility in the months and quarters ahead. Indeed, after an initially positive market reaction on the day after the elections, remarks on wealth and similar taxes may be contributing to a sudden return of elevated market volatility. If there's a potential silver lining to this reality, it's that it may spur the incoming Congress and the Trump administration to engage in constructive negotiations on some fronts. Unfortunately, rancor between Democrats and the White House appears to be intensifying already, and we're still two months out from the new Congress being sworn in. At this point, it's fair to say there are still plenty of unknowns.

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The upshot for investors

Financial market behavior doesn't neatly follow economic or political cycles, and political dynamics can be very difficult to predict. A clearer picture of the legislative and investigative priorities of the next Congress should materialize in coming months, and we'll then have a better idea of how markets and economies might be impacted. In the meantime, fiscal risks are front and center and should be closely watched. At this point, we continue to believe that the global economy is in a higher-for-longer era, whether that be capex, military expenditures, government budget deficits, inflation or interest rates. We think that investors should continue to take advantage of diversification and, where appropriate, active allocation tilts and active management.

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For financial term and index definitions, please see: https://www.seic.com/ent/imu-communications-financial-glossary

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