

Wealth matters

U.S. midterms: Politics, policy and portfolio

The upcoming U.S. midterm election is one of many crosscurrents confronting investors. Markets are already navigating higher interest rates and bond yields, persistent inflation, elevated equity valuations, constraints around the AI buildout, shifting trade policy and heightened geopolitical tensions. Political risk adds another layer, with the U.S. heading to the polls on 3 November and a busy European election calendar ahead.

Political uncertainty can contribute to near-term market volatility, but for investors the more important question is how the policy environment evolves after the election – and whether it intensifies or eases existing market pressures. Our focus is on how developments across trade, fiscal and foreign policy may change the outlook for growth, inflation, interest rates and corporate earnings.

Democrats are favoured to win the House, with the Senate a closer call

Unlike a presidential election, the U.S. midterms take place halfway through a President's four-year term. While the presidency itself is not contested, voters elect all 435 members of the House of Representatives and 35 of the Senate's 100 members. Together, the two chambers make up Congress, currently controlled by Republicans. The result will determine control of Congress for the final two years of President Trump's term and his ability to advance legislation.

Historically, the president's party has tended to lose ground at the midterms. This year, Democrats are favoured to win the House, while the Senate remains finely balanced. Democrats need a net gain of four Senate seats for outright control; a 50-50 split would leave Republicans in control through the Vice President's tie-breaking vote.

As at 26 October, Decision Desk HQ estimated a 79% probability of Democrats winning the House and a 57% probability of winning the Senate.

Source: Decision Desk HQ. Forecast incorporates structural fundamentals, public polling and prediction-market pricing.

Why the midterms matter

A change in control of Congress would not remove the President's influence over several areas important for markets. Foreign policy, select regulation and much of tariff policy would remain substantially within presidential authority, while a Democratic-controlled Congress could bring greater scrutiny of technology, AI and data centres, financial services and fossil-fuel companies.

This means some of the policies with the greatest potential to affect trade, energy costs and inflation will remain largely within presidential control, regardless of the election outcome.

Fiscal policy and government borrowing

The election is unlikely to materially change the underlying fiscal challenge for the U.S. The Congressional Budget Office projects a US\$1.9 trillion budget deficit in fiscal 2026, with persistent deficits and rising government debt over the coming decade. The election outcome will, however, influence the scope for further policy. Democratic control would constrain President Trump's ability to pass new legislation but would not necessarily bring tighter fiscal policy, with funding and defence legislation still requiring compromise across the political divide.

Importantly, before any change in control takes effect, the existing Congress remains in place until January. This post-election "lame-duck" session leaves a window for decisions around government funding, defence spending and potentially the debt ceiling.

For investors, sustained government borrowing alongside persistent inflation may keep upward pressure on Treasury yields. Higher yields increase financing costs and can weigh on companies where valuations rely heavily on future earnings growth, including parts of the technology sector.

Middle East tensions and global supply chains

President Trump has said the U.S. will not launch further strikes on Iran before 3 November, but the conflict remains unresolved, leaving open the risk of renewed escalation after the election.

For markets, the implications extend well beyond oil. Further escalation could disrupt Gulf infrastructure and critical shipping routes through the Strait of Hormuz and the Red Sea. Higher freight, insurance and fuel costs could flow through global supply chains, raising the cost of goods, adding to inflation and weighing on company margins. U.S. diesel prices are already up more than 38% since the conflict began. A prolonged disruption would further complicate the outlook for interest rates and global growth.

Political pressures beyond the U.S.

The U.S. is not the only major economy approaching a significant political juncture. Spain will hold a snap election on 29 November, while France, Italy and Poland face national elections in 2027. These elections come amid cost-of-living pressures and concerns around housing, energy and public services. Political pressure for greater government spending could further challenge fiscal positions, adding to borrowing requirements and limiting policy flexibility.

What it means for portfolio positioning

While the midterms are an important focal point, the election is only one of many signals informing Mutual Trust's outlook and portfolio positioning.

We are watching closely for signs that policy and geopolitical developments add to inflationary pressures and keep interest rates higher for longer. In particular, our focus is on: how President Trump uses executive authority on trade and foreign policy after the election; the risk of renewed escalation in Iran and higher oil and shipping costs; the implications of persistent inflation and government borrowing for Treasury yields; and emerging constraints (refer: [Quarterly Outlook: AI opportunity meets real-world constraints](#)) or shifts in investor sentiment around the pace and economics of AI investment. A material deterioration across these underlying conditions could warrant greater caution in portfolio.

The coming weeks will provide further evidence, with U.S. earnings season underway alongside inflation and activity data and central bank decisions. Together, these will provide a clearer picture of the outlook for growth, inflation, interest rates and corporate earnings.

We remain predominantly invested in risk assets, with an emphasis on diversification, valuation discipline and portfolio resilience. Our portfolios combine exposure to long-term growth opportunities with defensive and alternative assets, providing differentiated sources of return and greater resilience during periods of market disruption – an approach explored in [Quarterly Outlook: Strategic Defence](#).

We continue to rebalance portfolios, trimming positions that have benefited materially from market strength and maintaining discipline around target allocations. This allows us to remain invested for the long-term, while retaining the flexibility to take advantage of opportunities as they emerge.

Please reach out to your Mutual Trust Advisor with any questions.



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