Market Watch

Blue Wave: Democrats sweep the US midterms

Summary

Event: The Democrats gained control of the House of Representatives and the Senate at the US midterm elections that took place this week.

Our View: With the US government now no longer under unified control of the Republicans, gridlock has returned to Washington. **We believe investors should not overreact to these results and should stay invested**.

In equities, investors should continue to diversify their equity exposure into more defensive sectors. As we transition to mid-cycle for the equity markets, we expect stocks to continue to deliver positive returns in the 8-10% range per annum, a downshift from the torrid pace of gains in the earlier part of the cycle.

In bonds, income remains attractive given recent spread widening. We favour non-hyperscaler investment grade corporate bonds at the three to seven-year part of the curve. We continue to expect the US dollar to remain range-bound in the near term, as we expect two more rate hikes from the Fed, but as this mini rate hike cycle ends in the second quarter of 2027, the USD index (DXY) is likely to depreciate towards 98.5 as markets start to anticipate a Fed rate cut in the second half of next year.

Oil is likely to rebound in the short-term on heightened geopolitical risk, but as supply chains adapt to the current situation and Congress exercises oversight on defense spending, WTI prices are likely to drift towards our 12-month target of USD 80 per barrel.

Democrats made solid gains across the Senate, House of Representatives and State Governors

Results reported as at 7:45PM Singapore Time

US midterm election results			
	Senate	House of Representatives	State Governors
Democrats	54 (Gained 7)	228 (Gained 25)	28 (Gained 5)
Republicans	44 (Lost 7)	139 (Lost 25)	20 (Lost 5)

Source: The Wall Street Journal, Standard Chartered

Major implications of Democrat control of Congress

1) **Fiscal expansionary policies may slow.** Democrats are now in position to block any new tax cuts or spending plans from the Trump administration. At the same time, any fiscal policies proposed by Democrats may also face Trump's veto. Hence the fiscal trajectory of the US will likely remain stuck over the next two years. As we get into the second half of 2027, the US debt ceiling will once again loom, and gridlock could potentially bring back government shutdowns. However, as they have always done in the past, compromise will ultimately prevail, in our opinion.

2) **Trump remains in control of foreign policy.** With the midterms now out of the way, could Trump decide to re-start combat operations with Iran? We believe there is a risk that US and Israel – now that both countries' have concluded important elections – will once again be tempted to restart combat operations to force an end to the conflict. However, the duration of any renewed hostilities may be limited by Congress next year as the Democrats will likely withhold funding for further military operations. In the near-term, oil prices may experience renewed volatility before stabilising at a lower level next year. The introduction of new tariffs on trading partners may prove harder with Democrat oversight.

3) **AI data centre moratoriums could grow, though model development regulatory changes would be harder to pass.** While the headlines have focused on the House and Senate results, one important development has also occurred at the gubernatorial level. Notably, Democrats have won the governor races in Texas and Georgia, two big data centre states. As data centre build out permits are largely decided at the local state level, this will have important ramifications for build out plans next year. However, any Democratic proposals to regulate AI model developments would need to be signed off by President Trump, who continues to wield veto power on any such proposals.

Asset class strategy

Equities: Remain invested and continue to diversify. While investors initially overreacted, President Trump's relatively conciliatory response has provided some welcome relief, helping markets recover strongly from their pre-market lows. **Hence, we recommend investors avoid overreacting, remain invested and continue to diversify their equity exposure across sectors and regions.**

A few themes stand out from the early pre-market reaction to the mid-term elections. On the positive side, defensive stocks continue to fare well, while themes favoured by Democrats are also outperforming. Clean energy is a notable beneficiary, with solar stocks among the biggest winners

Policy uncertainty and a change in the innovation cycle is consistent with our view of a mid-cycle transition, where equity returns moderate but remain positive

Comparison of recent equity bull markets

Cycle	Period	S&P annualised returns	Control of chambers	Innovation cycle
Early cycle	Jan 2009 to Jan 2015	19.1%	United / divided	Smartphone / cloud ramp
Mid-cycle	Jan 2015 to Jan 2017	8.3%	Opposition	Smartphone / cloud consolidation
Early cycle	Jan 2023 to Jan 2027	20.5%	United / divided	AI ramp
Mid-cycle	Jan 2027 to Jan 2029	??	Opposition	AI consolidation

Source: FactSet, Bloomberg, Standard Chartered

Our opportunistic ideas have a more defensive stance on average

Equity opportunistic ideas

Idea	Inception date
Global High Dividend	18-Jun-26
*US Healthcare	12-Oct-26
*MSCI Switzerland	29-Oct-26
Euro Area Banks	27-Aug-26
Japan Banks	18-Jun-26

Source: Standard Chartered. *New idea

Diversify across sectors during mid-cycle

The four growth pillars of the S&P 500

	Technology	Financials & Real Estate	Resources	Healthcare & others
Preferred US sectors	**Information Technology**	**Financials**	**Materials**	**Healthcare**
Other exposures	Comm. Services Consumer Discretionary	Real Estate	Industrials Energy Utilities	Consumer Staples Others
Share of S&P 500 2027 EPS	47.6%	17.9%	20.2%	14.3%

Source: FactSet, Bloomberg, Standard Chartered

today. Affordability-related themes are also rallying, including companies that could benefit from potential tariff rollbacks. Medicaid-related stocks are also moving higher on expectations that potential policy changes could provide a tailwind for the healthcare sector.

On the negative side, semiconductor weakness continues amid concerns around potential data centre moratoriums. Our AI capex estimates remain conservative relative to consensus, but with a potential reset in expectations around data centre spending, investors should remain selective. After downgrading semiconductors last month, we have maintained a conservative stance on the industry, with a lower recommended allocation compared to September.

While we believe the mid-term election outcome is not a complete surprise to markets, particularly given pre-election polling and the recent weakness in both the S&P 500 and Nasdaq, the overnight correction highlights how complacent investors had become, with the VIX initially surging more than 10% in pre-market trading, although down from intra-day highs after President Trump's comments.

As we have highlighted in our recent notes on the transition to mid-cycle, this phase is typically characterised by greater political headwinds. The mid-term election outcome reinforces the trend. The experience of 2015-2017, highlighted in the second table, offers a useful historical parallel. Despite the knee-jerk reaction, investors should not overreact based on one day's moves. While we had trimmed equities to a core allocation last week, we continue to expect equities to deliver mid-to-high single-digit returns per annum during the mid-cycle, even amid political headwinds, supported by steady underlying earnings growth in both 2027 and 2028.

So, what should investors do to navigate the next few months before the newly elected representatives are sworn in and take control of the House and Senate? As we have been highlighting in recent notes, equity markets should still deliver positive returns, albeit at a more moderate pace. Hence, we recommend staying invested but diversification remains key to navigating the next phase of the cycle.

FX: DXY near-term support at 100.7, 12-month target at 98.5. A Democratic sweep potentially removes the legislative runway for further tariff escalation and for fiscal expansion, the two structural pillars of US exceptionalism that have anchored dollar demand in 2026. Reduced fiscal impulse compresses the growth and yield differential that has kept the US dollar well-bid all year. Additionally, potential Democratic restrictions on AI and data centre investment could weigh on US equity outperformance, which is likely to act as a secondary dollar-negative channel.

However, despite historical readings supporting a near-term DXY headwind from a Democratic sweep, the magnitude will

USD Index (DXY) weakened modestly

Currency	3 Nov 26 Price	4 Nov 26 Price	Post-Result % Change
DXY	101.9	101.4	-0.47%
EUR/USD	1.1	1.1	0.54%
GBP/USD	1.3	1.3	0.52%
AUD/USD	0.7	0.7	0.43%
USD/JPY	158.7	158.3	-0.26%

Source: Bloomberg, Standard Chartered

We expect further dollar depreciation in 2027 as Fed policy pivots from two further hikes to one cut in H1 2027

DXY vs Weighted interest rate differentials



Source: Bloomberg, Standard Chartered

US government bond yields are generally lower after mid-term election results

US government bond yields

Yield (%)	2y	5y	7y	10y	30y
3 Nov 2026 - close	4.632	4.763	4.850	4.965	5.329
4 Nov 2026 - 6pm SGT	4.615	4.724	4.806	4.918	5.288
Change (bps)	-1.7	-3.9	-4.4	-4.7	-4.1

Source: Bloomberg, Standard Chartered

likely be modest and short-lived unless compounded by a weaker than expected non-farm payrolls report on Friday. We see the Fed narrative, not the election, as the dominant medium-term driver. Near-term we see USD index (DXY) support at 100.7, and retain our 12-month target at 98.5.

Fixed Income: Still attractive all-in yields; prefer investment grade corporates at three-to-seven year tenors to earn income and manage interest rate risk. The US Treasury bond market reaction appears to reflect a moderation in expectations of future economic growth after the election results. Yields at the intermediate end of the curve dropped the most, while the 30-year US yield moderated more modestly. We continue to expect two more Fed rate hikes between now and H1 2027 as still sticky inflation and the robust economy support further tightening.

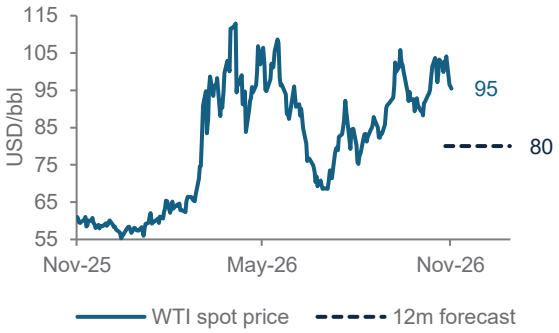
In the past few weeks, the US Treasury yield curve has broadly shifted downwards, after our opportunistic call to go long 10-year Treasuries at the end of September. We are of the view the ultra-long end downshift in yields is overdone (given the still challenging US fiscal trajectory) and would recommend investors who had earlier taken long duration exposures at the 20 to 30-year parts of the curve reduce their positions now. We continue to believe the 3 to 7-year part of the curve offers the most optimal balance of income and interest rate risk, particularly via investment corporate bonds.

Within corporate credit, we expect a potentially slower pace of AI data centre buildouts could marginally improve market technicals, as hyperscaler and tech sector bond issuance may slow (and reduce "crowding out" of other bond issuances). Conversely, from a credit perspective, we believe this dynamic may also make the data centre focused deals less viable, and would be cautious on some of this sector's lower quality names. Meanwhile, less AI capex dependent issuers continue to offer solid credit profiles amidst the still strong economy. High yield corporate spreads have widened in recent weeks but dispersion within the complex is wide, with BBs and Bs credit spreads staying relatively resilient, while CCCs have widened to distressed levels. For income-focused investors, we would recommend staying within the crossover range of between BBB-BB.

Commodities: As noted in the opening section, we believe there is a higher near-term risk of a restart of combat operations in Iran given the conclusion of the midterm elections. Given that, **we believe there is a risk that oil prices could see a short-term spike, despite recent diplomatic overtures from Iran. However, for 2027 we continue to expect oil to stabilise at lower levels**, as we think the Mideast situation should de-escalate given Democratic oversight of the defense budget, and the likely re-configuration of oil supply chains. On the margin, we are also closely monitoring regulatory developments in the US shale

We expect oil prices to drift towards USD 80 a barrel as oil supply chains adapt, and Congress restrains the US defense budget

WTI crude spot price vs our 12m forecast



Source: Bloomberg, Standard Chartered

oil industry as the Democrats may seek to introduce new regulations on the sector.

On gold, we view the recent change in control in the Congress as only having a marginal impact and thus stay Overweight. USD strength is a headwind (which is more dependent on Fed policy), but gold's sensitivity to real yields has eased amid continued central bank buying, led by China, and resilient investor demand.

— Jonathan Liang, CFA, *CIO, Fixed Income & FX*

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