ELECTIONS

After the 2026 midterms: How will the ‘blue wave’ affect markets?

Matt Miller, Diana Wagner, Tom Hollenberg and Cheryl Frank

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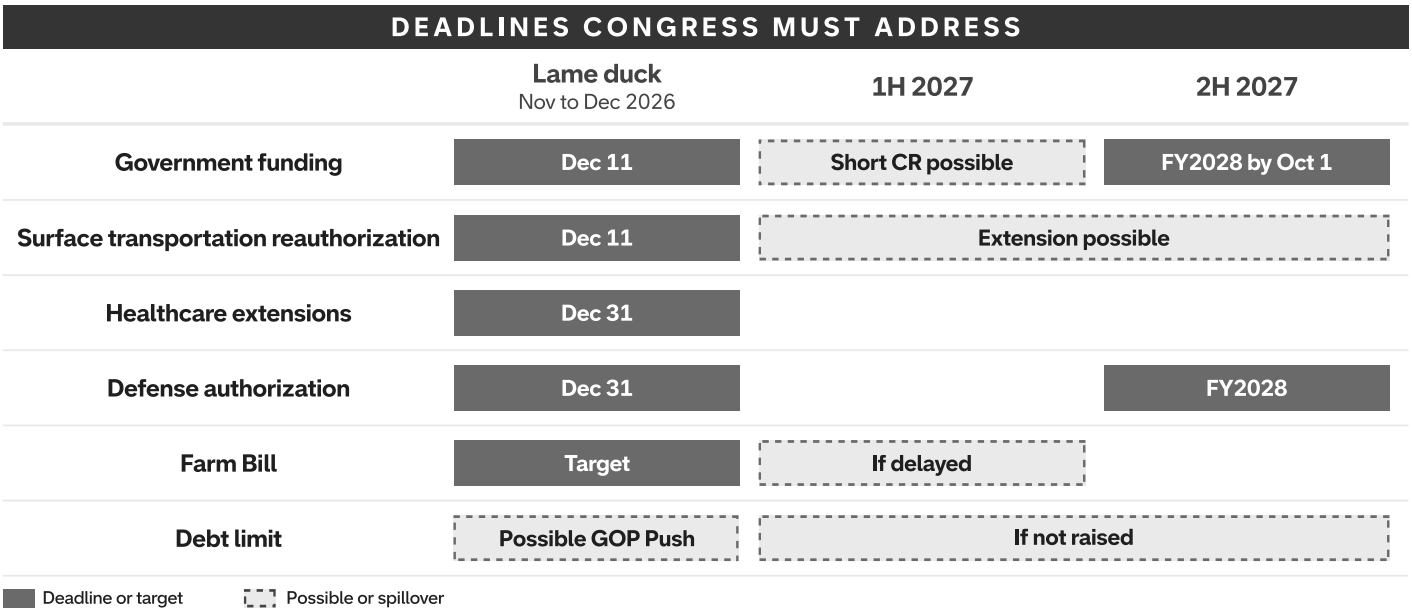
KEY TAKEAWAYS

- Political volatility is likely to persist.
- Healthcare could face renewed policy pressure.
- Large U.S. deficits aren’t going away.

With Democrats about to seize control of Congress following a sweeping midterm election victory, profound change is coming to the balance of power in Washington, D.C. In a stunning rebuke, voters unseated Republicans in traditionally conservative strongholds across the country, giving Democrats a powerful check on President Donald Trump’s agenda during his final two years in office.

Ahead of this seismic shift in U.S. political leadership, Capital Group professionals share their views on what the outcome could mean for markets and investors.

Key policy deadlines ahead of 2028



Sources: Capital Group, Congress.gov, Holland & Knight, Legis1, WilmerHale. "CR" refers to a continuing resolution. Timing and priorities reflect public reporting as of October 2026 and are not forecasts.

Trump lost his coalition, but don't assume a 2028 Democratic trifecta

Matt Miller, political economist

The midterm result was an epic repudiation of President Trump's policies on tariffs and the Iran War, which voters blamed for higher gas prices and other costs. Voters also took aim at what they viewed as self-dealing and self-enrichment, along with distractions like the White House ballroom and Trump's triumphal arch. The main takeaway for me is the ongoing volatility we are seeing from election to election. People are persistently unhappy with the status quo, which has resulted in changes in power in 10 of the last 11 elections. That's why it would be a mistake to assume a Democratic trifecta in 2028. This election showed how quickly a party can squander the coalition that put it in power.

So what should investors expect now? We will likely see plenty of investigations of the Trump administration, including alleged pay-to-play deals. However, Democrats can't run in 2028 on investigations alone. They will almost certainly

work on a big healthcare bill, potential caps to credit card fees and increasing the federal minimum wage. The war in Iran may emerge as a point of negotiation, with Democrats agreeing to fund some of the administration's defense priorities in exchange for concessions.

The party may also move to strip Trump of his claimed tariff authority. Tariffs on foods and materials used in housing construction, both of which have driven prices higher, may also be repealed. Republicans looking to repair their standing with voters may join to achieve a veto-proof majority on some of these issues.

AI and data centers will also be on the agenda. The cost of building AI data centers could increase, but my expectation is that the rhetoric will be charged, but common ground will be found. I'd expect Democrats to scale back federal tax incentives for new projects and ameliorate power and water consumption costs. I think the coalition behind data centers will work aggressively to repair the relationships they've damaged at the state level with more community outreach and local buy-ins.

In the immediate future, things will be hectic as Trump is now a lame-duck president. He will want to address the debt ceiling and boost defense spending while Republicans still control Congress. This won't be easy to accomplish with Republicans feeling less cooperative and blaming Trump for their losses.

Looking ahead to 2028, the messy debate about to unfold ahead of the next presidential election reflects the fact that neither major political party has found a way to address Americans' anxieties about their economic prospects in ways that permit a durable governing coalition to emerge. Until that happens, we should expect the political pendulum to keep swinging.

Healthcare in the crosshairs

Diana Wagner, portfolio manager, Washington Mutual Investors Fund

Healthcare is coming into focus as Democrats take control of Congress. With several centrists in power on the Democratic side, forthcoming bills may be more

moderate and aimed at expanding the Affordable Care Act, lowering prescription drug costs and rolling back changes to Medicaid enacted under the One Big Beautiful Bill Act of 2025.

However, "Medicare for All" may also return as a talking point, particularly for progressive Democrats. It's important to understand that we've been talking about Medicare for All for nearly my entire 26-year career at Capital Group, and so far, it has been more of a slogan than a policy. Still, a renewed debate around this issue could put downward pressure on healthcare stocks, including insurers, pharmaceutical companies and hospitals.

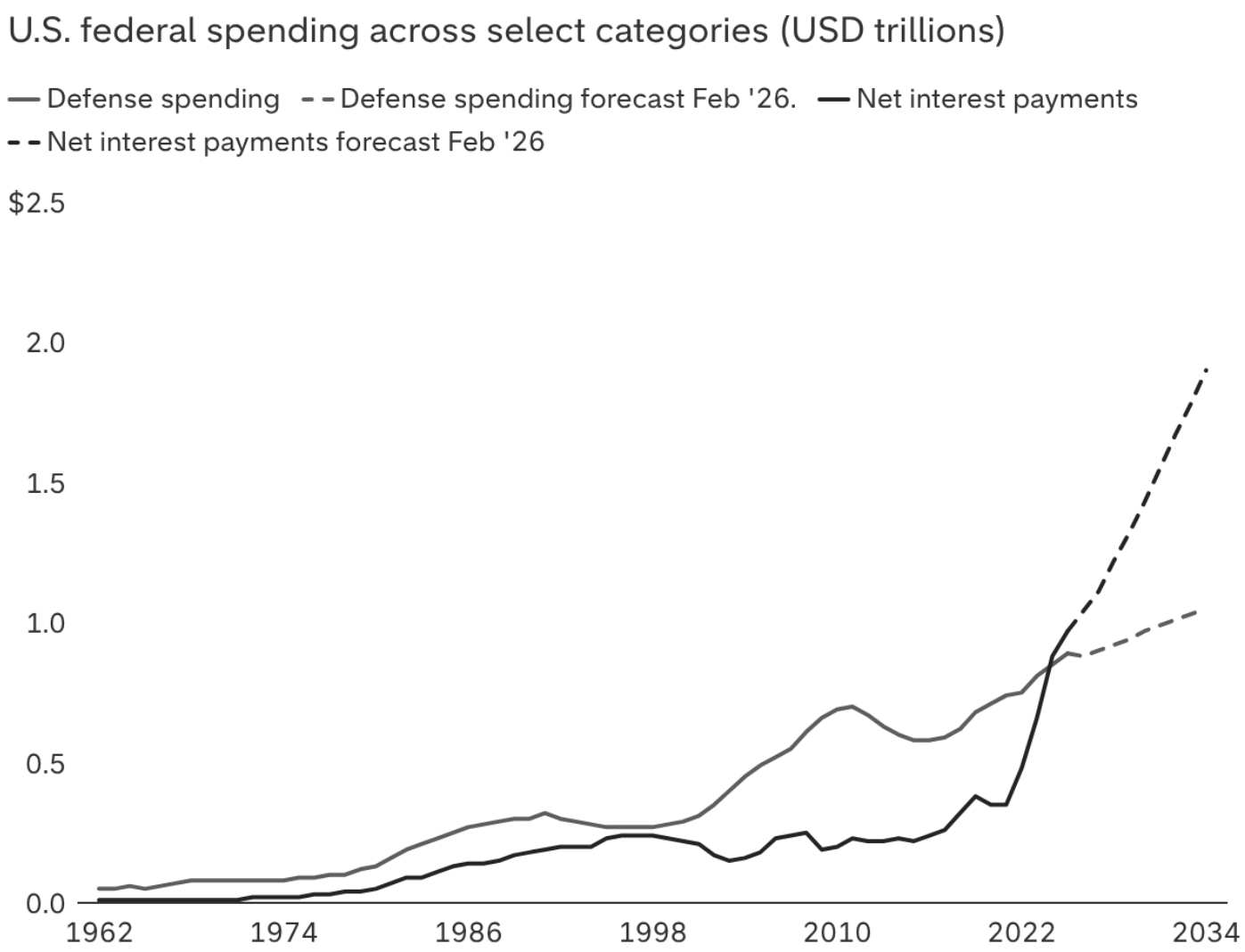
Meanwhile, fundamentals for Medicare Advantage health insurers such as UnitedHealthcare have been improving and are expected to remain stable, given that the pricing environment over the next couple of years is unlikely to change. That's because the Centers for Medicare & Medicaid Services, which sets Medicare Advantage payment rates, falls under the control of the White House. Over the long run, the healthcare sector has multiple tailwinds as the aging population fuels demand for healthcare innovation. Between its accelerating GLP-1 franchise and ongoing Alzheimer's drug trial, Eli Lilly is among the industry's most innovative companies addressing these structural trends.

Election outcome won't curb U.S. government spending

Tom Hollenberg, portfolio manager, Short-Term Bond Fund of America®

Most election outcomes have less impact on the fiscal outlook than you might expect. Even after Democrats' sweeping election gains, the president's veto power makes any major new tax or spending legislation harder to pass. The outcome of the midterms also won't address the deficits that we're already running. That is, the government will likely continue to spend more money than it collects in revenue. And the outgoing Congress could still approve additional spending during the lame-duck session before the new Congress takes office in January.

Deficit spending is a bipartisan problem



Sources: Capital Group, Congressional Budget Office (CBO). Dashed lines indicate forecasted values from the CBO as of February 2026.

The U.S. government ran a roughly $2 trillion deficit in fiscal year 2026, and my base case is that it will continue to run deficits around the same size for the next several years. I generally think owning longer-dated U.S. Treasuries makes sense for portfolios, with 10-year yields around 5% that offer some compensation for the fiscal risks that remain. Democratic control of Congress also makes additional tax cuts and proposals such as Trump's $5,000 checks to households much less likely in 2027 and 2028.

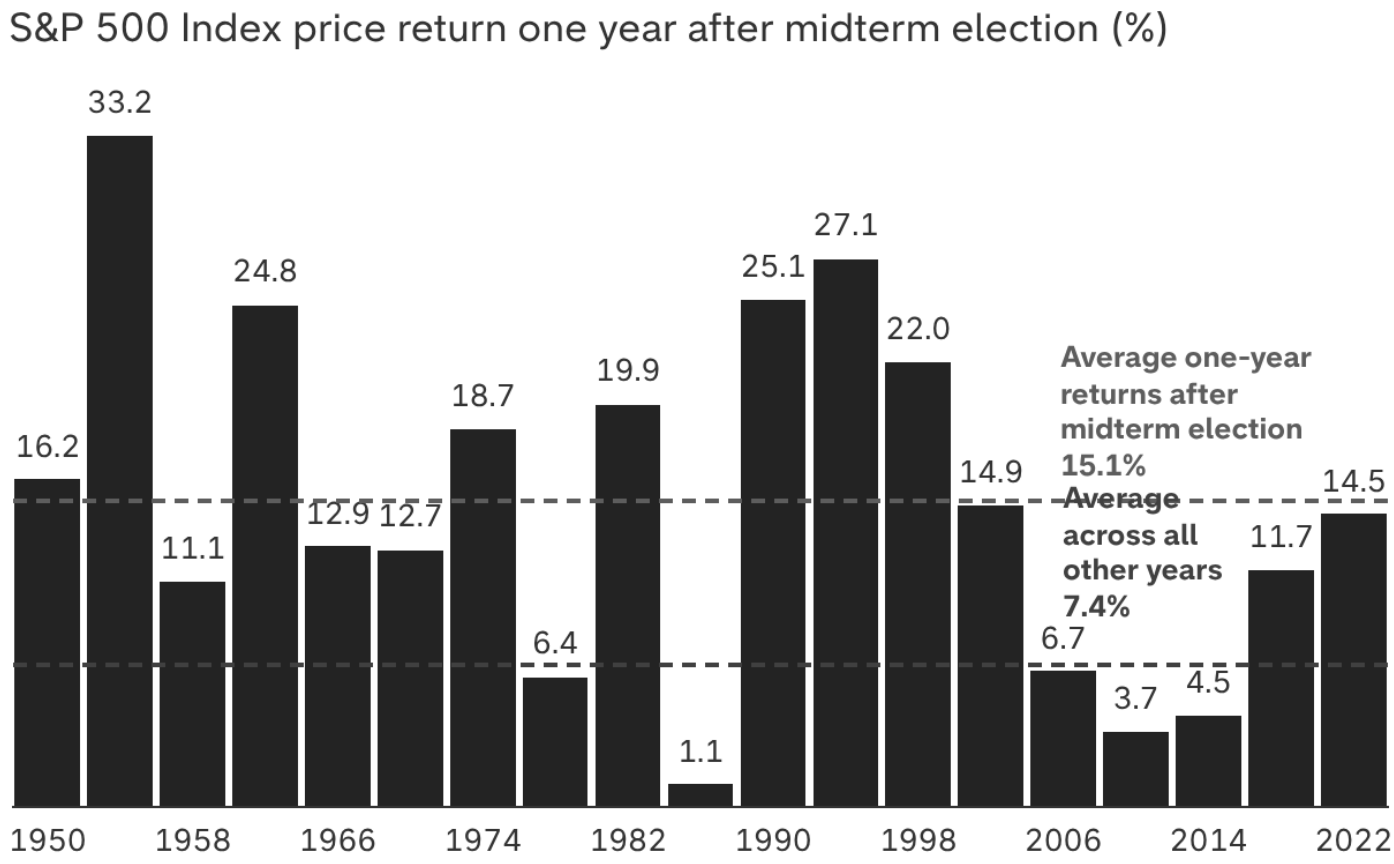
The election result may constrain Trump's domestic agenda, but it doesn't eliminate the possibility of further military escalation with Iran. A prolonged war represents an upside risk to inflation and yields.

The U.S. economy can stay resilient

Cheryl Frank, portfolio manager, CGUS — Capital Group Core Equity ETF and American Mutual Fund®

The U.S. economy should be able to navigate heightened political and policy uncertainty over the next two years. Labor markets remain resilient, corporate profits remain solid and business investments have picked up. Consumers also remain a source of strength and continue to spend on cruises, travel and other experiences.

Stocks historically have had positive returns in the year following midterms



Sources: Capital Group, RIMES, S&P Global. Calculations use Election Day as the starting date in all election years, and November 5 as a proxy for the starting date in other years. Only midterm election years are shown in the chart. Price returns exclude the reinvestment of dividends and capital distributions.

Enterprise adoption of AI feels like an unstoppable freight train that could last as long as 20 years, although there may be bumps along the way. I think the 2028 election could be about data center NIMBYism among both Democrats and Republicans, which could slow the buildout. That's one reason why there's such a big push to get as much built as possible ahead of the presidential election.

I am constructive about the future of AI and the resilience of the U.S. economy. There will be periods of uncertainty and volatility, but the underlying economy and investment trends remain healthy. In my experience, election results are rarely the driver of long-term investment outcomes.

Read important disclosures

Matt Miller *is a political economist with 35 years of experience (as of 12/31/2025). He holds a law degree from Columbia and a bachelor's from Brown.*

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