On the Minds of Investors

What does a Democratic Congress mean for markets?

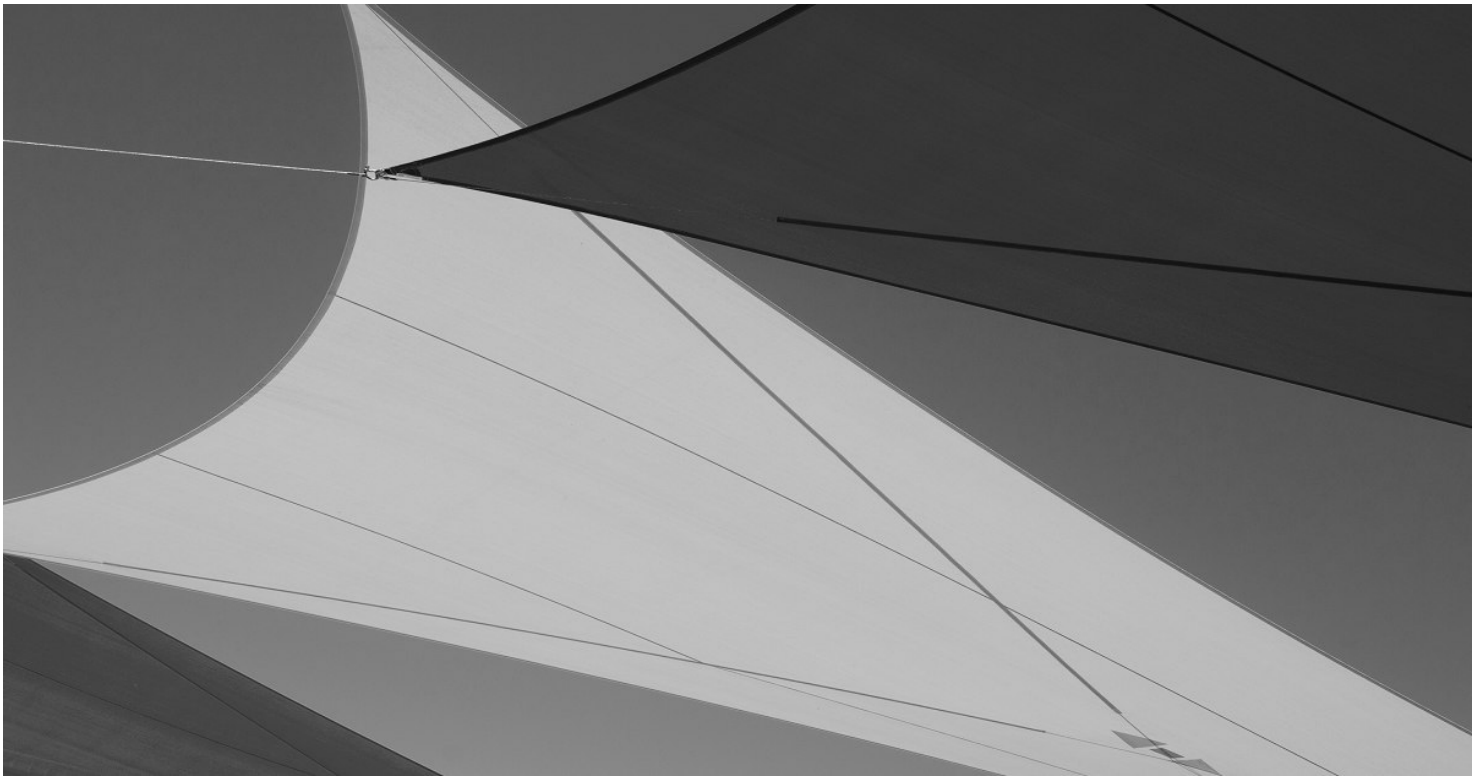


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Midterm election results: A decisive shift toward divided government

Democrats won decisively on Tuesday. At time of writing, they appear to have gained about 44 House seats, for a majority of 259-176, and a Senate majority of about 55-45, with Mississippi's Senate race still too close to call. They won the popular vote by around 13 points and now hold 30 governorships, up from 24.

The election will put significant restraints on the President for the rest of his term in office. Democrats control the floor in both chambers and can block his legislative agenda. The Senate also brings oversight and control of confirmations, and more Republicans may break with him where the party has traditionally differed.

Fiscal: New stimulus is unlikely, with shutdown and debt-limit risks

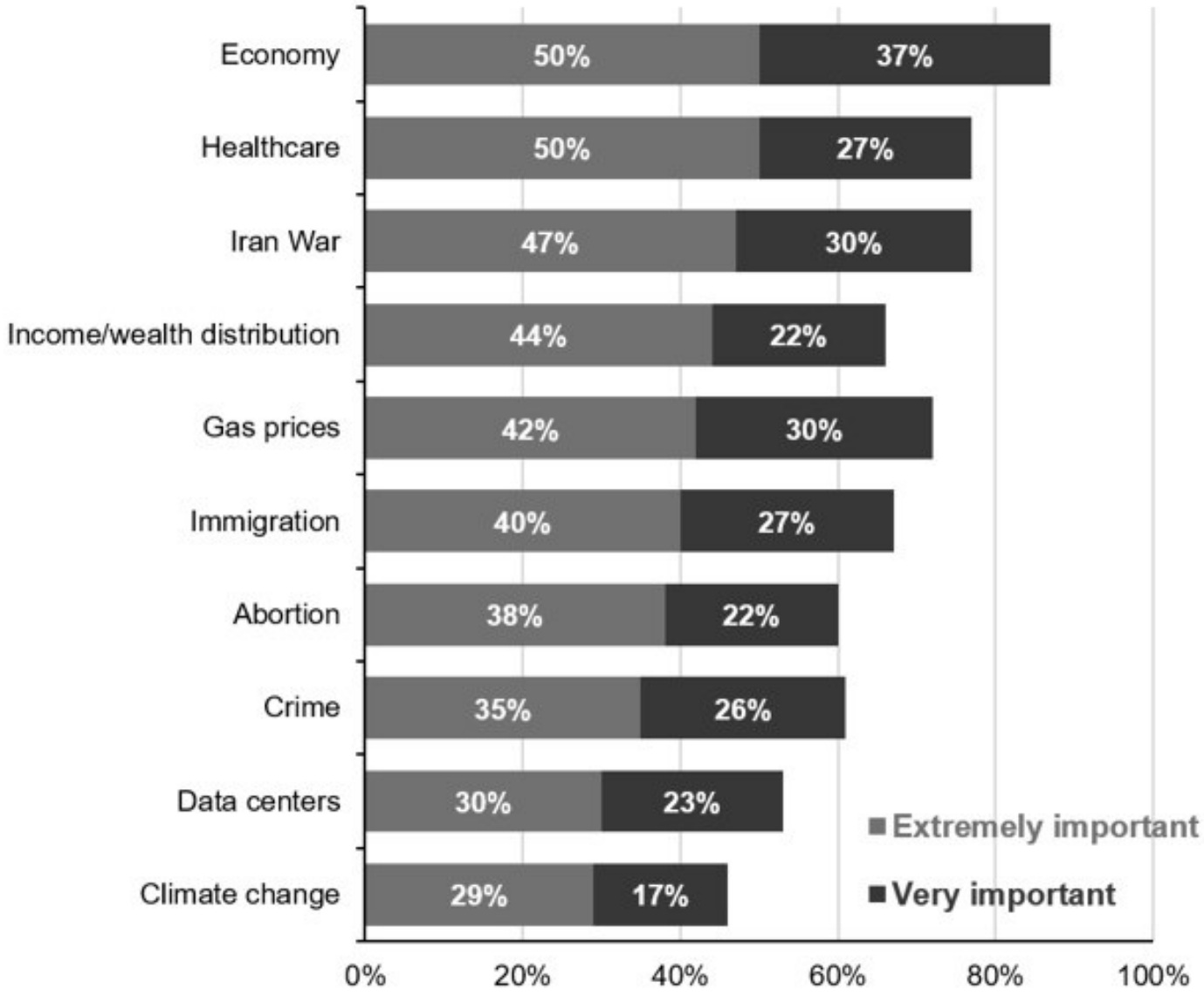
Gridlock likely rules out new fiscal stimulus for two years. Democrats may push for household relief funded by higher taxes on the wealthy and corporations, but those measures would likely encounter a presidential veto. Government funding poses a more immediate challenge: temporary funding expires December 11, and the outgoing Senate still needs Democratic votes. A short extension into early 2027 looks most likely. Thereafter, continued funding of the Iran war seems unlikely with a Democrat-controlled House, creating shutdown risks in late 2027 or early 2028.

The debt limit has always involved extensive brinkmanship and will be key to watch. The Bipartisan Policy Center expects the ceiling to bind by midsummer 2027, with cash reserves and extraordinary measures pushing the real deadline to late 2027/early 2028. Most new Democratic senators are swing-state moderates, and with nobody wanting to own a default, a clean suspension remains likely, though not without fanfare.

We expect compromise to keep the government running, with no major tax changes. The $2.0 trillion FY26 deficit won't shrink much but shouldn't grow either. Democrats have little appetite for juicing the economy before the 2028 elections.

The economy/affordability was a key concern for voters

Importance of issues to U.S. voters in 2026 midterms, % of registered voters



Source: Gallup News, J.P. Morgan Asset Management. Survey of registered voters conducted Oct. 1-19, 2026.

Affordability: Bipartisan support with limited progress

Affordability dominated the election, helping drive strong Democratic turnout. Democrats will prioritize restoring ACA subsidies and reversing Medicaid cuts, but most legislation needs 60 Senate votes to overcome a filibuster, and Trump could veto measures he opposes. We expect progress to be limited to narrower compromises, such as ACA credits in funding negotiations.

Data centers have become an easy political target amid rising electricity bills. Bipartisan energy permitting reform could help by accelerating new power generation and transmission, while politicians will aim to ensure developers pay for the incremental grid infrastructure required to serve them.

AI and data centers: Higher costs and uncertain delays

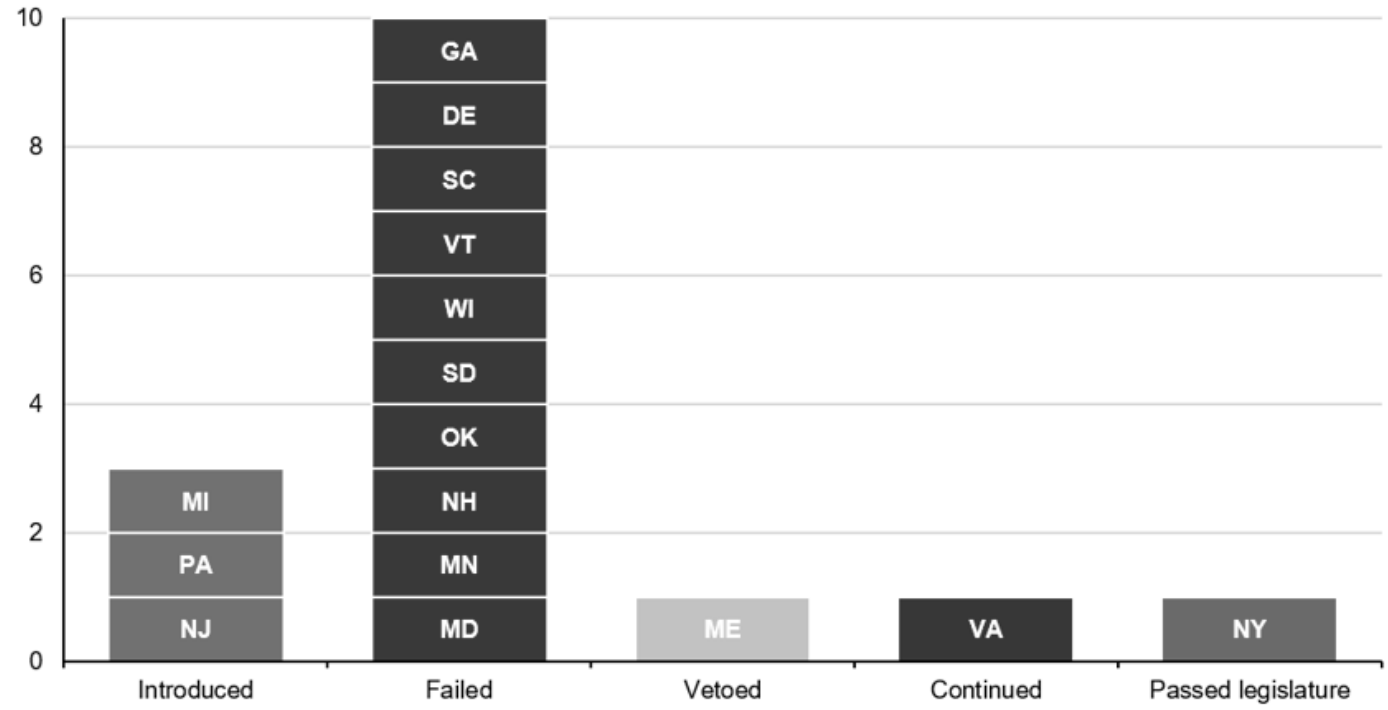
The elections reinforced growing opposition to data centers, particularly in Texas and Ohio, where incoming Democratic governors favor tougher development conditions. However, despite the backlash, statewide moratoriums have struggled to become law. Of 16 states considering such legislation before the midterms, only New York had passed a bill through its legislature. Politicians may now feel emboldened to adopt a harder stance but face competing pressures to protect ratepayers while attracting jobs, investment and tax revenues. AI remains an evolving public issue and is not yet a clear voter priority—Gallup found just 30% of voters considered data center construction extremely important to their vote.

Still, local moratoriums and tougher permitting could delay projects, raise costs and influence where data centers get built. Higher costs may also accelerate bring-your-own-power solutions and favor well-capitalized hyperscalers over more speculative developers. Hyperscalers are already responding to local concerns: Amazon and Google have each committed $1 billion in community investments over the coming years.

The 2028-2031 pipeline is most exposed to regulatory and financing uncertainty. Whether AI adoption remains constrained by energy scarcity, or enabled by energy abundance, may come down to how these negotiations shape up and whether Congress passes permitting reform. We expect that the AI boom will remain on track, but may become costlier, slower and more consolidated in the coming years.

Despite local opposition, statewide moratoriums have proven difficult to enact

Statewide data center construction moratorium results, as of Sept. 15, 2026



Source: National Conference of State Legislatures (NCSL), J.P. Morgan Asset Management. Includes statewide 2026 bills that would pause or ban new data center development. "Failed" includes bills that died in committee when the session ended. New York's moratorium is in effect by executive order; related legislation had passed the legislature but was unsigned as of October 31, 2026. Executive actions and tax incentive pauses in other states are excluded. Data are as of September 15, 2026.

Tariffs and trade: Lower, but slowly

The effective tariff rate has fallen to about 10.6%, from roughly 30% after Liberation Day, and should continue to drift lower. Tariffs have become unpopular in both parties, giving Democrats an incentive to push for trade deals and lower rates. However, the President still wields considerable power on tariff policy and even a Blue Congress will be limited in its ability to lower tariffs on its own.

Will Congress go after the President's tariff powers? After the Supreme Court struck down tariffs imposed under emergency powers in February, the administration has leaned on Section 301. Congress could seek to reclaim some tariff authority with a bipartisan bill—a long shot, but possible. Overriding a veto would require about a dozen Republican senators and roughly 6% more of the House, but lawmakers may be eager to show independence before 2028. More likely, congressional pressure encourages incremental trade concessions and negotiations.

Foreign policy: Gradually warming ties

On Iran, further strikes are possible, but we expect the administration to seek a way out within weeks or months. Democrats can use Congressional control over spending and oversight to challenge the war, which is unpopular even with grassroots Republicans, while high fuel prices and public opposition are adding to pressure. Our base case is a compromise that helps bring oil prices lower in the coming months.

A Democratic Congress could also increase support for Ukraine, where many Republicans back NATO and Ukraine funding. An aid bill is one of the few that could survive a veto. Hostility toward Canada and Mexico also proved unpopular in border states, which could warm ties with allies and ease trade tensions.

China policy should change the least, given bipartisan agreement on strategic competition. Immigration policy is also unlikely to shift materially—enforcement funding of about $85 billion is secured through 2029, and new legislation would face a high hurdle of 60 Senate votes, keeping labor markets tight.

Political appointees: The Senate as gatekeeper

The Democratic win gives the party significant leverage over judicial and executive appointments. Speculation that Justices Thomas (78) and Alito (76) might retire to allow the Republican Senate to appoint successors now looks less likely. Alito has said he will serve through this term. If no vacancy opens soon, Democratic control of judicial confirmations should, over time, make courts more willing to check executive overreach.

At the Fed, three of seven governors are Trump appointees. In June, the Supreme Court let Governor Lisa Cook stay while her case proceeds. The next two confirmations, Philip Jefferson's vice-chair term in September 2027 and Powell's board seat in January 2028, will now run through a Democratic Senate. That should limit further changes to the Board's composition through 2028, reducing risk to Fed independence.

Investment implications

History favors stocks. As we noted in a **recent blog**, the S&P 500 has been higher 12 months after every midterm since 1950, averaging about a 15% gain. Markets are following that pattern so far, with S&P 500 futures rallying Wednesday morning after an initial overnight selloff. Investors may welcome the restraint imposed by divided government, although executive action on trade and foreign policy remains a source of uncertainty.

For bonds, gridlock limits additional fiscal stimulus, while moderating growth and easing inflation (we expect inflation to peak by year-end and approach 2% by May 2027) should contain upward pressure on yields despite persistent deficits. The 10-year Treasury yield has fallen to about 4.9% and Brent crude has slipped toward $102.

For equities, a costlier, more selective AI buildout argues for broadening **beyond AI leaders**, but massive demand and improving monetization should sustain the investment boom and create opportunities across sectors. Warmer ties with allies may also support international stocks, with Europe potentially benefiting. The main near-term risk remains renewed escalation in Iran before the new Congress is seated, alongside contentious budget negotiations.

The political landscape has shifted meaningfully, but economic and market fundamentals should continue to matter more for markets than the balance of power in Washington.

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