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US Midterms 2026

A stoppable force meets a movable object – Part 2: Macro scenarios and impact on financial markets

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- We examine the four possible outcomes for Congress but assess a low likelihood of any impact on USD, with the dollar having little consistent history of reacting to US midterm outcomes. Resilient US growth, supported by strong AI investment and wealth effects from AI-driven equity gains, is likely to keep the USD firm, though not necessarily significantly stronger, through 1H27.

- The overall impact of mid-term elections on USTs and USD rates is expected to be small, while the usual key drivers for the bond and rates market remain dominant. A Democratic sweep may point to a small downside to UST yields, while a Republican sweep is probably the "worst" scenario for the bond market.

- US midterms could add to near-term credit volatility, but history shows no consistent election-driven pattern in spreads. The more lasting impact will come from the post-election policy mix, with tariffs and trade, fiscal spending, bank regulation, energy policy, and investment in AI and data-centre infrastructure among the key areas we are watching.

The 2026 midterm elections have the potential to alter the trajectory of tax cuts, fiscal spending and trade policy. For markets, the key question is not just which party controls Congress, but how much legislative change can realistically be delivered.

This two-part series begins with Part 1 with a review of the political backdrop, key races and possible outcomes. In Part 2, we evaluate four congressional scenarios and assess their likely economic consequences and their implications for FX, rates and credit markets.

Possible permutations for Congress

November's election will decide which party President Trump works with on the budget and broader policy agenda. Major decisions are already approaching, including funding for the Iran conflict, the next fiscal package, and Medicaid reforms. These debates come at a time of rising fuel prices and renewed Fed tightening. The four scenarios below show how different congressional outcomes could affect policy and the economy.

Congress	Political implications	Economic implications
Democratic House + Democratic Senate (60% implied probability)	Democrats could push ahead on Iran and healthcare in both chambers, but Trump could still veto any bill they pass.	Democrats would have the most power to check President Trump's agendas in this scenario – further tax cuts and federal spending will be curtailed, and the next 2 years will be focused on oversight rather than new policies
Democratic House + Republican Senate (29% implied probability)	Democrats would have a say over any budget decisions left unresolved and could negotiate the terms of more Iran funding. Republicans would still control Senate appointments.	Democrats could protect some domestic spending from cuts, but that could mean more borrowing. The war costs alone are unlikely to change the fiscal picture much.
Republican House + Democratic Senate (10% implied probability)	Republicans could pass Trump's proposals in the House, but would need Senate Democrats to agree. Democrats would also have a say over appointments and could challenge his tariff powers.	Uncertainty over tariffs could weigh on business costs and investment. Any new tax or spending deal would need support from both parties.
Republican House + Republican Senate (1% implied probability)	Trump would have the easiest path to pursue his agenda, though he would still need Republicans to agree among themselves.	More spending could go to defence and less to domestic programmes. Extra borrowing could add to pressure on Treasury yields.

Source: Polymarket, OCBC Group Research.

Note: for the detailed political and economic implications, please refer to *A stoppable force meets a movable object – Part 1*, 14 Oct 2026.

Market implications of the four scenarios

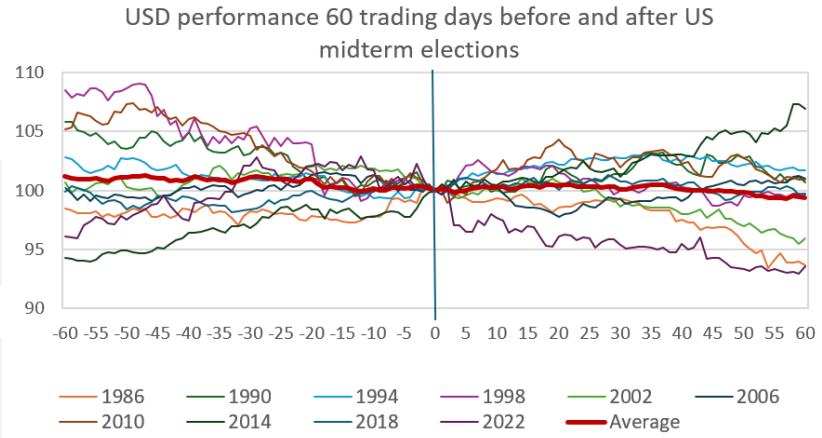
Congress scenario	FX	Rates	Credit
Democratic House + Democratic Senate (60% implied probability)	Neutral, but USD could gain against some currencies if the White House relies more on tariffs and sanctions	A potentially less expansionary fiscal path may lead to a small downside to UST yields	Wider credit spreads on policy uncertainty; but with greater sector dispersion
Democratic House + Republican Senate (29% implied probability)	Neutral for the USD	Neutral for USTs	Neutral for credit spreads
Republican House + Democratic Senate (10% implied probability)	Neutral for the USD	Neutral for USTs	Neutral for credit spreads
Republican House + Republican Senate (1% implied probability)	Higher yields support the USD	Probably the "worst" outcome for the bond market, as it adds to fiscal concerns and may exert upward pressure on yields	Initially tighter on growth impulse, then wider on higher refinancing costs and heavier corporate issuances

Source: Polymarket, OCBC Group Research.

Implications for FX

The USD has shown no statistically reliable post-midterm election pattern. Markets typically respond to the macro cycle, not the election result itself.

The USD shows no clear pattern around US midterm elections



Source: Bloomberg, OCBC Group Research

Current polling and historical precedent point to a high probability of divided government in 2027, with Democrats favoured to regain control of the House. The Senate remains more competitive, although recent polling momentum

suggests Democrats have a reasonable chance of securing a majority there as well. A divided government would likely limit major legislative changes. While President Trump would remain in office, his ability to influence markets would continue to come mainly through executive actions on trade and foreign policy rather than new legislation. This is broadly consistent with recent market analysis that sees divided government as the most likely post-midterm outcome and a constraint on major fiscal initiatives.

The biggest market surprise would be a Republican sweep. That outcome could reopen the door to additional fiscal expansion through tax cuts, extensions of expiring provisions in the One Big Beautiful Bill Act, and higher defence spending. While a USD5,000 stimulus cheque may be difficult to implement, broader fiscal support remains a realistic possibility. Stronger growth and higher Treasury yields generated by additional fiscal stimulus would likely support the USD.

By contrast, divided government or a Democratic sweep would probably restrain further fiscal expansion and may therefore be broadly USD-neutral. However, if Congress becomes an obstacle to the White House agenda, the administration could rely more heavily on tariffs, sanctions and other executive measures that do not require legislative approval. Targeted use of these tools could be selectively supportive for the dollar.

A Democratic-controlled Senate could also reduce some USD-related policy concerns by placing greater scrutiny on key appointments. Senate approval is required for positions such as Federal Reserve Board governors, cabinet members and Supreme Court justices. Greater oversight could help ease investor concerns about potential challenges to Fed independence. Overall, a gridlocked Washington may reduce policy uncertainty and leave the USD more closely tied to underlying fundamentals such as growth, inflation and interest-rate differentials. We remain mindful of upside risks to the dollar from a possible escalation in US military action against Iran after the midterm elections. Our base case is for resilient US growth, supported by strong AI investment and wealth effects from AI-driven equity gains, to keep the USD firm, though not necessarily significantly stronger, through 1H27.

Implications for rates

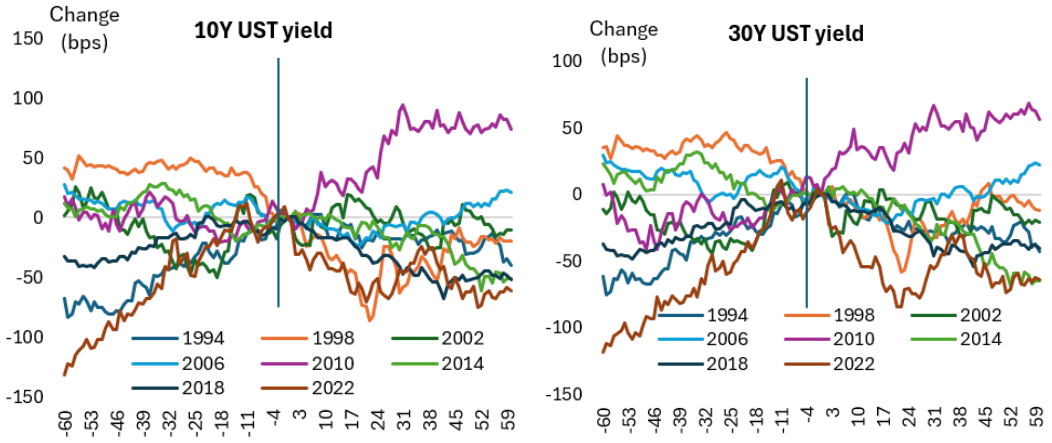
The impact of mid-term elections on USTs and USD rates is expected to be small, while the usual key drivers for the bond and rates market remain dominant. Past UST performances around mid-term elections do not suggest a consistent pattern. Still, we consider potential implications under various outcome scenarios for the upcoming mid-term elections.

Under the Democratic House + Democratic Senate scenario, we look at the channels through which there may be an impact on the bond market. First, there is likely stronger pushback on Trump's agenda on tax cuts and federal spending, implying a less expansionary fiscal path. Second, the resistance to further tariffs will potentially exert two opposing forces – reduced fiscal revenue (upside to yields) and reduced inflation pressure (downside to yields). Third, tougher debt ceiling negations is likely to affect bills rather than bonds, and the impact is expected to be of short-term nature. Overall, our assumption is for this scenario to imply a less expansionary fiscal path and reduced

inflation pressure. Although these impacts are not imminent, market may react with a mild downside to long-end UST yields.

Under the Democratic House–Republican Senate, or the Republican House-Democratic Senate scenarios, as far as the USTs and USD rates market is concerned, we assume the impact of the gridlock in fiscal-related policies is similar to the current situation. We expect minimal net impact on USTs and USD rates. A Republican sweep would probably be the "worst" outcome for the bond market, which revives tax-cut, tariff and deficit risks, putting upward pressure on long yields.

UST performances around past mid-term elections. We examine UST performances around past mid-term elections. A consistent pattern has not been identified. For more recent episodes, notable trends in yields were observed around 2010, 2018 and 2022 mid-term elections, but those movements were mainly due to factors other than the mid-term elections. For example, after the 2022 mid-term elections, yields initially fell as October and November CPI came in below expectations. The Fed still delivered a 50bp hike at the December 2022 meeting and hinted on further hikes for 2023. 2Y yield rebounded somewhat but 10Y and 30Y yields continued to fall on growth concerns and easing inflation expectations. The drivers for lower yields post 2018 mid-term elections were the falls in oil prices, easing inflation expectations, and growth concerns. After 2010 mid-term elections, yield rose upon a reflation sell-off in bonds while oil prices rose steadily.



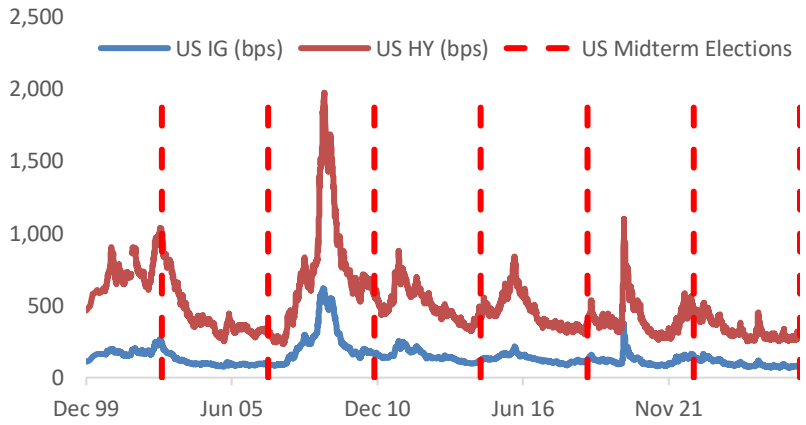
Source: Bloomberg, OCBC Group Research
Note: Day 0 = mid-term election day; day counts are based on weekdays, and yield changes are relative to day 0.

Debt ceiling issue. The T-bill yield curve will usually have a high point for bills with maturity around the expected "X-day", which may present investment opportunities if the base-line assumption is the debt-ceiling issue will be resolved before deadlines hit. When the debt ceiling issue comes to the forefront, bill yield premium is usually required, for bills that mature around the expected deadline (or "X-day"), leading to an inverted front-part of the bill yield curve. If the debt ceiling is suspended, the high point on the T-bill yield curve will likely be pushed to around the date when the debt ceiling suspension expires. If the debt ceiling is raised, the bill yield curve is likely to

normalize, while US Treasury will look to replenish its cash position. Most of the implications will likely be on T-bills, not on USTs.

Implications for credit

The US midterm elections could add to near-term credit volatility, but history offers little evidence of a consistent election-driven pattern in spreads. Credit spreads tightened after polling day in some cycles, while in others, the prevailing trend continued or reversed. The larger moves were ultimately explained by the macro backdrop, including the post-global financial crisis recovery in 2010 or Fed tightening and trade tensions in 2018. We therefore expect growth, inflation and Fed policy to remain the dominant drivers of broad credit markets after the election.



Source: Bloomberg, OCBC Group Research

The more durable credit impact will come through the post-election policy mix, particularly tariffs and trade, fiscal spending, bank regulation, energy policy and investment in AI and data-centre infrastructure. These policies will influence corporate costs, investment requirements, refinancing conditions and sector fundamentals, driving dispersion across sectors.

In general, a Democratic sweep could be relatively supportive for duration but create greater regulatory dispersion as there could be increased oversight of financials, healthcare, technology, energy and AI-related investments. Having said that, President Trump's veto would constrain major legislative reversals. In particular, greater scrutiny of data center expansion could shift more grid upgrade and environmental costs onto developers, affecting the funding needs and project economics of hyperscalers, utilities and infrastructure issuers. Therefore, for credit investors, this scenario is most supportive on a total return basis, even if the accompanying political gridlock creates greater political uncertainty.

Continued Republican control would give the administration the clearest path to pursue tax cuts, defence spending and deregulation. This could be supportive of the operating environment. For financials, further refinement or easing of bank capital requirements would be directionally supportive for capital flexibility and lending capacity. However, the credit benefit could be short-lived if continued fiscal expansion keeps borrowing costs elevated.

Higher funding costs would also be more difficult for leveraged borrowers, capital-intensive companies and issuers with large refinancing or investment requirements. Hence, for credit investors, while initially spread-friendly on the growth impulse and deregulation, then negative on higher yields, refinancing costs and heavier corporate issuances. Long-duration IG, highly leveraged borrowers and capital-intensive issuers would be the most exposed.

Policy gridlock may reduce visibility and delay discretionary investment for corporates, while recurring fiscal negotiations could complicate the timing of bond issuance. Issuers may bring forward funding ahead of political deadlines or postpone supply until the policy outlook becomes clearer. Market absorption could become more challenging during periods when heavy corporate issuance coincides with elevated government borrowing.

Ahead of the election, we favour quality carry over aggressive spread-compression trades. Positioning should remain concentrated in short-to-intermediate maturities and issuers with strong liquidity, manageable refinancing needs and resilient free cash flow. We remain cautious on long-duration IG, where tight spreads offer limited protection against renewed rate volatility, and on lower-quality borrowers reliant on near-term market access.

Conclusion

The article's title "A movable force meets a stoppable object" rests on a simple distinction. Voters may be turning away from the Republicans but this does not necessarily mean embracing the Democratic alternative, even if it seems increasingly likely that Democrats will take control of both chambers. Even if Democrats take control of Congress, the more important question is what that victory would actually mean. Such a result would not necessarily reflect broad public support for the party's programme. Nor would it remove many of the political and institutional constraints on governing, with President Trump's veto powers still a formidable obstacle.

The implications for financial markets may also be less dramatic than the election result itself suggests. Historical evidence shows no statistically reliable pattern in either the US dollar or Treasury yields following midterm elections, with growth, inflation and monetary policy remaining the dominant drivers. Even if Democrats gain control of one or both chambers, markets are likely to focus less on the election outcome itself and more on whether Congress constrains further fiscal expansion, tax cuts and spending initiatives. A Republican sweep would likely be the most market-moving outcome, as it could reopen the door to additional fiscal stimulus, putting upward pressure on growth expectations, Treasury yields and potentially the dollar.

Debt ceiling negotiations are likely to be tricky in 2027. Democratic control of even one chamber would be sufficient to prevent President Trump from unilaterally raising the borrowing limit through budget reconciliation, which would likely force him to negotiate over healthcare, government spending and other fiscal priorities. Control of both chambers would give Democrats greater scope to coordinate their demands, although any agreement would still require the President's approval. Protracted negotiations could heighten fiscal uncertainty and trigger volatility in the Treasury bills market.

The main implication would therefore be greater constraints on President Trump, rather than a wholesale reversal of his agenda. Democrats could challenge additional Iran funding, seek concessions on healthcare and household support, and control the Senate's consideration of appointments. But without the two-thirds support in both chambers needed to override a presidential veto, changing laws implemented by President Trump would still be problematic.

Talk of impeachment should not be confused with the prospect of Trump actually leaving office. While a Democratic House could approve articles of impeachment by a simple majority, removal would still require a two-thirds Senate majority. Even a unified 51-member Democratic-aligned caucus would need 16 additional votes to convict. While not technically impossible, Democrats would need to win 33 of the 35 seats up for election to secure a majority, an extraordinarily tall order.

Even if President Trump were removed from office, the presidency would pass directly to Vice President JD Vance, not to a Democrat. This would not trigger an immediate election. While this changes the person in the White House, it would not automatically reverse current policies on Iran, tariffs, or government spending. Any shifts would depend entirely on Vance's choices and what Congress could actually pass. Furthermore, impeachment proceedings carry massive political risks. They could easily alienate and infuriate Trump's core base, which could tilt the 2028 presidential elections towards the Republicans. Ultimately, controlling Congress through the midterms can only limit the current administration's power but actually replacing it requires waiting for the next scheduled presidential contest in 2028.

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