MARKET INSIGHT

# 2026 US MIDTERM ELECTIONS: GRIDLOCK EXPECTED AFTER BLUE WAVE

NOVEMBER 2026 | MFS MARKET INSIGHTS TEAM

## Key insights

**01**

**Potential gridlock may be viewed positively by markets, as legislative constraints can reduce policy uncertainty and limit large fiscal swings.**

**02**

**At the margin, the changing political landscape may influence sector performance.**

**03**

**Next year's debt ceiling and budget negotiations are likely to be fraught, while AI regulation could be a contentious issue.**

**04**

**Rather than positioning around a political outcome, use the midterms as an opportunity to confirm portfolios are diversified and aligned with your long-term investment goals.**

Following the 2026 US midterm elections, investors are focusing on the potential impacts of the shift in congressional control from Republicans to Democrats.

Though Democrats swept both the House and the Senate, they do not have a veto-proof majority, which suggests legislative gridlock is probable. Without Republican congressional majorities, President Trump may therefore lean more heavily on executive authority in the final two years of his term. As a result, many aspects of current policy could remain in place as a divided government reduces the likelihood of major legislative changes, which could limit fiscal expansion and significant regulatory initiatives.

## Markets typically look through political uncertainty

While election-related market volatility is not unusual, history suggests investors should take a longer-term view. Political events often create short-term market swings, but long-term returns have generally been driven by earnings growth, economic fundamentals, and monetary policy. Markets have frequently performed well under a divided government and have historically delivered strong returns following midterm election years. Since World War II, US markets have been higher 12 months after election day in all 20 midterm elections since 1946, with an average gain of 14.4%.[1]

## Sector implications under a Democrat-led Congress

- At the margin, clean energy will likely face fewer headwinds.
- In healthcare, hospitals and healthcare providers could benefit from the reduced probability of cuts to Medicaid.
- The defense sector could face new headwinds, as Democrats might shift the Trump administration's priorities.
- The energy industry could face stricter congressional oversight.
- The drive to reshore US manufacturing enjoys bipartisan support, so industrials, semiconductors, and electrical equipment manufacturers likely will not face increased congressional roadblocks.
- AI privacy is a Democratic priority, as is the community impact of datacenters. Expect modest headwinds for the industry.
- Datacenter construction may face additional headwinds at the state level given Democratic wins in key gubernatorial races.

## Potential flashpoints

Despite expected gridlock, unless Republican lawmakers pass another reconciliation bill before the current Congress ends, there will be no avoiding must-pass legislation over the next two years, which could raise the political stakes. Contentious issues include government appropriations, raising the debt ceiling and dealing with the looming Social Security deficit, and, perhaps most contentiously, funding for the war in Iran. The regulation of AI will likely also be hotly debated in a Democratically controlled Congress and could be a sticking point given the Trump administration's relatively light-touch regulatory regime.

[1] Deutsche Bank Chart of the Day: The Ballot and the Bull, November 3, 2026.

The views expressed herein are those of the MFS Strategy and Insights Group within the MFS distribution unit and may differ from those of MFS portfolio managers and research analysts. These views are subject to change at any time and should not be construed as the Advisor's investment advice, as securities recommendations, or as an indication of trading intent on behalf of MFS. No forecasts can be guaranteed.

Diversification does not guarantee a profit or protect against a loss. Past performance is no guarantee of future results.

**GLOBAL DISCLOSURE**

Unless otherwise indicated, logos and product and service names are trademarks of MFS® and its affiliates and may be registered in certain countries.

Distributed by:

**U.S.** – MFS Institutional Advisors, Inc. ("MFSI"), MFS Investment Management and MFS Fund Distributors, Inc., Member SIPC; **Latin America** – MFS International Ltd.; **Canada** – MFS Investment Management Canada Limited.; **Note to UK and Switzerland readers:** Issued in the UK and Switzerland by MFS International (U.K.) Limited ("MIL UK"), a private limited company registered in England and Wales with the company number 03062718, and authorised and regulated in the conduct of investment business by the UK Financial Conduct Authority. MIL UK, an indirect subsidiary of MFS®, has its registered office at One Carter Lane, London, EC4V 5ER.; **Note to Europe (ex UK and Switzerland) readers**: Issued in Europe by MFS Investment Management (Lux) S.à r.l. (MFS Lux) – authorized under Luxembourg law as a management company for Funds domiciled in Luxembourg and which both provide products and investment services to institutional investors and is registered office is at S.a r.l. 4 Rue Albert Borschette, Luxembourg L-1246. Tel: 352 2826 12800. This material shall not be circulated or distributed to any person other than to professional investors (as permitted by local regulations) and should not be relied upon or distributed to persons where such reliance or distribution would be contrary to local regulation; **Singapore –** MFS International Singapore Pte. Ltd. (CRN 201228809M); **Australia/New Zealand –** MFS International Australia Pty Ltd ("MFS Australia") (ABN 68 607 579 537) holds an Australian financial services licence number 485343. MFS Australia is regulated by the Australian Securities and Investments Commission.; **Hong Kong –** MFS International (Hong Kong) Limited ("MIL HK"), a private limited company licensed and regulated by the Hong Kong Securities and Futures Commission (the "SFC"). MIL HK is approved to engage in dealing in securities and asset management regulated activities and may provide certain investment services to "professional investors" as defined in the Securities and Futures Ordinance ("SFO").; **For Professional Investors in China –** MFS Financial Management Consulting (Shanghai) Co., Ltd. 2801-12, 28th Floor, 100 Century Avenue, Shanghai World Financial Center, Shanghai Pilot Free Trade Zone, 200120, China, a Chinese limited liability company registered to provide financial management consulting services.; **Japan –** MFS Investment Management K.K., is registered as a Financial Instruments Business Operator, Kanto Local Finance Bureau (FIBO) No.312, a member of the Investment Management Association of Japan. As fees to be borne by investors vary depending upon circumstances such as products, services, investment period and market conditions, the total amount nor the calculation methods cannot be disclosed in advance. All investments involve risks, including market fluctuation and investors may lose the principal amount invested. Investors should obtain and read the prospectus and/or document set forth in Article 37-3 of Financial Instruments and Exchange Act carefully before making the investments. **For readers in Saudi Arabia, Kuwait, Oman, and UAE (excluding the DIFC and ADGM). In Qatar strictly for sophisticated investors and high net worth individuals only. In Bahrain, for sophisticated institutions only:** The information contained in this document is intended strictly for professional investors. The information contained in this document, does not constitute and should not be construed as an offer of, invitation or proposal to make an offer for, recommendation to apply for or an opinion or guidance on a financial product, service and/or strategy. Whilst great care has been taken to ensure that the information contained in this document is accurate, no responsibility can be accepted for any errors, mistakes or omissions or for any action taken in reliance thereon. You may only reproduce, circulate and use this document (or any part of it) with the consent of MFS international U.K. Ltd ("MIL UK"). The information contained in this document is for information purposes only. It is not intended for and should not be distributed to, or relied upon by, members of the public. The information contained in this document, may contain statements that are not purely historical in nature but are "forward-looking statements". These include, amongst other things, projections, forecasts or estimates of income. These forward-looking statements are based upon certain assumptions, some of which are described in other relevant documents or materials. If you do not understand the contents of this document, you should consult an authorised financial adviser. Please note that any materials sent by the issuer (MIL UK) have been sent electronically from offshore. **South Africa –** This document, and the information contained is not intended and does not constitute, a public offer of securities in South Africa and accordingly should not be construed as such. This document is not for general circulation to the public in South Africa. This document has not been approved by the Financial Sector Conduct Authority and neither MFS International (U.K.) Limited nor its funds are registered for public sale in South Africa. Massachusetts Financial Services, Inc.®