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OCTOBER 2026

A Divided Congress, a Unified Question: What's Next for Markets?

Key takeaways

- The midterm elections may have greater political significance than market impact.
- Some policy progress may still be possible, regardless of the election outcome.
- Iran, tariffs, the debt ceiling, and AI investment represent underappreciated risks.
- Investors should avoid allowing political views to drive long-term investment decisions.

With the US midterm elections approaching, investors are considering how the results could affect policy, the economy, and financial markets. In a live webcast moderated by Michael Dembro of MFS, Charles Myers of Signum Global Advisors discussed the election outlook, potential areas of bipartisan policy progress, and four risks he believes markets may be underestimating. The conversation also explored the early dynamics shaping the 2028 presidential race.

US midterms may be more politically significant than market moving

Signum recently shifted its outlook from divided government to a Democratic sweep, although Myers emphasized that control of the Senate remains highly uncertain. He expects Democrats to take control of the House, while identifying Maine, Iowa, and Texas as the three Senate races to watch most closely. Because he does not expect Democrats to win Iowa, he believes control of the Senate ultimately could come down to Maine or Texas. In Texas, he noted that a Democratic victory from James Talarico over Republican Ken Paxton would likely signal broader Democratic outperformance.

He also sees turnout as a potentially decisive factor. Democrats generally have outperformed polling in recent special elections, and he expects strong Democratic turnout in the midterms. Higher than expected Republican turnout, particularly in Maine or Texas, could alter that outcome.

HOST

Michael Dembro
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GUEST

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Despite the political uncertainty, Myers does not expect the election to produce major policy changes over the next two years. In his view, markets have treated the midterms appropriately as a relatively limited event, because either divided government or a Democratic sweep would still face significant constraints on enacting legislation.

Dembro also highlighted the importance of separating political preferences from investment decisions. He noted that the US equity market historically has performed well following midterm elections and argued that investors generally have benefited from remaining invested through both Democratic and Republican administrations.

Election outcomes could shape policy at the margins

Although sweeping legislative changes appear unlikely, the composition of Congress could affect where compromise is possible. Myers identified healthcare as one potential area of focus, including health insurance subsidies, access to coverage, and prescription drug pricing. He also sees the possibility of bipartisan movement on permitting reform and digital asset legislation, along with renewed Democratic efforts to support renewable energy.

If Republicans retain the Senate, the administration would be better positioned to continue confirming executive branch nominees and conservative judges. If Democrats control both chambers, they will have greater leverage over must-pass legislation and could pursue investigations more extensively. Nevertheless, Myers expects presidential veto power to limit attempts to reverse major elements of the administration's tax, energy, and regulatory agenda.

The area in which congressional control may matter most to markets is the debt ceiling. A divided Congress could produce a more difficult negotiation, while unified Democratic control could provide a clearer path to raising the ceiling, even if the process remains contentious.

Four risks may be underappreciated by markets

Myers identified four risks that he believes markets may not be fully pricing in: an escalation of the Iran conflict, additional tariff increases, a debt ceiling confrontation, and excess investment in AI infrastructure.

On Iran, he sees the possibility of a diplomatic off ramp but warned that the current situation may not be sustainable because of elevated energy and transportation costs, and the demands placed on US military resources. If negotiations fail, he believes a larger escalation could follow.

He also cautioned against assuming that the administration has finished raising tariffs. In his view, tariffs remain an important part of the president's economic agenda and a source of government revenue. Additional increases directed at select trading partners could therefore emerge after the midterms, potentially prompting retaliation.

Fiscal pressures represent another concern. Myers expects the next debt ceiling debate to produce a difficult political negotiation and sees a risk that credit rating agencies could react to the country's changing debt profile. He also believes the bond market will remain an important constraint on the administration, particularly if longer term Treasury yields rise materially.

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Finally, he sees growing evidence of overinvestment in AI infrastructure. Questions surrounding future demand, monetization, financing, and lower cost competition could lead investors to distinguish more sharply between companies able to generate returns from AI and those unable to do so. He expects that adjustment to create winners and losers but does not view it as a systemic threat.

The 2028 presidential field remains wide open

Looking beyond the midterms, Myers expects competitive presidential primaries in both parties. On the Democratic side, he cited Alexandria Ocasio-Cortez, Gavin Newsom, and Jon Ossoff as early leaders in the betting markets, while identifying Kentucky Governor Andy Beshear and Arizona Senator Mark Kelly as potential dark horse candidates to watch. Ultimately, he expects Democrats to nominate a more centrist ticket. He also mentioned Kamala Harris, Pete Buttigieg, and Pennsylvania Governor Josh Shapiro as potential contenders, with Shapiro possibly emerging as a vice presidential candidate instead.

On the Republican side, Myers views Vice President JD Vance as the frontrunner, while citing Marco Rubio, Ron DeSantis, and Ted Cruz among potential challengers. He believes Donald Trump's eventual endorsement could be decisive in determining the nominee. As a less consensus possibility, he also suggested Donald Trump Jr. could emerge as either a presidential or vice presidential candidate.

Conclusion

Elections can create significant political uncertainty, but they do not necessarily alter the fundamental drivers of market performance. The discussion underscored the importance of looking beyond the immediate election outcome to the policy environment, geopolitical risks, fiscal pressures, and companies' ability to translate investment into earnings. For long-term investors, remaining disciplined may prove more important than attempting to position around a particular political result.

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