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US Mid-Term elections
Key Lessons after the 'blue sweep'

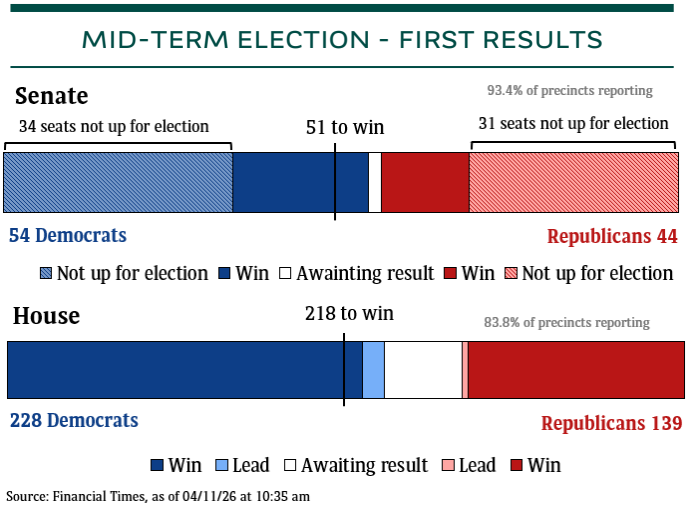
Key Messages

1. The outcome of the midterm elections proved to be more than a simple referendum on the current administration. Indeed, it represented a potential inflection point for US fiscal policy and the technological narrative currently driving global markets.
2. The Democratic Party achieved a 'blue sweep' of the House and Senate. The shift was even larger than expected. It was probably driven by a disconnect between strong macroeconomic aggregates and the "affordability gap" (inflation and housing costs) experienced by voters.
3. Despite potential long-term regulatory risks, AI capex momentum is expected to remain intact in the short term, as presidential vetoes are likely to block detrimental legislation.
4. While equity markets historically perform well post-midterms, the Democratic majority may lead to expansionary fiscal policies, potentially pushing 10-year US yields above 5% again and supporting a scenario of gradual depreciation of the USD.

The macro environment ahead of the elections

On paper, the US economy remains resilient, characterised by steady growth, low unemployment, and robust consumer spending. However, many indicators suggest a profound disconnect between these macroeconomic aggregates and the lived experience of the American voter. Persistent inflation exacerbated by the ongoing conflict in Iran and rising housing costs created a significant 'affordability gap.' While aggregate consumption remains resilient due to the wealth effect among high earners, low-income households are experiencing falling real wages, as nominal wage growth fails to keep pace with inflation.

This erosion of purchasing power, combined with the structural tendency for the incumbent party to lose seats during the midterms, weighed heavily on the current administration. While the macroeconomic picture appears solid, 'perceived inflation'—driven by observable costs such as fuel and housing—suggested a heightened probability of a shift in Congressional control. Prediction markets (Kalshi, Polymarket) reflected a high probability of the Democrats flipping the House of Representatives.



Source: Financial Times, as of 04/11/26 at 10:35 am

What was at stake: The battle for congressional control

The election determined the composition of the 435-seat House of Representatives and 35 seats in the Senate. Previously, Republicans held a narrow margin in both chambers (219–214 in the House; 53–47 in the Senate). Based on current data, the Democrats are set to hold a larger majority (see chart above).

Guy Ertz, PhD.
Deputy Global CIO
BNP Paribas Wealth Management



Beyond the balance of power, the stakes extend to 36 state governor races, which carry significant weight regarding local authorisations for infrastructure and data centre development.

Furthermore, as the Senate is responsible for confirming judicial and Federal Reserve nominees, this election could serve as a critical indicator for the future composition of the Fed's Board of Governors heading into 2028.

Policy implications

A 'blue sweep' was perceived as a potential source of financial market risk. Specifically, there were concerns that such an outcome could dampen the AI investment boom and lead to a further widening of budget deficits. While the presidential veto makes broad federal regulation unlikely in the short term, a unified Democratic mandate may cause markets to price in a potential 'blue wave' for 2028. This could heighten expectations for stricter AI safety guardrails, increased regulation of industry concentration, and greater scrutiny of the energy costs associated with data centres. Over the next two years, however, we expect Donald Trump to veto any legislation deemed overly detrimental to the technology sector. Consequently, we anticipate that AI capex momentum will remain intact following the midterms, as technology companies seek to execute planned investments before political risks intensify ahead of the next presidential election.

However, at a state legislature level in certain states where the bulk of new US data centre projects are located (such as Virginia and Texas), new data center approvals may prove more difficult to obtain as both electricity and water needs as well as potential noise pollution could be taken into consideration. This could be particularly true in Texas given the election of a new Democrat governor.

From a fiscal perspective, a Democratic sweep could foster expansionary tendencies. Negotiated settlements to avoid government shutdowns or to raise the debt ceiling may likely involve increased spending on healthcare, social safety nets, and defence.

It should also be noted that the President retains significant executive authority, particularly regarding trade, immigration, and foreign policy.

Financial market implications.

We anticipate an increase in congressional hearings and oversight focusing on antitrust issues, AI safety, data centre regulations, and consumer protection. To the extent that policymakers reach a consensus on data center cost-sharing, utilities and grid operators may benefit from increased regulatory clarity, although the economics for certain specific projects may become less attractive. As previously noted, we expect President Trump to veto any legislation deemed overly detrimental to the technology sector; consequently, we anticipate that AI capex momentum will remain intact following the midterms.

Regarding equity markets, historical data suggest that midterm elections rarely disrupt the broader market trajectory. In fact, performance in the months following the midterms tends to be strongly positive. Indeed, since 1946, the S&P 500 has risen in the twelve months following every midterm election. When the opposition controls both chambers, major tax, regulatory, and legislative changes become less likely, reducing policy uncertainty and improving visibility for businesses and investors. At the same time, the need for compromise can encourage reciprocal concessions that result in a more supportive fiscal policy.

Note that global stocks, and in particular many subthemes within Technology, have already corrected substantially in the past 3 months, representing a substantial Price-to-Earnings (P/E) derating for global stocks.

Ultimately, the bigger factor in determining both equity market direction and sector performance will not be the US mid-term elections, but rather events in the Gulf region. Re-escalation or de-escalation of the conflict in the near term will have very different impacts both on energy prices and on financial markets.

Potential further fiscal expansion could however push 10-year US Treasury yields well above 5% again. Furthermore, today's outcome supports our hypothesis of a gradual USD depreciation, driven by both a reassessment of the long-term AI-related productivity boom and an increased fiscal risk premium. We maintain our 3-month target at 1.12 and our 12-month target at 1.20.

Economic and FX forecast tables

BNP Paribas Forecasts

GDP Growth %	2025	2026	2027
United States	2.3	2.2	2.3
Japan	1.2	1.0	1.2
UK	1.2	1.3	1.3
Switzerland	1.8	2.0	1.7
Eurozone	**1.3**	**1.1**	**1.6**
Germany	0.3	1.0	1.3
France	0.9	0.3	0.8
Italy	0.7	0.8	0.8
Emerging			
China	5.0	4.6	4.5
India*	7.8	7.1	6.9
Brazil	2.3	1.9	1.3

* Fiscal year

Source : BNP Paribas - 02.11.2026

BNP Paribas Forecasts

CPI Inflation %	2025	2026	2027
United States	2.7	3.5	2.5
Japan	3.1	1.9	2.6
UK	3.4	3.2	3.5
Switzerland	0.2	0.6	0.7
Eurozone	**2.1**	**3.1**	**3.2**
Germany	2.3	2.7	2.8
France	0.9	2.5	2.4
Italy	1.6	3.4	3.1
Emerging			
China	0.0	1.0	1.2
India*	2.1	5.1	4.9
Brazil	5.0	4.5	4.6

* Fiscal year

Source : BNP Paribas - 02.11.2026

	Country	Spot 02/11/2026		Target 3 months	Target 12 months
Against euro	United States	EUR / USD	1.12	1.12	1.20
	United Kingdom	EUR / GBP	0.83	0.84	0.87
	Switzerland	EUR / CHF	0.92	0.94	0.92
	Japan	EUR / JPY	177	177	186
	Sweden	EUR / SEK	10.97	11.00	10.80
	Norway	EUR / NOK	10.39	10.80	10.60
Against dollar	Japan	USD / JPY	158	158	155
	Canada	USD / CAD	1.40	1.40	1.35
	Australia	AUD / USD	0.70	0.70	0.73
	New Zealand	NZD / USD	0.56	0.57	0.60
	Brazil	USD / BRL	5.44	5.20	5.0
	India	USD / INR	94.90	95.0	95.0
	China	USD / CNY	6.65	6.70	6.60

Source: BNP Paribas, Refinitiv Datastream. As at 2 November 2026

THE INVESTMENT STRATEGY TEAM

FRANCE

Edmund SHING
Global Chief Investment Officer

Hiba MOUALLEM
Investment Strategist

Isabelle ENOS
Senior Investment Advisor

Charles GIROT
Senior Investment Advisor

ITALY

Luca IANDIMARINO
Chief Investment Advisor

BELGIUM

Philippe GIJSELS
Chief Investment Advisor

Alain GERARD
Senior Investment Advisor, Equities

Mattias DEMETS
Investment Advisor, Commodities

GERMANY

Stephan KEMPER
Chief Investment Officer, Germany

LUXEMBOURG

Guy ERTZ
Chief Investment Officer, Luxembourg
Deputy Global Chief Investment Officer

Gurminder SINGH
Investment Strategist, Forex

ASIA

Prashant BHAYANI
Chief Investment Officer, Asia

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Chief Investment Strategist

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Investment Services Analyst

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