US Midterms : Blunami !

4 November 2026

- **The Democratic surge has enabled the party to regain control of Congress, fuelled by voters' frustration over inflation and Donald Trump's policies.**
- **Despite this victory, the President's veto power and political tensions are likely to constrain the Democrats' room for manoeuvre and slow the pace of reform.**
- **Uncertainty surrounding data centre regulation could weigh on markets in the short term, but the economic outlook and seasonal trends remain favourable for equities.**

The Democratic wave was expected, but its magnitude was not. A veritable tidal wave swept across the US electoral map last night, sweeping everything in its path, including historically Republican states such as Texas, South Carolina and Kansas (a first since 1932). Although not all the results are in at this stage, there is already no doubt that Donald Trump has lost control of the House of Representatives and, above all, the Senate, where the Democrats have so far managed to win six seats and are therefore expected to hold, at the very least, a majority of 54 seats.

This is already the most stinging defeat for a sitting president since 1946, and yet it comes as only a partial surprise, given that D. Trump's unpopularity had reached historic levels, against a backdrop of mistrust regarding his immigration policy, his attacks on institutions and, above all, his war against Iran. Elected to tackle the high cost of living, the US president has, paradoxically, pursued policies that have contributed to higher inflation, first by launching a trade war and then by embarking on a risky military campaign in Iran. This weakness was exploited to the full by the Democrats, who centred their campaign message on Americans' purchasing power, a strategy that has now enabled them to take control of Congress in Washington.

Nevertheless, this victory does not mean that the party will be able to implement its programme. Indeed, the US President retains the right of veto, which is likely to block any legislation with which he disagrees. Admittedly, D. Trump has indicated in recent hours his willingness to collaborate with the Democrats, but the political reality and the pressure his party is bound to exert should dissuade him from granting any major victories to his political opponents ahead of the 2028 presidential election. Furthermore, the Democrats' determination to launch parliamentary committees of inquiry into allegations that D. Trump has enriched himself will inevitably strain relations with the US President and nullify any prospects for cooperation between the legislative and executive branches.

The current situation is therefore likely to result in an institutional deadlock with no major progress on fiscal policy, which should limit the widening of the budget deficit and thus mitigate one of the factors exerting upward pressure on US sovereign bond yields. The risk to this base-case scenario is that the final result could be even more favourable to the Democrats, who, according to some projections, could win up to 57 seats in the Senate; in which case, around ten Republican defectors would be enough to secure the two-thirds majority required to override a veto or impeach the president, though this scenario remains unlikely at this stage.

Whilst all eyes have been fixed on the polls for the House of Representatives and the Senate in recent weeks, the real issue at stake in these elections for the financial markets undoubtedly lay in the race for

the governorship of Texas. Indeed, the Republican G. Abbott was regarded as one of the leading advocates of data centre development, as evidenced by the fact that his state alone accounted for nearly a third of the capacity currently available or under construction in the United States.

Although the polls had him as the favourite until last night, he ultimately lost to G. Hinojosa, a Democratic candidate who has made the regulation of tech giants her main campaign issue. Added to this are the numerous referendums and local votes across an area accounting for 170 out of the 300 GW of planned capacity in the United States, the provisional results of which are conclusive, with the adoption of around twenty restrictive measures aimed at curbing the creation of new data centres. The initial reaction of the share indices clearly illustrated this risk, with a significant fall in the Nasdaq (-2 %) and the Korean Kospi index (-4 %), before they gradually recovered their losses to return to equilibrium this morning. Investors are hoping that the anti-AI rhetoric was merely an election campaign stance and that the Democrats will prove more pragmatic once in power. Indeed, the new governor of Texas's programme does not advocate a total ban on the construction of data centres, but rather the introduction of rules to safeguard rights and limit additional costs for households.

Uncertainty is therefore likely to persist in the short term, whilst negotiations between the tech giants and the new local authorities lead to potential agreements. Nevertheless, as visibility improves, investors are likely to regain their appetite for risk, enabling equity indices to resume their upward trend. In this regard, it is worth noting that the year following mid-term elections in which power is shared between the two parties has historically been one of the best periods for equity markets. This favourable seasonal trend, combined with global economic growth that remains solid, exceptional corporate earnings and valuations that have returned to particularly attractive levels, leads us to remain positive on equities, whilst diversifying our allocation across other sectors and geographical regions, as well as into bonds, to capitalise on the decorrelation between the two asset classes.

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