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US midterms: politics reset, fundamentals remain in charge



The US midterm elections have produced a meaningful shift in Washington, with the **Democrats taking control of both the House and the Senate**. The immediate consequence is a significantly more constrained policy environment for the administration: major fiscal, tax and legislative measures will require congressional approval and therefore at least some degree of Democratic support. Nevertheless, President Trump retains veto power, and overturning a presidential veto would require a two-thirds majority in both chambers of Congress. Democratic control of the Senate also gives the party greater influence over key appointments.

From a macroeconomic perspective, the change in Congress should **reduce the probability of another large fiscal expansion**. At the margin, this points toward a somewhat softer growth impulse and less upward pressure on long-term interest rates. However, it would be premature to interpret the result as a major fiscal tightening. The US deficit remains large, Treasury issuance remains substantial, and the White House retains considerable executive authority, particularly over tariffs, sanctions and foreign policy. These areas could still generate inflationary shocks, notably through energy prices.

Initially, US equity futures moved lower, with technology underperforming amid concerns over potentially tighter AI regulation, while Treasuries rallied: the 10-year yield declined roughly 3 basis points overnight to 4.94%. The dollar also weakened.

Yet we would be cautious about extrapolating these first moves. The election changes the policy framework, but not necessarily the fundamental forces driving asset prices. Inflation, Federal Reserve policy, economic growth and the level of bond yields are likely to remain considerably more important over the medium term.

For equities in particular, the focus should progressively move back from Washington to corporate fundamentals. With valuations elevated and bond yields remaining high, further market appreciation will increasingly need to be justified by earnings growth rather than political optimism or multiple expansion. The capacity of companies to deliver revenue growth, protect margins and convert the large investment cycle, particularly around AI, into sustainable profits will therefore be critical. Politics may influence volatility and sector leadership, but corporate earnings should continue to play a major role in determining the underlying direction of equity markets.

By this morning, US equity futures were already rebounding, and European equities showed modest gains too. Dollar softness persisted.

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