

US MIDTERMS 2026

OUTLOOK ON THE ECONOMY AND FINANCIAL MARKETS



B E R G O S

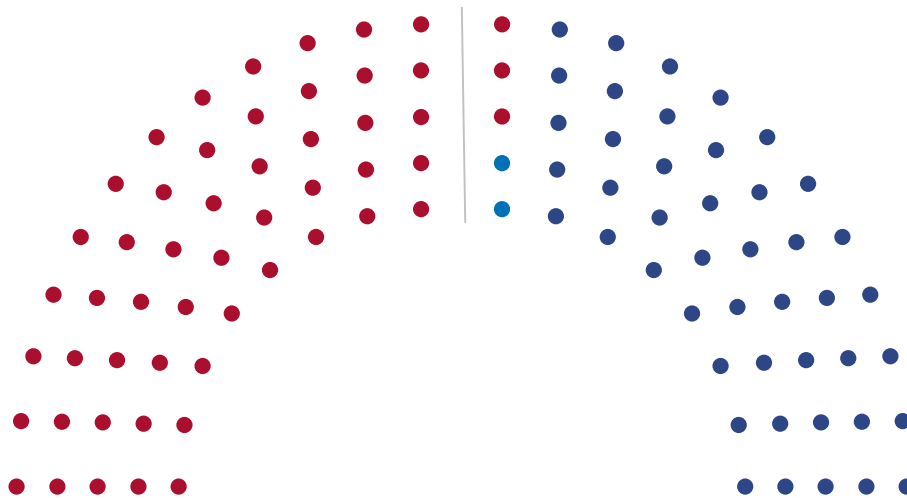
AT A GLANCE

- With the US midterm elections just around the corner, the American economy is in surprisingly good shape. So far, there has been little sign of the severe slowdown in growth that some analysts had predicted should Donald Trump implement his radical trade and immigration policies. The Trump Administration is, of course, benefiting from the boom in the AI sector, which is offsetting the consequences of some misguided economic policy decisions.
- Despite solid growth, the American public is suffering from persistently high inflation. Inflation is hitting poorer Americans with high consumption rates particularly hard, some of whom had placed great hopes in Donald Trump. Trump's tariff policies and the war in the Middle East that he initiated are major drivers of inflation.
- In this macroeconomic environment, current forecasts point to a significant shift in the political balance of power. The Democratic Party could win control of both the House of Representatives and the Senate in the US Congress.
- If the Democratic Party were to take control of both the House of Representatives and the Senate, it would set the entire congressional agenda, including the chairs of all committees as well as their agendas, policy hearings, and priorities. This will lead to numerous controversial committee hearings and media headlines, but no significant legislative initiatives, as the Trump Administration has the power to veto.
- A Democratic-controlled Congress will challenge the President's authority, including its war powers and spending, the legal basis and limits of tariffs and select aspects of restrictive immigration policy (particularly ICE) and may try to rescind some of the President's ordered spending.
- The capital markets are heading into the election in an unusual state. Stocks are trading near their record highs, yields are at their highest levels in over two decades, and the price of gold is well below its annual high.
- Historically, the US stock market has tended to be volatile from late summer through early October. Once the election was over, legislative uncertainty dissipated, volatility eased significantly by year-end, and a rally began that often lasted into the spring. The election result itself played a secondary role in this. This year, too, inflation, monetary policy, the state of the US economy, and corporate earnings are likely to remain decisive factors for the markets.

CURRENT CONGRESSIONAL MAKEUP

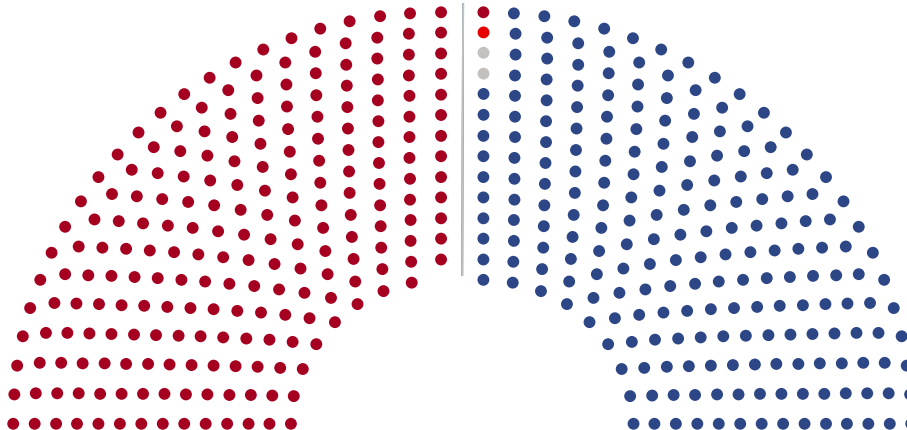
US Senate: Current Makeup

- Republican Seats (53)
- Independent Seats, Caucusing with Democrats (2)
- Democratic Seats (45)



House of Representatives: Current Makeup

- Republican Seats (218)
- Independent Seat, Caucusing with Republicans (1)
- Democratic Seats (214)
- Vacant Seats (2)



Source: CFRA Research, Bergos. Current Congressional Makeup as of 5 October 2026

MIDTERM ELECTIONS AFTER A TURBULENT FIRST HALF



DR JÖRN QUITZAU
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Donald Trump's second term in office is approaching the halfway point. Since taking office in January 2025, the US President has kept the world on edge with all manner of escapades. He has shaken up the international order and undermined the certainties of both allies and adversaries. The United States, the safeguard of Western security and a key pillar of the international economic order, has become an unpredictable player under Trump. That is why the midterm elections on 3 November 2026 are far more than just a domestic political event. Europe and other parts of the world are also closely watching to see what direction American politics is likely to take in the long term.

Regardless of the outcome of the midterm elections, a return to the political center is unlikely, even in the long term. Given the polarized state of society, there is a possibility that the pendulum will swing significantly back in the other direction by the 2028 presidential election at the latest.

Donald Trump's political rise was only possible because a political and social zeitgeist ("identity politics") had previously taken shape that ran counter to a significant portion of American society and its way of life. Trump gave this segment of society a political voice and, with his "Make America Great Again" approach, held out the prospect of a

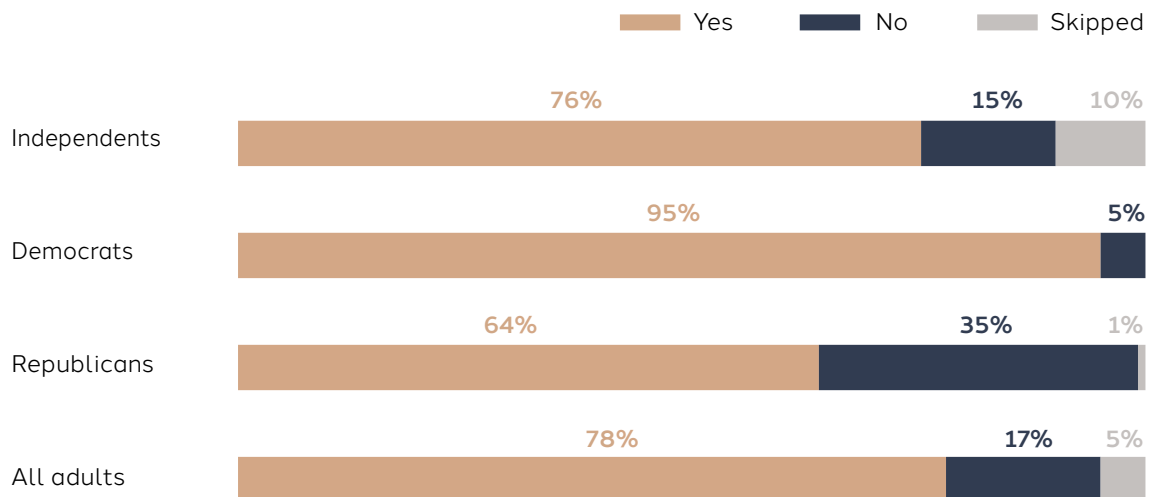
better or even rosy future, particularly for many Americans who had been left behind economically.

The US economy shows resilience

Looking at the macroeconomic data, the US economy is indeed in surprisingly good shape. The growth rates achieved – two percent and higher – roughly correspond to the growth potential of the US economy. So far, there has been little sign of the slump in growth that some analysts had expected should Donald Trump put his radical trade and immigration policies into practice. The Trump Administration is, of course, benefiting from the boom in the AI sector, which is offsetting the consequences of some misguided economic policy decisions.

Even though economic growth is solid, the American public is suffering from persistently high inflation rates. Inflation is hitting poorer Americans with high consumption rates particularly hard, some of whom had placed great hopes in Donald Trump. The sharp rise in prices is largely attributable to tariff policies and the war in the Middle East initiated by Trump. The majority of voters also view the US President as partly responsible for the rising prices. A recent Reuters/Ipsos poll shows that, across party lines, 78 percent of Americans surveyed hold Trump's policies partly responsible for the rising cost of living.

What's raising the cost of living? Trump policies and actions



Survey of 4,506 adults nationwide on 30 September – 5 October

Source: Reuters/Ipsos, Bergos.

Political unrest continues

In this complex situation, many voters are once again reevaluating their positions. It remains unclear in which direction the political train will continue to head beyond the midterms. The Republicans under Donald Trump are no longer a viable option for conservative citizens who value qualities such as down-to-earthness, reliability, and integrity in their political leaders. Furthermore, Donald Trump's presidency has contributed to further polarization and has not yet led to the Democrats returning to the center of the political spectrum. Alexandria Ocasio-Cortez, a representative of the party's left wing, currently has a good chance of running for President in 2028. At present, her chances are slightly better than those of the somewhat more moderate Jon Ossoff and Gavin Newsom.

In the past, Ocasio-Cortez stood for the far-left social and identity politics that had sparked the culture war in America. Recently, Ocasio-Cortez has

distanced herself from some of her earlier radical positions – whether out of conviction or electoral calculation remains to be seen. In terms of economic policy, she advocates classic left-wing positions (including redistribution, government intervention, and regulation of the private sector), which, while they resonate in Europe, meet with significant reservations in the capitalist-oriented US.

The strong polarization of politics means that shifts in economic policy are more abrupt. The days of the “steady hand” in economic policy are over. In a sense, economic volatility characterizes the new normal, partly because today's geopolitical situation requires different measures than those needed just a few years ago. This applies to the US, but also to many other industrialized nations. It is therefore foreseeable that while the outcome of the midterms may rein in the incumbent US President to some extent, it will certainly not bring about a return to quiet waters.

US MIDTERM ELECTIONS AMID A TENSE POLITICAL CLIMATE



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On 3 November, the US will elect a new Congress. All 435 seats in the House of Representatives and 35 of the 100 seats in the Senate are up for election. Currently, President Trump's Republicans control both chambers.

The latest projections point to a significant shift in the political balance of power. The Democratic Party could win control of both the House of Representatives and the Senate in the US Congress.

These probabilities and the shift toward expecting a Democratic Party sweep reflect President Trump's continued

decline in approval ratings, the rising unpopularity of the war with Iran and associated rise in gasoline and energy prices, the higher prices of goods and services in general (cumulative inflation), and the negative public views of tariffs.

Thus, it's all about the negative reaction to Trump and his policies and the adherence of Republican candidates to Trump, and the surprising emerging power of the hard-left progressives (Democratic Socialists of America) and the lack of any response by the mainstream Democratic Party that lacks leadership and is in total disarray.

Here are the probabilities from two major forecasting platforms as of 16 October 2026

Polymarket

- Democratic Party victory in both the House of Representatives and the Senate: 63% (in mid-July, this figure was still at 45%)
- Republicans retain the majority in the Senate; Democrats win the House of Representatives: 28%
- Republicans win both the House of Representatives and the Senate: 9%

Kalshi

- Democratic victory in both the House of Representatives and the Senate: 61%
- Republicans retain the majority in the Senate; Democrats win the House of Representatives: 30%
- Republican victory in both the House of Representatives and the Senate: 9%

Far-reaching consequences of a Democratic Party sweep

If the Democratic Party were to take control of both the House and Senate, it would control the entire agenda of Congress, including chairs of all of the committees and their agendas, policy hearings and focus. This will make for a lot of contentious committee hearings and media headlines, but no major legislation, as the Trump Administration will have veto power.

While the Trump Administration will continue to use its extensive executive powers to control and implement foreign policies, regulations (including energy policies), tariffs, immigration, FDA approval and guidance of drugs, etc., the highly visible public challenges registered by the Democratic Party-led Congress will force the Trump Administration to tone back some of its policies.

The Democratic Party-controlled Congress will challenge the President's

independent authority in many policy areas, including war powers (and spending on war), the legal basis and limits on tariffs, select aspects of the clampdown on immigrants (particularly ICE). These hearings will also focus on exposing wrongdoings of the Trump Administration and force selective changes including backing off select policies.

This may take several forms. First, the 12 appropriations committees in the House may vote to cut select budgets (for example, in defence spending); this will create bottlenecks in the budget process and affect the pattern of discretionary spending (note that it will not affect the spending on entitlement programs like Social Security, Medicaid and the SNAP program and net interest outlays to service the government debt; spending on entitlements is automatic and do not require annual votes to approve them). Second, it may try to rescind some of the spending ordered by the President.

A Democratic sweep would halt the Trump Administration's legislative agenda and would force it to rely even more on executive actions.

This would have significant impacts on the following major issues: **war powers, immigration, tariffs and the budget** (how money is spent). As such, it would result in some major political battles.

War powers: control of the Armed Forces and Foreign Relations Committees is very important. Democrats would challenge Trump's legal powers to engage in war, spend money to finance war, etc.

Immigration: Democrats would be in a position to closely scrutinize and constrain Trump's clampdown on immi-

gration. This battle could be played on many dimensions. This is a major issue on many dimensions, including economic, labor markets, social, etc. and is highly contentious.

Tariffs: Trump has used executive orders to implement his tariff policies, but congressional control could exert pressures on the Administration. Congressional hearings could highlight ways tariffs are harming the economy, small businesses, consumers, etc.

Budget: Congress has control over the budget and how money is spent. Control over the House and Senate Budget Committees and the 12 Appropriation Committees in the House provide Congress a lot of leverage in budget matters.

Looking ahead

Looking forward, if the Democratic Party gains a decisive plurality in the Senate (where terms last 6 years), this may provide momentum going into the 2028 presidential election and potentially lead to sweeping policy changes in 2029.

However, there are many uncertainties, one of which is the power struggle between the traditional Democratic Party and the hard-left progressives (and Democratic Socialists of America). At this point, except to say that the traditional Democratic Party is in disarray and without clear leadership and the hard-left progressives have gained strength and the economic policy platform of the progressives would be quite damaging to the economy, most other areas of discussion are quite speculative.

Another uncertainty is the schism in the Republican Party between old-fashioned conservatives (who tend to favor less hands-on government and more reliance on markets and capitalism) and Trump's MAGA whose policies rely more on extreme nationalism (including economic protectionism), limits on immigration and stronger border controls, and less on markets (and capital-

ism), and encourage selective large government roles (including government investment policies).

Even with power split between the parties, with Democrats controlling Congress and Republicans controlling the executive branch, beyond the focus on the Federal government, a significant swing in power at the state government level may lead to sizeable policy changes that can affect the economy. In the US federalist system, the size and scope of the state and local governments are quite large relative to the size of the Federal government in terms of spending and taxation, regulation and other areas.

Currently, there are 26 Republican governors and 24 Democratic Party governors, and there will be gubernatorial elections in 36 states. In general, the polls suggest that expected outcomes are tilting to the advantage of Democratic candidates. While states by law must have balanced operating budgets, there's sufficient leeway (including deficit spending on capital projects and the power to tax and spend) for sizeable differences in fiscal policies, along with different approaches to regulations, energy policies, etc.

WHAT THE MIDTERM ELECTIONS MEAN FOR CAPITAL MARKETS



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CIO BERGOS AG

Capital markets are heading into the election in an unusual state: equities are trading near their record high, yields are at their highest level in more than two decades, and the gold price is well below its high for the year.

EQUITIES

The rally usually comes after the election

Midterm election years are generally among the weaker years for the stock market. The fact that the US equity market is currently trading near its all-time high is therefore atypical. Historically, the market has usually been choppy from late summer to early October. With the election, legislative uncertainty then fell away, volatility eased significantly through year-end, and a rally set in that often lasted into the spring. On average, it delivered a double-digit gain, considerably more than in other years. The election result itself played only a minor role. This year, too, inflation, monetary policy, the state of the US economy and corporate earnings are likely to remain decisive for the markets.

The impact on the different sectors is likely to be greater than the effect on the market as a whole. Falling US Treasury yields would primarily support

growth stocks from the technology, communication and cyclical consumer sectors, as well as small caps, since lower yields make future earnings look more attractive. Industrials should continue to benefit from investment incentives that have already been enacted, even if the absence of new legislation limits fiscal support. For energy and defence companies, by contrast, foreign policy and geopolitics are more likely to be the deciding factors than the balance of power in Congress.

BONDS

Gridlock is not the same as fiscal restraint

Ten-year US Treasuries are yielding around 5.2 percent, close to their highest level since 2002 (as of 12 October). In September, the Fed raised interest rates for the first time since 2023, and it meets again at the end of October. If the Republicans lose their majority, this could initially provide relief for the bond market, as debt-financed packages would be more difficult to push through. However, political gridlock does not mean fiscal discipline: the debt ceiling is likely to be reached in mid-2027, and a compromise could, according to estimates, widen the deficit by around 1 percent of GDP. Investors could then demand a higher term premium.

GOLD

Interest rates weigh more heavily than politics

For gold, too, the election has only an indirect effect. At present, it is mainly rising yields and a stronger dollar that are weighing on the price, rather than politics. Fiscal policy nevertheless plays a role, and in both directions. Disputes over the budget and the debt ceiling can raise doubts about the sustainability of US government debt and support gold as an alternative to Treasuries. But a divided Congress can also put the brakes on new deficits, which takes the force out of that argument.

Another channel runs through the central bank. The Senate confirms members of the Fed Board. Whoever controls it therefore helps determine how strongly the White House can shape monetary policy. A Fed whose independence is preserved tends to argue against gold. If, on the other hand, doubts about its independence grow, this is likely to support the gold price.

CURRENCIES

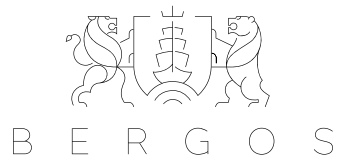
Interest rates and growth drive the dollar

When Donald Trump won the election in November 2024, EUR/USD stood at around 1.09. After an extended period of weakness, the US dollar has appreciated significantly in recent months, mainly due to the changed interest-rate environment and higher rate expectations in the US. Trump is likely to continue pushing for a weaker dollar, as it makes US exports cheaper, makes imports more expensive and gives domestic industry a competitive edge. What will be decisive for the dollar, however, is how US interest rate expectations and the growth outlook for the American economy develop.

CONCLUSION

The midterm elections are less likely to change the direction of US policy than to increase friction in Washington. The most likely outcome, a Democratic win, is largely priced in. A surprise Republican victory would

move markets the most. For equities, history favors the post-election period; for bonds and gold, the Fed, inflation and the deficit remain the bigger drivers.



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