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A DEMOCRATIC SWEEP: OVERSIGHT, INVESTIGATIONS, AND POTENTIAL FOR COMPROMISE

Democrats Take Both Chambers

Democrats have swept both the House and Senate, reshaping Washington's balance of power. While early polling had pointed toward a more divided government, with Democrats gaining control of at least one chamber, the broader sweep now gives the party more policy leverage heading into 2027.

The central dynamic of a Democratic Congress will likely involve more oversight hearings and investigations. Democrats may pursue legislation signaling party priorities, though such bills are likely to face frequent presidential vetoes. We believe investors could see increased political scrutiny of certain sectors and companies, slower confirmation votes, and fewer significant legislative changes. Budget standoffs and potential government shutdowns are likely, though there may be room for limited bipartisan compromises on spending deals.

Where the Tailwinds May Blow

A Democratic Congress could restore support to solar and wind power, slowing the fossil-fuel momentum of the prior two years. Healthcare segments could also benefit, particularly hospitals, life sciences tools, the Affordable Care Act (ACA), and Medicaid, as Democrats would likely push to restore funding for the National Institutes of Health and ACA-related programs.

Where the Headwinds May Lie

A Democratic Congress is likely to agree to modest defense spending increases in exchange for funding Democratic priorities, though we believe any supplemental funds tied to the Iran conflict could face tougher scrutiny. Cryptocurrency and unconstrained artificial intelligence (AI) and data center expansion could face additional policy headwinds, as Democrats plan to expand oversight of AI development and deployment through a new House Select Committee. Healthcare may offer the most potential for compromise between a Democratic Congress and the administration, especially on pharmaceutical pricing controls, which would be challenging for the sector.

AI Regulation Moves to the States

We think states may take the lead on AI regulation, as there have been no federal guidelines or legislation, and a lack of votes for federal pre-emption, similar to the role California has historically played in driving national fuel efficiency standards. Key states to watch for potential impact on the AI buildout include Texas, Georgia, Ohio, and Pennsylvania. Governors' races, utility commissions, and state legislatures in those states could shape regulatory approvals, grid costs, and tax incentives.

Tariffs and Trade: A Consistent Path

Trump administration tariffs look likely to continue, with Section 301 reinforcing tariff levels, alongside continued support for U.S. manufacturing reshoring through tax incentives and industrial policy. Democratic legislation in the new Congress may signal the party's stance on any future tariff adjustments. Democrats appear supportive of protecting key manufacturing sectors while reducing tariffs on certain consumer goods to address affordability concerns.

The Fiscal Backdrop

Fiscal pressures are likely to remain a central focus in 2027. Despite market concerns, there is little chance of fiscal consolidation after the midterms, while at least one government shutdown, potentially paired with another debt-ceiling standoff, is likely. The split dynamic of a Democratic Congress and a Republican administration means budget pressures and shutdown risk persist even under new leadership.

Looking Ahead

In our view, the midterm results can offer signals on where policy is headed, with more consequential changes and an unusually broad range of outcomes in play for the 2028 presidential election. For investors, a Democratic sweep has notable sectoral implications, as renewable energy and healthcare gain ground, while defense, crypto, and unconstrained AI expansion face new challenges. Tariffs and executive actions are difficult to reverse, and the reshoring momentum behind U.S. manufacturing looks likely to continue regardless of the outcome.

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