eastspring investments
A Prudential plc company

Four key conclusions from the US midterm elections

Market update

5 November 2026

Ray Farris, Chief Economist, Eastspring Investments

Summary

- Fiscal policy is set to become a modest drag on US growth, as political gridlock constrains federal spending through FY28.
- Political constraints may delay, rather than derail, AI infrastructure spending, creating greater uncertainty around the timing of 2027 capex.
- Inflation remains a key political and policy risk, potentially reinforcing a more hawkish Fed response while increasing political pressure to contain energy prices.

A broad Democrat victory

As of 9:30am Singapore time (SGT) on 5 November, the Democrats have won 54 seats in the Senate and 238 seats in the House of Representatives. While there are still a handful of races that have not been called, the broad Democrat victory allows us to draw four key conclusions.

- First, although the Democrats have won majorities of both the House of Representatives and the Senate, **they do not have the 2/3 majority that is required to override a Presidential veto of any legislation that they pass**. **This means that there are unlikely to be changes in Trump's authority to impose tariffs or to engage in military action.**

- Linked to this, **US fiscal policy is likely to swing from being a slight boost to economic growth in FY26 to being a modest drag on growth over the next two years** as the Democrats and Republicans are unlikely to be able to agree on a bipartisan budget. Democrat attempts to pass a budget that includes tax hikes or greater healthcare funding via reconciliation would likely be met by a Presidential veto. This implies that Federal spending through FY28 will likely be constrained to FY26 levels through continuing resolutions.

- Another conclusion we draw is that the **political impediments to AI**

infrastructure spending are likely to rise. Essentially all of the elections at both the Congressional level and the local government level we identified in this week's CIO Views as having implications for the regulation of data center development – Ohio, Michigan, Texas, Georgia, and Arizona just to identify the most notable races - were won by Democrats who favour moratoria or other constraints on development.

We expect this to delay some AI capex spending otherwise planned for 2027, but not necessarily permanently cancel it. The political debate across all these races is predominantly about requiring data centers to pay for their impact on local level utilities costs, pay higher taxes to local governments, and to give local governments ultimate authority over the approval of new developments**. Few politicians are arguing for outright bans on new data centers.**

- A fourth conclusion is that inflation and cost of living are currently key flashpoints across the political spectrum. We see two implications:

  - Political pressure to end the Iran war to facilitate lower energy prices is likely to rise. Ultimate authority for military action and agreement to any truce or peace deal still lies with President Trump. As such, we see a high chance of renewed US attacks on Iran in the near term. However, Republican support for any such action is likely to be short-lived and internal pressure on him to end the war is likely to escalate.

  - We believe the Federal Reserve (Fed) will have to be sensitive to this message from the public that current rates of inflation are too high. This may shift the bias in the Fed toward a more aggressive response to higher-than-expected inflation prints and any signs that wage growth is rising than the 60bps of hikes the market currently has priced.

At a broad level, the results of the election are a clear public rebuke of President Trump. All three of his hand-picked candidates, Darline Graham, Michael Whatley, and Ken Paxton lost as did Jon Husted whom Trump had promoted heavily, just to name the most prominent candidates. We expect Republican legislators to gradually shift support away from Trump's more extreme policy preferences in preparation for the 2028 elections.

This note has been updated to reflect the latest election results as of 5 November.

Disclaimer

This document is produced by Eastspring Investments (Singapore) Limited and issued in:

Singapore by Eastspring Investments (Singapore) Limited (UEN: 199407631H)

Australia (for wholesale clients only) by Eastspring Investments (Singapore) Limited (UEN: 199407631H), which is incorporated in Singapore, is exempt from the requirement to hold an Australian financial services licence and is licensed and regulated by the Monetary Authority of Singapore under Singapore laws which differ from Australian laws.

Hong Kong by Eastspring Investments (Hong Kong) Limited and has not been reviewed by the Securities and Futures Commission of Hong Kong.

Indonesia by PT Eastspring Investments Indonesia, an investment manager that is licensed, registered and supervised by the Indonesia Financial Services Authority (OJK).

Malaysia by Eastspring Investments Berhad (200001028634/ 531241-U) and Eastspring Al-Wara' Investments Berhad (200901017585 / 860682-K) and has not been reviewed by Securities Commission of Malaysia.

Thailand by Eastspring Asset Management (Thailand) Co., Ltd.

United States of America (for institutional clients only) by Eastspring Investments (Singapore) Limited (UEN: 199407631H), which is incorporated in Singapore and is registered with the U.S Securities and Exchange Commission as a registered investment adviser.

European Economic Area (for professional clients only) and Switzerland (for qualified investors only) by Eastspring Investments (Luxembourg) S.A., 26, Boulevard Royal, 2449 Luxembourg, Grand-Duchy of Luxembourg, registered with the Registre de Commerce et des Sociétés (Luxembourg), Register No B 173737.

United Kingdom (for professional clients only) by Eastspring Investments (Luxembourg) S.A. - UK Branch, 1 Angel Court, London, EC2R 7AG.

Chile (for institutional clients only) by Eastspring Investments (Singapore) Limited (UEN: 199407631H), which is incorporated in Singapore and is licensed and regulated by the Monetary Authority of Singapore under Singapore laws which differ from Chilean laws.

The afore-mentioned entities are hereinafter collectively referred to as Eastspring Investments.

The views and opinions contained herein are those of the author, and may not necessarily represent views expressed or reflected in other Eastspring Investments' communications. This document is solely for information purposes and does not have any regard to the specific investment objective, financial situation and/or particular needs of any specific persons who may receive this document. This document is not intended as an offer, a solicitation of offer or a recommendation, to deal in shares of securities or any financial instruments. It may not be published, circulated, reproduced or distributed without the prior written consent of Eastspring Investments. Reliance upon information in this document is at the sole discretion of the reader. Please carefully study the related information and/or consult your own professional adviser before investing.

Investment involves risks. Past performance of and the predictions, projections, or forecasts on the economy, securities markets or the economic trends of the markets are not necessarily indicative of the future or likely performance of Eastspring Investments or any of the funds managed by Eastspring Investments.

Information herein is believed to be reliable at time of publication. Data from third party sources may have been used in the preparation of this material and Eastspring Investments has not independently verified, validated or audited such data. Where lawfully permitted, Eastspring Investments does not warrant its completeness or accuracy and is not responsible for error of facts or opinion nor shall be liable for damages arising out of any person's reliance upon this information. Any opinion or estimate contained in this document may subject to change without notice.

Eastspring Investments companies (excluding joint venture companies) are ultimately wholly-owned/indirect subsidiaries of Prudential plc of the United Kingdom. Eastspring Investments companies (including joint venture companies) and Prudential plc are not affiliated in any manner with Prudential Financial, Inc., a company whose principal place of business is in the United States of America or with the Prudential Assurance Company Limited, a subsidiary of M&G plc (a company incorporated in the United Kingdom).