

Gridlock favours the bull

Three scenarios for Washington and the markets

As the US heads towards the 3 November midterm elections, control of both chambers of Congress is in play. Prediction markets favour a Democratic-leaning outcome. But three scenarios remain possible, each with different outcomes for markets and sectors. Still, the gridlock that we expect has historically been positive for US stocks.

Key points

- The 2026 midterms could reshape the balance of power in Washington, with control of both the House and Senate in play and prediction markets currently favouring a Democratic-leaning outcome.
- Three scenarios are possible, each with different market implications. Republican control would likely favour a looser regulatory and fiscal environment, while a blue wave (Democratic control of both the House and Senate) could benefit sectors such as healthcare and clean energy.
- Divided government and political gridlock may be the most likely outcome. This could limit major domestic policy changes without fundamentally reversing the direction of the Trump administration, particularly on foreign policy.
- Gridlock is not typically bad news for investors. Historically, US equities have performed well under a divided government, while the period following midterm elections has also tended to be supportive for stocks.
- We remain constructive on US equities. Strong earnings growth and continued AI investment should remain very supportive.

The Midterms: America's Constitutional stress test

Every four years, the presidential election captures global attention. Yet seasoned Washington observers know that some of the elections that matter most take place halfway through a president's term. **In the US midterm elections, scheduled for November 2026, the entire House of Representatives and roughly one-third of the Senate will be contested.** Unlike the presidential elections, they do not decide who occupies the White House. They determine how much freedom that occupant retains.

Philippe Gijsels
Chief Strategy Officer
BNP Paribas Fortis



Inge Donders
Head of Investment Communication
BNP Paribas Fortis



BNP PARIBAS
WEALTH MANAGEMENT

The bank
for a changing
world

That principle lies at the heart of the American constitutional system. The Founding Fathers deliberately designed a structure in which power would be fragmented. Elections therefore occur continuously. Every two years, voters have an opportunity to adjust the balance of power between the executive and legislative branches, ensuring that no electoral victory becomes a blank cheque. Historically, that mechanism has proven remarkably effective and often remarkably unforgiving to those in power. Since the Second World War, the president's party has almost always lost seats during the first midterm election after entering office. Ronald Reagan experienced it. Bill Clinton experienced it. Barack Obama experienced it. Even Donald Trump experienced it in 2018, during his first presidency. This recurring pattern reflects more than voter dissatisfaction. **Presidential elections are often driven by ambition and promise. Midterms tend to be driven by evaluation.** They provide voters with an opportunity to reward, correct or restrain a governing administration. Some of the most important political turning points in recent decades have emerged from midterm elections. The Republican takeover of Congress in 1994 transformed Bill Clinton's presidency. The Tea Party wave of 2010 fundamentally constrained Barack Obama's domestic agenda. The Democratic victory in the House in 2018 marked the beginning of a period of intense congressional scrutiny of Donald Trump.

Yet the significance of the midterms goes beyond domestic politics.

The United States remains the world's largest economy, issuer of the global reserve currency and the cornerstone of the Western security system, although that role is increasingly being questioned under President Trump's more transactional approach to alliances. Decisions taken in Washington influence everything from trade flows and defence spending to energy policy, sanctions and international institutions. Midterm elections therefore matter well beyond American borders.

This is especially true today. The United States is navigating a far more complex geopolitical environment than during the post-Cold War era. Strategic competition with China has become a bipartisan priority. Questions surrounding industrial policy, technological sovereignty, fiscal sustainability and military commitments increasingly shape the political debate. Against this backdrop, the upcoming midterms are not simply a judgment of Donald Trump. They are also an indicator of how much political support exists for the broader direction in which the United States is moving.

Perhaps most importantly, these elections will offer a glimpse of the political landscape ahead of the 2028 presidential race. Historically, **midterms often reveal which political narratives are gaining momentum and which are losing traction.** They rarely provide definitive answers. But they frequently shape the issues that dominate American politics for years afterwards.

What is needed (for Democrats) to win?

In the Senate, each US state elects two senators. US senators serve a six-year term, meaning that roughly one-third of the 100 Senate seats are up for election at every federal midterm election. Currently, Republicans control the Senate. Of the 35 seats up for election in these midterms, 22 are held by Republicans. To win control of the Senate, Democrats would need a net gain of four seats. Potential targets include North Carolina, Maine and Ohio, where Democrats are leading in the polls, as well as Alaska, Texas (traditionally a very red state), Kansas and Iowa. Seats that they need to hold on to include Georgia, Michigan, Minnesota and New Hampshire.

In the House of Representatives, members represent individual districts within a state and serve two-year terms. This also means that, unlike in the Senate, larger and more populous states have more representatives in the House. **All 435 House seats are up for election in November.** Currently, Republicans control the House by a small margin. Democrats need a net gain of only three or four seats to clinch victory. History shows that the president's party almost always loses ground in the House, as was the case in 20 of the past 23 midterm elections. On average, the president's party has lost 27 House seats. With only a narrow majority to begin with and low approval ratings, Republicans face a **significant challenge in maintaining control.**



Three scenarios that could reshape Washington

Mathematically there are only three scenarios possible. The Republicans retain both houses. They lose one, or the Democrats secure a blue wave and take both houses. The consequences though might be far-reaching.

Scenario 1: The Red Wall

Republicans retaining control could have the biggest fiscal impact. Single-party control typically paves the way for increased spending, permanent tax cuts, stimulus and higher defence spending, potentially boosting growth but also widening the deficit and therefore pushing up interest rates. Judging from the polls, the figures from prediction markets and Donald Trump's approval ratings, this scenario, in which the Republicans retain control of both chambers, is currently the **lowest probability**, by far. Nevertheless, in the current circumstances this would probably be the **most bullish** scenario for equity markets. This outcome would likely mean fewer obstacles to the data centre buildout, a key issue in the election that many Democratic candidates have campaigned against.

Even though AI and the data centre buildout are at the centre of much of the debate about the longevity of the current bull market, most US companies, both tech and non-tech, stand to gain from a looser regulatory environment. If Republicans were to maintain control, this should disproportionately benefit sectors, such as traditional energy, nuclear power, financials, defence and cybersecurity. Shares of defence contractors have underperformed this year amid concerns that a potential Democratic takeover of Congress could lead to tighter oversight and funding delays. If Republicans hold their ground in both chambers, spending could rise and provide a tailwind.

Scenario 2: The Blue Wave

At the opposite end of the spectrum is a blue wave, a scenario in which the Democrats take control of both chambers of Congress. A "blue wave" is usually defined as the Democratic Party taking more than 218 seats in the House of Representatives and more than 49 seats in the Senate. Prediction markets currently put the likelihood of this scenario at around 62%, making it the most likely outcome. However, even a blue wave would not give the Democratic Party absolute power, as Democrats would still have to navigate a Republican president and the checks and balances of the US political system.

A blue wave would likely shift the domestic policy landscape through funding negotiations, oversight and efforts to preserve or unwind existing policies.

That said, when looking at sectors that could benefit, healthcare stocks immediately come to mind. A Democratic Congress could try to reverse the Medicaid cuts from Donald Trump's One Big Beautiful Bill Act (OBBBA). Hospitals, in particular, may benefit if Democrats manage to reverse the Medicaid cuts included in last year's tax and spending bill. Democrats looking for concessions in a possible debt-ceiling negotiation next year may seek wins in healthcare. Clearly, whereas traditional energy would likely do well under the Red Wall scenario, a blue wave would favour clean energy in general and renewable energy in particular. In cryptocurrencies, the odds of any legislation being passed may decline if Democrats take full control. Democrats, along with a few Republicans, blocked the advancement of the Clarity Act in September.

Scenario 3: Gridlock

Gridlock, a situation in which neither party controls both chambers, may sound dramatic. **History shows, however, that it has often proved to be a positive outcome for equity markets.** A divided Congress would make it extremely difficult for the White House to pass most laws, which would be exacerbated in the event of a blue wave. This scenario could be good news for anyone concerned about excessive government spending, stricter regulation or sharp tax increases.

In this divided situation, it is hard to pinpoint clear sector winners. The main beneficiary could be the overall market. Since 1950, a congressional gridlock has been associated with an additional S&P 500 return of 2% compared with periods in which one party controls both chambers.



Gridlock in Congress, but not in the White House?

Much of the discussion surrounding the 2026 midterms centres on a single question: **if Republicans lose one or both chambers of Congress, how much would that actually constrain Donald Trump?**

The short answer is **less than many observers assume.**

A Democratic House of Representatives would undoubtedly complicate Trump's presidency. Congressional committees could launch investigations, summon officials, scrutinise policy decisions and shape the public narrative around the administration. Budget negotiations would also become more difficult, particularly as debates over government spending and the debt ceiling return to the forefront. Yet congressional oversight and presidential power are not the same thing.

Over the past two decades, the American presidency has accumulated considerable room for manoeuvre through executive orders, regulatory powers and emergency authorities. Successive presidents have increasingly relied on these instruments when legislative compromise proved elusive, and Trump has shown himself particularly comfortable with executive action. The implications are perhaps most visible in foreign policy. Trade measures, sanctions, defence decisions and elements of diplomatic strategy remain areas where the White House enjoys substantial discretion. Even an opposition-controlled Congress would find it difficult to reverse the administration's course without broad bipartisan support.

This highlights an often-overlooked reality of modern American politics: Congress can slow a president down more easily than it can force him to change course.

A Democratic victory would therefore not necessarily mark a fundamental break with Trump's agenda. It would increase political friction, strengthen oversight and make legislative victories harder to achieve, but it would not automatically deprive the president of his influence. The more important question may lie elsewhere. The real test for the remainder of Trump's term is whether Washington can continue to function effectively in **an era of rising political polarisation, growing public debt and mounting geopolitical challenges.** The midterms may alter the balance of power, but they will not resolve those underlying tensions.

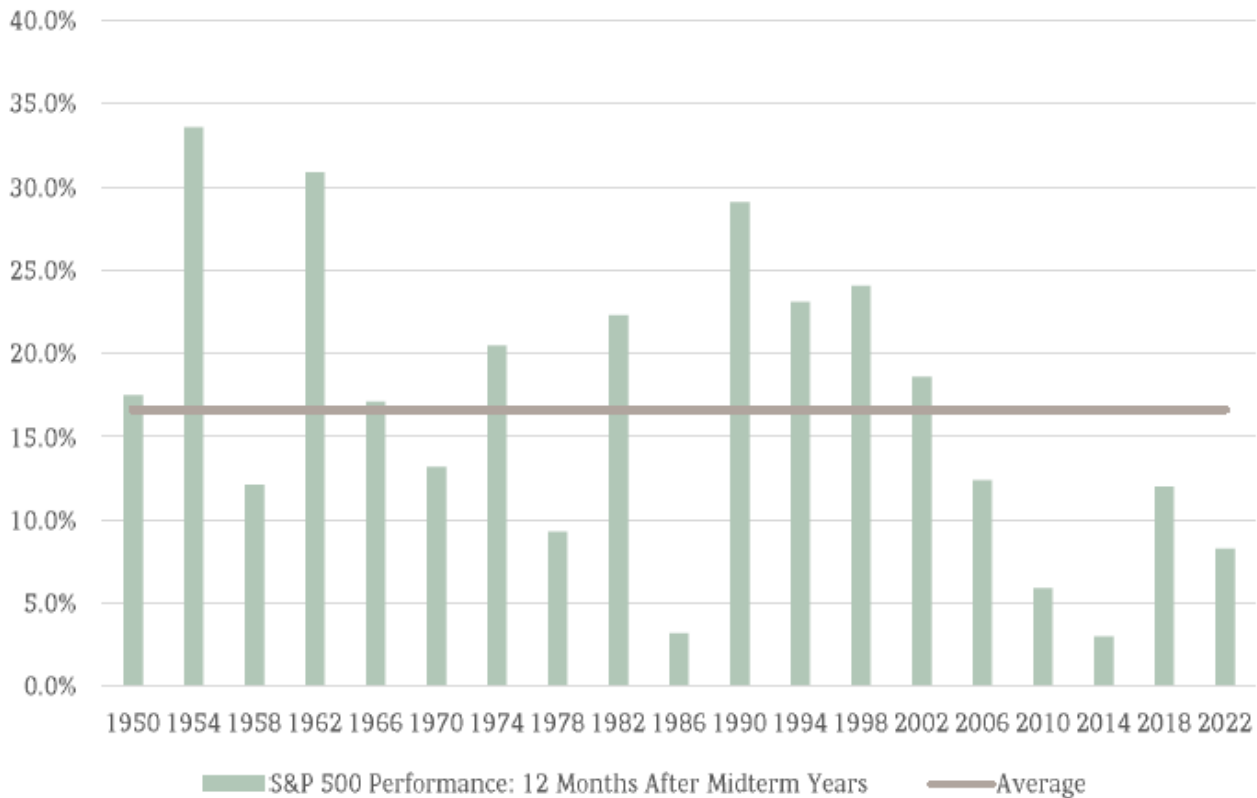
Back to market business as (un)usual?

Overall, in a divided government scenario, whether or not resulting from a blue sweep, **Washington will likely enter a period of policy gridlock.** Out of the three scenarios, the most probable outcome, based on the polls, is a divided government, with at least one chamber of Congress controlled by the Democratic Party. Importantly, even if the Democrats take both chambers, they are unlikely to secure a large enough majority to override presidential authority. As a result, we expect little change in policy direction in the near term.

We also expect little change in policy concerning the critical technology sector. Over the next two years, Donald Trump is likely to veto any legislation that is too unfavourable to the technology industry. We therefore expect AI capex momentum to remain intact after the midterms and potentially even strengthen in **2027 and 2028, as tech companies will want to make their planned investments before political risks intensify ahead of the next presidential election.**

History suggests that, whatever happens, the midterm elections are unlikely to knock the stock market off course. Performance in the months following the midterms tends to be very positive. Traditionally, the S&P 500 has risen in the 12 months following every midterm election since 1946.



Graph 1: History favours US Equities after the midterms

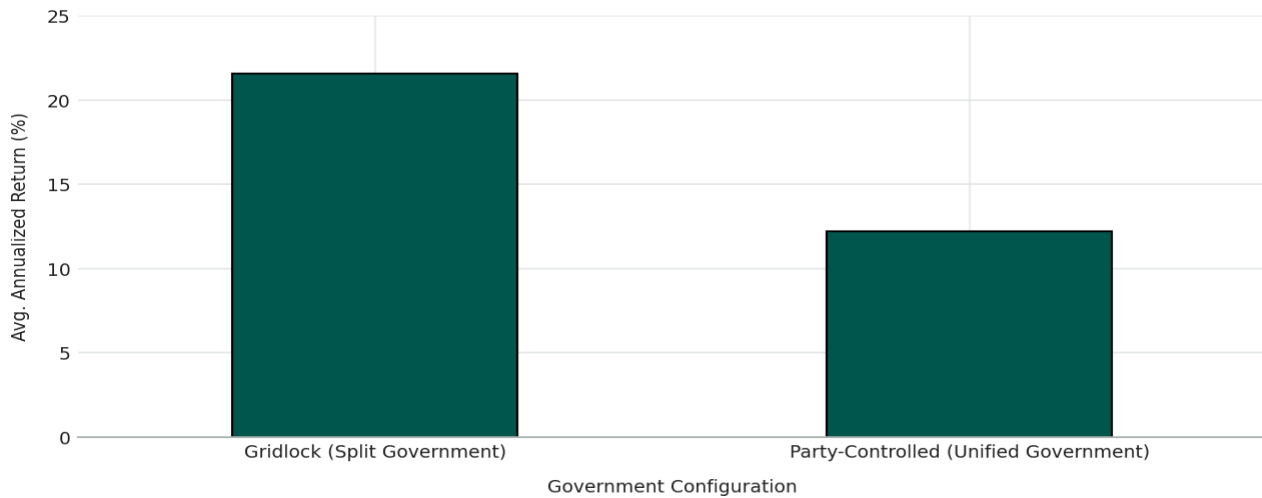
Source: Factset

In short, after 3 November, we will not only enter the traditionally stronger period of the year, covering November, December and January, but also the historically stronger period following a midterm election. Nothing is certain in a world overwhelmed by uncertainty. Nevertheless, the odds appear to favour a continuation of the bull market.

Over the summer and during the traditionally weaker months of the year, particularly September and October, Mr Market has been troubled by concerns about higher oil prices, higher inflation and higher interest rates. Equity markets have held up reasonably well, even though the rally has been very narrow and heavily concentrated in large-cap technology stocks, supported by the massive investment boom by governments and the AI buildout. This has also contributed to one of the strongest periods of earnings growth in recorded history. **We expect third-quarter earnings to continue to come in strong.** For next year, the continuation of the AI buildout should guarantee another year of strong earnings growth in 2027. If oil prices were to come down somewhat and longer-term interest rates were to ease, as typically happens after a run-up of this magnitude, this context would create fertile ground for the bull market and give the post-midterm year every chance of living up to its reputation. In short, we expect gridlock and volatility, but overall equity markets should remain well supported, no matter how US voters cast their votes.



Graph 2: S&P 500 performance: a divided vs. a unified legislature



Source: Factset

Conclusion: The bull can live with gridlock

The midterms may change the balance of power in Washington, but they are unlikely to change the market narrative overnight. Whether the result is a blue wave or a divided government, political friction is likely to increase while major policy shifts become harder to achieve. For investors, that may not be a bad thing. History suggests that both a **gridlock** and the period following midterm elections have generally been favourable for US equities. With earnings growth and AI investment still providing support, the bull market may have more room to run.



CONNECT WITH US



wealthmanagement.bnpparibas

DISCLAIMER

This marketing document is communicated by the Wealth Management Métier of BNP Paribas, a French Société Anonyme, Head Office 16 boulevard des Italiens, 75009 Paris, France, registered under number 662 042 449 RCS Paris, registered in France as a bank with the French Autorité de Contrôle Prudentiel et de résolution (ACPR) and regulated by the French Autorité des Marchés Financiers (AMF). As marketing material, it has not been prepared in accordance with legal and regulatory requirements aimed at ensuring the independence of investment research and is not subject to any prohibition on dealing ahead of its dissemination. It has not been submitted to the AMF or any other market authority.

This document is confidential and intended solely for the use of BNP Paribas SA, BNP Paribas Wealth Management SA or their affiliates ("BNP Paribas") and the persons to whom this document has been delivered. It may not be distributed, published, reproduced or disclosed by any recipient to any other person, nor may it be quoted or referred to in any document, without the prior consent of BNP Paribas.

This document is provided solely for information and shall not constitute an offer or solicitation in any state or jurisdiction in which such an offer or solicitation is not authorized, or to any person to whom it is unlawful to make such offer, solicitation or sale. It is not, and under no circumstances is it to be construed as, a prospectus.

Although the information provided herein may have been obtained from published or unpublished sources considered to be reliable and while all reasonable care has been taken in the preparation of this document, BNP Paribas does not make any representation or warranty, express or implied, as to its accuracy or completeness and does not accept responsibility for any inaccuracy, error or omission. BNP Paribas gives no warranty, guarantee or representation as to the expected or projected success, profitability, return, performance, result, effect, consequence or benefit (either legal, regulatory, tax, financial, accounting or otherwise) of any product or transaction. Investors should not place undue reliance on any theoretical historical information regarding such theoretical historical performance. This document may contain or refer to past performance; past performance is no guarantee for future performance.

The information contained in this document has been drafted without prior knowledge of your personal circumstances, including your financial position, risk profile and investment objectives.

Prior to entering into a transaction each investor should fully understand the financial risks, including any market risk associated with the issuer, the merits and the suitability of investing in any product and consult with his or her own legal, tax, financial and accounting advisors before making his or her investment. Investors should be in a position to fully understand the features of the transaction and, in the absence of any provision to the contrary, be financially able to bear a loss of their investment and willing to accept such risk. Investors should always keep in mind that the value of investments and any income from them may go down as well as up and that past performance should not be seen as an indication of future performance. Any investment in a product described herein is subject to the prior reading and understanding of the legal documentation concerning the product, and in particular the one which describes in details the rights and obligations of investors as well as the risks inherent to an investment in the product. Save as otherwise expressly agreed in writing, BNP Paribas is not acting as financial adviser or fiduciary of the investor in any transaction. The information, opinions and projections expressed herein reflect the opinion of their author at the time of writing; they are not to be relied upon as authoritative or taken in substitution for the exercise of judgment by anyone, and are subject to change without notice. Neither BNP Paribas nor any BNP Paribas Group entity accepts any liability whatsoever for any consequences that may arise from the use of information, opinions or projections contained herein.

As distributor of the products described herein, BNP Paribas may receive distribution fees on which you can obtain more information upon specific request. BNP Paribas, their employees or administrators may hold positions in these products or have dealings with their issuers.

By accepting this document, you agree to be bound by the foregoing limitations.

© BNP Paribas (2026). All rights reserved.

Pictures from Getty Images.



BNP PARIBAS
WEALTH MANAGEMENT

**The bank
for a changing
world**