Implications of a Blue Congress but divided government

5 November 2026

Key takeaways

- The 3 November 2026 United States (US) mid-term elections saw the Democratic Party win control of both the House of Representatives and the Senate.
- That said, President Trump remains in the White House, resulting in a divided government.
- While this changes the US political landscape, the key market drivers will continue to be interest rates, economic growth, artificial intelligence (AI) spending, and corporate earnings.
- UOB maintains a tactically cautious but Neutral outlook on Equities, seeing the importance of selectivity and diversification with a focus on profitable, cash-generative companies.

Democrats win control of US Congress

The US mid-term elections have given the Democrats control of both chambers of Congress, though the exact size of the Democratic majorities is yet to be finalised.

A blue Congress, but political gridlock the likely outcome

- The result changes the balance of power in Washington, but with President Trump still in the White House, the reality is a divided US government.
- A Democratic Congress can block Republican legislation, set committee priorities, conduct investigations, negotiate annual government spending, and seek to influence policy implementation via oversight and funding conditions.
- However, the Democrats cannot readily enact their own policy agendas without support from either the president or Republican lawmakers.
    - President Trump retains executive authority and veto power.
    - Overriding a presidential veto requires two-thirds support in both chambers, while many contested policy measures require 60 Senate votes to advance.
- This means the likely outcome is domestic political gridlock rather than a wholesale policy reset.
- One thing to watch is the US government funding deadline that looms before the end of this year, just before the Democrats take control of Congress on 3 January 2027.
    - A failure to negotiate and pass a funding bill before the deadline would trigger a government shutdown.

Market reaction

- Financial markets initially turned risk-off as the scale of the Democratic victory became clear.
    - This was due to concerns about tighter scrutiny of AI and data centre development.
    - There were also concerns the Democrats would use this platform to launch investigations into the Trump administration for conflicts of interests, potentially wasting precious political capital for no discernible economic impact.
- US stock markets, however, staged a swift recovery as President Trump said he would accept the election results, easing political uncertainty which prompted investors to buy into the dip.
    - Investors also focused on the prospect that a divided government limits the scope for abrupt policy change.

    - Checks and balances within a divided government also mean a lower likelihood of unrestrained fiscal spending that requires heavy debt issuance and worsens the fiscal deficit.
        - This led to a decline in US Treasury bond yields which weighed on the US dollar.
- The swift stock market recovery suggests the initial response was driven more by positioning and policy uncertainty rather than a lasting re-assessment of the corporate earnings outlook.
- With prediction markets having already anticipated this political outcome, the immediate market reaction should be limited.
- The focus will shift to whether this new balance of power meaningfully affects government policy and corporate earnings.

Sector implications

Sector	Election Effect	Investment Interpretation
Healthcare	Positive	Healthcare may see the most direct impact from a Democratic Congress. Democrats are likely to prioritise affordability and seek to protect Medicaid and Affordable Care Act coverage.
Clean energy	Mixed	Democrats can protect selected policies, but major new climate spending remains unlikely.
Industrials and infrastructure	Neutral	Projects tied to power, manufacturing, transport, defence and AI may retain cross-party support.
Defence	Neutral	Bipartisan national-security priorities should keep the spending cycle intact. Geopolitics and procurement matter more.
Traditional energy	Neutral	Congressional scrutiny may rise, but oil prices, geopolitics and production economics remain dominant.
Financials	Mild Headwind	Oversight may rise, but rates, credit quality, deposits and capital markets remain the key earnings drivers.
AI and data centres	Mild Headwind	Bipartisan strategic importance but data centre developments are increasingly facing local opposition related to power consumption, electricity costs and land use. High valuations and capital needs require selectivity.

Key takeaway

Healthcare remains the clearest beneficiary of a Democratic Congress. Most other sectors are driven primarily by economic and geopolitical factors, while regulatory scrutiny may increase for financials, AI infrastructure and clean energy.

Source: UOB Private Bank.

UOB House View: Cautious, selective, and neutral

- While the election result reshapes the policy backdrop, interest rates, economic growth, AI spending and corporate earnings will likely remain the key market drivers ahead.
- UOB's investment outlook remains unchanged.
    - We maintain a Neutral outlook on Equities as elevated bond yields, the prospect of further Federal Reserve (Fed) interest rate hikes, and crowded investor positioning weakens the near-term risk-reward balance.
        - This is a tactical decision to be cautious and lower portfolio risk in the short term.
    - That said, we retain a strategically constructive outlook for risk assets in the medium term.
    - Favour profitable cash-generative companies with resilient balance sheets and look to accumulate quality assets and dividend-paying stocks on dips.
    - Diversify portfolios while being selective in investment opportunities.
        - While the AI structural theme remains intact, investors should favour companies that can translate AI investment into increased revenue, productivity gains, and resilient cash flows.
        - For investors with heavy AI exposure, look to diversify into the financials, defence, and healthcare sectors.
- Speak to a UOB Advisor on how to position your portfolio according to your risk appetite and goals.



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