SCENARIO ANALYSIS · AKSHAYAAI RESEARCH

A Democratic Congress: what it means for markets and sectors

Scenario: Democrats control both the House and the Senate from January 3, 2027, while President Trump stays in the White House until January 2029. Prepared November 3, 2026 (election night). Market data as of the dates shown. Yellow highlights mark the points not to miss.
Source tags: **[Reported]** news reports or official data · **[Analyst view]** views of named outside analysts · **[AkshayaAI view]** AkshayaAI's scenario judgement, not a forecast · **[Calc]** our calculation.

KEY TAKEAWAYS

• **Divided government, not a policy U-turn:** a Democratic Congress cannot repeal the 2025 tax law, tariffs or executive actions on its own; President Trump keeps the veto, and Democrats lack two-thirds. The main change is that **nothing passes without both sides**, and Congress gains oversight, subpoena and Senate confirmation power **[AkshayaAI view]**.

• **The first market read was risk-off for AI, not a broad panic:** S&P 500 futures fell 1.2% and Nasdaq futures more than 2% as early results came in; the 10-year Treasury yield fell 6 basis points to 4.906% and the dollar index fell 0.37% to 101.34 **[Reported]**. Traders focused on tougher scrutiny of AI and data centers **[Analyst view]**.

• **AI and data centers are the biggest swing, but Congress cannot stop the buildout** (see section 1): permits, zoning and power hookups are state and local decisions, and federal agencies stay with the White House. What changes is that **the federal accelerator comes off** (override of state AI laws and data-center fast-track bills become unlikely), grid costs may shift onto data centers, and oversight rises **[AkshayaAI view]**. The real friction is local: only one in three Americans approve of the pace of data-center building (Reuters/Ipsos) **[Reported]**.

• **Healthcare is the first legislative fight:** Democrats say they will move right away to restore the Affordable Care Act (ACA) premium tax credits that expired in 2025 and to reverse Medicaid cuts in the 2025 tax law **[Reported]**. Hospitals and ACA-focused insurers stand to gain if any of it becomes law; Medicare Advantage insurers face more scrutiny **[AkshayaAI view]**.

• **Fiscal flashpoints move to 2027:** government funding runs only to December 11, 2026, and the $41.1T debt limit is expected to be reached between late winter and mid-summer 2027 **[Reported]**. Divided control historically raises shutdown and debt-limit brinkmanship risk **[AkshayaAI view]**.

• **History is supportive but not a forecast:** stocks have usually risen in the year after a midterm, and gridlock is often seen as market-friendly. But a Republican president with a Democratic Congress has historically been one of the weaker combinations, and today's macro backdrop (an Iran war, oil above $100, a Fed that hiked in September) can outweigh politics **[Analyst view]**.

1. AI and data centers: the key question for investors

Can a Democratic Congress slow AI or the data-center buildout?

Not directly. Congress cannot stop data centers from being built or AI models from being developed. Construction permits, zoning, water and power hookups are decided by states, cities and utility regulators; federal agencies, including the grid regulator FERC and the Commerce Department (chip export controls), stay under the White House; and any new law needs the President's signature, with no veto-proof majority expected. What changes is the direction of federal policy: the federal push to **speed up** the buildout loses momentum, grid costs may be shifted onto data centers, and oversight increases **[AkshayaAI view]**. The election-night selloff in AI stocks reflected sentiment and valuation more than any new legal barrier.

Who decides what: the levers over AI and data centers

Lever	Who controls it	Changes in this scenario?
Zoning, building and environmental permits for a data center	Cities, counties and states	No. Congress is not involved
Statewide pauses and ballot measures	Governors, legislatures, voters. New York paused permits for large data centers by executive order (Jul 14, 2026); roughly three dozen local data-center measures were on ballots in seven to eight states this November (counts vary by tracker) **[Reported]**	No. This is where most real friction comes from

Lever	Who controls it	Changes in this scenario?
Electricity rates and who pays for grid upgrades	State utility commissions; FERC for interstate transmission (FERC has pressed grid operators in 2026 to rewrite large-load connection rules) [Reported]	Possibly. Congress could require large users to pay (see the GRID Savings Act below)
Federal permits and environmental reviews; federal land	Executive agencies	No. They stay with the administration
Overriding state AI laws	December 2025 executive order directs challenges to state AI laws; a lasting national override needs a law [Reported]	Yes: a federal override becomes unlikely, so state AI and data-center rules stand
Data-center permitting fast-track laws	Congress	Less likely; bipartisan permitting reform (including nuclear) remains possible (UBS) [Analyst view]
Frontier-AI safety rules	Congress for laws; agencies for guidance	Hearings likely; a law needs the President's signature [AkshayaAI view]
Chip export controls	Commerce Department (executive)	No. Congress can hold hearings only
Oversight and subpoenas	Congressional committees	Yes: new. AI safety, power bills, water use, Big Tech, chip exports
Confirmations (FERC, energy and other regulators)	Senate	Yes: new leverage over future appointees

What Congress can actually do

• **1. Take the federal accelerator off.** Probably the biggest effect. Bills that would override state AI laws or fast-track data-center permits become unlikely to pass. JPMorgan had said Republican control would be the "most supportive incremental federal policy backdrop for the AI/Infrastructure buildout" [Analyst view]. In this scenario the buildout loses an accelerator; it does not hit a brake.

• **2. Shift grid costs onto data centers.** Senator Martin Heinrich (D-NM), the top Democrat on the Senate Energy Committee and its likely chair in a Democratic Senate, introduced the GRID Savings Act (S. 5199) on Aug 3, 2026. It would make facilities drawing more than 150 MW pay for the grid upgrades their demand requires, require payment guarantees, and direct FERC to set a national large-load connection rule [Reported]. Provisions like this could ride on must-pass bills: they raise developers' costs; they don't stop projects. [AkshayaAI view]

• **3. Investigate.** Hearings and subpoenas on power and water use, AI safety and Big Tech. Raymond James's Ed Mills said probes could speed efforts to require safety standards for frontier models, independent evaluations, incident reporting and accountability for data-center developers [Analyst view].

• **4. Use the Senate's confirmation power** over future regulators, which shapes policy over years rather than months [AkshayaAI view].

Why AI stocks fell anyway

• **Valuations:** AI names had priced in an optimistic buildout, so any doubt moves them sharply [Analyst view].

• **Voter backlash as a signal:** power bills were a campaign issue; only one in three Americans approve of the pace of data-center building (Reuters/Ipsos) [Reported]. A strong Democratic showing, including the Texas Senate race, was read as a sign that local resistance could spread; Mirae Asset's Kim Seok-hwan warned projects "could face further delays" if Texas followed New York [Analyst view]. A Senate seat does not change Texas permitting law [AkshayaAI view].

• **The counterweight:** Societe Generale expected the AI trade to hold because Democrats are unlikely to reach a veto-proof majority and key agencies stay Republican-led [Analyst view]. Hyperscaler spending plans, not Congress, drive AI demand [AkshayaAI view].

Impact by part of the AI trade *[AkshayaAI view]*

Segment	Exposure in this scenario	Main channel
Data-center REITs and developers	Highest	Grid-cost charges, local permitting, hearings on power and water
AI-linked utilities and independent power producers	High	Who pays for new plants and transmission; state rate cases
Memory, chips and chip equipment	Medium	Sentiment and export-control hearings; demand set by capex budgets
Hyperscalers and mega-cap platforms	Medium	Antitrust and AI-safety hearings; capex plans unchanged by law
AI model developers (private, pre-IPO)	Medium	Valuation sentiment; safety rules; IPO timing (below)

What it means for the Anthropic and OpenAI IPOs

	Anthropic	OpenAI
Status	Public S-1 filed Oct 26, amended Nov 2; Bloomberg reported a roadshow as soon as the week of Nov 9 and a listing targeted before Thanksgiving; investors reportedly discussed a $1.8–2T valuation **[Reported]**	Filed confidentially; has not filed publicly; its CFO reportedly told staff in August it will go public in 2027 "or sooner" **[Reported]**
Timing vs. the new Congress	Likely lists before the new Congress is sworn in (Jan 3, 2027); SEC review stays under current leadership	Would list under the new Congress, during 2027's fiscal fights
Main risk from this scenario	Valuation: if the AI-led selloff lasts into pricing week, price or deal size could come under pressure. If pricing slips past Dec 11 and the government shuts down, SEC staffing cuts could delay it **[AkshayaAI view]**	Debt-limit standoff (expected late winter to mid-summer 2027) and a possible shutdown at the Oct 1, 2027 funding deadline could close IPO windows; AI and data-center hearings; AI valuations **[AkshayaAI view]**
Policy angle	Mixed: its dispute with the Department of War is decided by the courts, though Congress can hold hearings; safety rules matter less to a company that already discloses its own safety framework; grid-cost charges would modestly raise compute costs on ~$895B of commitments **[AkshayaAI view]**	Hearings on large data-center projects and AI safety; same grid-cost exposure **[AkshayaAI view]**

The wider 2027 IPO pipeline

Several of the largest private companies have pushed their listings into 2027, so they would come to market under the new Congress. Status as reported in recent pipeline trackers and news coverage **[Reported]**:

Company	Reported status	Most relevant channel in this scenario [AkshayaAI view]
Databricks (data and AI software)	Not filed; CEO Ali Ghodsi called 2026 "a terrible year to go public"; ~$190B valuation in an Aug 2026 round; expected 2027	AI valuations and sentiment; less exposed to data-center politics than infrastructure
Stripe (payments)	No filing; ~$159B valuation in a Feb 2026 tender offer; founders in no rush; 2027 or later	Fintech and crypto oversight; federal crypto legislation stalls
Revolut (fintech)	Private; leadership points to 2027–2028	Same fintech and bank-regulation channel
Canva (design software)	IPO preparation (moved to Delaware, hired an IPO-experienced CFO); no filing; expected 2027	Mostly market conditions
Anduril (defense tech)	No filing; ~$61B (May 2026); founder says it will "definitely" go public; 2027 or later	Closer review of defense budgets, offset by Iran-war demand
Discord, Plaid, Kraken, Perplexity and others	Discord filed confidentially (Jan 2026); Plaid in early bank talks; Kraken paused toward 2027; Perplexity targeting 2027–2028	Platform and crypto oversight; AI sentiment

General read: Congress does not open or close IPO windows; markets do. Listing windows depend on volatility, interest rates and how recent deals trade, and divided government has not historically stopped IPOs **[AkshayaAI view]**. The

scenario matters through three channels: (1) **calendar risk**, because a shutdown slows SEC review of filings, and 2027 has two likely flashpoints, the debt limit (late winter to mid-summer) and the Oct 1 funding deadline; (2) **sector oversight** for fintech, crypto, defense and consumer platforms; and (3) **supply**, as SpaceX (June 2026), Anthropic and then OpenAI absorb very large amounts of investor capital, which could crowd the 2027 calendar. Lower Treasury yields, if they last, would support valuations for long-duration growth companies. Pipeline figures are from secondary trackers and company reports and may change.

Signals to watch for AI and data centers

Signal	Why it matters
Hyperscaler capex guidance in upcoming earnings	The main driver of AI demand, regardless of Congress
Results of this week's local data-center ballot measures	The clearest read on how far local resistance spreads
Progress of the GRID Savings Act or similar cost-allocation riders	Would raise costs for large power users
FERC's large-load connection rules	Sets how fast and at what cost data centers connect to the grid
New York's data-center review (up to one year) and copycat state actions	State moratoria are the most direct brake on building
Court fights over state AI laws	Without a federal law, state rules depend on the courts
Committee hearing schedules from January 2027	Headline risk for AI, Big Tech and power names

2. What a Democratic Congress can and cannot do

The scenario produces divided government: a Republican president and a Democratic Congress. Legislation needs both. The table sets out the levers that move markets and who holds them.

Lever	Who controls it in this scenario	What it means for markets
New laws (taxes, spending, regulation)	Both chambers + presidential signature; Senate filibuster needs 60 votes	Major new laws are unlikely in either direction; the 2025 tax law (One Big Beautiful Bill Act, OBBBA) stays in place
Vetoes	President; override needs two-thirds of both chambers (not expected)	Democratic bills to repeal tariffs or reverse Medicaid cuts would likely be vetoed **[Analyst view]**
Tariffs	President, under Section 232 and Section 301 trade laws; Congress can pass limits, subject to veto	Tariff policy stays mainly with the White House and the courts; congressional pressure and investigations add headline risk
Government funding and the debt limit	Must-pass bills need both parties	Highest risk of shutdowns and debt-limit standoffs; also the main forcing events for deals
Oversight and subpoenas	House and Senate committees (Democratic chairs)	Investigations of the administration, trade-deal exemptions, crypto and prediction-market ties, AI and Big Tech **[Reported]**
Nominations (judges, cabinet, Federal Reserve, regulators)	Senate (Democratic majority)	The president can nominate but needs Senate confirmation: Fed Board seats, financial regulators and judges become harder to fill
War powers	Congress can pass resolutions; the president can veto	More votes to limit the Iran war; any effect on oil depends on the White House **[Reported]**
Regulation by agencies (SEC, banking, FTC, energy)	Executive agencies stay under Republican-appointed leaders	Deregulation slows at the margin through oversight but is not reversed **[Analyst view]**

Congress can also overturn recent agency rules under the Congressional Review Act, but a resolution needs the president's signature, so it is unlikely to be used against this administration's rules. The lame-duck session (November–December 2026) is still run by the current Republican majorities, which may try to finish funding, the defense bill (NDAA), a farm bill and possibly another budget reconciliation package before January 3 **[Reported]**.

3. The market backdrop the scenario lands in

Indicator	Latest reading	Why it matters here
Federal Reserve	Target range 3.75%–4.00% after a 25 bp hike in Sep 2026; held on Oct 28 in a 10–2 vote (two members wanted a hike); Chair Kevin Warsh [Reported]	Markets were pricing a possible December hike; election-driven yield moves sit on top of a hawkish Fed
Inflation	August CPI 3.4% year over year (core 2.4%); energy CPI +16.3% [Reported]	Energy, not tariffs, is now the main inflation driver
Oil	Brent above $100 since Sep 10 (about $103 on Oct 9) after attacks near the Strait of Hormuz [Reported]	War-powers votes could matter for oil only if they change White House policy
10-year Treasury yield	About 4.9% (4.906% on election night, down 6 bp) [Reported]	Lower growth and fiscal-stimulus expectations pulled yields down on the first read
Federal finances	Deficit 6.2% of GDP ($1.99T); gross debt 126% of GDP (Sep 2026) [Reported]	Little room for new stimulus; any Democratic spending plans face the same arithmetic
Tariffs	Effective tariff rate 7.1% (Aug 2026). IEEPA tariffs struck down Feb 20, 2026; the Section 122 tariff expired Jul 24; new Section 301 tariffs of 10%–12.5% on 60 economies; Section 232 steel and aluminum at 50% [Reported]	Tariff policy now rests on trade laws that Congress cannot easily undo without a veto-proof majority
Government funding	Stopgap funding runs to December 11, 2026 [Reported]	First test: the old Republican Congress must fund the government or hand the fight to the new one
Debt limit	$41.1T; expected to be reached late winter to mid-summer 2027, with 6–9 months of extraordinary measures after that (Bipartisan Policy Center) [Reported]	The biggest fiscal flashpoint of the scenario: likely a 2027–early 2028 standoff
Stocks	S&P 500 up about 27% since January 2025 (Reuters, Nov 2) [Reported]	High valuations, especially in AI, make markets sensitive to any doubt about the AI buildout

4. The first market reaction (election night)

Market	Move as early results pointed to a Democratic sweep	Read-through
S&P 500 futures	–1.2%	Broad but moderate de-risking
Nasdaq futures	more than –2%	AI and Big Tech led the decline: concern about more scrutiny of AI and data centers [Analyst view]
10-year Treasury yield	–6 bp to 4.906%	Less fiscal stimulus and slower growth expected; a partial cushion for stocks [Analyst view]
Dollar index	–0.37% to 101.34; euro +0.5% to $1.1249; sterling +0.37% to $1.3464	Gridlock seen as weighing on US growth [Analyst view]
Asia and Europe	Nikkei –3%, KOSPI –1.6% (chip-heavy markets), Asia ex-Japan –0.5%, European futures –1.4%	AI supply chain (memory, chip and server makers) hit hardest

Source: Reuters market report on early results (Nov 3–4, 2026). Moves were in futures and overseas trading before the US cash open and can reverse. Before the vote, Polymarket gave a Democratic sweep about 72% odds, so much of the outcome was expected; the surprise was the size of the wins, including in Texas [Reported].

What analysts said. Saxo's Charu Chanana said markets were pricing "the possibility of a stronger-than-expected Democratic showing," that the sharper Nasdaq drop reflected concern about regulatory scrutiny of AI and Big Tech at high valuations, and that "lower Treasury yields could eventually provide some relief." Mirae Asset's Kim Seok-hwan said a Democratic win in Texas raised concern that data-center "projects could face further delays" if Texas followed New York's moratorium [Analyst view]. Before the vote, Societe Generale expected the AI trade to hold because Democrats are unlikely to reach a veto-proof majority and key agencies stay under Republican control [Analyst view].

5. Policy area by policy area: what changes

Policy area	Democratic Congress agenda (stated or reported)	Likely outcome under divided government [AkshayaAI view]	Market channel
Healthcare	Restore ACA premium tax credits (expired 2025); reverse ~$1T of Medicaid cuts and work requirements in the 2025 tax law; more scrutiny of Medicare Advantage [Reported]	ACA credits are the most likely area for a deal (popular, and tied to must-pass bills); Medicaid reversal likely vetoed	Hospitals, ACA-exchange insurers, Medicaid managed care; Medicare Advantage insurers
Tariffs	House leader Hakeem Jeffries calls limiting or overturning tariffs "a first 100-days priority"; probes of trade-deal exemptions [Reported]	Bills likely pass the House and may pass the Senate but face a veto; pressure and investigations rather than repeal	Retail, consumer staples, autos, importers; tariff refunds already flowing from the IEEPA ruling
Iran war	More war-powers votes to push the administration to end military action [Reported]	Symbolic unless the White House changes course; veto likely	Oil, defense, inflation expectations
AI and data centers	Frontier-AI safety standards, independent testing, incident reporting, accountability for data-center developers; who pays for new power plants and grid lines [Analyst view]	Congress cannot stop projects; it can block federal fast-tracking, shift grid costs onto data centers and hold hearings. Permitting friction is state and local (see section 1) [AkshayaAI view]	Data-center REITs, AI-linked utilities and independent power, memory and chip equipment, Big Tech capex
Defense	Closer review of spending; oppose a proposed $350B of mandatory defense funding; the administration proposed a $1.5T budget vs $901B approved [Reported]	Base budget grows with bipartisan support; the largest increases are less likely	Defense primes (record backlogs from the Iran conflict), shipbuilding, munitions
Financial regulation	Slow the easing of bank rules through oversight [Analyst view]	Easing continues more slowly; agencies stay Republican-led [Analyst view]	Large banks and capital markets; regional banks
Crypto	Investigations of Trump-linked crypto and prediction-market businesses; the Senate's CLARITY market-structure bill already failed in Sep 2026 [Reported]	Federal crypto legislation stalls for two years	Exchanges, crypto miners, stablecoin issuers; headline risk more than price impact [Analyst view]
Energy and climate	Defend remaining clean-energy credits; scrutiny of EV rollbacks [Reported]	No new climate law; bipartisan permitting reform and nuclear support remain possible (UBS) [Analyst view]	Solar, storage, nuclear, oil and gas, automakers
Taxes	No change possible without the president; the 2025 tax law stays	Tax rates stable through 2028 [AkshayaAI view]	Removes tax-hike risk; limits new tax cuts
Federal Reserve	Resist efforts to remove Governor Lisa Cook; Senate confirms Fed nominees [Reported]	Fed independence is less at risk [Analyst view]	Rates, the dollar, bank stocks
Housing	Affordability measures such as limits on large institutional landlords [Analyst view]	Administration keeps implementing the ROAD to Housing Act; new Democratic measures face a veto [Analyst view]	Homebuilders, single-family rental owners

"Stated" items come from Democratic leaders' public plans (AP, Oct 14, 2026; Chicago Council on Global Affairs, Oct 28, 2026). The administration and Republican leaders oppose most of them: they argue tariffs protect US industry, the 2025 tax law's Medicaid changes curb costs, and fast data-center and energy buildout is a national priority. Outcomes are AkshayaAI's judgement about what divided government is likely to produce, not predictions.

6. Sector scorecard under the scenario

Leans are relative tilts against the broad market for the next 6–12 months, caused by politics alone. Earnings, the Fed, oil and AI demand will usually matter more. They describe sectors, not individual stocks, and are not buy or sell recommendations **[AkshayaAI view]**.

Sector	Political lean [AkshayaAI view]	Why	What would change the view
AI infrastructure: data-center REITs, AI-linked utilities and independent power	Headwind	No federal accelerator; possible grid-cost charges for large users; state and local permitting friction (not caused by Congress); Reuters/Ipsos: only 1 in 3 approve of the pace of building	Strong hyperscaler capex guidance; bipartisan permitting deal; ballot measures failing
Semiconductors, memory and chip equipment	Headwind (mild)	Sold off first on election night; export controls and Big Tech scrutiny; but demand is earnings-driven, not legislative	AI earnings beats; no new federal AI law
Mega-cap tech and platforms	Mixed	More antitrust and AI-safety hearings; tax law unchanged; lower yields help valuations	Fed policy and yields
Hospitals and healthcare facilities	Tailwind	Most direct winner if ACA credits return or Medicaid cuts are softened; even attempts signal more insured patients	No ACA deal by mid-2027
Health insurers	Mixed	ACA-exchange and Medicaid insurers gain from subsidy restoration; Medicare Advantage faces more scrutiny; TD Cowen sees limited risk of major structural change **[Analyst view]**	Details of any ACA deal; Medicare Advantage rate notices
Pharma and biotech	Neutral to mild headwind	Drug-pricing pressure continues mainly through the executive branch; hearings add headline risk; sector up more than 19% this year before the vote **[Reported]**	Bipartisan drug-pricing bill
Defense and aerospace	Neutral to mild headwind	Closer budget review and less chance of the $1.5T proposal; offset by Iran-war demand and record backlogs	Escalation or end of the Iran war
Large banks and capital markets	Mild headwind	Slower deregulation; Man Group sees a sweep weighing on capital markets **[Analyst view]**; Morgan Stanley sees easing slowed, not derailed **[Analyst view]**	M&A and IPO volumes (e.g., large tech IPOs)
Regional banks	Neutral	Lower yields and a steeper curve matter more than politics	Credit quality; Fed path
Consumer staples and retail	Mild tailwind	Affordability focus and pressure against tariffs; Man Group and State Street see health care and retail gaining **[Analyst view]**	Tariff vetoes; consumer spending
Autos	Mixed	Possible pressure over EV rollbacks; any tariff relief helps importers	Section 232 auto tariffs
Oil and gas producers	Neutral	Prices are driven by the Iran war and Hormuz; no new taxes possible	War-powers outcome; ceasefire
Clean energy (solar, storage, nuclear)	Mild tailwind	Remaining credits protected; bipartisan support for nuclear and permitting reform **[Analyst view]**	Agency actions on credits; interest rates
Homebuilders	Neutral	Rates dominate; PHLX Housing Index down nearly 5% this year **[Reported]**	Mortgage rates
Crypto-linked equities	Mild headwind	Market-structure law stalls; investigations of Trump-linked crypto firms **[Reported]**	SEC rulemaking (still Republican-led)
Small caps	Mixed	Lower yields help; weaker growth and less deregulation hurt	Fed in December

Strategists also note that sector leadership in midterm years has rarely followed a party script, and RBC expects little overall effect on sector returns, with a modestly negative tilt for a Democratic sweep **[Analyst view]**.

7. Rates, the dollar and the fiscal path

• **Treasury yields:** the first move was lower (–6 bp on the 10-year), as markets priced less fiscal stimulus and slower growth. Ebury's Diego Barnuevo called a Democratic sweep "neutral to mildly positive for the fiscal outlook," because negotiations would be limited to must-pass items [Analyst view]. Others see no outcome that materially improves the deficit [Analyst view].
• **The dollar:** weaker on the first read. Corpay's Karl Schamotta had argued a Republican hold would have supported the dollar through higher yields, so a sweep removes that support [Analyst view]. A weaker dollar helps US multinationals' reported earnings and emerging markets.
• **Debt limit:** the $41.1T limit is expected to bind in 2027. A Democratic Congress facing a Republican president has a strong incentive to bargain over it, which historically brings short-term Treasury bill stress, credit-rating warnings and volatility rather than default [AkshayaAI view].
• **Shutdown risk:** funding expires December 11, 2026, under the outgoing Republican Congress. If it is only extended into early 2027, the new Democratic majorities gain leverage over full-year FY2027 spending [AkshayaAI view].
• **The Fed:** the Senate confirms Fed nominees, and the Chicago Council expects Democrats to resist efforts to remove Governor Lisa Cook, making it easier for Chair Warsh to assert independence [Analyst view]. Rate policy will still be driven by energy-led inflation (3.4%) and a weak jobs market (September payrolls +29,000) [Reported].

8. What history says (and its limits)

Base rate	Figure	Source
S&P 500 average return in the 12 months after a midterm (38 elections since 1874)	+14%; positive in 32 of 38 (84%)	Shiller data via The Motley Fool [Analyst view]
Post-midterm calendar years, 1950–2022	19 of 19 positive; average ~+21%	Morningstar / PNC [Analyst view]
Average 12-month return under divided government	+16% (91% positive, 23 cases)	Cited in AkshayaAI's Oct 30 report [Analyst view]
Republican president + split or Democratic Congress	Historically the softest of the six party combinations (~+5% a year)	RBC Wealth Management [Analyst view]
President's party lost the House (8 cycles since 1930): Election Day to year-end	S&P 500 up in 5 of 8; median +1.4% (all midterm years: +1.9%)	Ned Davis Research [Analyst view]

Ned Davis's Ed Clissold: "Conventional wisdom is that gridlock is good" for stocks, and a Democratic House could modestly temper a year-end rally, but stocks have generally advanced regardless [Analyst view]. These are small samples, and none of the past cycles combined an active war, oil above $100, a Fed hiking cycle and AI-driven valuations. Treat base rates as context, not a forecast.

9. Three ways the scenario could play out

Divided government can produce very different two-year paths. These are illustrative paths, without probabilities, and the signals that would tell them apart **[AkshayaAI view]**.

Path	What it looks like	Market tone	Signals to watch
A. Gridlock and grind	Few laws pass; stopgap funding; oversight hearings; tariff and AI policy stay with the White House and courts; debt limit raised late but without default	Policy noise fades; earnings, the Fed and oil drive markets; supports the historical post-midterm pattern	Quick, clean funding deal in December or January; low-drama committee schedules
B. Confrontation	Shutdown in 2027; debt-limit brinkmanship; high-profile investigations; impeachment talk; repeated war-powers and tariff veto fights	Higher volatility; Treasury bill stress near the debt-limit deadline; pressure on AI, defense and crypto names	Funding lapses; subpoena fights in court; rating-agency warnings
C. Selective deals	Must-pass bills carry bipartisan items: ACA credits, permitting reform, a defense bill, possibly tariff relief for allies	Relief for healthcare facilities, retail and clean energy; positive for growth expectations	Bipartisan health or permitting bills moving; trade deals with Canada and the EU

The case for and against, as investors argue it

Arguments that the scenario is market-friendly	Arguments that it is market-unfriendly
Gridlock lowers the odds of disruptive new laws; tax rates are locked in through 2028	AI infrastructure, the market's main growth engine, faces more scrutiny and local opposition
Lower yields and a weaker dollar ease financial conditions and help multinationals	Shutdowns and a 2027 debt-limit fight add volatility and could pressure the US credit rating
Checks on tariffs and support for Fed independence reduce policy uncertainty	Slower financial deregulation and investigations weigh on banks, crypto and some large companies
Healthcare affordability deals could support consumer spending	A Republican president with a Democratic Congress has historically been a weaker combination for stocks

Both columns reflect arguments made by market participants and are presented for balance; AkshayaAI does not take a side on the political outcome.

10. What to watch: the calendar

Date	Event	Why it matters
Nov 4–6, 2026	Final race calls; size of the majorities; first US cash-market session	Whether the AI-led selloff extends or reverses; breadth beyond tech
Nov–Dec 2026	Lame duck (outgoing Republican majorities): funding, NDAA, farm bill, possible reconciliation package	Last chance for Republican-only legislation before January
Mid–late Nov 2026	Anthropic IPO roadshow and pricing (reported target: before Thanksgiving)	First big test of AI valuations after the election
Dec 11, 2026	Government funding deadline	First shutdown test
Mid-Dec 2026	Fed meeting; markets have priced a possible hike	Rates can outweigh the election effect
Jan 3, 2027	New Congress sworn in; Democratic committee chairs	Start of investigations and the first-100-days agenda (ACA credits, tariffs)
Late winter–mid-summer 2027	Debt limit reached; extraordinary measures begin	The main fiscal standoff of the scenario
2027 (throughout)	Expected IPO wave: OpenAI, Databricks, Canva, Stripe and others (reported)	Shutdown and debt-limit timing can shift listing windows
Oct 1, 2027	FY2028 funding deadline	Second shutdown test
Nov 2028	Presidential election	Policy direction for 2029 onward

Important. This is a scenario analysis prepared by AkshayaAI Research for information and education. It is not investment advice, a recommendation to buy or sell any security, or a prediction of election results or market direction. Election results were still being counted when it was written. Market figures are as reported at the times shown and change quickly. Historical patterns rest on small samples. Do your own research and consult a licensed advisor.

Sources

• Election status: ABC News projection via WTVG 13abc (Nov 3, 2026, 10:29 PM ET); headlines from ABC News, NBC News, CBS News, CNBC, MS NOW, Axios and The Washington Post (Nov 3–4, 2026); OPB/AP (North Carolina, Georgia, New Hampshire results); CBS News and Yahoo News (pre-election seat counts).
• Market reaction: Reuters, "Stocks wilt, dollar slides as early midterm results point to blue sweep" (Nov 3–4, 2026); Reuters analysis, "Investors gaming out Congress control for spending, AI outlook" (Nov 2, 2026); Reuters, "Sectors bracing for a pivot as US midterm elections loom" (Nov 2026); Trefis, "Which sectors win a blue wave or split Congress?" (Nov 2, 2026).
• Policy agenda: AP via PBS NewsHour, "Here's what's on House Democrats' agenda" (Oct 14, 2026); Chicago Council on Global Affairs, Mark Copelovitch (Oct 28, 2026).
• Macro and fiscal: Admiral Markets Fed coverage (Oct 9 and Oct 28, 2026); Penn Wharton Budget Model, effective tariff rates (Oct 14, 2026); Harvard Office for Federal Relations, continuing resolution to Dec 11 (Sep 2026); Bloomberg Government on the Bipartisan Policy Center debt-limit estimate (Jun 4, 2026).
• AI and data centers: Jones Day, "New York enacts first statewide data center moratorium" (Jul 2026); NACo on the GRID Savings Act, S. 5199 (Aug 2026); Manatt on the December 2025 AI executive order; S&P Global Market Intelligence (Oct 1, 2026) and Ballotpedia on data-center ballot measures; FERC large-load coverage (Morgan Lewis, Jul 2026).
• IPOs: Bloomberg via Implicator.ai (Anthropic roadshow timing, Oct 2, 2026); AI Tools Recap (OpenAI timeline); Value Add VC IPO pipeline tracker (updated Nov 2, 2026); Allocations (Jun 8, 2026); Axios (Stripe tender offer, Feb 24, 2026).
• History: The Motley Fool (Shiller data); Morningstar/PNC; RBC Wealth Management; Ned Davis Research via Reuters; AkshayaAI, "The 2026 US Midterms & the Market" (Oct 30, 2026).