Invesco

Rapid Response

The votes are in. Now what?



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Americans vote for change

The voters have spoken. Democrats have won control of both the House and Senate, ending two years of unified Republican government in Washington.[1]

The result will generate plenty of political analysis. For investors, the more important question is simpler. How much does it change?

Perhaps less than you might think.

Start with the election itself. Midterm elections have historically been difficult for the president's party. Over the past six decades, that party has lost an average of 22 House seats in the midterms. Only twice over that period, under Presidents Bill Clinton in 1998 and George W. Bush in 2002, did the president's party gain House seats.[2]

So, while the result may feel consequential, political change in a midterm election is hardly unusual.

The explanation also looks familiar. The cumulative rise in prices over recent years continued to impact households, even as income growth outpaced inflation. Before the election, nearly half of Americans surveyed by Reuters/Ipsos identified the cost of living as the most important factor in deciding how they would vote.[3] History has shown that periods of slowing or declining inflation-adjusted income have often been associated with voters demanding political change.[4]

Washington changes, but policy may change less

Democratic control of Congress obviously changes the balance of power in Washington. But investors shouldn't assume it means a wholesale reversal of the administration's policy agenda.

For one thing, the new Congress will not take office immediately. The period between the election and the seating of Congress leaves the administration with time to act, particularly in areas where the president has considerable discretion. That matters for foreign policy, including the possibility of further escalation involving Iran. Recent signals from the administration suggest it may be preparing for such a scenario, although preparation does not make conflict inevitable.

Trade policy may also change less than the electoral result suggests. We would expect President Trump to continue negotiating trade agreements and using established executive authorities, including Sections 232 and 301, to pursue the administration's objectives. Congress can conduct oversight and investigations, but it has limited ability to prevent the use of authority already granted by statute. If the administration were judged to have exceeded that authority, the more immediate constraint would likely come from the courts rather than the new congressional majority.

1. According to the Associated Press, which projected Democrats to win majorities in both the House and Senate as of 06:32GMT on 4 November 2026.
2. Source: US Congress, 31 December 2025.
3. Source: Reuters/Ipsos, 26 October 2026.
4. Sources: Bureau of Economic Analysis based on Q2-2026 data (latest available).

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Oversight will still matter. A Democratic Congress is likely to initiate investigations into the administration's trade and foreign policies, but committees, hearings and inquiries take time to organize. The result may be greater scrutiny without immediate change in direction.

Divided governments also make major partisan legislation more difficult. The prospects for significant fiscal stimulus are substantially reduced, barring an economic emergency that brings the two parties together. The next debt ceiling debate could produce another period of political confrontation and market anxiety, although the most likely outcome remains an eventual increase or suspension of the limit.

Washington may therefore become louder and more contentious without immediately becoming more restrictive. Congress will have greater oversight power, but the administration will continue looking to executive authority to shape US trade and foreign policy.

The market is not the electorate

Markets aren't red or blue. They tend to care more about growth, inflation, earnings, interest rates and liquidity than about which party controls Congress.

There's plenty of history to support that distinction. The stock market has posted positive returns in the calendar year following midterm elections for nearly 65 years, regardless of the election outcome.[5] We also note that results are similar for other asset classes.

The presidential cycle provides another interesting perspective. Since 1947, the third year of the presidential cycle has produced an average Dow Jones Industrial Average return of 16.8%, compared with 6.0% in year two. More importantly, the market has historically performed well following the midterms under divided government and single party control alike. The lesson isn't that Democratic or Republican control is bullish or bearish. It's that congressional control by itself hasn't been a particularly useful investment signal.

What should investors watch now?

Rather than obsess over the electoral map, I'd focus on the policy areas that can influence the economic and investment backdrop. Those include the direction of US trade policy, the risk of geopolitical escalation, particularly involving Iran, the next debt ceiling confrontation, and the regulation of artificial intelligence and data centers. Importantly, these are understood risks and, in many cases, issues that investors have already been dealing with.

Ultimately, the more traditional drivers of markets are likely to matter more. Can economic growth remain resilient? Can corporate earnings continue to advance? Where is inflation headed? What does that mean for Federal Reserve policy and interest rates?

We expect those questions are likely to matter more to investors than whether the Speaker of the House has a D or an R next to their name.

Election nights are consequential for politicians. For investors, history offers a useful reminder not to confuse a change in political leadership with a change in the investment regime.

The votes are in. Now it's back to the fundamentals.

5. Source: Bloomberg L.P. and US Congress, 31 December 2025. The S&P 500® Index is a market-capitalization-weighted index of the 500 largest domestic US stocks. An investment cannot be made directly into an index. **Past performance does not guarantee future results.**

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