Hancock Whitney Asset Management

A New Balance of Power

November 4, 2026

What the Midterm Results Mean for Policy, the Economy and Markets

Executive Overview

Democrats captured both chambers of Congress in a sweeping midterm victory, including Senate wins in Texas, Kansas and South Carolina and important gubernatorial gains. Early projections put the Democratic Senate caucus near 55 seats and the House at approximately 257, although final totals remain unsettled. Voter frustration over affordability, tariffs and the Iran war helped drive the outcome. For investors, divided government constrains major legislative changes, while shifting attention toward fiscal negotiations, state policy and the administration's response.

A Different Governing Approach

Democrats will control congressional committees, investigations, spending priorities and Senate confirmations beginning in January. President Trump has accepted the election outcome, easing immediate concerns about a contested result, but retains veto authority and substantial executive powers. The Senate filibuster also limits sweeping legislation. We expect more oversight and negotiations over must-pass funding bills, with policy disputes increasingly moving through executive actions and the courts. Existing tax provisions and tariffs are unlikely to change solely because congressional control has shifted, although bipartisan support could create opportunities for targeted changes, including limits on presidential tariff authority.

The size of the House majority should give Democratic leaders room to negotiate. Strategas estimates that Democratic Socialists of America (DSA) will add four members, while most incoming Democrats will be closer to the center-left. DSA-aligned progressives will retain influence, but the size of the Democratic majority gives party leaders greater flexibility to pass legislation without relying on their votes or accommodating their demands. The result creates more room for compromise, although neither party is assured of taking that path.

Affordability and Iran Shape the Policy Response

The election connected foreign policy directly to household finances. Wall Street Journal reporting indicates that more than six in ten voters believed military action against Iran was the wrong decision. Elevated energy, food and housing costs also weighed on sentiment despite resilient headline growth. We believe this increases pressure to lower consumer costs, potentially through diplomacy or selected tariff relief. Additional fiscal transfers, however, could support demand without addressing supply constraints, limiting their effectiveness against inflation.

Trump acknowledged that Iran contributed to Republican losses, but defended the decision to go to war. Qatari mediation offers a diplomatic channel, while Iranian reports of attacks and vessel seizures around Hormuz underscore continuing shipping risks. The election raises the political incentive for a resolution without ensuring one. A credible agreement restoring normal energy flows would help household purchasing power, corporate margins and inflation. Escalation would have the opposite effect and could keep the Federal Reserve cautious about easing.

Defense Remains Supported but Funding Becomes Harder

The Iran conflict, replenishment needs and broader security commitments support defense demand. However, a substantial acceleration in spending becomes less likely. Democrats may seek domestic spending concessions in exchange for defense increases or supplemental war funding, while Ukraine aid could receive greater support. Strategas expects Trump to press for defense funding and a debt ceiling increase before January but sees obstacles in the outgoing Congress. For contractors, funding timing and program priorities become more important; the election does not necessarily imply outright spending cuts.

Gridlock Does Not Solve the Deficit

Divided government reduces the likelihood of additional large tax cuts or stimulus, potentially easing Treasury borrowing and inflation pressures at the margin. Structural deficits nevertheless remain substantial, supported by interest costs, entitlement spending and possible bipartisan increases in defense and domestic appropriations. Piper Sandler's pre-election baseline projected deficits above $2 trillion in fiscal 2027 and 2028, with very low odds of a deficit reduction package. Government funding and debt ceiling negotiations could create recurring volatility as Democrats seek concessions.

AI Investment Faces a State Policy Test

Governor-elect Gina Hinojosa in Texas, Amy Acton in Ohio and Keisha Lance Bottoms in Georgia campaigned on pauses or tighter conditions for data centers. Texas had already halted certain approvals under Governor Abbott, reflecting bipartisan concerns about electricity bills, water and grid reliability. Longer permitting timelines, reduced tax incentives and requirements that developers absorb infrastructure costs could slow expansion. Strategas also sees a risk that debt ceiling negotiations target 100% expensing for data centers. These proposals still require implementation.

The risk is greater beyond next year. Industry estimates indicate that 75% of the 37 gigawatts expected for delivery in 2027 is already under construction. For 2028, roughly 37.5 gigawatts of a projected 96-gigawatt pipeline could face pauses and another 15 gigawatts additional conditions. These are exposures, not confirmed cancellations. Delays could affect construction, electrical equipment, power demand and chip orders, or redirect projects to other states. Slower investment could temper near-term growth and resource pressures while delaying productivity benefits.

Health Care and Other Sector Implications

Restoring enhanced Affordable Care Act subsidies and limiting Medicaid reductions will likely be Democratic priorities, potentially supporting coverage, hospitals and selected insurers while adding fiscal costs unless offset. Drug pricing offers possible overlap with Trump, creating risks for pharmaceutical companies. Banks, card issuers, private equity and technology face greater scrutiny, although proposals will not automatically become law. Clean energy could benefit from efforts to preserve incentives, but broad subsidy restoration remains difficult.

Why Markets are Responding Favorably

Stocks reversed overnight losses as investors assessed a clear outcome and limits on major policy changes. At the November 4 open, the Dow rose approximately 1.9%, while the S&P 500 and Nasdaq each gained 1.1%. The 10-year Treasury yield traded modestly lower in early trading. We see the response as relief over reduced election uncertainty, lower odds of further fiscal stimulus and potentially less pressure for rate hikes if AI investment slows. Data center shares remained under pressure, illustrating sector risks beneath the broad rally. These are early-session figures; earnings, inflation and energy prices will ultimately determine whether gains persist.

SOURCES:

[1] Baird Strategas — [2] J.P. Morgan Asset Management, Michael Cembalest — [3] Piper Sandler — [4] Bloomberg — [5] Office of the Texas Governor — [6] Reuter — [7] Wall Street Journal

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