FROM THE DESK OF

New York Life Investment Management's Global Market Strategy team

A blue tsunami; moderate undercurrents

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2026 U.S. midterm election results analysis
As of 10:30 am ET, 4 November 2026

- Democrats secured a historic victory across Congress and governorships, but flips of historical Republican strongholds suggest the mandate is for moderate policy.
- Government is still divided, narrowing the scope for major policy swings: we expect tighter data center regulation, contentious fiscal negotiations, and challenges to tariff policy, alongside potential changes to health care subsidies, drug pricing, and financial regulation.
- Muted market reactions suggest relief from uncertainty rather than a fundamental shift in the outlook. Higher rates and fiscal risks remain in focus, but growth, earnings, and credit quality appear resilient.
- Our constructive views on AI and U.S. exceptionalism remain intact: we favor cash-generative AI hyperscalers as data center investment faces greater scrutiny, while strong U.S. fundamentals continue to support domestic assets and the dollar despite trade and geopolitical risks.
- Our original, pre-election framing of midterm impacts is available here, along with a pre-election podcast. **We will publish an updated podcast on these results and their market implications on Monday, November 9. It will be available here.**
- Election results will be baked into **our team's 2027 macro and market outlook, to be published November 15th**. We will host a **2027 outlook webinar on Friday, December 4, from 10-11am Eastern**. Registration link to follow.

Results roundup

The 2026 U.S. midterms are an unequivocal, historic victory for Democrats. As of 10am Eastern, per the Associated Press, Democrats gained:

- At least 7 seats in the Senate, for a minimum of 54 out of 100 total seats (including two independents, who caucus with the Democrats)
- 25 seats in the House, with a minimum of 228 seats out of 435
- Five governorships

These numbers fall somewhere between the scale of the 2006 Democratic sweep and the larger Republican landslide in 2010.

Several races remain outstanding, including a Mississippi Senate race currently separated by fewer votes than the roster of the Ole Miss football team, and a contentious Alaska Senate race separated by a few hundred votes. But even with a number of races left to be settled, we know that many Republican strongholds flipped to Democrats, including in Texas, South Carolina, North Carolina, Iowa, Ohio, Kansas, and Maine. Democrats also now hold the governorship of every swing state for the 2028 presidential election.

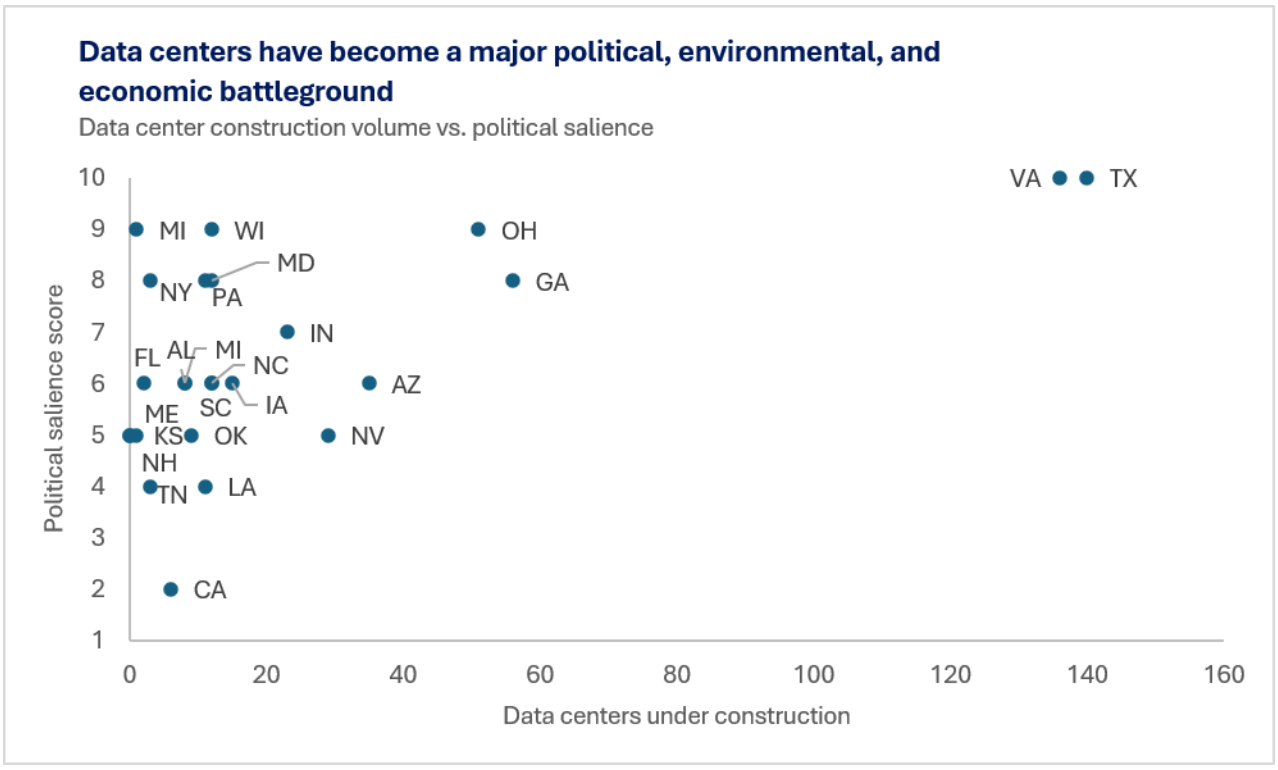
Underlying the 'blue tsunami' are known key election issues: affordability (increasingly, but not entirely, driven by elevated gas and diesel prices), data center prevalence, and a referendum on President Trump's popularity. Initial

New York Times Voter Trends data shows that men ages 18-29 swung toward Democrats by 38 points relative to the 2024 presidential election; Hispanic populations swung by 28 points, possibly in response to immigration policy.

Our read: a historic mandate for moderate policy

The results create a strong mandate, but with a critical nuance: last night was a victory primarily for *moderate Democrats flipping historically Republican constituencies*. Accordingly, we believe the policy zeitgeist from the Democratic congressional majority will be a moderate one. This may make across-the-aisle compromise more likely, particularly on areas related to affordability – such as permitting reform – and AI safety. Of course, all legislation is subject to President Trump's veto power, making compromise paramount to legislative success. We outline our views on major policy priorities below:

Data centers: As expected, voters clearly rebuked unchecked data center expansion at the local and state levels. The new governors of Ohio and Georgia have already called for moratoria on data center building, while the new governor of Texas has called for a partial moratorium. However, the propensity for regulation at the federal level remains uncertain. For example, there are differing proposals for at the federal level for data center builders to potentially keep existing tax incentives if they meet certain environmental standards. Though the shape and level (federal v. state v. local) of data center regulation is uncertain, **we can expect data center building costs and regulatory hurdles to rise as a result of this election.**



Footnote: Political salience is a 0 (least)–10 (most) directional score developed by the New York Life Investment Management Global Market Strategy team based on its review of news coverage regarding the extent to which data centers/AI have become an explicit issue in 2026

gubernatorial, congressional and state-level races. The scores reflect subjective assessments, are not based on a standardized quantitative methodology and should not be interpreted as predictions of election outcomes, public opinion or future policy actions. The chart shows only the 25 states with clear evidence of political salience; omission of a state does not indicate a score of zero. Other methodologies or information could produce different results.

Sources: New York Life Investment Management, Global Market Strategy, Aterio, NPR, Politico, CNBC, Newsweek, The Hill, Capital & Main, Data Center Watch, November 2026.

Debt ceiling and fiscal policy: Congress will need to pass its Fiscal Year 2028 budget later this year and will likely need to raise the debt ceiling by mid-2027. While Republicans had expressed interest in passing a larger reconciliation package, with new defense spending and raising the debt ceiling during the lame duck session, we do not expect a successful reconciliation process before Congress turns over in January. This means that Democrats will be able to use the debt ceiling as leverage to negotiate a new budget with the White House, which may well include compromise spending, such as a higher defense budget, a Republican priority, and spending on SNAP benefits, a Democratic priority.

Even with compromise spending keeping deficits elevated, however, **we expect the 2027 fiscal thrust to be lower than in 2026**: the main impulse of the One Big Beautiful Bill Act will have slowed, and income tax and tariff refund tailwinds will have faded. Importantly, we believed this would be the case regardless of the election outcome.

Tariffs: We believe Democrats will fight President Trump's tariff policy in the name of affordability, ground zero for how the power of executive orders will meet a strong congressional majority. Most legislation limiting presidential tariff authority would need 60 Senate votes to overcome a filibuster, while overriding a presidential veto would require two-thirds support in both chambers. These hurdles suggest Democrats' influence will come primarily through oversight and negotiations, with broad tariff rollbacks requiring substantial Republican support.

Health care: We expect health care policy to lean toward the reinstatement of Medicaid coverage expansion and Affordable Care Act (ACA) subsidies, which had been removed in the One Big Beautiful Bill Act, rather than a progressive push toward Medicare-for-all. We expect pressure on drug pricing to accelerate, potentially pressuring pharmaceuticals.

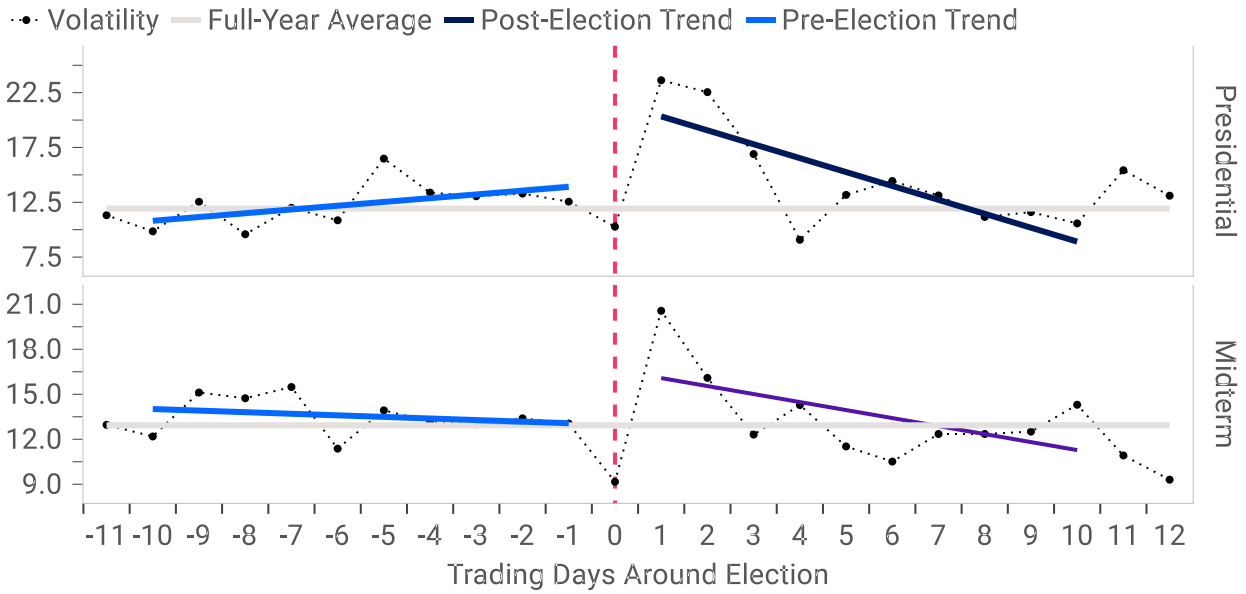
Financial (de)regulation: We expect a bipartisan proposal to cap credit card interest rates at 10% will pass in 2027, if not in the lame duck period. Beyond this provision, the policy push is toward financial deregulation, likely benefitting financials: Basel III rules will likely be released before the end of the year, while the Federal Reserve's committee recommendations under Chair Warsh are expected in Q1 2027.

Market reaction and investment implications

Above all, the midterm elections serve an important market function: the clearing of uncertainty. Relatively muted reactions in Treasury yields, the U.S. dollar, and modest upside in U.S. equities reinforce policy uncertainty relief.

Post-election volatility is likely to fade as markets refocus on fundamentals

Annualized volatility of the S&P 500 around U.S. elections.



Sources: New York Life Investment Management Global Market Strategy, S&P Global, Macrobond, November 2026.

Sector-level implications of this election will be ongoing as legislation shapes up. For now, we are most focused on how the election results interact with our core macro views:

The U.S. economy continues to cope with a tighter rates environment: As we have been highlighting, the Treasury rally is one of relief, not resolution: the factors driving rates higher across the Treasury curve remain live, including inflation expectations, the Federal Reserve's policy path, and term premium reflecting fiscal risk. Currently, we believe the U.S. economy is in a sweet spot: rates are high enough to pique investor interest, but not yet high enough for long enough to threaten macro resilience, earnings growth, or credit quality. We believe the midterm election results are unlikely to disrupt this balance for the coming 6 months; we will be watching debt ceiling negotiations closely in mid-2027.

We remain constructive on the AI trade, now with increased nuance: Rising data center costs and regulation reinforce our preference for hyperscalers with positive free cash flow, strong cloud revenues, and diversified financing. Those consistently generating negative free cash flow may face valuation discounts. We remain bullish on AI infrastructure, as a slower buildout could rebalance supply and demand and ease semiconductor pricing dislocation without undermining the broader AI trade.

U.S. exceptionalism is likely to persist: One of our core macro views has been that strong U.S. growth, return on investment, energy independence, and AI investment exposure all amount to U.S. exceptionalism, supporting both U.S. returns and the dollar in a global context. Tariffs and potential escalation with Iran remain risks, but a strong post-midterm political mandate reduces domestic uncertainty, particularly relative to Europe as it approaches consequential 2027 elections. We continue to see sovereign yields as the primary transmission

mechanism of policy to market movements; we explore the relative global consequences of policy on sovereign debt dynamics here.

Glimpses into 2028: four parties competing for one White House

The midterm election results certainly illuminated the competing moderate v. populist forces within both parties, and may shed early light on the primary races for 2028.

For Democrats, the midterms' clear moderate impulse has already garnered support for Jon Ossoff, Georgia's newly re-elected moderate Democratic Senator. Critically, both the unexpectedly large Democratic majority in the Senate and the unexpected win of Keisha Lance Bottoms (D) as Georgia governor will enable Ossoff to leave his Senate seat for a possible 2028 run. On the progressive side, Alexandria Ocasio-Cortez is likely to be a formidable force against moderate candidates in the 2028 primaries, likely running on a "Medicare-for-all" platform.

Republican primaries will likely face a similar style of party split as Democrats. Vice President JD Vance now must overcome President Trump's low approval ratings and a potential re-configuration of MAGA influence among Republicans, but appears to have a strong party machine with which to do so; Secretary of State Marco Rubio is increasingly seen as a potentially unifying force across both branches of the party; soon-to-be-former Florida Governor Ron DeSantis may also leverage his state's strong Republican performance toward a primary run.

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