Zuger Kantonalbank

Asset Spotlight
Special

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2026 US midterm elections: Setting the political course for the next two years

The US midterm elections will take place on 3 November 2026. All 435 seats in the House of Representatives and one-third of the Senate will be contested. The central question is whether the Republicans can defend their majorities in Congress or whether President Donald Trump will have to govern with a Democrat-controlled House of Representatives. Prediction markets indicate that the Democrats have a realistic chance of gaining a majority in Congress. But what would a divided government mean for the financial markets? A look at the past provides some interesting insights.

The US Congress

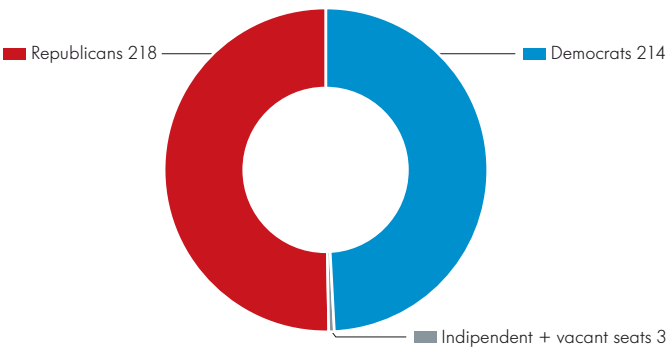
The House of Representatives – comparable to the Swiss National Council – comprises 435 seats, all of which are contested every two years. Seats are allocated to the states according to their population. The House of Representatives must approve all federal legislation and has particularly wide-ranging powers with regard to taxation and spending bills. The majority party appoints the Speaker of the House, sets the political agenda and chairs the committees. This gives it considerable control over which hearings are held, which investigations are launched and which witnesses are subpoenaed. The House of Representatives also plays a central role in budget negotiations and political disputes over the debt ceiling. In addition, it can initiate impeachment proceedings, with the Senate declaring the outcome.



"If the Democrats win control of the House of Representatives, Trump will face investigations."

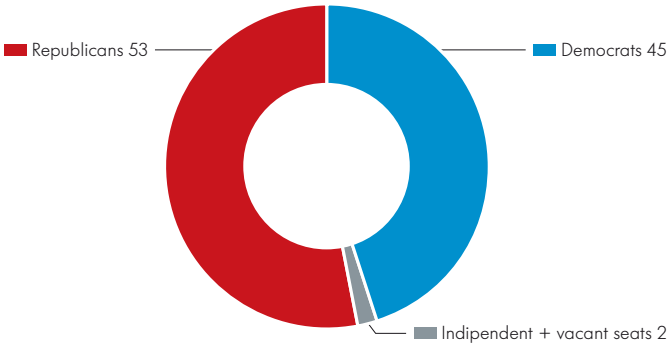
Joel Gubser, Investment Advisor

House of Representatives



Source: Zuger Kantonalbank

Senat



Source: Zuger Kantonalbank

The Senate has 100 members. Each state elects two senators, regardless of its population, and approximately one-third of the seats are contested every two years. In addition to its legislative role, the Senate confirms government officials, ambassadors and federal judges. In the case of Supreme Court justices, who are appointed for life, this influence extends well beyond a single legislative term. International treaties and convictions in impeachment proceedings require a two-thirds majority. Due to filibuster rules, many legislative proposals effectively require 60 votes to be passed. Although a simple majority gives a party control of the chamber, it does not guarantee that all legislation can be passed. The Republicans held 53 seats at the time of writing. However, because more far-reaching legislative proposals continued to face political and procedural obstacles in Congress, the administration implemented various measures through presidential directives known as executive orders.

Why majorities matter

The balance of power determines which party controls the political agenda. The majority party chairs the committees, determines which bills are considered and has significant influence over the priorities of congressional business.
When the president's party holds majorities in both chambers, it is significantly easier to implement policy initiatives.
Tax reforms, infrastructure programs, regulatory measures and government spending packages can be passed with comparatively few institutional obstacles in the way. The government's ability to act is therefore relatively high. The situation is different under a so-called "divided government": In this environment, political compromises become more important and far-reaching reforms are more difficult to implement. Legislative proposals are more frequently watered down, delayed or abandoned altogether.

Key terms

Trifecta: The president's party controls the Senate and the House of Representatives

Divided government: The party that does not hold the presidency controls the Senate and/or the House of Representatives

Lame duck: A president without a majority, either in the Senate or in the House of Representatives

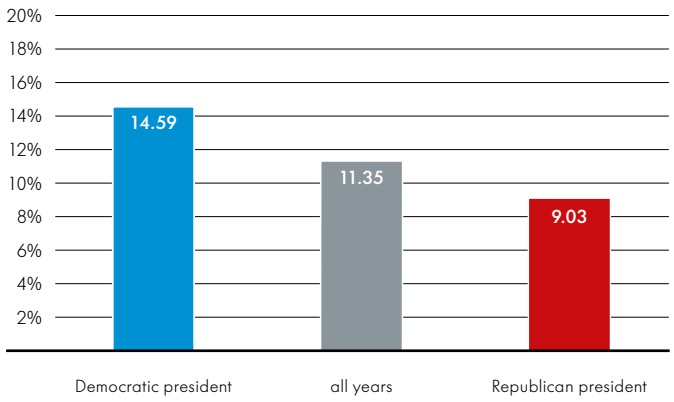
Filibuster: A tactic used to prolong debate in the Senate, requiring 60% of the votes to bring it to an end

Split-ticket voting: Voters deliberately choose candidates from different parties for Congress and the presidency. Until the 1990s, political parties sometimes actively encouraged this practice.

Historical data: How have stock markets responded?

We examined how different political configurations have affected stock markets since 1970. This analysis is based on average returns under comparable political conditions. While the results describe historical relationships, they do not provide a reliable forecast for individual election cycles. Stock markets have not necessarily benefited from strong political majorities. In many cases, they have performed at least as well under a divided government.

MSCI USA during all years since 1970



Source: Zuger Kantonalbank, Bloomberg DL, MSCI Inc.

Democratic or Republican president

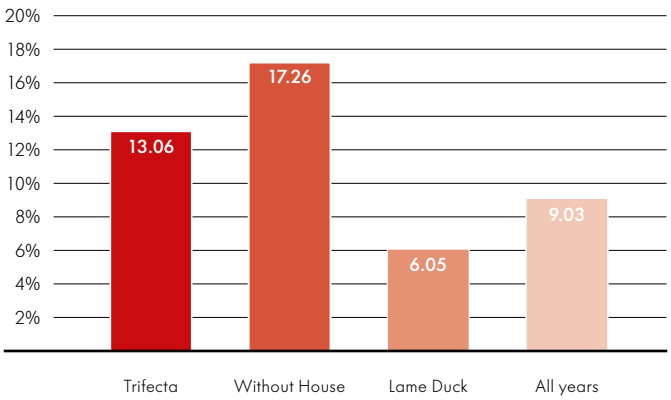
Contrary to the widespread assumption that Republican administrations generally create more favourable conditions for businesses, the US stock market generated higher average returns under Democratic presidents during the period examined. The highest average return, at approximately 18.7%, was recorded when a Democratic president was in office without a majority in the House of Representatives. Under a Republican president in the same situation, the return was around 17.3%.

When a Republican president held a majority in neither the House of Representatives nor the Senate, the average return in the sample was significantly lower, at approximately 6.1%. Under Democratic presidents in a similar constellation, the figure stood at around 18.1%. The historical data therefore does not suggest that a divided government is unfavourable for the stock markets. However, they do indicate weaker historical performance under a Republican lame-duck president. Given the small number of comparable periods, no reliable forecast can be derived from these findings.

Impact on international markets

One might expect strong political majorities to benefit the US domestic market at the expense of others. However, the historical data does not support this assumption. During the periods examined, the Swiss, European and global stock markets exhibited the same patterns as the US stock market: The highest and lowest returns occurred under similar political circumstances. This appears plausible given the rather interconnected nature of international markets, but it does not establish a causal relationship.

MSCI USA during republican presidency



Source: Zuger Kantonalbank, Bloomberg DL, MSCI Inc.



"Trump's first term shows that stock markets can post strong gains even after a party loses the midterm elections."

Joel Gubser, Investment Advisor

Stock market performance during the presidential cycle

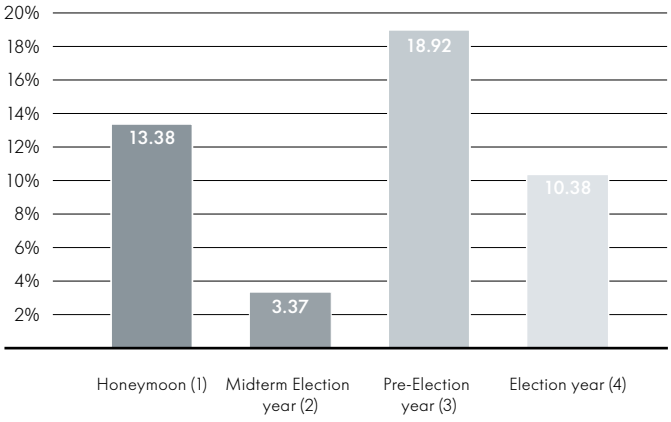
Historically, the US stock market has performed most strongly in the third year of a president's term, with an average annual return of almost 19%. The second year of office, known as the midterm election year, recorded the weakest performance, with an average return of 3.4%. A similar pattern was also observed in international markets. When interpreting these figures, however, it is important to distinguish clearly between average annual returns and cumulative returns over several years. During Trump's first term, the US stock market gained around 15% cumulatively over his first two years in office, from 2017 to 2018, while the cumulative increase from 2019 to 2020 exceeded 57%. His party also lost its majority in the House of Representatives in the midterm elections during this period.

Interpreting the findings and limitations of the analysis

These statistics should be interpreted with caution. Although stock markets have historically performed better on average under Democratic presidents than under Republican presidents, the significance of this finding is limited. For example, the bursting of the dot-com bubble and the 2008 financial crisis both occurred during Republican presidencies, but this does not establish a causal relationship between the political leadership and the stock market corrections. This is compounded by the small number of observations: Even over a period of almost six decades, the sample size remains small, meaning that individual extreme events can have a considerable impact on the results.

Another factor is that US elections were long characterised by so-called split-ticket voting. Until the turn of the millennium, presidents rarely held majorities in both the House of Representatives and the Senate simultaneously. Political decisions therefore generally required bipartisan support, limiting the influence of any single party. Furthermore, stock markets are shaped by numerous factors, including interest rates, inflation, geopolitics, economic growth and earnings growth. The observed differences in returns should therefore not be interpreted as a causal effect of the president's party affiliation.

MSCI USA by presidential cycle year



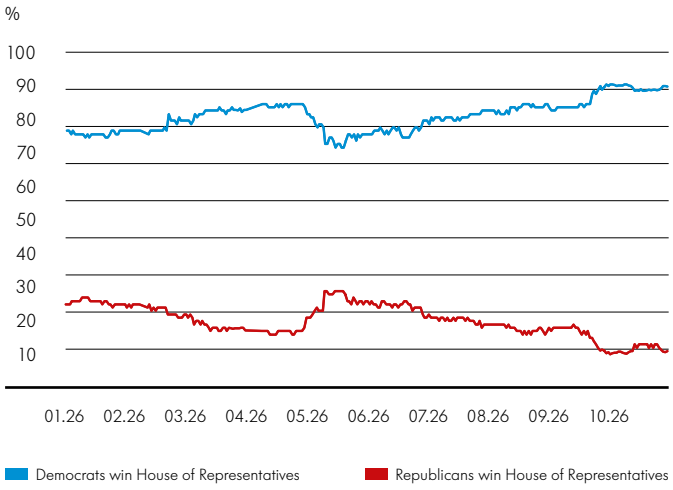
Source: Zuger Kantonalbank, Bloomberg DL, MSCI Inc.

Donald Trump's second term presents a special case. Executive orders have gained further importance as instruments of economic and trade policy. This was evident, for example, in the tariff announcements referred to as "Liberation Day", which triggered significant price movements in the financial markets. Whether the experience of the first half of this presidential term will serve as a reliable benchmark for the next two years is questionable, as a Democratic majority in the House of Representatives would shift the balance of political power away from Trump.

What the Democrats could achieve with a majority in the House of Representatives

If the Democrats gain a majority in the House of Representatives, President Trump's political room for manoeuvre will be significantly restricted. Prediction markets such as Kalshi currently consider this scenario likely. By gaining control of the committees, the Democrats could launch investigations into potential conflicts of interest, the activities of federal agencies and the awarding of government contracts. They could establish investigative committees and scrutinise the Trump family's business dealings, potential conflicts of interest, government agencies and connections to industries such as cryptocurrency, finance and pharmaceuticals. Elon Musk's role at DOGE and government contracts with SpaceX would also likely come under increased scrutiny. The Democrats could also initiate impeachment proceedings. However, a conviction in the Senate would be unlikely given the required two-thirds majority.

House of Representatives: Probability according to Kalshi



Source: Zuger Kantonalbank

Impact on financial markets

On the negative side, the main concerns are potential political gridlock and increasing confrontation between the White House and the House of Representatives. Budget disputes are likely to increase the risk of a government shutdown. If political positions become entrenched, such a shutdown would last longer and increase uncertainty in the financial markets in the short term.



"The risk of a government shutdown increases significantly if the Democrats gain a majority in the House of Representatives."

Joel Gubser, Investment Advisor

By controlling key committees, the Democrats could also increase political and regulatory pressure on companies. Large technology companies in particular could face greater political scrutiny through hearings, subpoenas or investigations. However, whether this would actually result in stricter regulations or restrictions, such as limits on the expansion of data centres, would depend on the specific legislation and, in some cases, the approval of the Senate.

An additional risk would arise around the elections themselves. If individual election results were challenged politically or legally, this could temporarily increase market volatility. From today's perspective, however, such effects would be more likely to represent a short-term source of uncertainty than a fundamental change in the market environment.

A Democratic majority in the House of Representatives would therefore be neither unequivocally positive nor negative for the financial markets. Although political gridlock, budget conflicts and intensified investigations would heighten uncertainty, a divided government would limit the scope for additional debt-financed tax and spending programmes. The latter could provide some relief, particularly for the US bond market.

Conclusion for investors

The midterm elections are likely to lead to heightened political uncertainty and increased media coverage in the short term. However, inflation, monetary policy, economic conditions and corporate earnings remain more important to the medium-term performance of the financial markets than the partisan composition of Congress. Historically, a divided government has not been an inherently negative environment for the stock markets. On the contrary: if President Trump loses control of the House of Representatives only, this would represent a favourable configuration from a historical point of view. If the Republicans also lose the Senate, the historical picture is less positive. However, given the limited statistical significance of these findings, it is very difficult to draw any reliable forecasts from them. From today's perspective, the midterm elections therefore provide no reason to fundamentally adjust asset allocation.

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