Manulife Investment Management

Market Note

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Nathan W. Thooft, Chief Investment Officer, Multi-Asset Solutions Team, Global Equities, shares his latest view on the implications of the US midterm elections.

US midterm elections: what today's result could mean for investors

With final votes still being counted, Democrats have taken control of both the House and the Senate. Washington is now heading into a period in which different parties control the White House and Congress.

The important question for investors, however, isn't who won, but what can actually change. A Democratic Congress wouldn't automatically reverse the Trump administration's policy agenda. And with Democrats controlling Congress and Republicans holding the White House, the likely result is more legislative gridlock, more negotiation, and a higher hurdle for major policy change. In short, getting big things done becomes harder.

Rather than focusing on the politics, we believe investors should focus on where Congress has real leverage, because that's where the market implications are most likely to emerge. Three areas stand out.

1. **Healthcare.** This may offer the clearest potential for policy reversal and the biggest direct sector implications. Funding, subsidies, drug pricing and regulation could all move back into focus.

2. **Tariffs**, which are potentially the biggest swing factor for inflation, corporate margins, and interest rates. There's an important caveat, however: Significant trade authority sits with the President. Congress may push back, but its ability to reverse the tariff agenda completely could be limited.

3. **Fiscal policy**, which may be the most underappreciated market story. Divided control of government could mean more gridlock, more funding fights and more debate over deficits and spending, with potential implications for Treasury yields, the dollar and, ultimately, equity valuations.

We see AI and technology regulation, energy and climate initiatives, and financials and crypto as a second tier of potential impact. These topics will generate significant debate, but little may change at the federal level. State-level action could matter more, given the changes in governorships we're seeing across the country. Defence is likely to change the least, particularly given today's geopolitical backdrop.

The bigger point is that policy is increasingly moving markets, and having two parties in charge will bring a lot of noise. We're investing in a more fragmented geopolitical world. At the same time, AI is reshaping the economy well beyond technology, driving enormous demand for power, data centres, infrastructure, industrial equipment and commodities.

All of this is happening at a time when capital has a cost again. That means scarcity matters: Scarce power, scarce infrastructure, scarce resources and scarce capital. It also means duration is no longer the free diversifier it once was. When fiscal policy, inflation and government bond supply can push yields higher, investors need more tools in their diversification toolbox.

Our takeaway from this election is simple: Investors shouldn't build a portfolio around who won an election, but around the world the election is telling us we live in. That's a world in which geopolitics is more fragmented, policy increasingly moves

markets, AI is reshaping the economy, capital has a cost, and diversification needs to work harder.

Elections change who runs Washington. Regime shifts change portfolios, and for long-term investors, we'd argue the second matters far more.

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