

About Last Night: The "Blue Wave" Makes Landfall in U.S. Midterms

With the majority of votes for the U.S. midterm elections now in hand, it is apparent that the “blue wave” suggested by polls in fact materialized — and the outcome actually appears to have generally exceeded model expectations.

Media outlets have called both the House and the Senate for the Democrats in a pretty significant shift among the electorate. As it currently stands, the Democrats have taken at least 236 seats in the House (projections are putting them around 257 seats once the votes are finalized; they had held 214 and 218 are needed for a majority) and at least 54 seats in the Senate (they had control of 47 and they could end up with as many as 56; 51 are needed for the majority) — and the latter includes flipping seats in former long-time Republican strongholds in South Carolina, Kansas and Texas.

The Democrats did very well in the governors' races (including historic wins in Texas and Georgia) and generally down-ballot too. A wave indeed.

If the midterms are a referendum on the President, this is a pretty stunning rebuke. That said, I would suggest that people would be well served tempering that sort of viewpoint in their election post-mortems: I have argued before[1], a lot of this outcome is likely about high gas prices above anything else (though this is very much a situation where this was not a purely exogenous shock for the White House); the higher costs of living have factored into incumbents of all leanings getting ousted in elections globally of late.

Equity markets came under pressure as the outcome became clear overnight against the assumption that a Democrat-held Congress likely means more regulatory scrutiny for things such as artificial intelligence weighing on the Information Technology sector (and slowing the push toward deregulation elsewhere), and the potential for reduced spending as Trump’s agenda items face pushback (those $5,000 cheques are unlikely to be sent), which could mean a smaller fiscal impulse for growth.

That course has broadly reversed as markets have opened today, however, as investors appear to be viewing the potential political gridlock and possibility of Congress restraining the Administration’s less market-friendly impulses in a more positive light — and that politics will not likely knock the solid underlying economic momentum off course. Congress’ ability to act as a counterbalance to the White House’s less popular policies could be a recurring market theme over the coming two years.

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[1] Guardian Capital LP, *Viewpoint: Midterm Study Notes – October 2026*, October 20, 2026, https://www.guardiancapital.com/investmentsolutions/insights/viewpoint-midterm-study-notes-october-2026/

Note that it is not uncommon for markets to react adversely to political changeovers in either direction, but that markets have ultimately been higher one-year following the midterms each and every time in the post-WWII era (as I flagged in my "midterm study notes[2]").

Treasuries are getting bid as well on the prospect of more government pushback on added spending being a positive for fiscal sustainability -- the movement in crude prices and inflation break-evens suggests some of the move may also reflect hopes that there will now be a quick resolution in the Middle East that relieves inflationary pressures.

From a Canadian and international perspective, the change in Congress may well open the door for a less combative political relationship and some easing on the tariff front — though, that, like much else on the policy front, is to be determined.

There is still a two-month period before Congress switches over (the so-called "lame duck" session; the 120th Congress will not convene until January 3, 2027), meaning that Republicans can take the opportunity to force through agenda items — but after that, the road for the President to get legislation passed will be far more complicated.

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[2] Guardian Capital LP, *Viewpoint: Midterm Study Notes – September 2026*, October 20, 2026, https://www.guardiancapital.com/investmentsolutions/insights/viewpoint-midterm-study-notes-september-2026/

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