BEA東亞銀行

Market Commentary

5 November 2026

Democrats Win Control of Congress, but Gridlock Risks Persist



Summary:

- Democrats secured control in both chambers of Congress, but a divided government may constrain major policy changes.
- Cost-of-living has been a key policy focus for voters, while AI, technology, and environmental regulation could impact investment.
- The extent of bipartisan cooperation will determine the scope of future policy changes.

US 2026 Midterms changed the political landscape, shifting the policy outlook. Preliminary results of the 2026 midterm elections indicated that the Democrats are set to capture majorities in both the House of Representatives and the Senate, surpassing the 218-seat and 51-seat thresholds to end unified Republican control of Congress. Heading into the elections, the US macroeconomic environment had been defined by stubborn inflation, low consumer sentiment, and strong business investment tied to the artificial intelligence (AI) boom. Key concerns for voters included the rising cost of living, debates over technological advancements, and the conflict in the Middle East.

Such a blue wave in the midterm elections grants Democrats control of both chambers of Congress, giving them the authority to set the legislative calendar, chair committees, and exercise subpoena power. As a result, the Trump administration will face significant obstacles in obtaining budget approvals or executing swift statutory implementations, redirecting the nation's policy trajectory toward either bipartisan negotiations or a structural gridlock. From an economic perspective, a Democratic-controlled Congress alters federal priorities around affordability, trade, technology, and fiscal support.

Major policy changes may remain difficult to implement under a divided government. Despite the election setbacks, President Trump retains the power to veto legislation, creating a significant

hurdle for Democratic policy initiatives. With a Republican-controlled executive branch and a Democratic-controlled Congress, policymaking is likely to face structural constraints, particularly if bipartisan cooperation remains limited. While it could constrain additional government spending and limit regulatory changes, disagreements over fiscal priorities could also delay funding initiatives and increase uncertainty. It remains to be seen whether both sides are willing to make concessions that allow certain bills to pass.

Democrats are expected to intensify congressional scrutiny of the administration's tariff policies, spending decisions, and executive actions. In the absence of legislative progress, Trump may increasingly rely on executive powers to advance his agenda, although these cannot replace congressional authority over legislation and federal spending.

Fiscal support to target the affordability crisis. Democrats will likely bring cost-of-living relief through expanded healthcare subsidies, childcare support, and low-income housing subsidies. These measures could support household disposable income and consumer spending, particularly among lower-income households, providing some support to economic growth. However, expanded subsidies and social spending could increase federal expenditure, place further pressure on the budget deficit, and may eventually stoke more inflation.

Potential constraints on the AI buildout. Artificial intelligence (AI) and massive data centre buildouts emerged as major voter concerns regarding job displacement and energy consumption. Notably, in 41 ballots across 10 states where the topic of data centre restrictions was put up for a vote, all but one voted against the construction of data centres. Furthermore, Democrats are expected to impose additional regulations and guardrails on the AI buildout and construction of data centres. This oversight would come at a time when the private sector is directing historic capital expenditure toward AI, compute capacity, and model development. Tighter regulatory requirements could increase construction costs, slow progress, and create uncertainty around investment. Given the growing contribution of AI-related investment to the US economy, a slowdown could introduce downside risks to economic growth and constrain the productivity benefits linked to wider AI adoption.

A shift in energy regulations and an urgent need to address high energy prices. Democrats are likely to favour greater support for renewable energy investment and clean energy incentives, while opposing certain aspects of the Trump administration's fossil fuel expansion agenda. However, increased regulation and restrictions on certain energy projects could raise costs for businesses and create trade-offs between environmental objectives, energy affordability, and the need to expand electricity supply to support economic growth. Against a backdrop of elevated energy prices driven by geopolitical tensions, Democrats are also likely to prioritise efforts to de-escalate conflicts in the Middle East in an attempt to lower oil prices and ease broader energy cost pressures.

Potential shift away from broad unilateral tariffs. Democrats are likely to call for greater scrutiny of Trump's unilateral tariff policy. This could include efforts to constrain certain tariff measures and greater coordination with American allies. However, since Trump has used executive orders to implement his trade policy, it could be difficult for the Democrats to fully implement their own strategy. A reduction in broad-based tariffs could ease input costs and provide some disinflationary

relief. Meanwhile, reduced uncertainty around trade policy may be constructive for business confidence. That said, it is worth recalling that the Biden administration that succeeded President Trump's first term ended up maintaining most existing tariff measures and even added new trade barriers. If history is any guide, a new political landscape does not necessarily mean trade restrictions will ease meaningfully.

Despite a divided government, opportunities for bipartisan agreement remain. As both parties face pressure to address fiscal sustainability and living costs, the 2027 debt ceiling negotiations could provide an opportunity for both sides to identify areas of common interest. Nevertheless, the extent of bipartisan cooperation will ultimately determine how much can be advanced.

For the time being, much is still unknown. The midterm results largely reflect voters' frustration with the incumbent administration, but the Democrats have yet to offer substantive policy alternatives to tackle the most pressing issues. Looking ahead, the Democratic Party's ability to advance its priorities will be important in shaping the US political environment and fiscal trajectory ahead of the 2028 presidential election. These developments will have implications for the US economy, fiscal conditions, regulatory environment, and the confirmation of key appointments such as Fed governors and Supreme Court nominations.

Disclaimer

This material is prepared by The Bank of East Asia, Limited ("BEA") for customers' reference only. The content is based on information available to the public and reasonably believed to be reliable, but has not been independently verified. Any projections and opinions contained herein are expressed solely as general market commentary, and do not constitute an offer of securities or investment, nor a solicitation, suggestion, investment advice, or guaranteed return in respect of such an offer. The information, forecasts, and opinions contained herein are as of the date hereof and are subject to change without prior notification, and should not be regarded as any investment product or market recommendations. This material has not been reviewed by the Securities and Futures Commission of Hong Kong, Hong Kong Monetary Authority, or any regulatory authority in Hong Kong.

BEA will update the published research as needed. In addition to certain reports published on a periodic basis, other reports may be published at irregular intervals as appropriate without prior notice.

No representation or warranty, express or implied, is given by or on behalf of BEA, as to the accuracy or completeness of the information and stated returns contained in this material, and no liability is accepted for any loss arising, directly or indirectly, from any use of such information (whether due to infringements or contracts or other aspects). Investment involves risks. The price of investment products may go up or down, and may become valueless. Past performance is not indicative of future performance. The investments mentioned in this material may not be suitable for all investors, and the specific investment objectives or experience, financial situation, or other needs of each recipient are not considered. Therefore, you should not make any investment decisions based solely on this material. You should make investment decisions based on your own investment objectives, investment experience, financial situation, and specific needs; if necessary, you should seek independent professional advice before making any investment.

This material is the property of BEA and is protected by relevant intellectual property laws. Without the prior written consent of BEA, the information herein is not allowed to be copied, transferred, sold, distributed, published, broadcast, circulated, modified, or developed commercially, in either electronic or printed forms, nor through any media platforms that exist now or are developed later.

For more information, please visit our webpage at https://www.hkbea.com/html/en/bea-about-bea-economic-research.html. For any enquiries, please contact the Economic Research Department of BEA (email: lerd@hkbea.com/telephone number: (852) 3609-1504/postal address: GPO Box 31, Hong Kong).

© 2026 The Bank of East Asia, Limited