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Research US

US Midterm Review - Blue wave political ramifications

Democrats appear to have flipped 7-8 Senate seats. So far, they have won 54 seats and are on track to win 55-56 in the new Senate. Alaska and Mississippi are still to be called, but tentative results suggest Democrats are on track to win them as well. Mississippi remains very close but would be the biggest surprise of the Senate election, as Republicans were heavy favourites beforehand. Before the election, Democrats were expected to win 52-53 seats. In the House, Democrats are on track for a large majority. Prediction markets have them winning up to 260 seats, or nearly 60%, with only 218 needed for a majority. Democrats also flipped several close gubernatorial races, including Georgia, as expected, Ohio, which was a toss-up, and Texas and Kansas, both of which had been favoured for the GOP. Importantly, Trump has said that he will accept the election result.

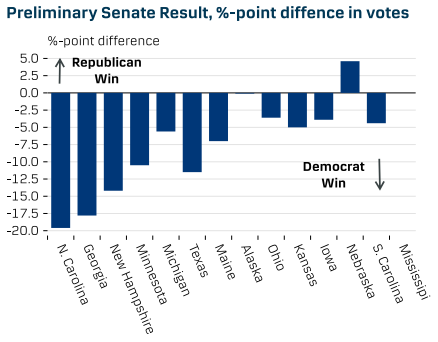
We do not expect the election result to significantly alter the fiscal policy outlook. This, in turn, would imply only a limited impact on the growth outlook. Public spending is expected to keep rising in the coming years, but largely due to structural factors rather than political decisions. The Congressional Budget Office (CBO) estimates that 90% of the expected spending increase over the next decade relates to social security, healthcare costs and rising interest payments (see chart 2). We see a low chance of either party pushing through policies that would significantly cut these entitlement programmes ahead of the 2028 elections, and a divided Congress does not make the task easier.

We think a divided government, however, makes the fiscal policy outlook more predictable. The Democratic majority in both chambers means Republicans have no chance of passing further deficit-widening reconciliation bills. This should also mean that Trump's suggestion of a USD 5,000 dividend for all adults in the US is off the table. Since Democrats cannot secure a two-thirds majority in both the House and the Senate, Trump can veto Congress-initiated spending bills. This means the fiscal policy stance will be essentially locked in for 2027-28.

The market will likely focus on the potential ramifications for the data centre buildout following the gubernatorial results in Texas, Georgia and Ohio, where Democratic challengers unseated Republican incumbents.

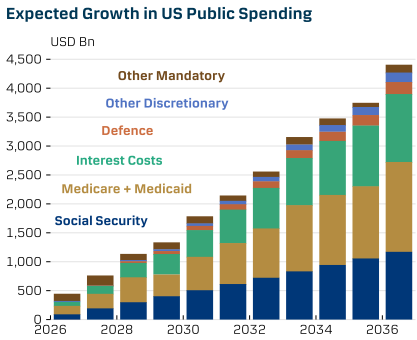
The outgoing Congress will face a busy schedule in its final few weeks. At the very least, Republicans will aim to pass the full-year government funding package before the current stopgap bill expires on 11 December. If they fail to pass appropriations bills in December, Trump and Republicans would also have to negotiate them with House Democrats. This would not only risk another spiral of repeated shutdowns in early 2027 but could also force Republicans to make political concessions. For details, see *RtM USD - Republican agenda for the lame-duck session*, 20 October. We could also see a more aggressive presidential push against Fed Governor Cook, or possibly some Republican-nominated Supreme Court justices leaving office before the new Congress takes office.

Chart 1: Democrat won most swing states



Sources: Macrobond, CNN, Danske Bank

Chart 2: Growth in US public spending largely explained by structural factors not likely to be changed under new congress



Sources: Macrobond, CBO, Danske Bank

Analyst, US
Magnus Poulsen
+45 20 87 96 58
magpo@danskebank.dk

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