

What Corporate Leaders Need to Know About Potential Midterm Election Outcomes

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Political tensions continue to run hot inside the Beltway with midterm elections right around the corner. One thing is certain: the country remains deeply divided amid persistent discord in Washington, DC, rising energy prices driven by the war in Iran, ongoing inflation, declining affordability and growing concerns about artificial intelligence (AI) and data centers. Together, these pressures have heightened economic anxiety, deepened political polarization and reinforced competing views about the country's direction and priorities.

The House of Representatives is expected to flip to Democratic control with around 15 seats potentially lost by Republicans; and the Senate sits on a razor's edge even as polls begin to skew in favor of Democratic control as presidential approval ratings continue to decline. Regardless of whether the Democrats win the House of Representatives or both the House and the Senate, legislative gridlock and unrelenting Democratic oversight of the Trump administration should be expected. However, if the Democrats win both chambers, the president will struggle to appoint Cabinet members and fill vacancies that exist, slowing the advancement of parts of his agenda. Should Republicans hang on to a narrow majority in the Senate or even a 50-50 Senate with Vice President Vance as the tiebreaker, this would mean that President Trump could at least get his nominees confirmed in the Senate despite the House conducting aggressive oversight of his administration.

It is widely known that the Democrats want to restore many of the Obama tax credits, renewable energy tax credits and a range of social spending initiatives from the Biden administration; as well as funding for initiatives cut by the Department of Government Efficiency; however, they are likely to have only limited success given President Trump's veto power. If the Democrats capture both chambers, they will almost certainly use the budget reconciliation process to push through a "tax and spend" bill, which can move through the Senate using a simple majority. Although unlikely to become law, it lays the messaging groundwork for the tax policies the 2028 Democratic presidential campaigns will focus on such as a proposed data center tax—appealing to some populists on both sides of the aisle—and potential larger taxes on corporations, transactions and specific industries. Likewise, a divided Congress would still be gridlocked on most legislation, and there would not be a budget reconciliation bill to serve as a vehicle for Democratic fiscal policies.

The president will not view himself as a "lame duck" following midterms, especially given the Supreme Court's rulings on the expansion of executive powers. It should be expected that President Trump will push his executive powers to the absolute limit in furthering his agenda.

Affordability and Corruption are Key Themes Amid Ongoing Dissention

Congressional Democrats have made it clear they are running on a platform of increasing affordability and decreasing corruption. The issues of affordability and rising consumer prices in the shadow of the war in Iran are at the heart of Americans' concerns and remain of critical importance this cycle.

As mentioned, aggressively punishing oversight by Democrats can be expected, with some Cabinet officials coming under investigation. While the expectation is for articles of impeachment to be filed by some rank-and-file Democrats, party leadership is not anticipated to pursue impeachment as a first priority knowing it will do little more than provide added political theater to an already dramatic ecosystem.

The Grand Bargain to Keep the Lights On

Despite the political tensions that exist in Washington, President Trump and the Democrats will have to take a seat at the negotiating table in the very near future, as the government funding continuing resolution is set to expire on December 11. Both parties know the federal government needs to be funded one way or another, creating room for negotiating a government funding bill that satisfies a handful of priorities for each party.

Funding for the Department of Defense is a priority for President Trump. To date, the Democrats have been concerned that voting for this funding will be seen as validating his decision to go to war. However, they know defense spending is needed to reinvigorate the stockpiles depleted by the wars in Iran and Ukraine. The Democrats also know this creates a quid pro quo for funding some of their domestic spending priorities. And so, the bargaining begins. Although a short-term government shutdown may occur on the way to a deal, a grand negotiation that results in little to no fiscal discipline and some spending "wins" on each side can be expected.

Hope Exists for Select Bipartisan Cooperation

The digital infrastructure buildout is a key facet of the administration's vision for reindustrialization, with the president believing the U.S. needs to win the AI "arms race" with China. However, there is an emerging bipartisan consensus in Congress that is very suspicious of AI and data center buildouts. This tension will continue to play out on both sides of the aisle with unorthodox alliances forged. Legislation to impose new requirements that data centers pay for their power needs could be taken up as part of bipartisan "permitting reform" legislation already scheduled for consideration in the Senate in the lame-duck session of Congress this November right after the midterm elections.

Following the midterms, the expectation is that Congress will continue to work on building a regulatory framework to guide the development of AI and the digital infrastructure, including data centers. While President Trump wants the lightest regulatory touch possible, a potential deal on frontier model releases could look similar to the pre-approval process for pharmaceuticals and a new federal bureau to provide oversight.

Given the broad-based suspicion of China in Congress, the possibility exists to reach a pragmatic, bipartisan agreement that does not impede growth and protects U.S. national security.

Amid the rapid expansion of AI and the digital infrastructure buildout, the U.S. is experiencing a historic moment of capex spending not seen since the Industrial Revolution. A byproduct of this has been the need for access to every available source of energy.

The Democrats have preferred energy sources, are in favor of decarbonization, and will create punishing oversight of the Environmental Protection Agency, the Department of Interior and other agencies, as well as the fossil fuels industry, due to President Trump's pullback on the UN Climate Accord and Paris Agreement among other things. However, a divided government scenario will out of necessity create the pursuit of an "all of the above" strategy, including nuclear power and modernizing the power grid.

What It All Means for Businesses

Though unattractive to watch unfold, the visibly more contentious environment in Washington is unlikely to result in much legislation over the balance of President Trump's term, with the exception of funding the federal government. While it is true that markets typically react favorably to legislative gridlock, they do not like government shutdowns. Consumers and businesses will pay the price for the minimal fiscal discipline expected at the government funding bargaining table. Continued economic stimulus through expansive fiscal policy will likely result in higher borrowing costs, rising inflation, tax uncertainty and slower wage growth.

Corporates should expect to continue to be whipsawed unpredictably on tariff policy given the administration's view of tariffs as a toll for access to the U.S. consumer base and President Trump will continue to use them to force reindustrialization of the U.S. economy.

A silver lining can be found in the administration's benign antitrust philosophy relative to that of the Biden administration. This may help drive an increase in M&A, at least in some industries like banking and tech, out of concern that the presidency may flip to the historically less deal-friendly Democrats, providing the impetus for dealmaking while there is more certainty of regulatory approval.

Undoubtedly, the anticipated shifts in Congressional makeup will positively impact certain industries and not others. In addition to the AI and digital infrastructure themes dominating the airwaves, other areas of alignment include lowering drug prices, especially for Medicare and supporting industrial growth in the U.S. Despite some common goals on what should be achieved, mistrust and radical differences on how to achieve those goals will likely keep progress limited.

Election Impact by Industry Group

Directional view of election-related policy effects across industry

Net impact:

TailwindMixedHeadwind

Net impact = election-related policy plus current conditions, next 12-24 months

Industry	Likely net impact	Key drivers	What to watch
Consumer & Retail	Headwind	- Affordability is a central theme: confidence is at its lowest since 2014 [Conf. Board] and gasoline is up ~40% y/y [AAA] - Tariffs now rest on Sec. 232/301 after the IEEPA ruling - executive-driven, with limited congressional leverage	Dec. 11 funding deal; fuel prices and end of Iran war; the Fed's next move, impact of AI adoption
Energy	Mixed	- Brent near \$90/b in 2H26 on Hormuz constraints, increased oversight of agencies and industry - Favorable midstream conditions could improve with permitting reform - Wind/solar credit cliff is already law and unlikely to be reversed under divided government; nuclear, storage, geothermal credits run to 2033	Legislative permitting bill; Strait of Hormuz flows; end of Iranian War; global supply of distillates and other downstream products
Financial Institutions	Tailwind	- Generally favorable regulatory environment, e.g., Agencies' March capital proposal would lower system-wide requirements; rulemaking is agency-led, so largely insulated from Congress - Fed at 3.75-4.00% with more hikes signaled; wide deficits add rate pressure [CBO]; merger review is settlement-friendly	Final capital rule; oversight of bank regulation and M&A; Fed meetings; Dec. 11 funding
Healthcare	Mixed	- Drug pricing is the clearest bipartisan issue - Most Favored Nation drug policy deals (all 50 states in the Medicaid model) and Medicare negotiation - with oversight likely - Enhanced ACA credits expired Jan. 1; Medicaid work requirements start Jan. 2027; changes would require legislation	ACA open enrollment; H.R. 1 implementation, insurer and hospital pricing scrutiny will only increase
Industrials	Mixed	- Demand: FY27 defense request of \$1.5T (incl. \$350B via reconciliation) plus a \$67B+ Iran-conflict supplemental [Conf. Board]; ISM PMI at 54.5 with rising backlogs particularly around data center ecosystem [ISM] - Costs: ISM prices index at 77.9 on steel/aluminum tariffs and fuel; trade policy remains executive driven [ISM] - Interest rate environment weighing on U.S. housing starts and U.S. existing home sales [FRED]	Defense topline in the Dec. 11 deal; Sec. 232 changes; permitting reform for infrastructure Reshoring and near shoring of supply chains; status of U.S.-Mexico and U.S.-Canada trade relations Iranian war impact on input costs
Power & Utilities	Tailwind	- EIA sees record U.S. generation in 2026-27 on data centers and manufacturing [EIA]; FERC ordered grid operators to revise or justify large-load rules - Bipartisan Senate permitting deal would make data centers pay their own transmission costs; states are also flexing power	Lame-duck permitting vote; RTO filings; state data-center laws and rate cases
Real Estate	Mixed	- Rates dominate: 30-yr mortgage near 7.2% after the Fed hike; existing-home sales down 2% in August [NAR] - Housing policy is bipartisan, but state and local regulations matter immensely - If higher rates coincide with a significant economic slowdown, commercial real estate, especially retail and leisure, will feel the impact	10-yr yield reaction to funding deal; Treasury/HUD rules; CRE refinancing; data-center demand
Technology, Media & Telecom	Mixed	- AI rules unsettled: White House seeks federal preemption; a bipartisan House draft proposes audits and three-year preemption - Data-center skepticism spans parties and states; state AGs are challenging deals federal agencies cleared	Preemption fight; frontier-model oversight; data-center cost rules; FTC/DOJ and state AG actions; Tech and software valuations/stock prices

Cross-sector M&A: federal review is settlement-friendly and midterms are not expected to change deal activity materially

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