

Market Insights

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Politics and Portfolios: Themes Driving the Midterms – part II

Plenty of twists and turns have accompanied this year's U.S. midterm election season. From substantive changes in mid-cycle redistricting and campaign finance to shifting concerns relative to AI, spiking interest rates and the inflationary impact of unresolved hot wars, nerves are on edge. As was the case when we wrote on this topic a few months ago ([Politics and Portfolios – part I](#)), agita over high prices, stagnating wages and shifting employment dynamics is still front and center. The mounting anger (or apathy) is likely to motivate (or dissuade) voters in deciding whether or how to vote. Mixing politics and portfolios is a fraught undertaking in the best of times – and one we typically steer clients well away from. Still, key issues with the capacity to reach across Main Street AND Wall Street are at play for the election itself and for what may come next.

The unique attributes of THESE mid-terms

As we approach November 3, the murky haze of election predictions is coming more into focus. Without a doubt, momentum is in Democrats' favor nationally. Midterm elections generally favor the party out of the White House anyway. Paired with President Trump's persistently low approval ratings (in the low thirties as of this writing) it becomes a recipe for substantial gains by Democrats in November. **But an election is not won on historical norms alone. Republicans lodged significant wins this year that will boost their chances at the ballot box.**

The first is the unprecedented midcycle redistricting we discussed in our last *Politics and Portfolios* in July ([Politics and Portfolios – part I](#)). Republicans netted between eight and twelve new seats through that process – though recent polling tells us that a few of those seats may be shakier than Republicans originally thought – a consequential bloc in a year where margins are so tight.

Republicans also have a distinct money advantage nationally, aided by a Supreme Court decision earlier this year on connected campaign spending that overwhelmingly benefited them. But will that be enough to overcome, or dilute, Democratic momentum?

A blue wave (?) vs the bigger issue: margins

There seems to be an overwhelming urge right now for pundits to point out how closely the 2026 midterms mirror the 2006 midterms. In 2006, President George W. Bush's approval ratings were in the high thirties, Democratic voters were highly motivated and concerns over the Iraq War and the high cost-of-living were the leading issues nationwide. The election resulted in a Blue Wave, with Democrats picking up thirty-one seats in the House and six seats in the Senate, ushering in Democratic control of both chambers for the first time in twelve years and the historic speakership of Nancy Pelosi.

But the political landscape in the U.S. has changed a lot in the past twenty years. Multiple redistricting cycles have eliminated most of the swing districts across the country. With fewer toss up districts to grab by either party, "wave" elections tend to look more like a "ripple" these days. And money — while always a factor — has become the dominant story in our elections. Well-funded campaigns now have the ability to overcome national sentiment, further narrowing the field.

While Democrats are first and foremost focused on picking up the majority and Republicans on retaining it, the margins they win by will be just as important. A two or three seat majority — similar to the House Republican majority of the 119th Congress — is not a governable majority. Legislative momentum grinds to a halt with small margins, when one or two members can easily throw a wrench in the best laid plans.

Whether the Senate is controlled by Democrats or Republicans next year, the margins will undoubtedly be smaller than the four seats Republicans have today. And if Democrats are able to take the majority in the House, likely-Speaker Hakeem Jeffries will be hoping to clear the ten- to twelve-seat majority mark on Election Night to give himself a little breathing room next year. If Republicans can overcome national sentiment and polling expectations and retain the majority in the House, it will once again be by the tiniest of margins.

What to expect from divided government

With pre-election indicators leaning towards a Democratic majority in at least the House next year, we are likely facing a divided Washington in 2027. At least initially that will mean that legislative gridlock will become the default, with very few pieces of compromise legislation on the horizon. **Without momentum on Capitol Hill, we expect the Trump Administration to lean on administrative actions, including agency policymaking and executive orders, to accomplish their priorities. Must pass legislation like annual appropriations and an extension of the debt limit will require intense negotiations, with both sides of**

the aisle looking to extract anything they can out of a deal.

Congress will also turn to their oversight and investigation powers in the absence of legislative progress. Democrats have already indicated their intention to investigate the Trump Administration if they take the leadership mantle, further complicating negotiations on any must-pass legislation.

Investors have traditionally favored divided government, perhaps because it kept policy makers' attention fixated on other things, leaving markets to get on with the business of growth and focusing on fundamentals. There is also a perception that divided government leads to policies that are less likely to vacillate between the extremes that can occur when a trifecta or substantial majorities control the agenda. **This time around, though, there are important pieces of legislation that Wall Street would like settled re AI (data centers, model oversight), trade/tariff, energy and cryptocurrency policy.**

Congress recessed for the midterm rush, for example, leaving progress on the CLARITY Act (comprehensive legislation aimed as further clarifying the ground rules for digital assets) unfinished. While various agencies such as the CFTC and SEC stepped in with new policy announcements to help in the void, investors are wary re durability of regulatory policy versus legislation. Murkiness on the operational framework for the key industries that have driven market/economic gains over the past four years may not be perceived as favorably by Wall Street as divided government has been in the past.

If Democrats are able to secure governable majorities in one or both houses, Wall Street may place greater odds on the potential for more strenuous national oversight of AI. In short, there will be opportunities for comprehensive legislation next year on a variety of topics but until both sides are able to come to the table constructively, progress may be elusive. If Republicans can keep majorities in the House and Senate and retain the Republican trifecta next year, expect Congress and the White House to interpret that as a substantial national mandate in favor of Republican policies with major legislative efforts on a range of Republican priorities to follow.

Polling vs prediction markets: in whom do we trust?

Election polling has been a part of every campaign season in the U.S. for over 200 years, while prediction markets like Polymarket and Kalshi only came on the scene during the 2024 election. So, which is more accurate at predicting the outcome of the election? Or does neither do a very good job? Before delving into this, it's important to understand the fundamental question each is asking:

A poll asks: "Who do you support?"

A prediction market asks: "Who will win?"

If you were asked both of these questions about your local congressional race, would the answer be the same?

Polls are useful to indicate trends – such as whether a race is competitive, whether a candidate is leading and which issues matter most – but even the best polls only represent a snapshot in time, not a definitive forecast. They are very good at representing the range of potential voters, therefore capturing voter sentiment across the spectrum. However, it's hard to talk about the efficacy of polling without talking about the 2016 presidential election, when

most pollsters would agree the surveying was off. Traditional polling failed to capture the low propensity voters that Trump was able to turn out in key states like Wisconsin, Michigan and Pennsylvania, and as a result, overestimated Hillary Clinton's probability of winning the presidency. **Since then though, polls have only gotten better at capturing those low propensity voters. Improved demographic weighting and technological advancements (including text polling and AI modeling), continue to reach more potential voters and increase the validity of polling.**

Prediction markets are fundamentally different from traditional polling not only because of the question they are trying to solve, but also in their sample size. Driven by a small group of traders, this group may not accurately represent the electorate and may be overly concentrated in certain demographic groups. And not all market inputs are created equal: large hedge funds arguably have more influence on the final number, potentially skewing results.

Supporters point to the fact that prediction market users have real money at stake ("skin in the game") and that a contract won't be opened unless both sides of the trade (a buyer and a seller) are present. Prediction markets can also overcome one of the major flaws of traditional polling — the three-to-six-day lag between field polling and the release of the results. Particularly as we close in on Election Day, polling may be released that fails to capture the developments of the prior few days and therefore could be wildly inaccurate. Because of the small sample size and foundation in the markets, prediction markets can update almost continuously.

Whether you prefer the polling averages or the prediction markets, it is crucial not to let either influence your own personal decisions about a candidate's electability. Both can influence voter turnout – if prediction markets show that a candidate has a 70% chance of winning the election or polls show they are ahead by five points, supporters may decide there's no need to vote on Election Day since things look like a lock for the candidate. But if all that candidate's supporters interpreted the information the same way and decided not to turn out to vote – it could be a landslide in the other direction. Both prediction markets and polling are important informational tools ahead of an election, but they are by no means guarantees and should not be treated as such.

Affordability: still issue #1

Inflation (or more rightly the higher base price of just about everything) remains the number one issue that may turn voters out – or keep them home. While the headlines obsess about the rate of growth in prices (inflation), citizens are most frustrated by the fact that price levels in general are more than 30% higher than they were pre-pandemic. While some hot button items (eggs, beef) have come down from recent highs, voters overall just aren't feelin' it and are mad at the situation in general. Realistically, there is nothing either party can do to push prices back to before times levels. Nor would we want the recession it would take to do so. Still, politicians find a receptive audience in drilling into affordability angst. Rubbing salt in the wound is the elevated price of gas, helping keep the issue front and center and coloring perceptions in a generalized way.

In recent weeks, record high prices for diesel as well as individual positions relative to the two hot wars that have purportedly pushed them up, have figured prominently in political debates and campaign ads. Diesel is in everyone's face whether or not they drive a vehicle powered by it as it's a key input to virtually every good or service used.

Ironically, though the U.S. is a major producer of the refined oil product, diesel prices are set in global markets which remain disrupted. Additional fuel-induced pain points come because the spike is hitting just as the country's farmers enter the critical fall harvest season. Farmers are already reeling from the ongoing impact of shifting trade and immigration policy. Taken together, these issues have made the reliability of one of the Republicans' more consistent voting blocs less predictable.

Who's got the power – and the \$\$

This year's election is shaping up to be a historic case study on the influential role that outside groups and individual megadonors play in campaigns in the U.S. Outside groups have already spent billions on federal candidates so far this year, with no indication of slowing down in the final campaign stretch. These groups can be aligned with one party, one issue or one industry, but no group has been as active as the crypto-backed Fairshake network – on pace to spend about \$200 million nationally. Highly organized and well-funded, Fairshake became a force in the 2024 election and has continued their bipartisan support of pro-crypto candidates this year. And while party- and issue-specific outside groups exist on both sides of the political spectrum, Republican-aligned outside groups tend to raise far more on average than Democratic-aligned groups. By contrast, individual Democratic candidates receive far more direct contributions as compared to their Republican opponents.

The influence of individual megadonors will also be consequential this year, with names like Elon Musk and Richard Uihlein deeply invested in Republican candidates, and George Soros and Michael Bloomberg supporting Democratic candidates and causes. And the numbers this year are staggering -- Musk alone has spent well over \$400 million, while Michael Bloomberg dropped \$80 million *in one day* to support Democrats' efforts towards a House majority. With a small number of donors driving a significant share of outside spending, megadonors increasingly rival political parties themselves as sources of campaign financing.

But does all that money guarantee results? Not necessarily. Once candidates achieve a sufficient spending threshold, additional spending can have diminishing returns -- heavily funded candidates still lose.

The AI narrative has broadened

As we wrote in part I of this series, data centers were quickly becoming the poster child for everything citizens feared or hated about the rapidly spreading topic of AI. Although machine learning (a.k.a. artificial intelligence) has been around for decades, the introduction of ChatGPT in November 2022 thrust it into the public spotlight – and public consumption – faster than any previous invention. Unlike the early days of the internet 30-plus years ago (when the infrastructure to support its use was not yet fully built out), we had the infrastructure to try the new technology at our fingertips by simply clicking “download app.” Just five days after launch,ⁱ ChatGPT attracted one million users and in just two months captured 100 million.ⁱⁱ Corporate adoption is growing quickly too. An August 2026 McKinsey study found that 40% of companies with more than \$1 billion in annual revenue were already *scaling* (not just experimenting with) AI across their organizations. Last year the number was just 27%.ⁱⁱⁱ In short, the breadth, depth and speed of

adoption has been inconceivably quick.

The exponential growth in end-user demand highlighted both major gaps in the ability to service it and bottlenecks in core components. Enter the need for more processing infrastructure, a.k.a. data centers. While data centers have been in existence for decades (that's what the cloud runs on after all), training and running frontier AI models require specialized facilities chockfull of the most advanced graphics processing units (GPUs) and substantial quantities of memory processing chips. Access to the energy and chips has been in notoriously short supply as the hyperscalers siphoned demand from other users in the race to build capacity. This classic supply/demand imbalance has grown so acute in the near term that it is acknowledged to be one of the contributing factors pushing inflation and bond yields higher.

Data center construction has become a hot button issue in a number of local and state races, prompting candidates to expand or modify their positions on the advocacy of welcoming such construction in their regions. With demand unlikely to lessen (and, in fact, much more likely to increase) the issue will remain front and center even after November 3.

By late summer the AI/data center discussion shifted after security incidents revealed that agentic AI models had bypassed safety barriers and gone rogue. Autonomous agents that were created using frontier models (those at the most leading edge of the technology) surreptitiously escaped their training environment, cheated on their assignment, collaborated to replicate themselves and then lied about it all to their human overlords in the now-infamous Hugging Face incident.

Adding to the scary story, a researcher who worked at both OpenAI and Anthropic quit the industry and took to social media to claim everything is moving too fast and the technology may be capable of wiping out humanity by the end of the decade. A number of other company insiders confirmed the possibility of this nefarious scenario playing out. However others in the AI and AI-adjacent industries (including President Trump and Nvidia CEO Jensen Huang plus key venture capitalists) have come down firmly on the side of not standing in the way of progress. Congress, too, expressed varying degrees of conviction that this issue requires front-burner priority – though they recessed before substantive action could be taken. Along with affordability, AI issues – both data centers and talk of national regulatory framework – will factor prominently in the political sphere beyond the midterms. Keeping up with AI, which is moving faster than anything that's come before will present its own unique challenges. Still, the electorate is wary and will likely continue to hold politicians to account. Flipping one or both houses to democrats could accelerate activity around some sort of regulatory framework though it's highly doubtful President Trump would sign anything that will impede the progress of such an important technology.

The Throughline

With the midterms (thankfully) less than two weeks away, attention will soon be turning to post election topics. What (if anything) will a lame duck congress do and what lineup will the President confront? As investors, it has rarely, if ever, made sense to try to tilt – or even tweak – a portfolio based on politics. The old adage “politics and portfolios don't mix” still rings true. Yet the outcome of this year's cycle may have broader bearing for both Wall Street and Main Street.

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ⁱ [Number of ChatGPT Users \(January 2026\)](#)

ⁱⁱ [ChatGPT User Statistics 2025-26: 56+ Data Points on Users, Growth, Countries, and Revenue](#)

ⁱⁱⁱ [The State of AI: Global Survey 2026 | McKinsey](#)