
Transcript – 10-21-2026**Beyond the Portfolio – Politics and Portfolios**

Henray Cohen:

Welcome to Beyond the Portfolio, the podcast from BMO Wealth Management. I'm Henray Cohen, US Head of Investments, and I'll be your host today. With the midterm elections just a few weeks away, investors are wondering what the outcome could mean for Washington, the economy, and ultimately, their investment portfolios. To help us sort through those questions, I'm joined by two terrific guests, Ashley Ellefritz, Head of US Government Relations at BMO, and Carol Schleif, BMO's Chief Market Strategist. Ashley will help us understand the political landscape and what different midterm outcomes could mean for policy in Washington, while Carol will help us translate that into what really matters for investors.

Ashley, Carol, thanks for joining me. We've got a big midterm election coming up on November 3rd. Ashley, as you look at the landscape today, what are the likeliest outcomes and what are the key variables you'll be watching between now and election day?

Ashley Ellefritz:

Well, thanks, Henray. I think that it's fair to say that momentum as of today is in Democrats' favor, and that fits with historical context of what we know about midterm elections. It tends to be the party out of the White House is favored in the midterm elections. And most of the time, midterm elections tend to be a referendum on the president even though the president isn't on the ballot. And because President Trump's approval ratings are on the low side right now, they're in the low 30s, that will impact voter turnout as well as voter sentiment going into the polls on election day. There is a way to think about this as sort of it's Democrats' elections to lose right now, but there have been some really consequential moments in time for Republicans over the course of the last year that are going to really affect how things turn out on November 3rd.

So the first is this mid-cycle redistricting that we've had over the past year, which is really unprecedented and it has netted between eight and 12 seats for Republicans that they didn't have in the 2024 election. On top of that, there has been a really consequential change in the way that money can be spent, which overwhelmingly benefits Republicans. And so we're seeing the effects of that in states where there's really close races right now like Texas and Ohio and Maine and Alaska. That Republican spending is outpacing Democrats and that will come to probably pay dividends in the future as the Republicans get closer to the election. There is a tendency right now for a lot of folks to draw parallels to the 2006 midterm elections, which there are on paper a lot of similarities between where we are right now and where we were then. We have a president who has relatively low approval ratings.

There's also a fair amount of affordability concerns out there nationwide. And in 2006, Democrats were able to pick up 31 seats in the House and six seats in the Senate, which was a pretty significant change in leadership in that election.

I think a lot of folks, again, draw parallels there because we do have a lot of similarities in where the country is right now, but at the same time, the country is very different than it was in 2006. So thinking about redistricting, we have gerrymandered a lot of districts in the US in the last 20 years, and so there just aren't as many gettable districts. There's probably only 18 true toss-up districts nationwide right now for House seats. And so if you're thinking of 435 seats nationwide, 18 of them are really the true toss-up seats. Not to say the Democrats and Republicans won't be able to pick up a lean Democrat and a lean Republican here and there, but there just aren't the huge numbers that there used to be.

And on top of that, and I mentioned it already, the money is playing a much greater role now than it did 20 years ago. The numbers are much bigger and the way that outside groups and national parties and individual candidates can spend is very different. So I think while it sort of looks the same, I think we won't necessarily have the exact same outcome. And then thinking about variables going into election day, we are less than three weeks away now. I like to say that anything can happen in a week or a day when it comes to election politics, but we are sort of getting down to the wire of how many things can actually change in the next few weeks.

We are seeing a lot of policy bandied about and put into the public sphere as ways to think about what the potentials are for Republicans or Democrats if they take leadership after the elections, what we might see from them, but we won't see changes in gas prices before election day. We won't see the price of food go down before election day. And so it's really a lot more talk than it is action at this point.

There's always the opportunity for an October surprise that of course the most famous October surprise we've had recently was 2016 when the FBI announced that they were investigating Hillary Clinton a few weeks before the election, as well as the Access Hollywood tape that came out right before the election. It doesn't seem like we're going to have another October surprise this year, but again, it's a surprise for a reason. And so who knows if something will come up in the next couple weeks. But the final thing I'm really watching is where President Trump is spending his time on the campaign trail. The Republican strategy has really shifted over the last few weeks, and instead of trying to grab that middle in consequential toss-up races, they are trying to use the president and his mouthpiece to turn out the base.

So turn out that two, three, 4% of low-propensity voters that tend to be part of the president's base to make sure that they can overcome any challenges they're having with moderates. And so that'll be really interesting to see where he is spending his time and also how much time he's spending on the campaign trail over the next few weeks.

Henray Cohen:

Thanks, Ashley. Well, how much faith do you have in any of the polling we've seen thus far?

Ashley Ellefritz:

That's a really good question. I think I watch polls very, very closely and I think that... Let's talk about the Senate polling because I think that that's the best way to look at it. So there's probably six or seven close races in the Senate, and every single one of those has a one- or two-point lead for the current leader, but the margin of error is about five points on most polling. And so even though we're talking about super close races, but this person looks a little bit ahead right now, they could be off by five or seven points.

And so if we have a sort of national structural polling issue like we did in 2016 where everything was off by three or four points in one direction, there could be huge swings to the left or to the right. So because the races come out is so close right now, I do think that trusting the polling is, you have to take it with a grain of salt a little bit because a point here and a point there when you're talking about polling a thousand people in an election that'll have millions of voters, it's very tough to take them as the gold standard.

Henray Cohen:

Yeah. It just goes to show how difficult this particular midterm is going to be to predict the actual outcome of how this is all going to shake out. But last question for you is depending on who controls Congress after the election, how different could the policy agenda look in 2027 and where do you think the biggest differences in the areas like taxes, regulation, energy, government spending it might be?

Ashley Ellefritz:

So I think taking the most straightforward path first, which is if Republicans do retain control of the House and the Senate, and so we have a trifecta again in Washington next year, I think that is a strong national mandate for Republicans as well as for President Trump. So you're going to see a fair amount of very significant policymaking happening very quickly, big on spending fiscal policy, but probably a lot on tax and trade policy at the same time. Given that the election is sort of trending in the direction that we are going to see a split Washington next year, that changes the dynamic really significantly. It is very difficult to get things through in a split party situation, particularly in an environment like we have right now where there isn't a lot of coordination among Democrats and Republicans. And so I think particularly at the very beginning of the next Congress, we are going to have a fair amount of gridlock.

That usually means that we're going to see a lot of administrative policy on the back end. If we can't get legislative policy through, we will see the administration start to backfill, whether that's through executive orders or through certain agency policy happening at the same time. But the thing to know about administrative policy is it is a little volatile. It can go to the courts relatively quickly. It's implemented very fast, unlike legislation. And if we had a Democratic president in 2028, we could see a lot of those policies flip on its head. The other piece is there is some legislation out there that Congress will have to pass next year, even if they aren't working together all that well, the spending legislation as well as the debt limit lift later in the year. Those are going to be really tough negotiations, particularly if they haven't come together for a consensus point before that.

As far as the big buckets of policymaking go, I think some things that'll stay fairly similar, regulatory policy, those are run through the agencies. We don't expect to see a lot of changes at the top of the agencies in the immediate term, and so we'll continue to see the priorities stay the same. Trade policy will likely stay the same as well. That's mostly run through the White House. I think that this White House has decided that trade policy is a place where they've been really effective, and so they'll probably continue to do that once we get past the midterms. Energy policy, I actually think that there could be some work around affordability and energy policy, probably not climate-related energy policy, but I do think that there are some places where both Democrats and Republicans can come together to solve some affordability issues and energy costs is probably one of them.

Fiscal policy, that's going to be the toughest one. I think that those will be really hard negotiations. Probably going to see a lot of continuing resolutions, which always has a bigger risk of government shutdowns and we have continuing resolutions because we just can't come to that full appropriations point very easily. And then finally on tax policy, it's very difficult to get tax policy through when you have a split Congress. So I don't expect to see One Big Beautiful Bill-style legislation come through, though there might be some changes around the edges, but no major tax legislation on the horizon.

Henray Cohen:

Okay, Ashley, that gives us a great picture of what could change in Washington. Now, Carol, let's take that political backdrop and bring it back to portfolios. Investors are going to hear a lot over the next few weeks about what different election outcomes could mean for the markets. How much should the midterms actually influence the way our clients position their portfolios?

Carol Schleif:

I think the simple answer is a lot less than they might initially think. It's always tempting to want to take political leanings one way or the other and figure out how they're going to be expressed in portfolios and then trade off it. But that tends to be a pretty dangerous presumption, if you will, because there's a lot of times, and we've seen this in each of the prior two or three elections in particular, where there was potentially big policy swings in certain categories like energy, like green energy versus oil and gas kinds of energy. And so stocks would trade one direction, but then with the outcome of the election, the stocks subsequently and the industry subsequently got treated the exact opposite. So frequently we tell clients not to mix politics and portfolios, but there is a lot at play, particularly when you look at the leadership and the sorts of outlines of policies going in that will potentially have intermediate and longer term effects on portfolios.

But the key thing for investors, particularly for equity investors, is to stay focused on the fundamentals because the fundamentals really are what have undergirded the market's move the entire way up here where we just anniversaried the fourth year of double-digit returns on markets, and it's been a solidly earnings-driven market. And the Trump administration over the last couple of years has switched policy a bit framework-wise and made it even more pro-business, if you will. And those trends continue, we suspect, no matter what the composition of the

House and the Senate is post. There were a number of very business-friendly pieces put into the One Big Beautiful Bill last year, for example, that relate to R&D expensing and plant and equipment expenditures being able to write them off immediately to encourage reshoring and the expansion of production. There were a lot of things that are carryover from Biden that really got going in the last year or two as well that relate to infrastructure bill that we need to support the artificial intelligence or the superintelligence build out that we're currently in the midst of.

We expect those policies to continue. So for investors, rather than getting wound up thinking about do I tweak my portfolio left or right, left, right or center, if you will, do I tweak my portfolio dependent on either how I think the election's going to come out or based on the way it comes out, that tends to be a lot less successful endeavor, if you will, over the long run than really leaning into and focusing on what is the underlying trend of fundamentals. And thankfully for all of us, we're early on in earnings season, so we'll get a lot of commentary in the next four to six weeks over how companies are actually doing, how much they are implementing and taking advantage of those tax policies that are already put in, and then how they're going to deal with the certainty or uncertainty that comes after a midterm election.

Henray Cohen:

I like the way you framed it, being careful around not mixing politics and portfolios because that can oftentimes steer you in the wrong direction. We do have a lot of momentum, like you said, fourth year in a row of double-digit US equity returns. It sounds like you think that that momentum is not going to be coming to a halt as a result of whatever happens this November, even in the event of a split Congress or anything like that. I know you also mentioned the AI trade, which is really the key thing driving the momentum in the markets. You don't foresee changes in policy or a new government changing the momentum around that AI trade?

Carol Schleif:

Well, and it's interesting because I'll attack it from a couple different directions because first off, it's broader than just the AI trade, although the AI is a secular trend at the heart of it. Another way to think about it is we're basically rewiring the economy, not just in the US but globally to support the next phase of the industrial revolution, artificial intelligence, robots, autonomous vehicles, this whole combination, the race for space, if you will, this whole combination of factors that we're doing is really thrusting us in a more speedy direction, if you will, into that next phase. Even manufacturing, as we reshore manufacturing, we're not putting up old school manufacturing plants. We're putting robots, electric, driverless forklifts in distribution centers. There's a whole different way that we're building all of this stuff, and it needs power and grids, and we do need improvements to ports and roads and railroads.

So there's a lot of infrastructure build that's going on, and that's a secular issue. It's sweeping up a lot of traditionally cyclical industries in it because semiconductor chips are traditionally cyclical. Technology actually is traditionally a cyclical industry, but they're caught in this longer term secular trend. And so that build we don't think goes away. As far as what Congress does, we've seen through the evolution of the midterm race, if you will,

particularly this year where artificial intelligence has become very politicized. And it might've started with a lot of the tech industry, a lot of the titans, if you will, coming out a year or so ago and starting to threaten that AI is coming for your job, and then all of a sudden AI is breaking loose from its training environment. And not only is it coming for our job, but it's coming for all of us.

And so there's been a lot of concerns there. It's raised the attention of the politicians who are talking about it on the campaign trail side by side with affordability and a lot of other things. And the poster child for that in a lot of these local markets is data centers. So you're seeing, and Ashley can talk a lot more about this, but you've definitely seen politicians have to modify their positions, if you will, sort of on the fly and on the campaign trail to be accommodative, if you will, of their constituency. And now you've got calls in Congress, at least over the last couple of weeks, to potentially put some gating factors on that. So I do think on the gating factors on the development of the most cutting edge technologies because of the errant behavior that some of those models have displayed in the last couple of months.

And so depending on the composition of Congress, I would suspect that investors will fear that you could potentially see more rules and regulations trying to slow artificial intelligence down or superintelligence as the Trump administration calls it, which would be at odds with the president and most of his immediate advisors who really want us not to lose a competitive race with China on new technologies. And so I think investors may treat it one way, but like so many things, the investors and the markets might run one direction in the short run, but the policy itself is likely to be broader and more framed, and I would suspect that they don't want to get in the middle of trying to mandate what happens at the state level either. And as we all know, Congress is pretty notoriously slow at developing legislation anyway, and this technology is anything but slow.

Henray Cohen:

Okay. It sounds like there's reason to believe that we may continue this momentum, which does seem to be a true secular trend that even a dysfunctional government can't stand in the way of. Well, Ashley and Carol, thank you so much for being here. And if there's one takeaway from our conversation, it's that elections can certainly affect the policy backdrop and create periods of uncertainty, but political headlines are only one of many factors investors need to consider when making long-term portfolio decisions. Ashley, thanks for helping us understand what to watch in Washington. And Carol, thanks for helping us put it all into perspective for investors. And to everyone listening, thank you for joining us on Beyond the Portfolio. We hope you'll join us again.

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