

The Sterling Capital VAULT

The 2026 U.S. Midterm Elections & Fixed Income Market



Executive Summary

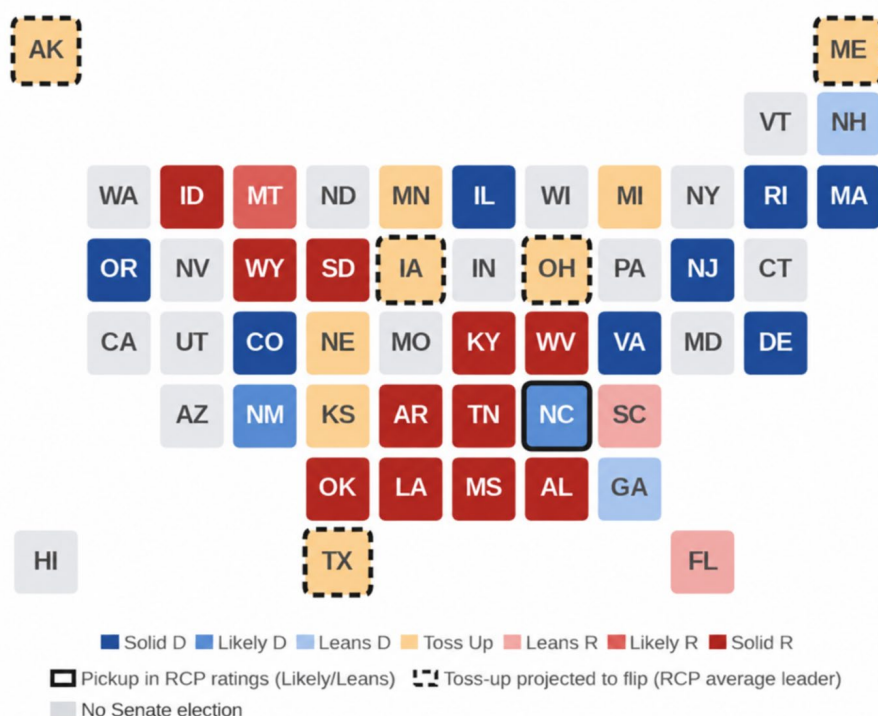
We expect the November 2026 midterm elections to have a limited direct impact on the U.S. bond market. Fixed income markets typically discount anticipated outcomes well in advance, and the largest election-driven moves, such as the 2016 U.S. presidential election and the Brexit referendum, have followed genuine surprises, in our view. Current polling points to Democratic gains, a consensus shared by most investors. In our opinion, the most meaningful impacts of the midterm elections may play out over a longer time horizon through fiscal policy and Treasury supply, a probable 2027 debt ceiling confrontation, and the composition of the Federal Reserve (Fed) Board, which hinges on control of the Senate.

Historical Precedent & Election Scenarios

Recent midterms that shifted congressional control produced modest immediate reactions. The 2018 Democratic takeover of the House, midway through President Trump's first term, was widely anticipated and had little market impact, in our view. Sharp moves in interest rates over the following two months were the result of trade tensions with China and growth concerns amid Fed tightening, conditions not dissimilar to the current environment. In 2006, when Democrats won both chambers midway through the President Bush's second term, yields declined in the run-up to the vote, eased modestly afterward, and ended the year broadly unchanged.

The consensus expectation is that Democrats regain the House and contest the Senate, given the President's negative net approval ratings. Any resulting majority is unlikely to be veto-proof, in our view, however, the legislative landscape may differ slightly from the past two years, in which the One Big Beautiful Bill Act was the primary piece of legislation. Divided government could lower the probability of further fiscal expansion and incremental Treasury issuance, although Democrats do not appear to be fiscal hawks, in our opinion.

RCP Senate Ratings



RCP: RealClearPolling. D: Democratic. R: Republican. Chart source: RealClearPolling. Data is as of 10.2026. The views expressed represent the opinions of Sterling Capital Management. Any type of investing involves risk and there are no guarantees these methods will be successful. This information must be read in conjunction with the definitions and disclosures on the last page.

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Fiscal Risk: A Republican Surprise & the Debt Ceiling

In our opinion, a Republican sweep remains out of consensus but may potentially be the highest impact scenario. This may raise the likelihood of another reconciliation package, potentially including a larger increase in defense spending, effectively rule out tax increases, and extend the administration's expansionary fiscal stance. Given the market's perception of Republican governance as business-friendly, investors could potentially revise growth forecasts upward, which may place upward pressure on yields in the immediate aftermath.

Regardless of the outcome, government funding and the debt ceiling may require attention in 2027. Three shutdowns occurred during the first two years of this term despite unified Republican control. Shutdowns, however, have historically limited bond market impact, in our view.

The debt ceiling is more consequential, in our opinion. Brinkmanship has twice contributed directly to sovereign downgrades: S&P lowered the U.S. from AAA to AA+ in 2011 after the standoff that produced the Budget Control Act, with Fitch following in 2023 after a dispute between the Biden administration and a Republican House. The One Big Beautiful Bill Act raised the debt limit by \$5T in 2025, which we expect to provide headroom only into 2027. Although Democratic Houses have historically been less obstructionist on the debt ceiling, the current political climate may suggest a renewed standoff could be a meaningful risk.

Outcome	Market Expectation	Fiscal Implications	Fed Implications	Bias for yields
Democratic House and Senate	Partly priced	Further fiscal expansion less likely	Nominees constrained; oversight of removal efforts	Neutral
Democratic House, Republican Senate	Largely priced	Further fiscal expansion less likely	Administration able to reshape the Board	Higher at the long end
Republican House and Senate	Surprise	Third reconciliation package likely	Administration able to reshape the Board	Higher

Federal Reserve Composition: The Most Significant Channel

Senate control may matter most for fixed income investors, in our view, through the midterm election results' impact on the Fed. While he may step down sooner, Jerome Powell's term as a governor expires in January 2028. A Republican Senate majority may make for an easier confirmation process to replace Powell with a successor of the President's choosing, while potentially having a greater impact if the White House succeeds in removing Governor Lisa Cook, or others, from the Fed. In such a scenario, Trump appointees may constitute the majority of the Board, which may allow the Fed to pursue a more accommodative path, consistent with the President's stated preference for lower rates. In our opinion, this may potentially invite further questions about central bank independence. Both developments may potentially raise the term premium, inflation expectations, or both, and with them potential longer-term yields.

A Democratic Senate may compel the administration to nominate more independent-minded candidates or leave seats vacant. Democrats could also gain committee control, including subpoena power and the ability to hold oversight hearings on removal efforts. Legislation protecting Fed independence could advance, though may potentially face a presidential veto, in our view.

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Governor	Role	Appointed By	Board Expiration	Leadership Term Expiration
Jerome Powell	Governor	Obama	2028	2026*
Philip Jefferson	Vice Chair	Biden	2036	2027
Michelle Bowman	Vice Chair	Trump	2034	2029
Kevin Warsh	Chair	Trump	2040	2030
Michael Barr	Governor	Biden	2032	---
Lisa Cook	Governor	Biden	2038	---
Christopher Waller	Governor	Trump	2030	---

Sector Considerations

At the state level, Democratic gains may intensify political pressure to slow AI and data center development. Over several quarters, this could reduce capital expenditure funding needs for hyperscalers and frontier AI developers, which could moderate corporate bond issuance, including data center and semiconductor-related financings. Separately, a number of state ballot measures may affect specific segments of the U.S. municipal market.

Conclusion

We do not anticipate a material repricing in the immediate aftermath of the midterms, with the exception of an unexpected Republican sweep, which may carry potential upside risk to yields. For institutional investors, we believe the more durable implications lie in 2027 and beyond: a likely debt ceiling confrontation with attendant credit rating risk, and a Senate outcome that may shape the composition of the Fed and, by extension, the long end of the Treasury curve.

Important Information & Disclosures

Past performance is not indicative of future results. Any type of investing involves risk and there are no guarantees that these methods will be successful. Economic charts are provided for illustrative purposes only. The information provided herein is subject to market conditions and is therefore expected to fluctuate.

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Technical Terms:

The One Big Beautiful Bill Act (OBBBA) (Public Law 119-21) signed into law on 07.04.2025, is a sweeping tax, spending, and policy reconciliation package.

The Budget Control Act of 2011 (BCA) (Public Law 112-25) is a U.S. federal law enacted on August 2, 2011, to resolve a major debt-ceiling crisis and establish long-term limits on federal government spending.

Artificial Intelligence (AI) is the ability of computer systems and algorithms to simulate human-like intelligence, reasoning, learning, and problem-solving.

Data center is a physical facility, building, or room that houses computer systems, servers, storage drives, and network equipment to store, process, and manage digital data and applications.

Hyperscaler is a large-scale cloud service provider that operates massive, globally distributed data centers to deliver cloud computing, data storage, and networking at an enormous scale.

Capital expenditure (CapEx) is the money a company spends to buy, upgrade, or maintain long-term physical and fixed assets, such as buildings, machinery, land, vehicles, or technology, that provide economic benefits for more than one year.

Brinkmanship is the practice of pushing a dangerous situation or confrontation to the absolute limit of safety, short of a full-scale disaster, to force an opponent to back down and make concessions.