Macro & Asset Allocation

MIDTERMS PLAYBOOK

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The approaching US midterm elections could reshape the domestic political equilibrium and become increasingly relevant for markets as the campaign moves closer to November. Current polls point to a challenging environment for the Republican Party, with Democrats ahead in the generic ballot and in a position to compete for at least one chamber of Congress. Against this backdrop, ***our baseline is that Democrats win one chamber.***

Under our baseline, we would expect a divided-government equilibrium, with higher congressional scrutiny but limited institutional disruption. This should reduce the probability of further fiscal expansion and weaken the political momentum behind the most aggressive parts of the tariff agenda, whilst leaving the President with meaningful executive flexibility on broader trade policy.

We expect a NEUTRAL to MODERATELY POSITIVE impact on USTs under our baseline scenario and we would recommend a LONG positioning with a bias for a MODERATE STEEPENING of the curve. *This is because we expect no deterioration in the fiscal outlook, status quo in terms of trade policy, AI investment to continue to power the US economy, the Fed to remain on hold in 2026, while retaining an easing bias in 2027 as disinflation continues to progress and the political risk premium to decline moderately.*

Our baseline suggests a MODERATELY POSITIVE outcome for equities. *Partial gridlock would keep impeachment risk low and limit the scope for major policy shifts. We would remain neutral to mildly constructive on US equities, while expecting non-US markets to catch up tactically. Sector positioning would become more balanced, with a modest preference for quality Growth.*

FX-wise, we expect a split Congress to be NEUTRAL to MODERATELY POSITIVE for the USD*, as the moderate decline in the political risk premium, coupled with a still favourable rate differentials of the US vs. the rest of the world will continue to favour the greenback, at least until 2027.*

POLITICAL ROADMAP

Reading the polls

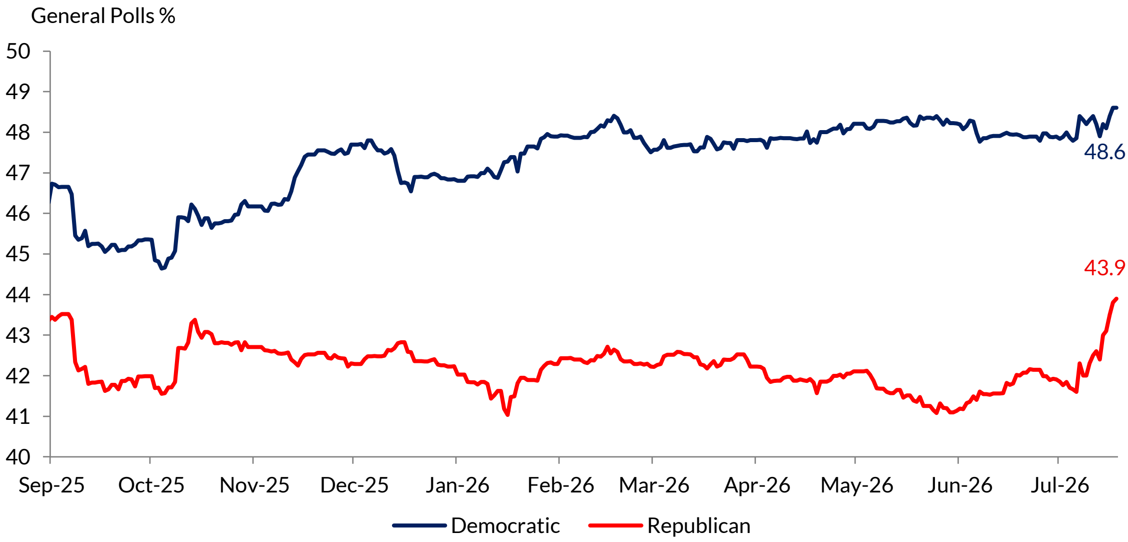
A challenging environment for the incumbent party. The national polling backdrop is currently consistent with a midterm backlash against the President's party. The generic congressional ballot is not a perfect forecast of seat distribution, but it remains the cleanest high-frequency proxy for the national electoral environment. At face value, a Democratic lead would normally be consistent with a meaningful risk that Republicans lose control of at least one chamber, especially the House (**Figure 1**).

However, the US electoral system is not proportional, **district-level dynamics matter, and polling errors have been material in recent cycles**. Moreover, the Senate map is structurally less favorable for Democrats than the House map. Therefore, while polls support a Democratic gain in at least one chamber, they do not yet support a high-conviction call that Democrats will secure full control of Congress.

At this stage, and taking current polls at face value, **we assign the highest probability to a divided-government outcome in which Democrats win one chamber of Congress**, most likely the House. Full Democratic control of Congress remains possible, though less likely given the Senate map. A GOP hold of both chambers remains a material alternative scenario, especially if the national environment improves for Republicans as the campaign progresses.

Figure 1

US Mid-term Election – General Polls



Source: Real Clear Polling, Silver Bulletin, ANIMA Research: Note: data as of 18th July 2026. We use Silver Bulletin's adjusted generic ballot polling data and construct a rolling weighted average of the Democratic and Republican series. Polls are indexed by poll end date and weighted using the poll weights provided in the database over a 30-day window.

Three aspects to watch

Three aspects should be closely watched when assessing the implications of the midterm elections.

First, the political equilibrium. The key issue is whether the vote delivers divided government, full Democratic control of Congress, or a renewed Republican mandate.

This will determine the level of congressional scrutiny, institutional confrontation and impeachment-related risk.

Second, trade policy. President Trump retains executive flexibility on tariffs, but the IEEPA ruling has weakened the long-term effectiveness of this strategy. A Democratic gain would likely constrain the tariff agenda politically, while GOP control of both chambers would likely be interpreted as an endorsement of the President's trade stance.

Finally, fiscal policy. The election will determine whether the pro-business fiscal put remains in place or whether any future fiscal expansion needs to be negotiated with Democrats and redirected toward spending and lower-income households.

Political scenarios

Below we present the potential political equilibrium and policy stance that could emerge after the midterm elections under different scenarios.

A - The Democratic Party wins one chamber - Our Baseline

We expect this outcome to result in divided government. Impeachment risks would remain low, although congressional scrutiny and investigations would likely increase. On policy, the President would retain meaningful executive power on trade, but the political and legal constraints around the tariff agenda would be higher. On fiscal policy, the most likely outcome would be status quo, with no major additional fiscal expansion unless negotiated with Democrats. Any compromise would probably be tilted toward spending and/or lower-income households rather than broad corporate tax relief.

B - The Democratic Party wins both chambers

Under this scenario, political confrontation would rise materially. Impeachment risks would become medium to high, even if not necessarily the base case. A Democratic sweep would weaken the President's political mandate and increase the likelihood of aggressive oversight from Congress. On trade, the administration could still rely on executive powers, but the political sustainability of the tariff agenda would be reduced. On fiscal policy, markets would need to consider a higher probability of a shift toward spending and lower-income households, although actual implementation would remain uncertain given the President's veto power.

C - The GOP secures both chambers

Under this scenario, the President would likely claim a renewed political mandate. Impeachment risk would be negligible, and the focus would shift from institutional confrontation to policy execution. On trade, the President would likely interpret the result as an endorsement of his aggressive tariff stance, increasing the risk of renewed tariff escalation through alternative legal channels despite the constraints created by the IEEPA ruling. On fiscal policy, the pro-business fiscal put would remain in place, with further tax cuts, deregulation, and business-friendly measures still on the table.

MARKET IMPLICATIONS

Rates

A - The Democratic Party wins one chamber – OUR BASELINE

We expect a NEUTRAL TO MODERATELY POSITIVE impact on USTs in this scenario.

For the following reasons:

1) **Fiscal**. The probability of a large fiscal package in this scenario is at its lowest, unless there is a major economic or financial crisis, as any bill proposal advanced by the either the Republican or the Democrats and approved by one chamber will likely be rejected by the other chamber and/or vetoed by the President. The deficit outlook will remain challenging, with the deficit-to-GDP ratio remaining in the 6/6.5% range in coming years. That said, if tariff refunds are mostly re-paid this year, as we expect, the deficit might fall by 0.4pp in 2027 compared with this year (6.4% of GDP in 2027 vs. 6.8% of GDP in 2026). This would represent a moderately positive surprise for investors in our view.

2) **Trade**. In terms of trade policy, we expect the average tariff rate to remain largely unchanged in this scenario. Following the declaration of illegality of IEEPA tariffs by the Supreme Court, we expect the Trump administration to rely on Article 232 or 301 in case it wants to impose additional tariffs. Under Articles 232 and 301, which both require an investigation, tariffs could be challenged in the courts, but they would not require a Congressional approval.

3) **AI**. In this scenario, we expect the Democrats to be unable to push through any restrictive regulation that could have a negative impact on growth via the AI investment channel. Against this backdrop, we expect AI investment to continue to power the US economy.

4) **Fed**. Given little change in terms of policies in this scenario, we expect Fed monetary policy to remain largely driven by the macroeconomic outlook. With the economy growing near potential, the disinflation process progressing and the deficit moderately declining, the Fed should stay on hold until the end of 2026 and possibly adopt an easing bias in 2027. That said, much will depend on the outcome of the various task forces Chair Warsh initiated and on whether the results will bring real change to how the Fed conducts its monetary policy.

5) **Impeachment**. Given that the impeachment process requires in its final step a 2/3 majority in the Senate, its probability in this scenario is very low.

6) **Political risk premium**. We expect a further moderate decline in the political risk premium embedded at the long end of the curve in this scenario, as markets will price in less risk of unorthodox policies in 2027 and 2028. The reduction in the political risk premium may also come from a re-increase of foreign flows into USTs.

Against this backdrop, **we would favor a LONG positioning on USTs.** Curve-wise, we would have a bias for a moderate steepening of the curve, taking into account the easing bias of the Fed coupled with still solid growth.

B - The Democratic Party wins both chambers

We expect this scenario to be NEUTRAL for UST performance, for the following reasons:

1) **Fiscal.** In this scenario, the probability of actual fiscal easing is still low in our view, as any bill that is approved by both the House and the Senate could be vetoed by

President Trump. Congress could in principle overrule the veto, but only by re-approving any vetoed bill in both chambers with a 2/3 majority, which looks very difficult. That said, given that the Democrats have control of both chambers, we could see attempts to pass bills aiming at re-financing programs such as SNAP, Medicaid and Medicare, at lowering childcare costs and medicine bills, or, more generally, supporting fiscal policies in favor of lower and middle-income households. Against this backdrop, we expect fiscal risk and the noise around expansionary fiscal policies to be higher than in scenario A, triggering greater market volatility in government bonds. This would be only partly offset by the possible positive surprise in the deficit in 2027 (see scenario A).

2) **Trade.** As in scenario A, in terms of trade policy, following the declaration of illegality of IEEPA tariffs, we expect the Trump administration to open new investigations in case it wants to impose additional tariffs, which in theory would not require Congressional approval. However, having lost both chambers would weaken appetite for further tariffs and reduce momentum behind tariff measures among Republicans.

3) **AI.** With control of both chambers, we expect Democrats to propose restrictive regulations on AI. Regulation of AI would probably be welcome to the general public, given that recent concerns related to AI are top of mind among young people (https://www.pewresearch.org/internet/2026/06/17/americans-and-ai-2026-chatbots-smart-devices-and-views-on-impact/) but, such measures could easily be vetoed by President Trump, considering AI's contribution to economic growth as well as US competition with China in this field. Against this backdrop, while there could be some noise around this topic, we expect investment in AI to continue to power the US economy in this scenario as well.

4) **Fed.** Like in scenario A, despite a rise in noise around fiscal policies and around AI related regulation, we do not expect Congress to be able to approve policies that could meaningfully impact the conduct of monetary policy. Against this backdrop, in this scenario the Fed should stay on hold until the end of 2026. However, the easing bias in 2027 should be less evident than in scenario A, given the higher risk of expansionary fiscal policies.

5) **Impeachment.** While we consider the probability of a positive conclusion of an impeachment procedure for President Trump to be rather low, the risk of impeachment is higher in this scenario compared to scenario A. Moreover, the Democrats could resort to other ways to try to restrict presidential powers. This could lead to an even more polarized political outlook over the coming two years, generating noise and triggering volatility in government bonds.

6) **Political risk premium.** While, on the one hand, the heavy defeat of Trump and the Republican Party at the midterm elections will likely be positive in terms of policies and institutional order, we do NOT expect a drop in the political risk premium, for the following reasons:

    a. Political noise will increase, as the Democrats will try to pass relevant bills given their full control of Congress, even if a veto by President Trump would de facto make the process of turning them into law almost impossible.

    b. With full Democratic control of Congress and virtually no room for maneuver for Republicans, President Trump could try to capitalize on presidential powers and deepen the polarization in US politics.

    In this context, inflows into USTs from foreign investors might decline, as political noise is a negative factor in this respect.

Against this backdrop, **we would adopt a NEUTRAL positioning on USTs**, both tactically and strategically. That said, given that most of the volatility will be caused by risks rather than actual changes in relevant policies, and given that we do not expect actual policies to change much, we would recommend tactically trading within ranges in periods of high volatility. Curve-wise, under this scenario, we would adopt a moderate steepening bias.

C - The GOP secures both chambers

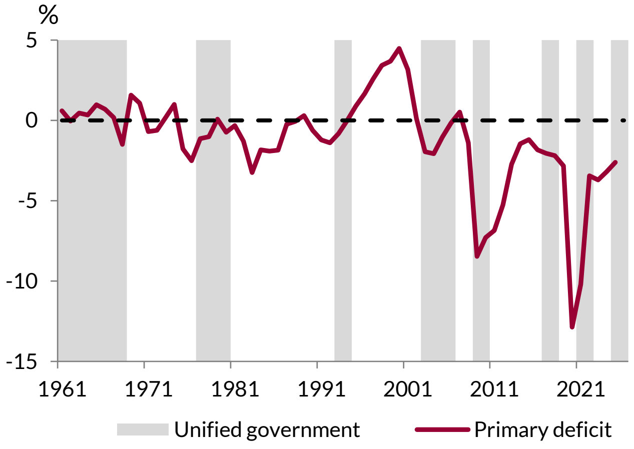
We expect this scenario to be NEGATIVE for UST performance, for the following reasons:

1) **Fiscal**. This is the only scenario in which another sizeable fiscal easing could be approved. While, looking at the past, we find no meaningful evidence that a unified government (meaning that the President and Congress are of the same party) is related to a rise in the primary deficit (**Figure 2**), we also observe that, during the first Trump presidency, Congress approved a fiscal expansion worth around 1% of GDP, and the same happened during his second presidency. What changed during the second presidency in terms of fiscal easing is that tariff-related revenues offset some of the slippage coming from the approval of the OBBA, resulting in a much more moderate increase in the primary deficit compared to the first Trump administration. If the temporary measures in the OBBA are extended (and we think the probability is high under this scenario) this could lead to a rise in the primary deficit in the USD 3.5-5tn range over 10 years, or roughly 1-1.5% of GDP per year, taking the yearly deficit-to-GDP ratio well above 7% (**Figure 3).**
2) **Trade**. While the Trump administration has already changed course in terms of instruments it relies on to impose tariffs, a Republican-controlled Congress might encourage the Trump administration to attempt to re-escalate tariff policy, with the intent to increase revenues. If this happens, however, we would expect a more moderate market reaction compared to April 2025, given the Supreme Court sentence on the illegality of tariffs imposed under IEEPA. We expect any new tariff to be imposed using more legally robust instruments compared, for instance, with the IEEPA. In any case, if any challenge to the trade policy were to emerge, we would expect it to come from the courts rather than Congress.
3) **AI.** With a Republican-controlled Congress, the current approach, oriented towards lighter ex ante regulation and more focus on innovation and competitiveness on AI, would continue. More deregulation in other fields should also contribute to boosting growth, with the yearly growth rate possibly rising above potential.
4) **Fed.** With the economy possibly growing above potential, inflationary risks mounting and fiscal easing, Fed monetary policy would turn more hawkish with the central bank likely to raise rates in 2027.
5) **Impeachment.** There would be no risk of impeachment in this scenario.
6) **Political risk premium.** This scenario would see a rise in the political risk premium.

Against this backdrop, **we would position ourselves SHORT on USTs**. Under this scenario**, curve-wise, we would remain NEUTRAL** given that higher inflationary and fiscal risks would likely be met by a much more hawkish monetary policy stance by the Fed.

Figure 2

No evidence that unified government leads to higher primary deficit, except under Trump

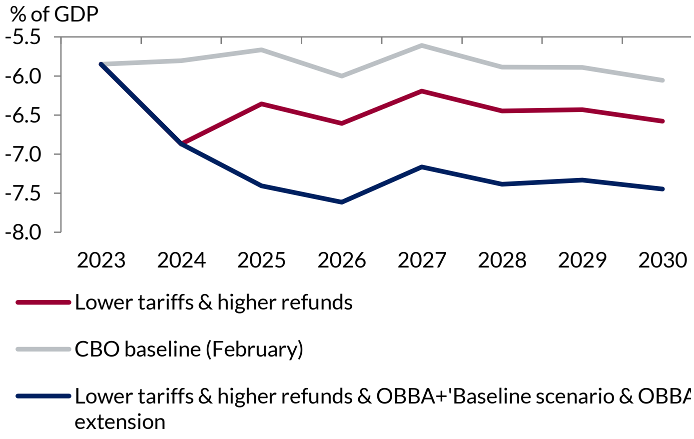


Unified government indicates that the Congress and the Presidency are controlled by the same party.

Source: Bloomberg, Haver Analytics, ANIMA Research

Figure 3

If OBBA measures are extended, deficit/GDP over 7%



Source: Bloomberg, ANIMA Research

Equity

A - The Democratic Party wins one chamber – OUR BASELINE

We would view this as a benign outcome for global equities. With impeachment risk low, tariffs likely to remain more headline risk than effective policy, and fiscal policy constrained but not fully blocked, investors would likely interpret this scenario as one of partial gridlock rather than outright policy reversal. That should remain broadly supportive for equities, albeit less so for the most policy-sensitive segments of the market.

For US equities, the implication would likely be neutral to mildly constructive. The domestic macro backdrop should remain supportive, but the market would likely assign a lower probability to further pro-business fiscal support than under full GOP control. Relative to the rest of the world, we would move to a more balanced stance: the US should retain its fundamental edge, but a moderation in tariff risk and a less aggressive policy mix could allow non-US equities to catch up tactically.

At the sector level, this scenario argues for a less aggressive cyclical tilt than under a Republican sweep. We would move toward a more balanced Cyclicals vs Defensives stance, as leadership broadens beyond the pure Trump-policy winners. On Growth vs Value, we would also shift to a more neutral stance, with a modest preference for quality Growth, as more limited upside in yields would be less supportive for the classic pro-cyclical / reflation trade.

For AI-related equities, this would likely be a neutral to mildly constructive outcome. Partial gridlock would reduce the probability of a more aggressive Democratic regulatory push, while also limiting the upside from a full Republican deregulatory agenda. AI infrastructure, semiconductors, hyperscalers and enterprise software should remain supported by the structural capex cycle, albeit with less policy-driven upside than under full GOP control. Overall, the implication would be to maintain exposure while remaining selective within the AI complex.

Within traditional Cyclicals, Banks should remain supported, but with less upside than under a full GOP sweep. Partial gridlock would reduce the probability of further deregulation and additional pro-business fiscal support, though the sector would still benefit from a resilient macro backdrop and a constructive environment for credit quality and capital returns.

Within Defensives, Pharma should remain relatively attractive. Partial gridlock would reduce the probability of a more aggressive policy push against the sector, while leaving the broader macro backdrop intact. In this context, investors would likely continue to favour large-cap quality names with defensive earnings profiles.

B – The Democratic Party wins both chambers

We would view this as the most politically disruptive scenario for global equities, given a medium-to-high impeachment risk and the highest probability of prolonged institutional friction. Trade policy would likely remain driven by executive action, but investors would probably conclude that the long-term effectiveness of Trump's tariff agenda has weakened materially. On the fiscal side, markets may begin to price some probability of a more redistributive and growth-supportive policy mix, although implementation risk would remain high.

For US equities, this would likely be the least favourable of the three scenarios in relative terms. Higher political uncertainty and the risk of institutional confrontation would likely cap multiples and raise the equity risk premium, even if parts of the market attempt to look through the noise toward potential fiscal support. Relative to the rest of the world, we would expect the US to underperform, as a reduction in perceived tariff effectiveness and higher domestic political noise could favour non-US markets, particularly Europe, on a relative basis.

At the sector level, we would move away from Cyclicals and toward Defensives, at least initially, as weaker visibility and a more uncertain policy backdrop argue for a more cautious stance. On Growth vs Value, **we would prefer Growth, particularly quality Growth**, as the areas most exposed to pro-business policy, deregulation and domestic fiscal upside would likely lose relative appeal. The main exception would be selected consumer segments that could benefit from any market pricing of greater lower-income support, but overall leadership would likely shift away from the traditional Trump winners.

For AI-related equities, this would likely be the least favourable scenario from a policy perspective, particularly for frontier AI labs and labour-displacing automation models. That said, the scope for materially tighter federal AI legislation would still be constrained: even under a Democratic sweep of both chambers, President Trump could veto new legislative proposals and overriding that veto would require a two-thirds majority in Congress, which Democrats would be highly unlikely to command. In the short term, markets would nevertheless likely price a higher probability of stricter guardrails around safety, transparency, copyright, privacy, deepfakes and worker protection, as well as a lower probability of federal pre-emption over state-level AI rules. While AI infrastructure demand should remain structurally strong, higher regulatory uncertainty would likely weigh on the most exposed names. Within the AI complex, we would therefore prefer defensive quality software and infrastructure enablers over high-regulatory-beta automation names, focusing on companies with recurring revenues, strong balance sheets, high margins, mission-critical products and less dependence on a single AI narrative.

Within traditional Cyclicals, Banks would likely be among the least favoured sectors. A higher degree of political confrontation and a lower probability of additional deregulation would reduce the appeal of the sector, while investors would likely rotate away from the most policy-sensitive domestic cyclicals. Banks would still retain some support from a solid economy, but their relative upside versus the broader market would look more limited.

Within Defensives, Pharma would likely be one of the clearest relative winners. Greater political constraint on the administration would reduce the probability of further escalation on tariffs and drug-pricing pressure, while higher political noise elsewhere in the market would likely increase the appeal of the sector's defensive characteristics. In this scenario, Pharma would likely outperform on a relative basis, particularly led by large-cap, globally diversified names.

C – The GOP secures both chambers

We would view this as the clearest pro-risk / pro-business scenario. With no impeachment risk, a preserved fiscal put for corporates and higher-income households, and a White House likely to claim vindication for its economic agenda, markets would likely assign the highest probability to continued support for domestic earnings, deregulation and business confidence. Tariff risks would remain part of the story, but investors would probably focus more on the persistence of the broader pro-growth policy mix.

For US equities, this would likely be the most constructive scenario. The market would probably price stronger earnings support, a more persistent domestic policy tailwind and higher confidence in the business backdrop. Relative to the rest of the world, we would expect the US to outperform, as the combination of stronger fiscal support, more favourable corporate policy and continued domestic exceptionalism would reinforce the US leadership trade.

At the sector level, this scenario argues clearly for Cyclicals over Defensives. Financials, Industrials and other domestic policy-beta sectors would likely outperform, while defensives would lag in a more pro-growth market. On Growth versus Value, the directional implication would ordinarily favour Value, given a stronger fiscal backdrop and the risk of firmer yields. That said, recent history suggests Growth versus Value is no longer a pure rates trade, with the correlation between the style pair and yields having weakened materially. As a result, **we would remain more agnostic on style**, while still favouring sectors with greater exposure to domestic growth and deregulation.

For AI-related equities, this would likely be the most supportive scenario. A Republican sweep would likely reinforce market confidence in faster AI deployment, a lighter regulatory burden, greater federal pre-emption of state-level AI rules, and a more favourable backdrop for data-centre, power and cloud-infrastructure buildout. Semiconductors, hyperscalers, AI infrastructure suppliers and enterprise AI adopters would likely benefit the most, as investors price a stronger policy tailwind for capex and commercialisation. The main caveat is that national-security oversight would remain relevant, particularly around frontier models, cloud access, export controls and China-related risks.

Within traditional Cyclicals, Banks would likely be among the clearest winners. Continued support for a pro-business policy mix, a higher likelihood of further deregulation and a more favourable backdrop for capital returns would all reinforce the investment case. In this scenario, Banks would likely outperform, particularly relative to more defensive segments of the market.

Within Defensives, Pharma would likely be among the relative laggards. Full Republican control would increase the probability of renewed pressure on drug pricing and tariffs, even if the broader macro backdrop remained supportive for equities. As a result, Pharma would likely underperform more cyclical and policy-beta sectors, with investors favouring areas more directly exposed to deregulation and pro-business fiscal support.

Figure 4

Summary Table – Equity

Area	A – Democrats win one chamber	B – Democrats win both chambers	C – GOP secures both chambers
View on the asset class	Benign outcome: broadly supportive for equities, but less favourable for highly policy-sensitive segments.	Least favourable in relative terms: higher political uncertainty raises the equity risk premium and caps multiples.	Most constructive scenario: pro-risk and pro-business backdrop supports domestic earnings and confidence.
US vs RoW	More balanced stance: US keeps its fundamental edge, but RoW can catch up tactically as tariff risk moderates.	Prefer RoW over US: political noise and reduced tariff effectiveness could favour non-US markets, especially Europe.	Prefer US over RoW: fiscal support, favourable corporate policy and domestic exceptionalism reinforce US leadership.
Cyclical vs Defensive	Balanced stance: less aggressive cyclical tilt as leadership broadens beyond pure policy winners.	Prefer Defensives over Cyclicals: weaker visibility and policy uncertainty argue for caution.	Prefer Cyclicals over Defensives: domestic policy-beta sectors should outperform in a pro-growth market.
Growth vs Value	Neutral, with a modest preference for quality Growth as yield upside looks more limited.	Prefer Growth, especially quality Growth, as pro-business and deregulation beneficiaries lose relative appeal.	More agnostic on style, with a tilt toward sectors exposed to domestic growth and deregulation.
AI	Neutral to mildly constructive: maintain exposure, but remain selective within the AI complex.	Least favourable policy backdrop: prefer defensive quality software and infrastructure enablers over high-regulatory-beta automation names.	Most supportive: semiconductors, hyperscalers, AI infrastructure suppliers and enterprise AI adopters benefit most.
Banks	Supported, but with less upside than under full GOP control.	Among the least favoured sectors, as the upside from deregulation fades and political confrontation rises.	Among the clearest winners, supported by deregulation, capital returns and a pro-business policy mix.
Pharma	Relatively well supported, especially large-cap quality names with defensive earnings profiles.	One of the clearest relative winners, helped by defensive characteristics and lower policy escalation risk.	Relative laggard as investors favour cyclicals and policy-beta sectors, while drug-pricing and tariff risks remain.

Source: ANIMA Research.

FX

A - The Democratic Party wins one chamber – OUR BASELINE

This scenario should be **NEUTRAL TO MODERATELY POSITIVE for USD** and **NEUTRAL TO MODERATELY NEGATIVE for EUR-USD,** for the following reasons:

1) Scenario A would see a moderate decline in the political risk premium, a factor which is likely to be dollar positive.

2) The rate differential versus other major developed markets will continue to favor the dollar relative to other currencies.

3) However, if the Fed were to adopt an easing bias in 2027, this would be dollar-negative at the margin.

B - The Democratic Party wins both chambers

This scenario should be **MODERARELY POSITIVE for USD and MODERATELY NEGATIVE for EUR-USD, f**or the following reasons:

1) A moderate decline in the political risk premium would be dollar positive at the margin. While political noise could increase, triggered by a deeper political polarization, we do not expect this to weigh too much on the dollar, as what ultimately weighed on the dollar during the Trump administration was the introduction of unorthodox policies, a factor which would disappear under a Democratic- controlled Congress.

2) The rate differential versus other major developed markets will continue to favor the dollar relative to other currencies.

C – The GOP secures both chambers

We expect this scenario to be NEUTRAL for DXY and EUR-USD. If, on the one hand, the USD could suffer from an increase in the political risk premium, on the other hand, a more aggressive monetary policy by the Fed would benefit the greenback via a widening of interest rate differentials between the US and the rest of the world.

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