

# The 2026 Midterms: The Risk Markets Aren't Pricing Yet

## The Market Implications of a President Without a Congressional Majority

By Nico Tschanz, Head of Wealth Management at Dexbridge Capital

Dear Reader,

Markets are focused on inflation, rate cuts, and earnings. Political risk is barely part of the conversation. Yet in November 2026, control of Congress will be decided. It seems far away, but that decision could materially change the trajectory of fiscal policy, trade strategy, and regulatory direction in the United States. The 2026 midterm elections, recently called “Big MAC” (Big Midterms Are Coming) by a Wall Street strategist, may not dominate headlines yet — but they will. And when markets begin pricing the possibility of divided government, the repricing could be swift.

This mid-month insight examines why this risk matters now, what it means when a president governs without a congressional majority, and how recent developments suggest the political landscape may already be shifting.

### Why Now: Pricing Political Risk Before It's Too Late

In practice, markets rarely wait for election day to react. Political risk is typically repriced gradually as probabilities shift and narratives evolve. By the time headlines dominate the news cycle, much of the adjustment has already occurred. As campaigns intensify and polling data tightens, investors begin reassessing fiscal trajectories, regulatory agendas, and trade policy assumptions. What initially appears distant can quickly become central to market expectations. From a portfolio standpoint, the key is anticipation rather than reaction. Waiting until uncertainty peaks often means adjusting after volatility has already risen and risk premia have widened. Positioning early allows investors to manage exposures deliberately, rather than defensively. Put simply: the advantage lies in recognizing emerging risks before they are fully embedded in asset prices.

### Why it matters: The Stakes of a Divided Government

When the President does not control both chambers of Congress, the policy landscape changes dramatically. Under the U.S. system of separated powers, a split or opposition Congress can severely constrain presidential action. Major proposals — from tax cuts to spending bills — need legislative approval. If Congress resists, gridlock often ensues. Budgets become flashpoints: Congress could withhold funding or demand steep cuts, raising the risk of government shutdowns or debt-ceiling stand-offs. Oversight also intensifies: committees can launch probes or block executive appointments, further bogging down an administration's agenda. In short, the usual levers of power (legislation, budgeting, regulation) all slow or stall.

- **Legislative Gridlock:** With opposition control, every bill becomes a battleground. Passing infrastructure, education, or healthcare plans is far harder. In practice, divided governments in U.S. history have seen fewer major laws enacted and many stop-gap funding measures (continuing resolutions) instead.
- **Fiscal Constraints:** A hostile Congress can force the White House to accept budget discipline it might otherwise avoid. For example, if spending cuts or tax revenues become contested, deficits and interest-rate policy face fresh uncertainty. The mere threat of shutdowns or delays can push up volatility in rates markets.
- **Policy Reversals:** Congress can even try to roll back executive actions. Historical precedents include Congressional efforts to nullify tariffs, rescind regulations, or block appointments. These fights can undermine confidence in future policy consistency.
- **Broader Uncertainty:** This deadlock means a wider range of outcomes is plausible. For investors, it implies that probability distributions for everything from fiscal stimulus to trade policy will widen. Rather than betting on a single scenario, portfolios must be robust to multiple “what-if” electoral outcomes.

The bottom line: without unified control, Washington's ability to enact or sustain policy shrinks. That increases both governance friction and market volatility. Fiscal assumptions also become more fragile: if Congress blocks tax extensions or pushes back on spending plans, expectations for deficits, growth, and issuance must adjust quickly. We believe this repricing risk will intensify as the midterm campaign progresses — and markets should begin recognizing that now.

### Recent Signals of Political Strain

Recent developments already illustrate how political pressure is feeding into policy.

**Tariff Vote Rebellion:** The House of Representatives — led by the President's own party — passed a bill to end tariffs on Canadian imports, with six Republicans joining Democrats. Bloomberg described it as a "rare rebuke," underscoring unease within the party ahead of the midterms. While a presidential veto remains likely, the vote itself matters. It shows that even members of the President's party are willing to break ranks when electoral pressure rises. A narrow majority becomes harder to discipline, and key economic policies — such as trade — become increasingly exposed to political arithmetic.

**Latino Voter Backlash:** In Texas, a traditionally Republican state senate seat flipped after a sharp swing among Latino voters. In one heavily Latino precinct, support shifted roughly 30 percentage points compared to the 2024 presidential race. Analysts link much of this to dissatisfaction with immigration enforcement policies. Bloomberg noted growing concern within Republican circles that slipping support on immigration and the economy could weigh on midterm prospects. The result highlights how policy decisions can reshape electoral coalitions faster than expected.

Taken together, these episodes suggest that legislative cohesion is less secure than headline majorities imply. As November approaches, the probability distribution of outcomes widens.

### Market Implications

What does this mean for investors? Primarily: a higher likelihood of policy friction and volatility into late 2026.

**Fiscal Risks:** A divided Congress increases the probability of budget confrontations, debt-limit tensions, or stalled appropriations. Such episodes historically pressure rates markets and widen risk premia. Tax policy continuity may also come into question, affecting corporate earnings expectations.

**Policy Stalling:** Major initiatives — whether fiscal stimulus, infrastructure programs, or regulatory reforms — become harder to advance. Corporate planning becomes more cautious when legislative clarity fades.

**Market Volatility:** Political uncertainty tends to surface in volatility metrics and sector rotations. Rallies can become more fragile, and defensive segments may outperform cyclical exposures if policy momentum slows.

**Wider Range of Outcomes:** Most importantly, investors must prepare for multiple scenarios. As polling shifts and campaign narratives evolve, markets will continuously reassess fiscal and regulatory trajectories.

At Dexbridge, our focus is preparation rather than prediction. We emphasize resilience: diversified allocations, disciplined income generation, and appropriate hedging where required. Liquidity buffers and structural risk management matter more when uncertainty rises.

In sum, the approaching midterm season represents an underpriced risk in our view. Divided government historically brings negotiation, delay, and fiscal debate. A president without a congressional majority faces clear structural constraints: legislation becomes harder to pass, budgets require compromise, committee oversight intensifies, and executive priorities are more frequently challenged. Policy momentum slows, and uncertainty rises. Recent signs of political strain suggest that this dynamic could build well before election day. We are positioning portfolios accordingly — so clients can navigate whatever outcome November delivers.

Warm Regards,

Nico  
