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KEY TAKEAWAYS

- Gridlock, not reversal: the president keeps tariffs, war powers and the veto; Congress gains the budget and oversight.
- The market repriced risks it had set aside: data center backlash, the cost of the Iran war, debt-funded AI capex.
- Europe is the relative winner; the euro is not.
- The Fed and ECB decisions in December matter more than the vote.

OUR POSITIONING

OVERWEIGHT

European vs US equities · EU banks & defense (Leonardo) · US solar & storage · Pt/Pd · MP Materials

NEUTRAL

Hyperscalers · Oil & energy · Gold & miners · US defense primes · EUR · BTPs

UNDERWEIGHT

AI supply chain (memory, neoclouds, EU semis) · Offshore wind · Junior miners

US POLITICS & MARKETS

Midterms 2026: what a Democratic Congress means for markets

> Democrats won both chambers by a wider margin than expected. The vote changed the direction of US policy less than markets first assumed, but it changed the price of risk in AI, defense, oil, clean energy and Europe.

54+	~256	−4.4%	−18%
Senate seats won by Democrats	House seats, CBS estimate	S&P 500 on Nov 5	Brent in six sessions

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Introduction

Before and after: expectations, results and drivers

In the 2024 elections, the Republican Party won the White House, the Senate and the House of Representatives. Going into the vote on November 3, 2026, Republicans held 53 Senate seats, against 45 for the Democrats and 2 independents who caucus with them, while in the House the Democrats started from a minority of 214 out of 435 seats.

The result exceeded expectations. According to Associated Press projections, Democrats won at least 54 Senate seats and took at least seven from Republicans, including Texas, Ohio, North Carolina and Maine, when four would have been enough for a majority. Two races, in Alaska and Mississippi, were still too close to call as of November 6. In the House, CBS News estimates that Democrats are on track for about 256 seats: as of November 5, 43 districts had shifted to Democrats and 2 to Republicans, with several races still to be called. The scale of the victory also surprised market participants: Bob McNally of Rapidan Energy Group told CNN that the Republican defeat was “bigger than anyone expected.” Trump himself told Fox News he was “a little bit surprised” and that he “thought we would do better.”

The AP Voter Poll, the Associated Press survey of voters, describes a vote driven by widespread discontent. More than half of voters said government corruption was crucial to their vote, slightly more than those who cited the cost of living, and about 6 in 10 said they were very concerned about the cost of groceries. About two thirds believe Trump’s policies have made the economy worse, and about 8 in 10 of them backed the Democratic House candidate. Voters blamed the president for tariffs, the war in Iran and his unfulfilled promise to lower prices. Finally, about 7 in 10 voters, including about 4 in 10 Republicans, said Congress is not doing enough to check the president.

The transition window until January

The new Congress will be sworn in on January 3, 2027. Until then, the outgoing Congress, with Republican majorities in both chambers, remains in office for the so-called lame-duck session. According to the law firm WilmerHale, three deadlines stand out: the stopgap funding for the federal government expires on December 11, raising the risk of a shutdown if no deal is reached; the annual defense bill (NDAA for fiscal 2027) is due by year-end, with negotiations complicated by congressional oversight of the war in Iran; and Republicans are weighing a debt-limit increase large enough to cover the rest of Trump’s term, to be included in a reconciliation package that can pass without Democratic votes.

For markets, this window is a risk in its own right. The administration and the outgoing majority have less than two months to pass measures that from 2027 will require Democratic support, while the president keeps the tools that do not go through Congress, such as executive orders. After the vote, Trump told Politico he was willing to work with Democrats to “make sure things go well for our country,” but he also made clear that he will veto bills he disagrees with.

Purpose of the analysis

In this analysis we assess the implications of a Republican presidency facing, from 2027, a Democratic-controlled Congress, and how this new balance of power may affect markets and investment decisions. Part I reviews the market reaction in the days after the vote. Part II analyzes five sectors: data centers and artificial intelligence, defense, oil, renewable energy, and rare commodities and gold. Part III assesses the impact on European markets. The conclusion summarizes the scenarios and the variables to watch.

PART I

The market reaction

The three phases of the reaction

Markets started to react while results were still coming in, during Asian trading hours on November 4. According to Reuters, AI-related shares fell sharply across the region, Treasury yields eased, the dollar weakened and US stock futures dropped steeply before recovering part of their losses. Analysts quoted by Reuters linked the move to AI more than to the election itself. Tapas Strickland of Moomoo ANZ said the fear was that "the pace of the AI infrastructure rollout could slow, potentially quite markedly in Texas," while Michael Arone of State Street Investment Management argued that the main risk was not the blue wave but "investors overreacting to a blue wave."

When US markets opened on Wednesday, November 4, the clear result and Trump's acceptance of it removed a source of uncertainty, and stocks rallied. The S&P 500 rose 1.6% to 7,688.62, the Dow Jones Industrial Average gained 1,569 points (3%) to 53,356.12 and the Nasdaq Composite rose 1.4% to 25,736.51. According to CNN, it was the Dow's best day after a midterm election since 1982. Charles Schwab noted that markets typically respond positively once midterms are over, whatever the outcome, and that a divided government can limit fiscal expansion, which kept Treasury yields in check; the dollar index fell 0.6%. Brent crude fell almost 9% as, in the words of Bob McNally of Rapidan Energy Group, "traders are betting that the administration is going to quit this war." The rally did not reach AI infrastructure: on the same day Nvidia fell 3% and an exchange-traded fund tracking AI infrastructure stocks lost 9%, according to CNN.

On Thursday, November 5, the selling in chipmakers spread to the whole market. According to the Associated Press, the S&P 500 fell 4.4% to 7,353.73, the Dow dropped 1,833 points (3.4%) to 51,523.06 and the Nasdaq Composite lost 5.5% to 24,315.00, more than erasing Wednesday's gains. Nvidia fell 9.3% and AMD 17.3%. The AP linked the decline to concerns that data center construction could slow, both because borrowing has become more expensive and because the Democratic victories raised the possibility that governments could force pauses in construction. The local ballot results support this reading: according to Al Jazeera, citing the tracker Data Centers on the Ballot, voters were on track to reject data center development in 40 of the 41 measures on the ballot. Brent crude rose 3.9% to $98.29, recovering part of the previous day's drop. The rebound on Friday, November 6, was only partial: the S&P 500 rose 0.3% to 7,376.86 and the Nasdaq 1.1% to 24,579.42, while the Dow slipped 0.5% to 51,285.73, leaving the S&P 500 down 2.7% and the Nasdaq down 3.4% for the week.

The three sessions show two different reactions. The rally on Wednesday was relief at the end of electoral uncertainty. The fall on Thursday shows the market starting to price risks it had largely set aside before the vote: closer scrutiny of data centers at local and federal level, rising electricity bills as a political issue, and a possible slowdown in AI capital spending.

The rotation from equities to Treasuries

Over the same days, US government bonds moved in the opposite direction to equities. Treasury yields, which fall when bond prices rise, were already easing during the overnight session according to Reuters, and the 10-year yield declined from 4.90% late on Wednesday to 4.84% on Thursday. The AP noted that investors may have been moving into Treasurys for safety as stocks sold off.

Two explanations support each other. The first is fiscal: with Democrats controlling Congress and the president holding a veto, neither side can pass large spending or tax packages on its own. Charles Schwab described this as a tug-of-war that could keep Treasury yields in check, because markets expect less new government borrowing. The second is a move toward safety: as AI stocks sold off, part of the money leaving equities went into government bonds. Lower yields also supported gold, which pays no interest and becomes relatively more attractive when bond yields fall.

By Friday the move had partly reversed: a strong October jobs report (165,000 new jobs against about 65,000-70,000 expected) lifted the odds of a December Fed rate hike to about 77%, the 2-year yield rose to 4.51% and the 10-year to 4.86%. Tuesday's CPI inflation rose +0.4% m-o-m above expectations of +0.3%, while core CPI inflation rose +0.3% also above expectations of +0.2%, increasing the odds of a December rate hike. It is too early to say that a lasting rotation from equities to Treasuries is under way. Price moves over two or three sessions are consistent with it, but confirmation will come from weekly fund-flow data, such as those published by the Investment Company Institute and EPFR, in the weeks after the vote. The first data point is mixed: in the week to November 4, according to LSEG Lipper, US bond funds attracted $7.3 billion and money market funds $118 billion, the most since May, but US equity funds also took in $14.8 billion. In this report we therefore treat the shift as an early signal rather than an established trend.

PART II

Sector analysis

Data centers and AI

How the market reacted

The AI trade was the clearest casualty of election week. On November 5 the Philadelphia Semiconductor Index (SOX) fell about 12%, its worst session since March 2020, and Nvidia alone lost more than $440 billion of market value (which was later worsened by fears concerning the company's CEO with an alleged Chinese Spy). The losses were concentrated in the companies that sell into the data center build-out: memory makers such as SanDisk, Micron, Western Digital all fell more than 17% in one session, along with sharp declines in chip designers AMD, Arm, TSMC and Broadcom. The hyperscalers that pay for the build-out held up far better: Meta lost 4.0%, Microsoft 3.6%, Alphabet and Amazon about 2.2% and Apple 1.5%. The rebound on Friday, November 6, was only partial: the semiconductor index recovered about 4%, but the Nasdaq still ended the week down 3.4%.

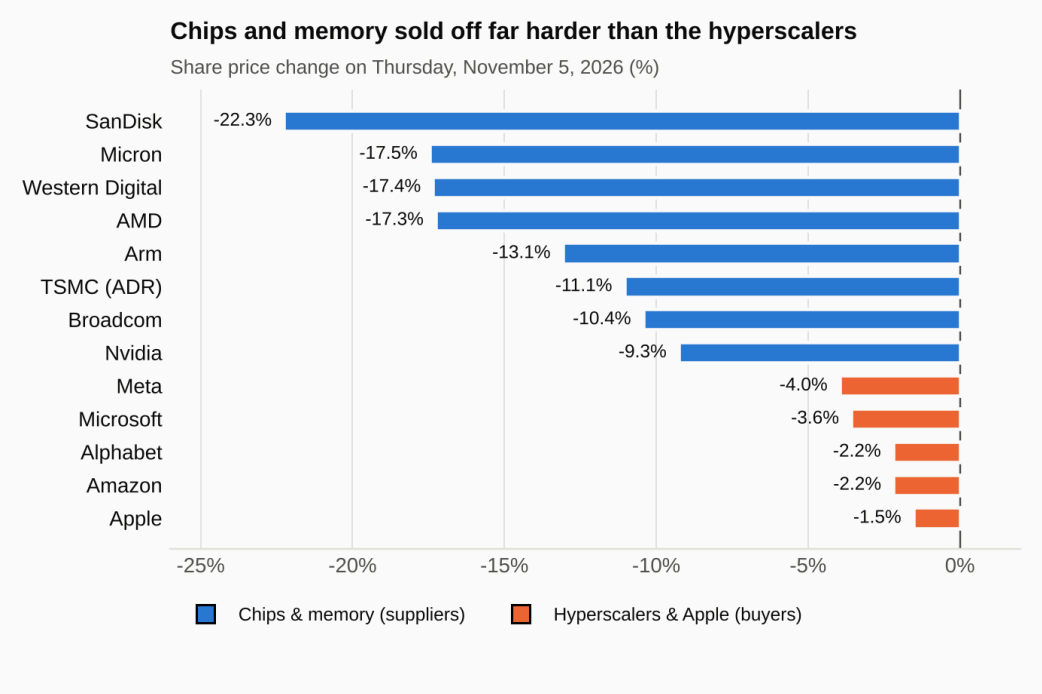

Figure 1 · Share price change on November 5, 2026.

The divergence is the key to reading the move. If data center projects are delayed or cancelled, the hyperscalers spend less and their free cash flow, the main worry behind the AI sell-off in October, improves; their suppliers, by contrast, lose revenue. Yahoo Finance's Brian Sozzi made exactly this point on November 4, a day on which Alphabet rose 3.2% while CoreWeave fell 9.9%.

The political driver

Three results of November 3 hit the data center story directly. First, local voters rejected data center projects in almost every ballot measure, as described in Part I. Second, in Texas, which Goldman Sachs estimates accounts for about 25% of planned US data center capacity, Democrat Gina Hinojosa defeated Governor

Greg Abbott after campaigning for a moratorium on all data center approvals until the Legislature passes protections on electricity bills, water use and tax subsidies. She will take office on January 19 and will work with a Democratic Texas House, the first in 24 years, according to the Texas Tribune and MIT Technology Review. Some of the largest projects in the country are in the state, including Stargate Frontier (1,820 megawatts) and Nexus Hubbard (6,400 MW, mostly for Anthropic). Goldman's Chief Economist Jan Hatzius estimates that the states where Democrats are likely to restrict data centers account for about 45% of planned US capacity. Third, at the federal level Democrats will chair the congressional committees from January and are preparing a wave of AI bills, covering safety standards and incident reporting for frontier models, developer liability, and the tax treatment of data centers.

The backlash is not purely partisan. Abbott himself (a Republican) had paused data center permits and grid connections from August pending an audit, and had promised to end their tax breaks. The voter data explain why: according to Fox News Voter Analysis, about three quarters of voters oppose a new data center in their own community, and in a Reuters/Ipsos poll 77% said they fear data centers will push up their electricity bills.

Temporary shock or structural slowdown?

The evidence points to a build-out that becomes slower and more expensive rather than one that reverses. On the side of a temporary shock, Morgan Stanley expects "the broader AI capital expenditure (CAPEX) cycle to remain intact"; most restrictions will come from states and counties rather than from Washington, so projects can move to more welcoming jurisdictions (Google plans on building their first data center in Wyoming, representing a $17 billion investment); and federal legislation still faces the presidential veto and the 60-vote threshold in the Senate. On the side of a structural slowdown, Texas is too large to replace quickly and the hyperscalers' finances were already stretched before the vote: in the third quarter the operating cash flow of Microsoft, Alphabet, Amazon and Meta fell about $26.4 billion short of their capital spending, against a $61.7 billion surplus a year earlier, and a growing share of that spending is financed with bonds. Borrowing is also getting more expensive, with the 10-year Treasury yield above 4.8% (with 52-w highs of 5.365%) and markets pricing a December Fed hike at almost 100% after the strong October jobs report and CPI numbers. J.P. Morgan's Tarek Hamid expects new projects in Texas, Georgia, New Mexico and Nevada to become "much more difficult, slower and more expensive", while projects that are already built or fully permitted are "worth more today than they were yesterday".

Scenarios for the next 6-12 months

Considering all of the above, we summarize the outlook in three scenarios:

- **Base case.** A fragmented map of restrictions: Texas approvals stay frozen into 2027 and new capacity shifts to other states. Hyperscaler CAPEX grows more slowly than planned but does not fall. Supplier valuations remain under pressure, while hyperscalers benefit from lower spending.
- **Bull case.** Texas quickly adopts clear rules, for example requiring developers to pay for their own power, as Abbott had already proposed; fourth-quarter guidance confirms CAPEX plans and the Fed holds in December. The November 5 sell-off turns out to be what Argent Capital's Jed Ellerbroek called "the capitulation phase for the data center capex beneficiary stocks."
- **Bear case.** The Texas moratorium is extended and copied by other states, Congress targets data center tax incentives, and higher rates push the hyperscalers to cut capex. Memory and neocloud stocks, which depend most on new capacity, take the largest hit.

What to watch and Investment implications

- Texas: the end of Abbott's audit in December, Hinojosa's first decisions after January 19 and the January legislative session.
- Hyperscaler CAPEX guidance and financing (more bond, or even equity, issuance) in the next earnings season.
- The Fed meeting of December 8-9, which sets the cost of debt-funded capex.

INVESTMENT VIEW

We are neutral on the hyperscalers, which have the balance sheets to absorb delays and may see free cash flow improve if spending slows, and underweight the most exposed part of the AI supply chain until the Texas rules and the next round of capex guidance are known.

Defense

How the market reacted

Defense was the worst-performing sector on November 4, the day the broad market rallied. While the S&P 500 gained 1.6%, Lockheed Martin fell 6.9% (its worst session since July 2025), L3Harris 6.9% as well, Huntington Ingalls 4.9%, Northrop Grumman 4.5%, RTX 3.1% and General Dynamics 2.6%, according to Reuters. The iShares US Aerospace & Defense ETF lost only 1.5%, because its largest holdings are commercial aerospace companies. European defense stocks followed in morning trading: BAE Systems, Leonardo, Thales, Saab and Rheinmetall all fell between 2% and 4%, and the STOXX Aerospace and Defense index was down 0.7% while the STOXX 600 rose 0.9%.

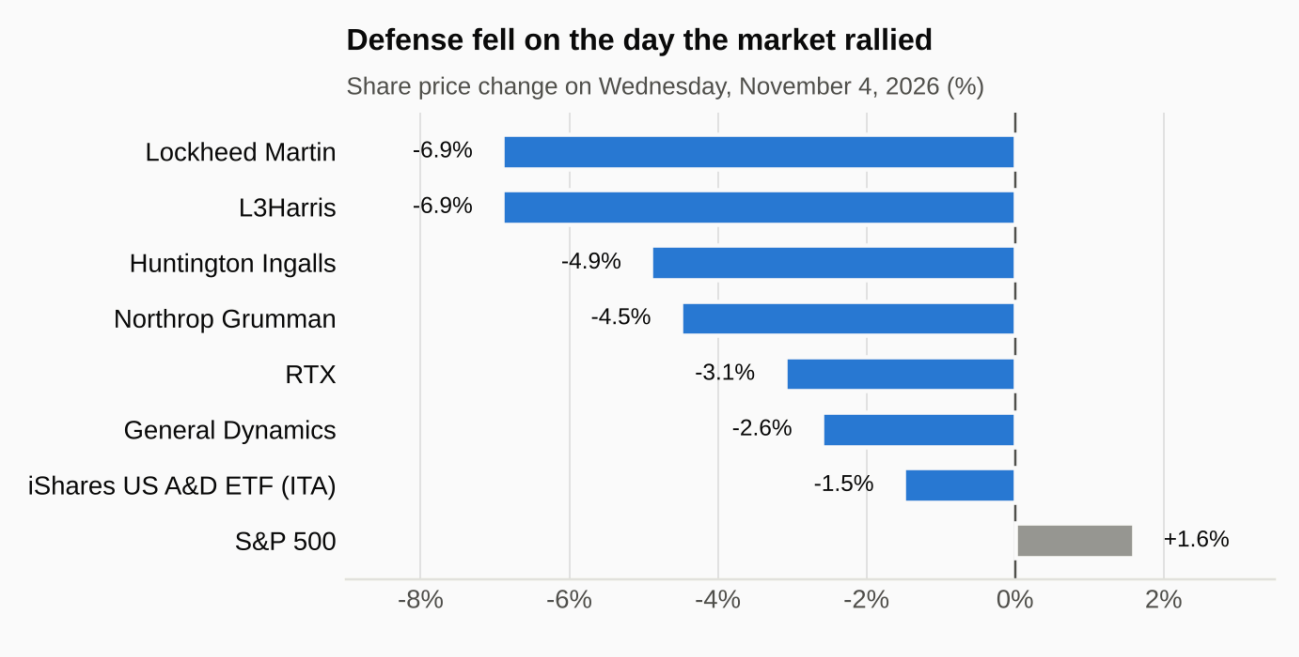

Figure 2 · Share price change on November 4, 2026.

The budget and the war

The sell-off reflects two links between the vote and defense revenues. The first is the budget. The administration asked for $1.5 trillion for defense in fiscal 2027, against $901 billion currently approved, split into $1.15 trillion through the regular budget and $350 billion through a party-line reconciliation bill that also contains an $87.6 billion supplemental for the war in Iran. A Democratic Congress will not pass another reconciliation bill, so the $350 billion tranche is the part most at risk, and Jefferies expects the final budget to land close to the House figure of about $1.15 trillion, which would still be well above the level approved today. The most exposed programs are therefore those funded through reconciliation, while the least exposed are those with bipartisan support: nuclear modernisation, submarines, and the replenishment of the munitions used against Iran. The second link is the war itself: a Congress that wants to end it could reduce the demand for missiles and air defense that had driven the sector's gains in 2026.

Does a Democratic Congress tie Trump's hands?

So far, Trump has used military force without asking Congress. The war against Iran began on February 28, 2026 with joint US-Israeli strikes and has gone on for more than eight months without any congressional authorisation; in January US forces captured Nicolas Maduro in Caracas without notifying Congress in advance. Even the Republican Congress objected (although only symbolically). In June both chambers passed a resolution directing the withdrawal of US forces from hostilities with Iran, which Trump dismissed as "poorly timed and meaningless" because a concurrent resolution is not legally binding, and later attempts in the Senate failed by 50-47 in June and 49-50 in September.

From January 3, 2027 the balance changes, but less than it may seem. Democrats will control the purse: they can refuse the Iran supplemental and attach conditions to defense funding (which at the moment seems improbable considering reports from Qatar saying mediation efforts between Iran and US gained significant momentum in recent days with both sides having a positive reaction to mediation). They will chair the committees that can subpoena documents and witnesses on the conduct of the war, and they will have to confirm any new Secretary of Defense. What they cannot do is stop the president from ordering the use of force. A law ending the war can be vetoed, and overriding a veto requires two thirds of both chambers, which Democrats do not have; in 2020 the Senate failed to override Trump's veto of a similar resolution on Iran. As former ambassador Ryan Crocker told the Christian Science Monitor, this is "Donald Trump's war, and he will decide what he does about it."

This matters for how the rest of the world reads the result. Under the War Powers Resolution the president can commit forces for 60 days before needing authorisation, and in the case of Taiwan legal scholars expect that a president could deploy naval and air forces without congressional approval. An adversary therefore cannot count on Congress to delay the first US response. Where the midterms could weaken deterrence is elsewhere: a president absorbed by investigations and budget fights, the difficulty of funding a long new campaign through a hostile Congress, and munition stocks already depleted by the war in Iran.

Where deterrence could be tested

China and Taiwan. This is the most extreme scenario, and the one where the effect of the vote cuts both ways. Neil Shearing of Capital Economics warns that Beijing could use Trump's last two years to raise pressure on Taiwan if it "judges that Washington is distracted or that Trump would be willing to agree terms to not intervene." On the other hand, Congress is the most pro-Taiwan part of Washington: Trump had suggested that arms sales could be a bargaining chip with Beijing and held back a $14 billion arms package for months, and analysts in both Taipei and Beijing expect a Democratic Congress to push for its release.

Taiwanese defense analyst Su Tzu-yun called speculation that Beijing would exploit the midterms to attack "unfounded", since China would avoid provoking a bipartisan backlash. Tension is nonetheless high: during election week, analysts at AEI and ISW tracked what may be a large unannounced Chinese exercise around Taiwan, with more than 100 navy and coast guard vessels in the Western Pacific, ahead of the meeting between Xi Jinping and Trump at the APEC summit in Shenzhen on November 18-19.

North Korea. Pyongyang tested a new air-defense missile system and fired several missiles on November 4, and Kim Yo Jong rejected Trump's invitation to meet Kim Jong Un at APEC. We found no evidence linking these moves to the midterms: North Korea follows its own calendar and its growing cooperation with Russia.

Russia and Ukraine. Here the vote is more likely to strengthen deterrence than to weaken it. Democrats are expected to restore military aid to Ukraine, which Representative Jim Himes said could move "in nine days or nine weeks" rather than nine months, and to push for sanctions and investigations into the administration's dealings with Moscow. The main risk for markets is the opposite one: that Trump tries to force a quick peace deal before the new Congress takes office.

Europe. In the days after the vote Europe was hit by a wave of hoax bomb threats against dozens of flights from 16 countries (on November 5 alone, 19 flights, eight of them to or from Italy) and against broadcasters such as Sky News and Ireland's RTE. All the threats were false and no one has been identified, but Spain's foreign minister Jose Manuel Albares called them "an attempt at hybrid aggression and psychological warfare." They follow a year of hybrid incidents, including an explosive drone at Leipzig airport, a hub for supplies to Ukraine (which Germany blamed on Russia). There is no direct link to the US vote, but together with a less predictable United States these threats strengthen the political case for European rearmament: NATO allies have committed to spend 5% of GDP on defense and security by 2035, and European allies and Canada are expected to spend $634 billion on defense in 2026, about 11% more than in 2025.

European defense: different drivers

European defense stocks fell with US ones in election week, but largely for different reasons. Rheinmetall lost about 16% on November 5 after cutting its 2026 sales guidance for the second time in three months (to about €13.2 billion, because German orders such as the Boxer vehicle program are slipping into 2027). The sector's problem is the slow conversion of budgets into firm orders, not a lack of demand: by mid-2026 Rheinmetall and Renk were down as much as 50% from their 2025 highs, and Morningstar expects sentiment to improve toward the end of 2026 and orders to accelerate in 2027. European defense follows European budgets (NATO targets, the EU's €150 billion SAFE loans, German procurement) more than US elections, which is why it could decouple from US defense from here, as discussed in Part III.

What to watch and Investment implications

- The December 11 US funding deadline, the length of the next stopgap and the fate of the $87.6 billion Iran supplemental.
- The Xi-Trump meeting at APEC on November 18-19 and the release of the delayed Taiwan arms package.
- The first Ukraine aid votes in the new Congress, and any peace deal pushed by Trump before January 3, 2027.

INVESTMENT VIEW

We are neutral on US defense primes, with a preference for companies exposed to bipartisan programs (as explained above: munitions replenishment, submarines, nuclear modernisation) over those that depend on reconciliation funding. We are selectively overweight European defense, focusing on air defense and electronics, where budgets keep growing regardless of the US outcome and where Morningstar sees an attractive entry after this year's sell-off; we remain cautious on names with execution risk until cash conversion improves.

Oil

How prices moved

Oil was the asset most directly tied to the vote, because, as per election surveys, the war with Iran was one of the main reasons Republicans lost. On Wednesday, November 4, Brent fell 8.7% to $94.62, its lowest close since August 31, as traders bet that a weakened administration would look for a way out of the war. After a partial rebound, it closed the week at $98.32 on November 6, its steepest weekly fall since 2020. On Monday, November 9, it dropped a further 5.9% to $92.57, and WTI 4.4% to $86.85, after Trump said new strikes on Iran were "highly unlikely" if talks produced a strong agreement and reports emerged of an interim deal brokered by Qatar. Energy stocks followed.

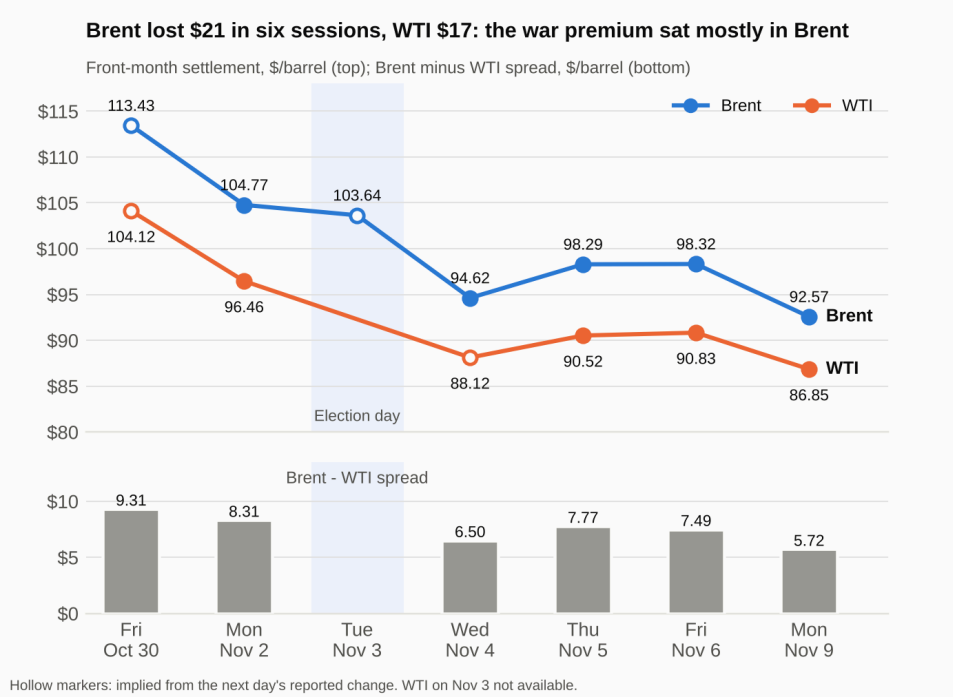

Figure 3 · Brent and WTI front-month settlements (top) and the Brent-WTI spread (bottom), October 30 – November 9, 2026.

Brent and WTI: where the war premium sits

The two benchmarks did not move together. Between October 30 and November 9 Brent lost about $21 a barrel and WTI about $17, so the gap between them narrowed from about $9.30 to $5.70. Brent is the benchmark for crude traded by sea, including barrels that compete with Gulf supply, so it carries most of the premium linked to the Strait of Hormuz; WTI is priced in Oklahoma on US crude that never crosses the strait. As the market started to price a deal, the premium came out of Brent first. The spread therefore works as a

simple gauge of the war risk left in prices: it widened briefly on November 5, when Iran claimed new mine strikes on tankers, and hit its low on November 9, when reports of a deal emerged. A narrower spread also reduces the advantage US refiners and exporters draw from cheaper domestic crude.

The Iran war and the Strait of Hormuz

The link between the vote and oil runs through the Strait of Hormuz, which carried about a fifth of the world's oil before the war. After the vote, politics and supply pushed in the same direction. According to Reuters, sources in the Gulf believe a weakened Trump has more incentive to seek a deal, and Vice President JD Vance openly blamed the defeat on the war. Meanwhile crude flows through Hormuz have recovered to about 82% of pre-war levels according to Kpler, OPEC output rose by 1.38 million barrels a day and JPMorgan estimates the market was in surplus by 1.4 million barrels a day in October.

Since November 6 the market has moved further toward a deal. Qatar carried an interim Iranian proposal to the White House: Iran would reopen the strait and stop attacks on tankers, in exchange for the lifting of the US naval blockade and the release of $8 billion of Iranian funds frozen in Qatar. Apparently Iran dropped its demand to control the Strait of Hormuz and collect transit fees from vessels passing through the strategic waterway, and Washington has reportedly agreed to allow uranium enrichment in Iran up to 3.67%, with Tehran accepting. Neither government has confirmed the terms, and the risks remain real: Secretary of State Marco Rubio called Iran's demands "outrageous and ridiculous"; recall that a similar memorandum agreed in May collapsed after an Iranian attack on tankers.

What to watch and Investment implications

- Whether the White House and Tehran agree on final terms and sign a deal.
- The Brent-WTI spread, as a gauge of the war premium still in prices.
- Supply: OPEC's monthly report on November 11 and the OPEC+ meeting on November 29, and the US Strategic Petroleum Reserve, at its lowest since 1982, whose refilling would add demand.

INVESTMENT VIEW

We are neutral on oil and on energy producers. After a fall of about 18% in six sessions, Brent already prices much of a deal, and the remaining risks run both ways: a collapse of the talks would bring the war premium back, while the lifting of the blockade would add Iranian supply to a market already in surplus.

Renewable energy

How the market reacted

Clean energy was the clearest winner of election week, moving in the opposite direction to AI infrastructure and defense. On Wednesday, November 4, First Solar rose between 8.1% and 9.1% (after jumping 11% overnight to $201.52 on a Mizuho upgrade and a $500 million buyback), Enphase Energy gained 10.4% and Sunrun 7.2%, alongside gains in SolarEdge. Corporate activity added to the mood: Array Technologies and Shoals Technologies announced a stock-for-stock merger in solar and storage balance-of-system components, and rPlus Energies secured a $450 million credit facility. European renewables with US exposure followed. In Copenhagen, Ørsted rose almost 10% in early trading before closing up between 5%

and 7%, helped on Thursday by the commercial start of its Revolution Wind farm off Rhode Island. Vestas gained about 5%, Germany's SMA Solar 11.6% and Nordex 8%, while Voltalia, EDP Renováveis and Engie added between 3% and 6%.

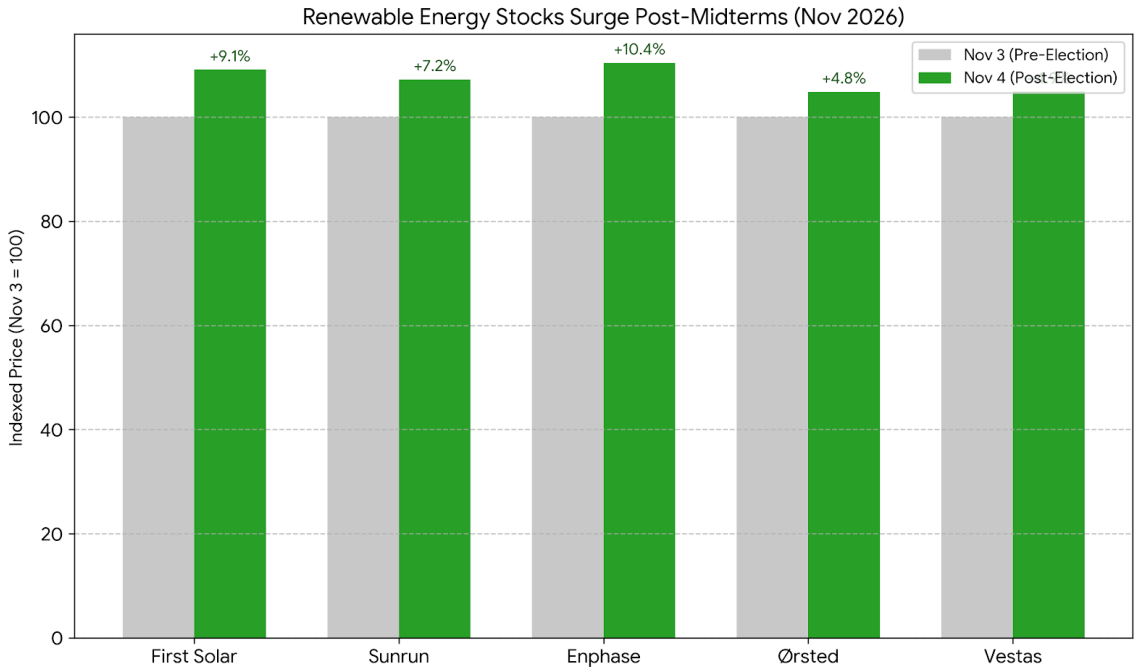

Figure 4 · Renewable energy stocks, November 3 vs November 4, 2026 (indexed, November 3 = 100).

The political driver

The vote helps the sector in two ways. At the federal level, a divided government means two years of stalemate: Democrats cannot pass new climate laws over Trump's veto, but control of both chambers blocks any Republican attempt to repeal the Inflation Reduction Act (IRA) and its manufacturing and investment tax credits through reconciliation. The new Congress will also use budget and oversight powers to limit cuts at the Department of Energy and the EPA.

Just as important, the campaign reframed clean energy around household bills. According to CRU Group, US residential electricity prices rose 13.9% in the year to August, and by more than 20% on average in the states that flipped a Senate seat. Representative Frank Pallone, who will chair the House Energy and Commerce Committee, said Democrats will tie clean energy directly to lower utility rates. Even the oil lobby's Mike Sommers admitted that "the affordability message is unmistakable," while American Clean Power's Jason Grumet argued the industry is ready to deliver "affordable, reliable power."

The biggest practical shifts came in the states. According to Renewable Energy Magazine and PV Tech, flipping the governorships of Texas and Georgia and taking control of the Georgia Public Service Commission gives Democrats direct leverage over utility resource plans and regional transmission. Gains in utility commissions and legislatures across 18 states, including Arizona, Michigan, Pennsylvania and North Carolina, open a path for state-level procurement that does not depend on Washington.

The grid and the data center paradox

Subsidies are no longer the main constraint on renewables; grid access is. As Greg Bertelsen of the Climate Leadership Council put it, clean energy has won on cost, but "getting to market is the hard part." Analysts at Wood Mackenzie and PV Tech see permitting reform as the most realistic area for a bipartisan deal in the lame-duck session or early 2027.

At the same time, the backlash against data centers cuts both ways for renewables and battery energy storage systems (BESS). Voters backed restrictions in 38 of 39 local data center referendums, and the incoming Democratic governors of Texas and Georgia both promised immediate freezes on new approvals. Because those two states account for almost a quarter of planned US data center capacity through 2027, and CRU estimates that over a third of grid-scale batteries built by 2030 will serve data centers, a long freeze would slow corporate power purchase agreements and storage demand. On the other hand, Wood Mackenzie notes proposals to force new data centers to pay for their own dedicated solar and battery capacity to protect household ratepayers.

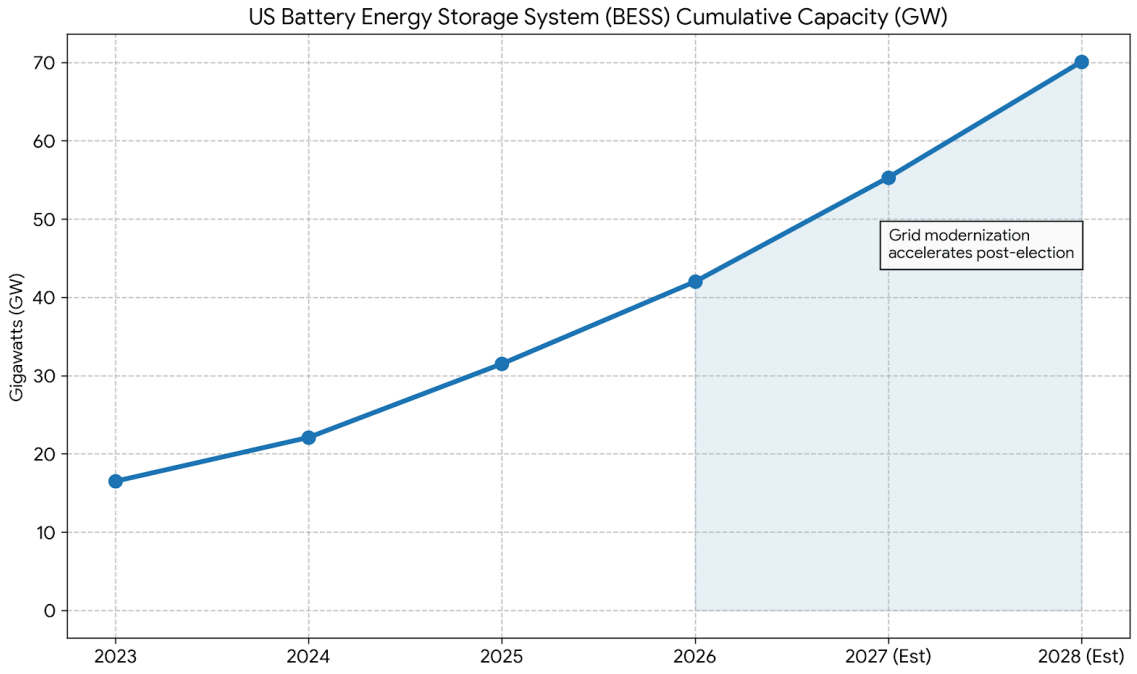

Figure 5 · US battery energy storage system (BESS) cumulative capacity, GW (2027-28 estimated).

Meanwhile, the White House keeps its executive tools. The Department of the Interior still controls federal waters, leaving offshore wind exposed to leasing delays, while Trump's Section 232 and Section 301 tariffs continue to shield domestic solar producers such as First Solar from Chinese-linked imports on top of their IRA Section 45X manufacturing credits.

What to watch and Investment implications

- Early rulings by the new Georgia Public Service Commission and the terms of the Texas and Georgia data center moratoriums.
- Negotiations on bipartisan transmission and permitting reform in the lame-duck session and early 2027.
- Department of the Interior decisions on offshore wind permits and any new Section 301 tariff adjustments on imported solar components.

INVESTMENT VIEW

We are overweight domestic solar manufacturers such as First Solar and utility-scale battery storage, which are protected by both trade tariffs and IRA tax credits. We are neutral on residential solar installers such as Sunrun, where high interest rates pushed installations down 15% year-on-year in the third quarter despite growing storage deployment, and underweight offshore wind given the risk of executive bottlenecks.

Rare commodities and gold

How the market reacted

Precious metals and industrial minerals split sharply after the vote. Gold had fallen 3.6% on October 30 to a one-year low of $3,869.85 an ounce as tech margin calls forced investors to sell liquid winners. As the Democratic sweep became clear on November 4, spot gold rose more than 3% to reclaim the $4,000 level, helped by a 0.6% fall in the dollar index to 101.27 and lower Treasury yields. By November 5 it had gained 4% over two days to $4,146.63, while silver rose 5% above $52.13, platinum 7.2% to $1,536.90 and palladium 11.3% on bets that a Democratic Congress will tighten sanctions on Russian supply.

Mining stocks followed the same divide. Gold mining ETFs jumped more than 8% on November 4-5: Newmont rose 9.9%, Agnico Eagle 9.7% and Barrick 8.3% (helped on November 9 by strong third-quarter results and its North American IPO filing). Lithium producer Albemarle gained 4.7% on November 4 with the clean energy rally, even as Citi cut its lithium price target to $12,000 a ton. By contrast, copper fell for four straight sessions toward $6.23 a pound, its worst week since March, on fears that data center delays will hurt demand. Politically exposed US mineral stocks fell hardest: USA Rare Earth lost 9.5% as the Democratic win put Trump administration funding deals at risk of congressional investigation.

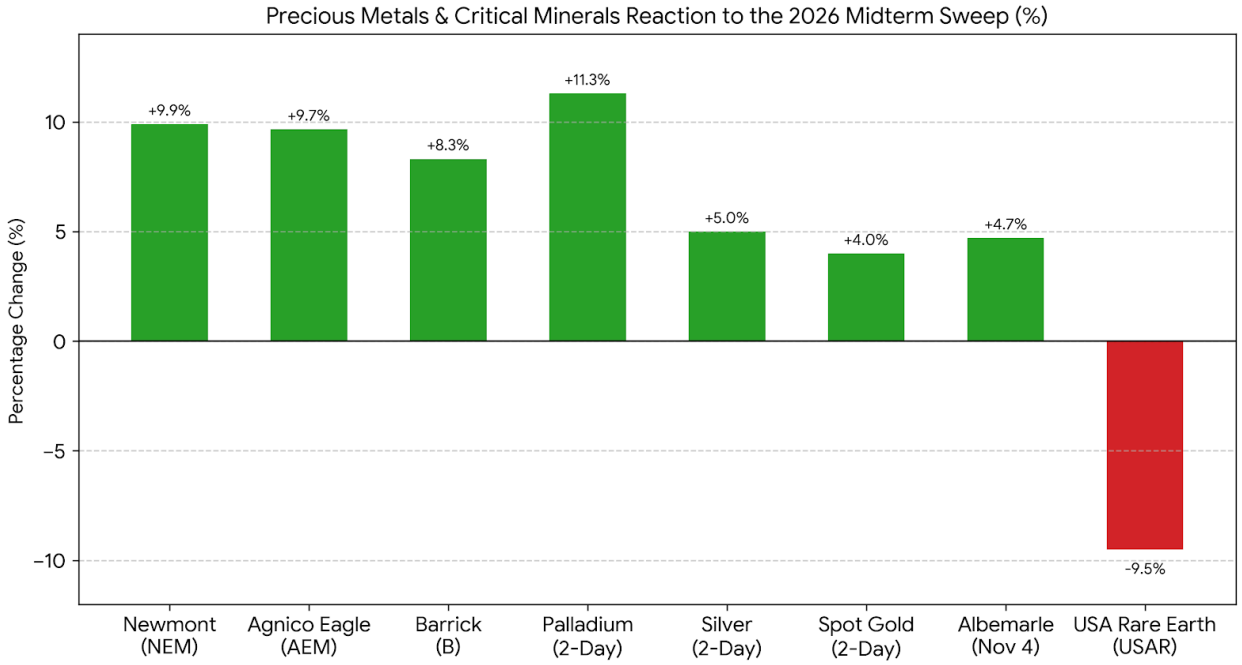

Figure 6 · Precious metals, miners and critical minerals: reaction to the midterm sweep (%).

Fiscal gridlock against a hawkish Fed

Gold is caught between supportive politics and tighter monetary policy. On the political side, a divided government rules out large new tax cuts or spending packages, which initially lowered bond yields and the dollar while pushing the next major debt-ceiling fight to mid-2027. Physical demand also remains strong: the World Bank expects gold to average $4,600 in 2026 and $4,250 in 2027, supported by central banks that bought 321 tons in the third quarter alone, a pace that Heraeus says could beat 2025's record.

Macroeconomic data quickly capped the rally. Analysts at APMEX noted that much of the post-election jump came from algorithmic short-covering rather than fresh ETF buying, as some safe-haven flows went into high-yielding Treasuries instead. On November 6 the strong October jobs report (165,000 new jobs against 65,000-70,000 expected) pushed gold back to $4,050. After a brief bounce to $4,115 on November 9 as Qatari mediation with Iran weakened oil and the dollar, gold fell 2% on November 10 to about $4,032 after October CPI inflation came in above expectations (+0.4% month-on-month, core +0.3%). With two Fed governors having already dissented in favor of a rate hike in October, markets now price a December 8-9 hike at more than 77%, keeping real yields high.

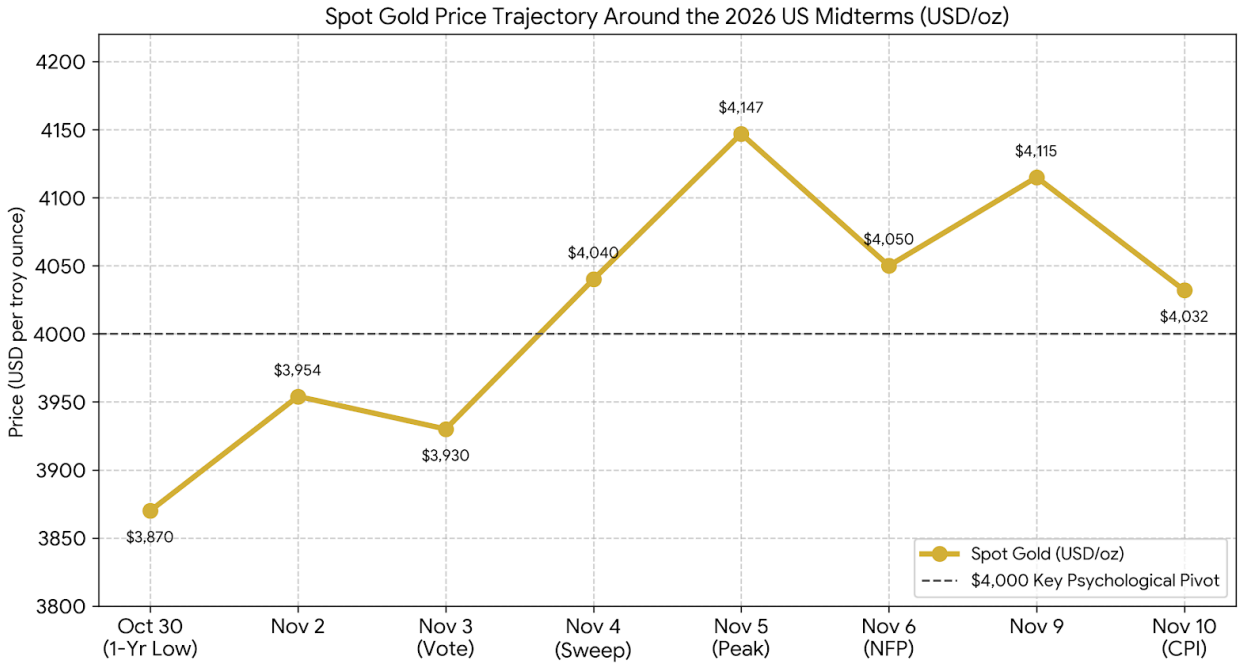

Figure 7 · Spot gold around the 2026 US midterms, USD per ounce.

Critical minerals: oversight vs. stockpiling

Although metals barely featured in the campaign, the change in congressional committees alters the outlook for US critical minerals. According to Bloomberg and Mining.com, incoming Democratic chairs plan oversight hearings into the administration's direct loans, grants and equity stakes in domestic miners, looking for conflicts of interest. The Export-Import Bank and the Development Finance Corporation were already backing away from a tungsten deal involving Kaz Resources and backed by the Trump family, leading Marex's Ed Meir to warn of a broader pause while past deals are reviewed. Capital.com also notes that Democrats could use the December expiration of the Defense Production Act (DPA) as leverage in budget talks.

Even so, defense rules and competition with China provide a bipartisan floor. On November 6 the Defense Logistics Agency committed $2 billion to buy rare earths, tungsten, antimony and titanium for the national stockpile, ahead of a January 1, 2027 ban on Chinese rare earths in US defense supply chains. At a conference on November 9, MP Materials confirmed third-quarter NdPr output above 1,000 tons and initial

magnet deliveries to General Motors from its Texas plant. Meanwhile, Beijing's pause on extra rare-earth export controls expires on November 10 ahead of stricter gallium rules on November 27, and Washington added silver to its Critical Minerals List on November 7 after China restricted silver exports to 44 state firms. For copper, TD Securities expects data center moratoriums to weigh on near-term US demand, though Fitch's BMI still forecasts an average price of $13,500 a ton in 2026 due to tight mine supply growth of 1.1% and potential Section 232 tariffs.

What to watch and Investment implications

- Whether spot gold holds technical support at $4,000 an ounce (and $3,940 below that) ahead of the December 8-9 Fed meeting.
- Lame-duck negotiations on Senate permitting reform and the December renewal of the Defense Production Act.
- House oversight inquiries into federal mining loans in early 2027, against the January 1 defense ban on Chinese rare earths and China's November export deadlines.

INVESTMENT VIEW

We are neutral on gold and senior gold miners (Newmont, Agnico Eagle, Barrick), which benefit from central bank buying and lower oil costs but face headwinds from a December Fed hike; we prefer to wait until after the Fed meeting to add exposure. We are overweight platinum and palladium as a hedge against tighter bipartisan sanctions on Russia, and overweight established domestic rare-earth producers such as MP Materials that capture defense stockpiling, while underweighting politically exposed junior miners and staying cautious on copper until the data center fallout settles.

PART III

Impact on European markets

A US vote with European consequences

The midterms were an American election, and Europe was not on the ballot. Their effect on European markets therefore runs through indirect channels, and it is easy to overstate. We identify four: exchange rates and interest rates, which change the relative appeal of European assets; capital flows, as global investors decide how much to hold in the US compared with the rest of the world; sector exposure, since some European industries, such as chipmakers, defense contractors and energy companies, depend on US demand or US policy; and US policy toward Europe itself, mainly on trade, Ukraine and the war with Iran. As the sections below show, in the week after the vote European prices moved mostly for European reasons, such as company results, inflation and the European Central Bank, with the US result acting as an amplifier rather than the main driver.

How the market reacted

European markets welcomed the result. On November 4 the STOXX 600 rose 1.82% to 657.40, its highest close since August 26 and its strongest one-day gain since June 12, according to Reuters. Spain's IBEX was the best regional performer, up 3%, and in Milan the FTSE MIB gained 2.18% to 51,031, led by UniCredit (+5.48%) and Intesa Sanpaolo (+5.45%), according to ANSA. Part of the rise reflected hopes that a Democratic Congress could reverse some of Trump's policies. Wolf von Rotberg of Bank J. Safra Sarasin told Bloomberg that these hopes "are not unfounded, yet the president's vast executive powers require him to play along."

Unlike in New York, the reversal on November 5 was mild. The STOXX 600 briefly traded above its previous record, according to Bloomberg, then closed 0.38% lower at 654.87 as technology stocks fell 3.2% and defense stocks 2.6% (Reuters). On the same day the S&P 500 lost 4.4%. This gap is the key observation of this part of the report. A week later, on November 11, the STOXX 600 closed at a record 663.05, and Société Générale calculated that 13 of its 20 sectors had outperformed the benchmark since the vote, as reported by Reuters columnist Jamie McGeever.

Why Europe held up: sector mix and rotation

The main reason is the composition of the European market. According to Citi, technology stocks account for 3.62% of the STOXX 600's market value, against 30.58% for the S&P 500, so a correction led by US AI stocks has much less to hit in Europe. In Citi's words, Europe's "sector mix means that it provides a natural hedge in a US-led AI correction."

The rotation started before the vote and the election reinforced it. In late October, Mergermarket reported that bankers saw investors moving into Europe, a lower-risk market with less exposure to AI, whenever sentiment on AI weakened. In the week to November 4, European equity funds took in $13.25 billion, their largest weekly inflow since August 12, according to LSEG Lipper data reported by Reuters. Earnings also helped: Bloomberg Intelligence projected third-quarter profit growth of more than 32% for the MSCI Europe index, the strongest since early 2022.

Winners and losers by sector

Under the headline index, the reaction followed the same lines as in the US.

- **Banks were the clearest winners.** The Euro STOXX Banks index rose 4.6% on November 4, its biggest one-day gain since early April (Reuters). Banks benefit from higher interest rates, and the ECB is expected to raise rates again in December (see below).
- **Renewables rebounded**, in line with the view that a Democratic Congress makes further cuts to US support for clean energy less likely. On November 4 Ørsted rose 4.6%, Nordex 4.8% and Vestas 2.9% (Reuters).
- **Semiconductors and AI suppliers were the main losers.** On November 5 Infineon fell 8.5%, ASML 6.6%, Siltronic 12.3% and Soitec 16.7% (Reuters). Siemens Energy and Schneider Electric, which supply equipment for data center power, had already fallen 8% and 3.4% the day before.
- **Defense fell with US contractors.** By mid-morning on November 4, BAE Systems was down 5.2%, Thales 4.5%, Rheinmetall 3.2% and Leonardo 2.7%, according to Euronews, on fears that a Democratic Congress could slow the growth of US military spending, a market many European groups sell into.

Defense also shows that company execution matters more than the US vote. On November 5 Rheinmetall fell 16.1% after cutting its 2026 sales forecast for the second time in three months, to about €13.2 billion, because orders under Germany's Boxer program slipped into next year (Reuters). On the same day Leonardo raised its 2026 order outlook to €29.5 billion (Reuters). European demand rests on European decisions: NATO members have committed to spend 5% of GDP on defense and security by 2035, and EU defense spending is projected at €454 billion in 2026, up from €418 billion in 2025 (Saxo).

Currency, rates and bonds

The euro rose 0.5% to $1.1247 on November 4 as the dollar weakened (Euronews), peaking at $1.1273 that day according to Citi. The move did not last. After strong US jobs data and higher-than-expected US inflation raised the odds of a Fed rate hike (see Part I), the euro fell to about $1.1089 by November 11, below its previous 2026 low, and Jamie McGeever noted that it had reached a 19-month low. Citi's conclusion is that the rotation from the US to Europe "has purely been an equities story so far": investors are buying European stocks, not the euro.

European monetary policy is also tightening, for European reasons. Euro zone inflation rose to 4% in October, a three-year high, with core inflation stable at 2.5% (RTÉ, citing Eurostat). The ECB deposit rate stands at 2.5% after two hikes this year, and Bundesbank president Joachim Nagel said that "an interest rate hike in December is very likely necessary" (Reuters). In the UK, the Bank of England raised rates on November 5 for the first time in more than three years (Reuters).

Government bond markets barely reacted. The German 10-year yield was little changed at 3.33% on November 4 (Euronews). The spread between Italian and German 10-year bonds closed at 109.7 basis points on November 5 and at 107.4 on November 6, with the Italian 10-year yield at 4.33% (ANSA). This stability suggests that the US vote did not change how investors price Italian risk.

What can change for Europe

Trade. A Democratic Congress has little power over tariffs. After the Supreme Court struck down Trump's emergency tariffs in February, the administration moved them under Section 301 of US trade law, which does not require Congress. As James Smith of ING told Euronews, "trade is another power the president can wield unilaterally without Congress." The 2025 trade deal between the US and the EU caps US tariffs on most EU goods at 15%, and Brussels is seeking further exemptions. Gabriel Felbermayr of Germany's Council of Economic Experts said the vote may add uncertainty rather than soften US protectionism, and that tensions could "come to a head as early as the beginning of next year" (Reuters). An EU diplomat quoted by Euronews expected Trump to be "more a 'mad dog' than a 'lame duck'."

Ukraine and security. Democrats are expected to approve new funding for Ukraine, but the White House has delayed earlier funds until they expired, and Nevada Joan Lee of the European Council on Foreign Relations advised Europeans to treat earmarked funds "as intent, not commitment" (Euronews). Congress also prevents the Pentagon from cutting US troops in Europe below 76,000 in 2026 without certifying that security would not be harmed. For investors, this means that European rearmament remains a European story, largely independent of the US vote.

Energy. Europe's most direct exposure to the vote runs through the war with Iran, which has largely blocked the Strait of Hormuz and pushed up European energy prices. A faster end to the war would ease the energy shock behind euro zone inflation, but, as Romanian MEP Virgil-Daniel Popescu told Euronews, "the elections themselves will not bring down energy prices."

What to watch and Investment implications

- The ECB's December meeting and whether it confirms a third rate hike this year.
- EUR/USD around $1.10, the floor Citi expects to hold, as a test of whether investors start buying the euro as well as European stocks.
- Any new Section 301 tariff action against EU goods, and the trade deadlines that Felbermayr expects to come to a head early next year.
- Weekly fund flows into European equities (LSEG Lipper, EPFR), to confirm whether the rotation out of US AI stocks continues.

INVESTMENT VIEW

We see Europe as an indirect, relative beneficiary of the vote. We are overweight European equities relative to US equities, because the lower weight of technology and the inflows of recent weeks give the region a natural hedge if the AI correction continues. Within Europe we prefer banks, which benefit from higher rates, and defense companies with strong order books and execution, such as Leonardo, over names with execution problems. We are underweight European semiconductors until US data center spending becomes clearer. We are neutral on the euro and on Italian government bonds, whose spread has not reacted to the vote. This is in line with UBS, which before the vote recommended staying positive on selected European equities with a focus on financial quality.

Conclusion

Summary

Democrats won both chambers of Congress by a wider margin than expected, and from January 3, 2027 a Republican president will face a Democratic Congress. The likely outcome is legislative gridlock rather than a weaker presidency: Trump keeps control of tariffs, the use of military force and executive orders, while Congress gains the budget and the power of oversight. Markets read the result in two steps. On November 4 a relief rally gave the Dow its best post-midterm session since 1982 and lifted the S&P 500 by 1.6%. On November 5 the market started to price risks it had largely set aside before the vote, and the S&P 500 fell 4.4% while the semiconductor index lost about 12%. The S&P 500 ended the week down 2.7%. In rates, the first move into Treasuries partly reversed after strong US jobs and inflation data, so a December Fed hike is now largely priced and the rotation from equities to bonds remains an early signal.

The sector picture follows from that repricing. Data centers and AI were the main losers: voters rejected data center projects in almost every local ballot measure, and Texas, which hosts about a quarter of planned US capacity, elected a governor who campaigned for a moratorium. Memory makers and chip designers fell much more than the hyperscalers that buy from them. Defense was the worst US sector on November 4, because the $350 billion reconciliation tranche of the defense budget and the Iran supplemental are now at risk, while European defense moved mostly on its own budgets and company execution. In oil, the war premium came out of prices: Brent fell about 18% in six sessions as the market priced a deal with Iran, and the narrowing gap between Brent and WTI showed that the premium had sat mostly in Brent. Clean energy was the clearest winner, with the Inflation Reduction Act now protected from repeal. Gold returned above $4,000 before the Fed capped the rally, platinum and palladium rose, and copper fell on fears of weaker data center demand. Europe emerged as the relative winner: the STOXX 600 closed at a record on November 11, helped by its low weight in technology and strong inflows, even as the euro fell to a 19-month low.

Our positioning reflects this reading. We are overweight European equities relative to US equities, with a preference for banks and for defense companies with strong execution such as Leonardo, as well as US domestic solar manufacturers and battery storage, platinum and palladium, and established rare-earth producers such as MP Materials. We are neutral on the hyperscalers, oil and energy producers, gold and senior gold miners, US defense primes, the euro and Italian government bonds. We are underweight the AI supply chain (memory makers, neoclouds and European semiconductors), offshore wind and politically exposed junior miners, and cautious on copper.

What to watch

The next two months are crowded. The meeting between Xi Jinping and Trump at the APEC summit on November 18-19 will show whether the delayed Taiwan arms package moves forward, ahead of Taiwan's local elections on November 28. At the end of the month, the OPEC+ ministerial meeting on November 29 will show how producers respond to a market already in surplus. The Fed meeting on December 8-9 is the most important single event: a hike would raise the cost of debt-funded AI capex and weigh on gold and on the euro, while the ECB's December decision will show whether a third rate hike this year supports European

banks. Three days after the Fed, the December 11 funding deadline brings the risk of a shutdown and will decide the fate of the $87.6 billion Iran supplemental and of the defense bill, alongside the December renewal of the Defense Production Act.

In parallel, investors should follow whether Washington and Tehran sign the Qatar-brokered deal, using the Brent-WTI spread as the simplest gauge of the war premium left in prices, and the Texas data center audit, which ends in December before Gina Hinojosa takes office on January 19. From January 3 the new Congress will begin its first votes on Ukraine aid and its oversight hearings on AI, defense spending and federal mining deals. Hyperscaler capex guidance in the next earnings season and weekly fund flows will confirm whether the rotation into Europe and into Treasuries continues. Further out, the US debt limit is expected to be reached around March 2027 unless the outgoing Congress raises it in the lame-duck session.

An update since we started writing

Since we began writing this report, the situation has moved in a direction that supports our reading of the AI sector. On Monday, November 16, the Financial Times reported that the US Congress is preparing to pass tighter export controls on AI chips following the Nvidia scandal. Jensen Huang resigned as Nvidia's chief executive and left the board on November 12, after reports of a relationship with a former executive of Megaspeed, a Singapore-based data center company that US authorities suspect of diverting Nvidia chips to China and one of Nvidia's largest buyers. CFO Colette Kress is interim CEO. Republicans want the new restrictions attached to the annual defense bill, which links this story to the December deadlines discussed above. Four proposals are under discussion:

- **AI Overwatch Act:** Congress would be notified of sales of advanced chips to China and could block them.
- **Chip Security Act:** requires location tracking on advanced chips.
- **Remote Access Security Act:** stops Chinese firms from reaching US chips through overseas data centers.
- **MATCH Act:** limits sales of chipmaking equipment to China.

On the same day, the Commerce Department required licenses for exports of advanced AI chips to data centers in Indonesia, Malaysia, Singapore, Thailand and Brazil, and for any data center operator that gives Chinese companies remote access to them.

For the report, the most important point is that the pressure is bipartisan. Speaker Mike Johnson spoke of a "developing consensus in Congress," and as one analyst put it, the regulatory path in Washington is going to be "harder and bumpier." This validates our focus on AI and data center regulation as the main channel through which the midterms affect markets, and it strengthens our neutral stance on the hyperscalers and our underweight on the most exposed part of the AI supply chain for now, even though the sell-off has created opportunities in select names. A divided Washington rewards strong balance sheets, policy protection and diversification away from the US AI trade. The main risks to this view are a Fed that tightens faster than expected and a collapse of the talks with Iran.

About this report

This report was written by members of the Asset Management Division of Starting Finance Club Cattolica, the student finance association of Università Cattolica del Sacro Cuore in Milan. Authors: Daniele Mauri (Co-Head of Asset Management) and Emanuele Papa (Secretary and Treasurer, Starting Finance Club Cattolica). Supervisor: Jacopo Corti (Head of Asset Management).

Market data refer to the close of November 6, 2026 unless stated otherwise; later developments are reported up to November 16, 2026. Sources are cited in the text.

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