Wealth management insights from Stifel's CIO Office

Brian Gardner
Chief Washington Policy Strategist
bgardner@stifel.com



November 4, 2026

WASHINGTON POLICY STRATEGY

Potomac Perspective

Democrats swept the midterm elections and will have majorities for the next two years in both the House and Senate. Even though the Democratic majorities will be larger than we anticipated, our base case remains that legislative gridlock will prevail and that little will get done in the next two years. However, "must-pass" bills will give Democrats the opportunity to pass limited parts of their agenda. We briefly discuss that below.

The midterm elections also impact what legislation might be considered during the upcoming lame duck session. The outgoing Senate majority could prioritize nominations over legislation since Republicans will be unable to confirm Trump appointees after 2026. This could crowd out several bills from consideration this year. Senate Republicans will also have to decide whether to pass a reconciliation bill to increase defense spending and possibly raise the debt ceiling. However, given the mood among Republicans after Tuesday's landslide, another reconciliation bill seems like a long shot.

- Blue Tsunami: Implications for Economic Policy in 2027-2028 – The Democratic sweep of Congress changes the balance of power in Washington, but our base case remains intact. Divided government might slow down President Trump's economic agenda, but it will not result in its reversal. Over the next two years, we expect few major legislative changes, more contentious budget negotiations, and a greater reliance on executive action.

    - Standoffs over must-pass legislation will give Democrats leverage to negotiate with the White House that they would not otherwise possess. Spending bills and an increase in the debt ceiling could be opportunities for Democrats to get concessions from President Trump regarding issues on which there is some agreement. Drug price regulation and a cap on credit card interest rates are examples of policies on which the two sides could agree.

    - Clean energy tax credits that were cut in the One Big Beautiful Bill Act could also be revived through a compromise between the administration and Democrats.

    - Trade and tariff policy is an area in which we doubt there will be a compromise between Democrats and the administration. A Democratic Congress is unlikely to give Mr. Trump more explicit tariff authority, and the President is unlikely to agree to a deal that strips him of his current powers.

    - Regulatory policy initiatives are likely to move forward as the administration can continue to pursue its agenda through various agencies. Democrats can slow down the process through various inquiries that tax agency resources, but they cannot halt or reverse Trump policies. We reiterate our opinion that congressional investigations might pose a reputational risk to certain sectors to the extent that these inquiries uncover new and damaging information.

STIFEL

- Impact on the Lame Duck Session – The Democrats' sweep has probably altered the agenda for the upcoming lame duck session of Congress and will limit what can be passed. Legislation like the CLARITY Act will probably be dropped as Republicans prioritize other issues before losing their majority at the end of the year.

    - Nominations are likely to be among the highest priorities. Once Democrats take over in 2027, Republicans will be unable to confirm many, if not most of President Trump's nominees. Thus, we expect that Senate Republicans will try to confirm as many federal judges as possible. That could possibly include a Supreme Court vacancy if any of the current justices decide to retire before Democrats take power. Also, the President's cabinet is likely to be reshuffled in the wake of the midterm results. Passing those nominations would also be a top priority for Senate Republicans.

    - Our base case is that another continuing resolution (CR) extending government funding into 2027 and the passage of the National Defense Authorization Act (NDAA) will be among the "must-pass" bills that Congress addresses. We do not rule out the possibility of a government shutdown, but it is not our base case. We also repeat our view that shutdowns are political, rather than market, events based on how investors have reacted to recent shutdowns.

    - The Senate could consider bipartisan permitting reform legislation, but it faces an uncertain future. Senate Democrats may withhold support in light of the election results. Even if the bill passes the Senate, it would also have to pass the House, which is another uncertainty.

    - Republicans have floated the possibility of passing a reconciliation bill that would include additional defense funding as well as an increase in the debt ceiling. The White House and some Republicans may see the rationale for another reconciliation bill, but in the wake of Tuesday's losses, it will be difficult to unite Republicans around a plan.

Subscribe to Our Podcast!



Season 5 of the Potomac Perspective podcast is underway! To access a broader discussion of these and other topics, please download and listen to the latest episode of our Potomac Perspective podcast.

DISCLOSURE

This material is prepared by the Washington Policy Strategy Group of Stifel, Nicolaus & Company, Incorporated ("Stifel"). This material is for informational purposes only and is not an offer or solicitation to purchase or sell any security or instrument or to participate in any trading strategy discussed herein. The information contained is taken from sources believed to be reliable but is not guaranteed by Stifel as to accuracy or completeness. The opinions expressed are those of the Washington Policy Strategy Group and may differ from those of other departments that produce similar material and are current as of the date of this publication and are subject to change without notice. Past performance is not necessarily a guide to future performance. Stifel does not provide accounting, tax or legal advice and clients are advised to consult with their accounting, tax or legal advisors prior to making any investment decision. Additional Information Available Upon Request. Stifel Nicolaus & Company, Incorporated is a broker-dealer registered with the United States Securities and Exchange Commission and is a member FINRA, NYSE & SIPC. © 2026

6086610