MARKET SIGHT*LINES*



A Democratic Sweep: What It Means for Policy and Investors

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Last week, we explored **how the midterms could affect individual sectors**, even if divided government limited broad policy changes. Democrats have now won both chambers of Congress, with gains larger than anticipated, while victories in governors' races could also influence business investment at the state level. President Trump's veto remains an important constraint, but the new congressional majorities will have greater influence over spending, oversight, and presidential appointments. For investors, the question is how such political leverage translates into policies that affect businesses – and when those changes might occur. Building on last week's article, **Brian Gardner's latest analysis**, and **our November 4 post-election webinar**, in this Sight|Lines we examine what has changed and what still holds, the decisions facing the outgoing Congress, and the policy priorities likely to shape the next two years. We also consider why an initial market reaction may differ from the longer-term implications for individual investments.

THE TAKEAWAY: DEMOCRATS GAIN POLICY LEVERAGE, BUT LIMITS REMAIN

The Democratic sweep changes policy priorities and strengthens congressional influence, but presidential powers and legislative hurdles limit broader federal changes. In summary:

- Democrats' gains in Congress and key governors' races extend their policy influence beyond DC.
- Presidential powers and legislative hurdles will limit broad federal policy changes, so divided government continues.
- Senate control gives Democrats greater influence over presidential appointments, while congressional committees are expected to step up oversight.
- The outgoing "lame-duck" Congress's funding and nomination decisions could shape the policy agenda before the new majorities take office.
- Budget and debt ceiling negotiations could produce compromise but not improve our fiscal trajectory.
- Drug pricing, credit card rates, and clean energy tax incentives may be areas of bipartisan agreement.
- State and local decisions could place further constraining conditions on data center development, with such effects varying by location and project.
- Post-election swings reinforce the need to assess longer-term implications for individual investments.

IN-DEPTH: DEMOCRATS GAIN GREATER POLICY LEVERAGE, BUT IMPORTANT LIMITS REMAIN

The Democratic sweep changes policy priorities and strengthens congressional influence over spending, oversight, and appointments, but presidential powers and legislative hurdles will continue to limit broader federal changes. Going deeper:

- Democratic gains will extend policy influence across both Congress and state governments:
  - Democrats won both chambers, with Senate gains in what have been traditionally Republican strongholds.
  - Gubernatorial victories in Texas and Ohio create additional avenues for potential policy change.
- We remain in divided government, as presidential powers and Senate voting rules will constrain major policy changes:
  - Overriding a presidential veto requires a two-thirds vote in each chamber.
  - Ending debate on most legislation generally requires 60 Senate votes.
- For Democrats, Senate control expands influence over appointments, while committee leadership strengthens oversight:
  - The Senate confirms cabinet officials, federal judges, and Supreme Court justices.
  - New committee chairs can use hearings and subpoenas to launch investigations.
- The outgoing "lame-duck" Congress will likely prioritize nominations and extend the funding deadline:
  - Current government funding expires December 11, before the new Congress arrives January 3.
  - But note, a nomination push could well leave less time for crypto legislation or permitting reform.
- Budget negotiations are expected to result in targeted concessions, but we see no improvement in our fiscal trajectory:
  - Funding extensions and debt ceiling legislation will give Democrats leverage to pursue concessions.
  - Compromises that restore spending without offsets would add to borrowing rather than reduce deficits.
- We may see bipartisan agreements in areas like drug pricing, credit card rates, and clean energy credits:
  - Trump has previously supported credit card interest caps, creating a possible opening for compromise.
  - Restoring clean energy credits cut under the 2025 tax law could lower related project costs.
- Democratic gains at the state and local level could mean more limits on data center development:
  - Zoning, water permits, grid connections, and tax incentives will determine project feasibility.
  - New restrictions may affect new projects differently from those already under construction.
- Sharp market swings may be signaling changing expectations, but uncertainty remains going forward:
  - Wednesday's rally was followed by a broad Thursday selloff, with technology leading the declines.
  - A slowdown in data center construction could reduce demand for chips and equipment while potentially raising prices for computing services.

WHAT WE THINK

The Democratic sweep gives us reason to revisit what has changed and what still holds for policy and investors. Presidential powers and legislative hurdles remain, but the new congressional majorities will have greater influence over spending, oversight, and appointments. For investors, that political leverage is not the same as policy changes that can realistically be implemented, and the timing and details will matter. An initial market reaction may also differ from the longer-term implications for individual investments. Thorough work on each company's policy exposure, fundamentals, valuation, and risks remains important, and we will continue that work as the new agenda takes shape.

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