Cetera®

Commentary

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A Divided Government Ahead: What It Means for Investors

- A projected divided government points to gridlock, which can limit sweeping policy changes and create a more predictable environment for markets.
- Investment implications include less fiscal stimulus, possible downward pressure on Treasury yields, and added oversight of technology, AI, and financial services.
- Our approach is unchanged: stay diversified and disciplined and focus on earnings and fundamentals rather than election results.

With Democrats projected to take control of Congress, we are entering a period of divided government. Democrats are not projected to have enough seats to pass filibuster-proof legislation, and President Trump is likely to veto most bills that reach his desk. In practical terms, major changes from either party are unlikely to become law.

Historically, that has been good for markets. Investors tend to dislike uncertainty, and when more sweeping agendas are unlikely to pass, the legislative environment becomes easier to anticipate. Gridlock can limit the risk of sudden policy shifts, which is often something markets welcome.

There are some important investment implications. Less fiscal stimulus would likely modestly slow economic growth, though it could also put downward pressure on Treasury yields—welcome news for bond investors. Increased congressional oversight could also create uncertainty for technology, artificial intelligence, and financial services, and we will be watching those areas closely.

The election also reinforces the importance of diversification. We have been emphasizing opportunities beyond mega-cap technology, particularly in small-cap and mid-cap stocks, and we continue to believe market leadership should broaden over time.

As an outgoing president, Trump may shift focus from domestic to foreign policy, where the president has more authority and needs less cooperation from Congress. If he follows the pattern of previous outgoing presidents, that could potentially mean elevated geopolitical risk over the next two years.

There are also potential implications further out. Because Senate terms last six years, the seats Democrats picked up in traditionally Republican states will remain in their control beyond the next presidential election. A Democrat winning the White House in 2028 could improve the odds of sweeping legislative change like the potential of higher taxes on corporations and high-income households and more regulation of AI, which could slow the AI buildout.

The election does not fundamentally change how we manage portfolios. We always focus on whether political developments alter our assumptions about economic growth, corporate earnings, interest rates, and valuations.

Washington can influence markets in the short term, but earnings and economic fundamentals determine where markets go over the long term. We believe investors should stay disciplined and avoid making major portfolio decisions based solely on election results. Focusing on the green in corporate earnings is much more important than the red and blue in Washington.

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