US Cross-Asset Outlook

Investment Strategy ♦ October 27, 2026

US Midterms: The ballot is not the biggest risk

- **The 3 November US midterm elections represent an important policy catalyst, but are unlikely to be the dominant determinant of market direction. A Democratic takeover of the House is the base case, while control of the Senate remains considerably more uncertain. For markets, however, congressional control matters primarily through its implications for fiscal negotiations, the debt ceiling, oversight, war powers and selective constraints on trade policy rather than through the prospect of a major new legislative agenda.**
- **The larger investment regime continues to be defined by geopolitics, energy, bond yields, the US dollar and the durability of AI-led equity performance. Iran represents the most important near-term geopolitical swing factor. At the same time, substantial geopolitical risk is already embedded in energy markets and investor positioning has become somewhat cautious, leaving scope for a meaningful relief rally if feared escalation fails to materialize.**
- **This creates an asymmetric setup. Downside risks remain material, but they are increasingly well recognized. The less appreciated outcome is one in which the election passes cleanly, geopolitical tensions stabilize and investors are forced to unwind defensive positioning. The appropriate strategy is therefore not to treat the election as a binary risk event, but to position around the interaction between political outcomes, geopolitical developments and existing market risk premia.**

Politics: affordability is driving the electoral shift

Affordability remains the defining political issue heading into the midterms. Cost-of-living pressures continue to dominate voter concerns, while dissatisfaction with government – as reflected in low and falling approval ratings – continue to rise. By comparison, immigration and crime, previously more favorable issues for Republicans, have become less prominent in recent polling. Inflation expectations differ by income and political affiliation. On a three-month average basis to September 2026, the bottom income third expected inflation 1.0 percentage point above the top third, while Democrats expected inflation 2.5 points above Republicans (exhibit 01). The political swing is therefore best understood as an electoral consequence of affordability pressures rather than as a broad ideological realignment. AI presents the opposite dynamic. Its electoral relevance remains negligible despite its enormous significance for capital markets. That distinction is important because elevated political discussion around AI should not be mistaken for an electoral mandate for aggressive regulation.

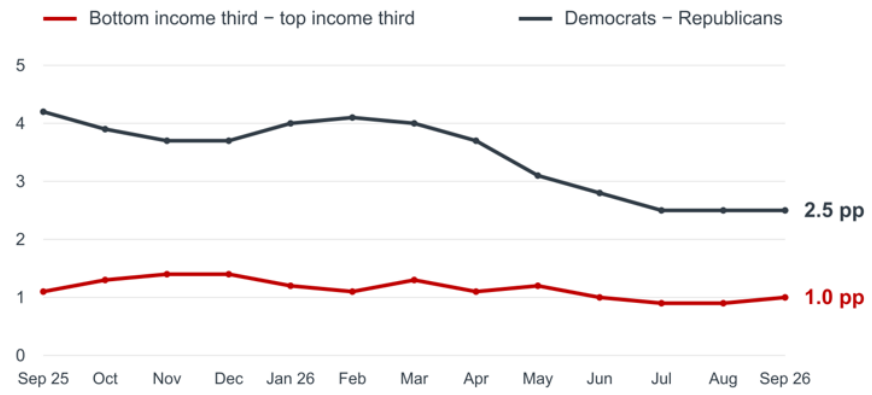
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Exhibit 01: Gaps in US inflation expectations by income and political affiliation



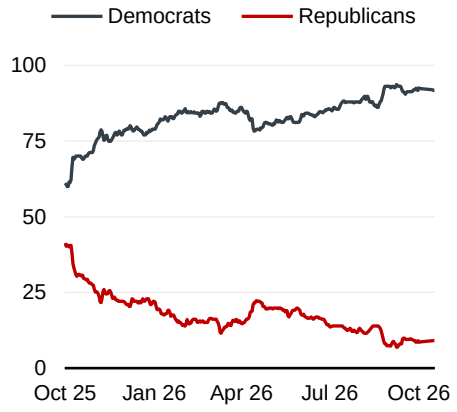
Sources: University of Michigan Surveys of Consumers, ADCB Asset Management | Notes: Differences between three-month averages of median year-ahead inflation expectations.

Congress: House control matters more than senate symbolism

A Democratic takeover of the House remains the most likely outcome (exhibit 02). The shift in the national generic ballot relative to the 2024 House vote is large enough that Democrats would not require the full national swing to translate across individual districts to gain control. Even allowing for meaningful polling error, the arithmetic continues to favor a House flip. The Senate is substantially more difficult to predict (exhibit 03). Outcomes depend on candidate-specific performance across a small number of closely contested states, including North Carolina, Texas, Ohio, Alaska, Iowa and Maine. Historical polling errors in partisan-leaning states further reduce confidence in narrow state level margins.

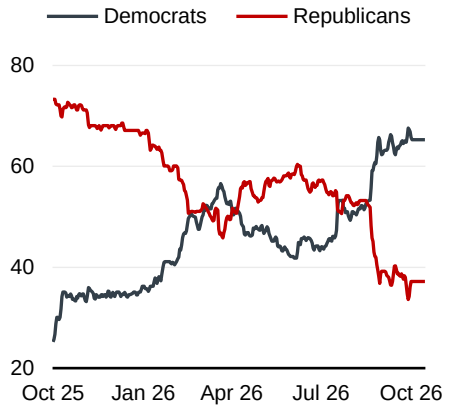
For markets, the distinction between the two chambers matters. Control of the House provides significant leverage over must-pass fiscal legislation even without control of the Senate. A Democratic Senate would strengthen the political signal delivered by the election, but the incremental impact on near-term fiscal bargaining may be smaller than the headline outcome suggests. The House should therefore be treated as the more important political variable for immediate market pricing, while the Senate remains potentially more significant for the broader interpretation of the electoral mandate.

Exhibit 02: Polymarket implied probability of House control (%)



Sources: Polymarket, ADCB Asset Management

Exhibit 03: Polymarket implied probability of Senate control (%)



Sources: Polymarket, ADCB Asset Management

Divided Government: constraint rather than expansion

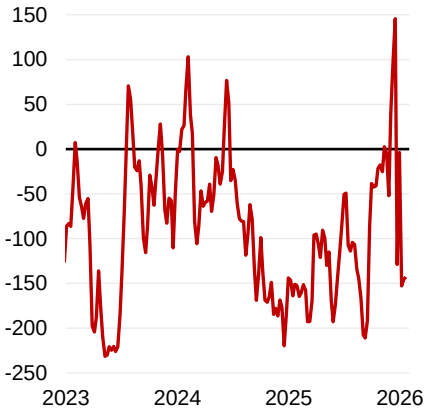
A Democratic House, or even a broader Democratic sweep, is unlikely to usher in a conventional expansionary legislative agenda. The immediate objective would instead be to constrain the administration through spending negotiations, oversight and must-pass legislation. The first major confrontation could arrive quickly, with government funding authority due to expire on December 11, 2026 absent congressional action. Negotiations could ultimately be extended into early 2027, but the result would be the same: fiscal bargaining would move rapidly from the campaign to the center of the market narrative. The debt ceiling represents the second major leverage point. Once borrowing constraints become binding in 2027, congressional Democrats would have an opportunity to seek concessions on spending and other policy priorities. Trade policy could also become a target, although selective restrictions on individual tariffs appear considerably more plausible than a wholesale reversal of the administration's trade agenda. Divided government should therefore not automatically be equated with policy stability. The more likely outcome is a shift in policy risk from legislation toward negotiation, deadlines and episodic fiscal brinkmanship.

Equities: Positioning creates an upside asymmetry

Investor positioning has become cautious, hedge-fund net leverage has fallen (exhibit 04), sentiment is below average and equity volatility curves contain very little localized premium around election day. The absence of substantial event premium is notable. It suggests that investors are not treating the midterms themselves as a major standalone

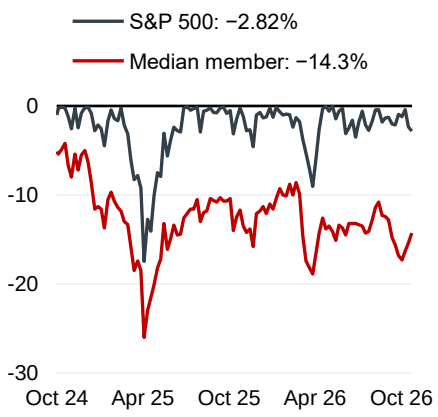
risk event, even as broader geopolitical and macro concerns have pushed portfolios toward somewhat defensive positioning. This combination creates an asymmetric post-election opportunity. If the election passes without disruption and geopolitical conditions do not deteriorate simultaneously, a reduction in uncertainty could be sufficient to generate meaningful re-risking. The catalyst need not be an exceptionally favorable political outcome. The absence of an adverse outcome may be enough. Any relief rally, however, remains conditional on the broader macro environment. Higher oil prices, rising Treasury yields, further dollar strength or weaker AI earnings would quickly overwhelm any benefit from political clarity. The preferred approach is therefore to use the election as a catalyst within broader macro positioning rather than as the foundation for a traditional election trade.

Exhibit 04: Hedge fund positioning: CFTC leveraged funds net S&P 500 futures ('000 contracts)



Sources: CFTC, Bloomberg, ADCB Asset Management

Exhibit 05: S&P 500 vs median constituent: distance from 52 week high (%)



Sources: Bloomberg, ADCB Asset Management | Notes: As of 23 October 2026.

Equity Concentration: Two markets cannot diverge indefinitely

Market concentration remains a more significant medium-term equity issue than election risk. The S&P 500 remains only a few percentage points below its record high, while the median constituent is roughly 14% below its own peak (exhibit 05). Such dispersion is unusually wide. The equity market increasingly resembles two distinct regimes. AI-related leaders continue to support headline index performance, while large parts of the broader market remain under pressure from energy prices, elevated yields and weaker macro conditions. That divergence is unlikely to persist indefinitely. One resolution would be constructive: easing macro pressures allow the broader market to catch up with the leaders. The alternative is considerably less benign: weakening AI momentum causes

the leaders to converge downward toward the rest of the market. Market breadth should consequently be treated as an important confirmation signal following the election. A genuine improvement in the risk environment should eventually extend beyond the narrow group of stocks currently supporting the index.

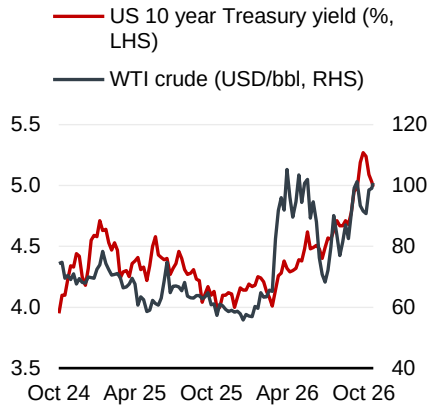
AI and Power: regulatory risk looks overdiscounted

Political risk considerations surrounding AI and data-center investment appears greater than the probability of sweeping federal intervention. Significant institutional barriers remain to broad federal regulation, including Senate voting thresholds and the prospect of a presidential veto. The more credible risk comes through incremental measures rather than a single disruptive regulatory event. State and municipal restrictions, infrastructure constraints, utility policy, liability frameworks and potential data center taxation could cumulatively increase the cost of development. Regulatory pressure is therefore more likely to emerge gradually through multiple channels than through comprehensive federal legislation. This distinction matters for the power and data center complex, where a substantial valuation reset has already occurred. If election related regulatory concerns diminish while the underlying AI investment cycle remains intact, the sector offers one of the more interesting candidates for a post-election relief trade. The principal risk is not necessarily legislation itself, but a change in narrative. If the election becomes interpreted as evidence that AI's regulatory and political tailwinds have peaked, valuation pressure could persist even in the absence of major federal legislation.

Rates and USD: Macro remains in control

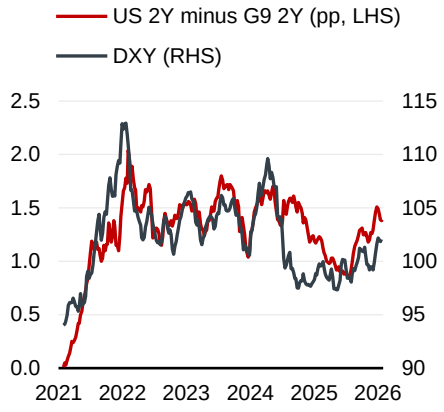
Most plausible election outcomes are unlikely to alter the fiscal outlook sufficiently to reverse the prevailing direction of Treasury yields or the US dollar on their own. Energy, geopolitical risk (exhibit 06), AI investment and the broader macro environment (exhibit 07) remain much more powerful cross-asset drivers. Iran provides the clearest transmission mechanism. A significant post-election escalation would reinforce the current configuration of higher oil, upward pressure on yields, a stronger dollar and weaker risk assets. Failure to escalate, particularly if accompanied by falling energy prices, could produce the opposite outcome as geopolitical risk premium is unwound. The election should therefore be interpreted through its effect on the macro reaction function rather than through conventional partisan asset allocation frameworks. The key issue is not simply which party controls Congress, but whether the result intensifies or releases the existing macro risk premium.

Exhibit 06: US 10 year Treasury yield (%) vs WTI crude oil (USD/bbl)



Sources: Bloomberg, ADCB Asset Management

Exhibit 07: US 2 year yield minus G9 average (pp) vs DXY



Sources: Bloomberg, ADCB Asset Management

Investment Strategy: Respect the downside, position for relief

- The balance of risks argues against adding indiscriminate defensive exposure ahead of the election.
- Macro and geopolitical risks remain substantial, but positioning is somewhat already cautious and several markets already contain meaningful risk premium. That creates a potentially attractive asymmetry.
- A material escalation in Iran would justify further defensive positioning, particularly through energy exposure, dollar strength and portfolio hedges. However, the failure of those risks to crystallize could generate a disproportionately strong reversal as investors rebuild risk exposure.
- Options are particularly attractive in this environment given the limited election-day premium embedded in equity volatility. Cheap optionality allows portfolios to maintain protection against an adverse geopolitical outcome without sacrificing participation in a potential post-election relief rally.
- Within equities, the power and data center complex warrants particular attention given the extent of its derating and potential sensitivity to diminishing regulatory concerns.
- Across macro assets, oil, Treasury yields and the US dollar should provide the clearest real-time signals of whether markets are transitioning toward US-Iran escalation or relief.

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