

US 2026 Mid-Term Election Results and Implications

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Since the beginning of this year, the narrative on the US mid-term elections moved from the initial view of a divided House of Representatives ("House") and a Republican Senate to a blue (Democrat) sweep of House and the Senate flipping. All 435 seats in the House were contested while only 35 of the 100 seats in Senate were contested. Just before polling day, prediction markets placed a 94% chance of Democrats securing the House and a 77% chance of them flipping the Senate.

The Mid-Term outcome is a clear blue sweep with the Democrats well in **control of both the House of Representatives and Senate**. Many traditionally Republican seats such as Kansas and Texas flipped to the Democrats. (The last time a Democrat won a Texas Senate seat was in 1993). Note that the elected representatives will take office on 3 January 2027.

Potential Changes / Impact

1. Data Centres Slowdown / Pause

This was one of the Democrates' main elections issues as there is generally strong opposition to date centres in the United States. It remains one of those matters which is 'not in my backyard'. 63% of registered voters oppose a data centre within 10 miles of their home.

Texas has some 800 data centre projects of which 300 have been built or about to be build and around 500 are being planned. Those which are being planned will see significant delay as Democrats pass further legislation on requirements for building data centres.

It is reasonable to expect that the capital expenditure of some USD 1 trillion by the hyperscalers in 2027 will be curtailed. **USD 1 trillion is 3% of US GDP**. However, about 60% of the costs of a Data Centre are imported (e.g. the Nvidia chips). Hence, the actual **impact on GDP is about 1%-1.5%.** This assumes that the centres are scrapped entirely, the worst-case scenario.

2. Major Tax Cuts and Large New Spending Can be Curtailed

Under the US Constitution, the president cannot spend money that Congress has not explicitly appropriated. Control of the House comes with the power to dictate which tax, and spending bills make it to the floor, hold adversarial hearings, and launch investigations into the administration's policies. Of note, is the US government funding is currently authorised until 11 December 2026. There is a possibility of an extended government shutdown if the relevant bills are not passed. The likelihood is a 'deferred shutdown', whereby funding is passed until early 2027 (to ensure the government workers are paid over Christmas and New Year). Historically government shutdowns have not significantly impacted US capital markets.

3. Geopolitical tensions could escalate

As most foreign policy actions do not require congressional approval, President Trump could **execute military action to chalk wins for the White House**. While much of the world attention is on Iran, Cuba is likely an easier win. **Any action which is then 'prolonged' will likely have a negative impact on capital markets**. However, **an easy or quick win, will likely lead capital markets to react positively** after the initial sell down.

4. Investigations and Subpoenas

The Democrat majority also brings subpoena power and more leverage to investigate AI, antitrust and other tech-related issues, including the relationship between businesses and the White House. Hearings themselves matter less to long-term investors than whether they eventually **raise compliance costs, slow product rollouts or make mergers and acquisitions more difficult to complete.** The impact will be industry and company specific and **if the sector is large, e.g. technology, it will have a negative impact on the market.**

What will Not Change

A. **Make America Great Again ("MAGA") policies likely unchanged.** Democrats broadly agree with the goal of shoring up supply chains and investing in US industry, even if they differ on execution. In addition, President Trump's initiatives – such as the US Investment Accelerator deals (e.g. a USD 550 billion Japan infrastructure investment framework and a USD 350 billion Korea investment agreement) – do not require new congressional approval. These are executive-driven international deals. Initiatives which are already funded through prior legislation, through the 2025 'One Big Beautiful Bill', can proceed.

B. **Tariffs are likely to remain within a 10% to 20% range. Numerous laws** (Section 232 for national security tariffs, Section 301 for unfair trade practices, etc.) **give the President wide latitude to impose duties without Congress**. The Democratic House might hold oversight hearings on tariff impacts (especially if constituents complain about higher consumer prices), but it is unlikely that they will push through legislative action to substantially lower tariffs from today. Tariffs can be challenged in courts but unless they are excessive and broad ranging, they are unlikely to make much progress.

US President's Powers

A President can use **Executive Orders** to:

- Change federal agency priorities
- Set immigration enforcement policies
- Adjust federal procurement rules
- Direct federal departments and agencies

A President **cannot** use an executive order to:

- Rewrite the Constitution
- Appropriate money that Congress has not approved
- Ignore existing federal laws
- Override court rulings

President Trump issued multiple executive orders on immigration and tariffs. Some were upheld, while others were blocked or modified by federal courts.

US President's Veto Power (Likely to Result in Gridlocks)

The President can veto bills passed by Congress, and overriding a veto requires a two-thirds majority in both the House and Senate. **Given that Republicans control more than one-third of the seats in both chambers, a veto override is highly unlikely.** As a result, legislative gridlock is likely, requiring both parties to negotiate and compromise to advance major policy initiatives or spending bills.

Investment Strategy

Equities

Investors favour gridlock in the US government because large changes including taxes or regulations are much harder to pass. According to a report by a major US Investment Bank, under Republican presidents, the S&P 500 has averaged a 23% gain in the year after midterms when Congress was split, and it **gained 16% when Democrats controlled both chambers**. Gridlock between the Executive Branch and Congress could restrain fiscal spending, making it more difficult to pass large spending bills. This **may help narrow the fiscal deficit,** reduce Treasury issuance needs, and **ease upward pressure on bond yields**.

The likely **pause on new data centres** will cause a **reduction in chip sales** which are required in these centres. Hence, there was and will likely continue to be **weakness in the semiconductor space**. Conversely it will also mean **less cash outlays and reduced fund raising** by the hyperscalers that have been projecting capital expenditure of more than USD1trillion for returns which are not discernible at this juncture. This also allows them to have more time to assess the impact of their investment for better returns and allows optimal usage of cash and capital. The day after the election, with the Democrats' win, hyperscalers rallied which led the technology sector higher while the chipmakers fell sharply.

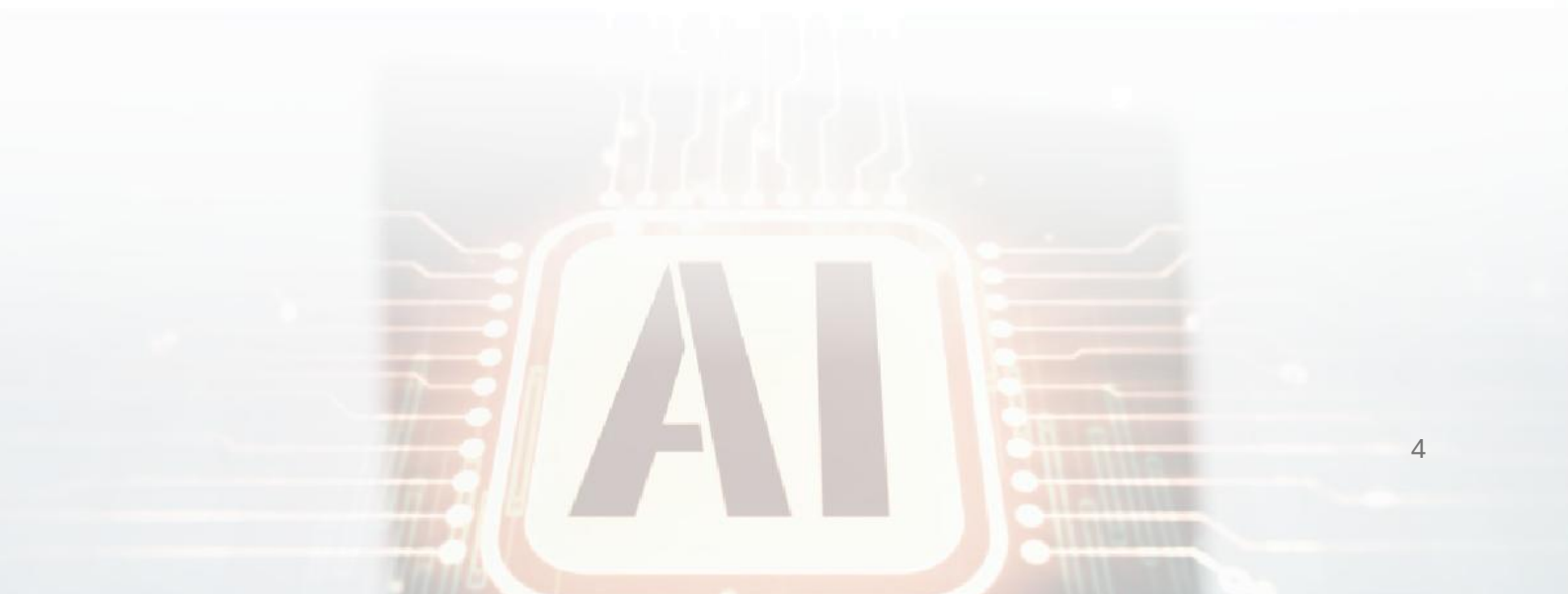
In Asia, the same occurred with the chipmakers which are heavily represented in Korea and Taiwan getting sold down, dragging the respective indices. The Hang Seng Index rallied as the two large tech giants, Alibaba and Tencent, China's hyperscalers, recorded very strong gains.

We have to be **agile and maintain a well-diversified portfolio in the short-term with the current market volatility**. In the medium term we remain constructive on global equities which is supported by robust corporate earnings growth and resilient economic conditions. The technology sector remains favoured despite concerns over the build-up of data centres in the US. The AI cycle remains intact, but market leadership is becoming increasingly selective, with investors rewarding companies that can effectively translate AI-related demand into tangible earnings growth, cash flow generation, and shareholder returns.

We **favour China for its low valuations, and** it has its own AI ecosystem. The two hyperscalers, Alibaba and Tencent are continuing to build their own homegrown ecosystems which will reinforce their position in the AI space in China.

Back home, in Malaysia, the country which has already established a track record in building data centres will benefit as more new data centres are built out of the US with the challenges of building them there. Furthermore, with the Democrat sweep and Trump's term for another 2 years, it could result in a volatile US market environment. Malaysia could benefit as a relative 'safe haven' market.

Recommended funds: AmTech Nasdaq-100 Fund and AmHong Kong Tech Index Fund*



Interest Rates

US Yields fell when it was known that it will be a clear and strong Democrat win, with the 10-year yield falling by approximately 10 basis points. This was driven by the likelihood of a 'gridlock'. Hence the peak of yields was likely in early October and yields will gradually fall, with the 10-year below 5%.

In Malaysia, yields barely moved and the attention was on the Monetary Policy Committee meeting decision which held rates unchanged at 2.75%. Hence for Malaysian fixed income, we maintain a neutral duration stance, but the recent market repricing is beginning to create selective opportunities. While it remains premature to turn broadly constructive, we believe investors should gradually shift from a purely defensive posture and selectively accumulate bonds where valuations have become more compelling. Our preference remains focused on the sub-10-year segment of the curve, where carry, roll-down potential and valuation support offer a more attractive risk-reward balance than extending duration aggressively.

Recommended funds: AmIncome and AmBond*

* *Note: Intended for sophisticated investors (AmTech Nasdaq-100 Fund and AmHong Kong Tech Index Fund) and retail investors (AmIncome and AmBond), as defined under applicable Malaysian laws and guidelines. Investment in the funds involve risks including the risk of total capital loss and no distribution. For more details on the fund's risks, please refer to the below, where applicable, obtainable at www.aminvest.com, and the latest supplemental document, if any, before investing:*

- *Information Memorandum for AmTech Nasdaq-100 Fund dated 28 April 2025 and Information Memorandum for AmHong Kong Tech Index Fund dated 27 July 2021, including any supplementary made thereof from time to time ("Information Memorandum (s)") and its Product Highlights Sheet ("PHS")*

- *Master Prospectus for AmIncome and AmBond dated 10 September 2017, including any supplementary made thereof from time to time ("Prospectus(es)") and its PHS*



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