# Election Watch 2026

## Foreign capitals, state capitols: Executive summary

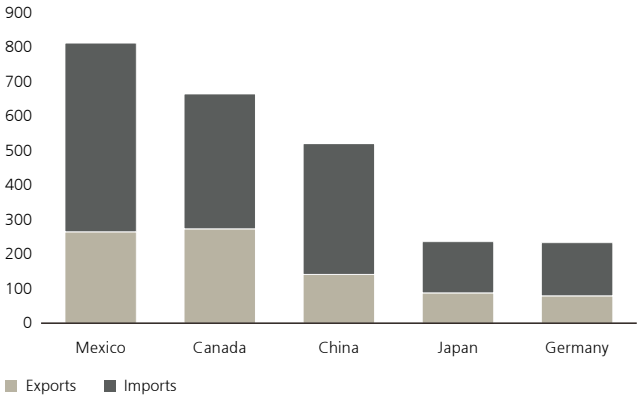
The 2026 midterms are likely to produce a divided government. Our base case is a narrow Democratic sweep of Congress (50% probability), though a split Congress remains almost as likely (40%). Either outcome would make major legislation harder to pass, heightening the importance of executive actions and regulatory policy. A divided government would also shift congressional focus toward spending bills, debt-limit negotiations, confirmations, and oversight.

## Foreign capitals

The midterms may increase policy uncertainty and market volatility abroad, but regional fundamentals—including earnings, inflation, energy prices, AI investment, and domestic policy—are likely to remain the more important drivers of investment outcomes. The consequences, however, will likely vary by region. Asia-Pacific is exposed to tariffs, export controls, AI policy, and defense commitments. For Europe, the main considerations are a firmer US stance on China's growing export surplus, higher defense spending commitments, and increased borrowing costs associated with rising US Treasury yields. Switzerland is exposed through trade and currency channels, while emerging markets are affected by trade, immigration, remittances, and global financial conditions. Canada's outlook remains tied to the review of the US-Mexico-Canada (USMCA) agreement and ongoing trade uncertainty.

### Mexico and China will be tracking the US midterms closely

Top five trading partners by total trade, in USD bn




Source: Bloomberg, UBS, as of September 2026

Read the full report, "Foreign capitals, state capitols," to explore how global perspectives and state-level developments may help shape the 2026 election landscape.

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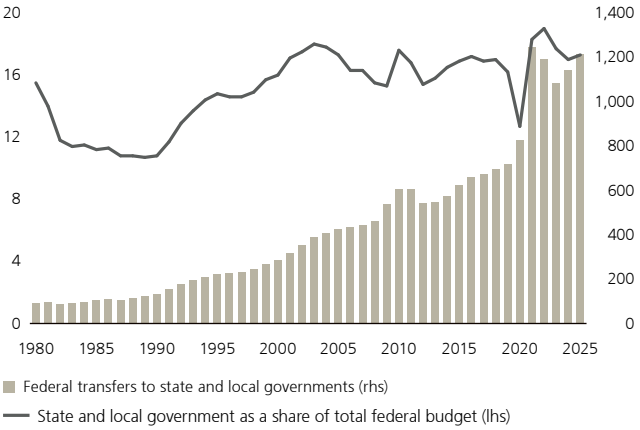
## State capitols

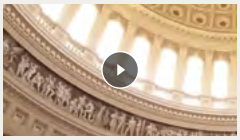
While federal races often dominate the spotlight, gubernatorial elections also help shape the US policy landscape. In 2026, voters in 36 states, three territories, and Washington, D.C. will elect their next chief executives, influencing how federal priorities and programs are implemented across states and territories. These contests come at a pivotal moment, as states prepare for federal cuts to Medicaid and other social programs that are set to take effect in 2027 under the One Big Beautiful Bill Act. At the same time, as Congress continues to debate data center regulation, many states are moving ahead with policies of their own, creating a patchwork of approaches that could affect both economic development and government finances.

### Federal transfers to governments steady but expect declines

Federal transfers to state and local governments, in USD millions, and state & local government spending as a share of total federal budget, in %




Source: OMB, Historical Tables, Budget of the United States Government, Fiscal Year 2027, UBS, as of 1 October 2026



**UBS Road to the Midterm Elections**
In this series, we sit down with research analysts and political experts to examine key election topics.

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