

Unified government at a crossroads

Election Watch 2026

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Editor-in-chief
Kurt Reiman

Authors
Andrew Dubinsky
Leslie Falconio
Ulrike Hoffmann-Burchardi
David Lefkowitz
Kurt Reiman
Matt Tormey

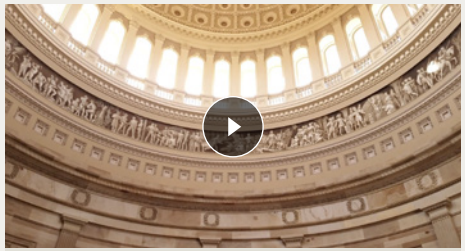
Contributors
Antoine Geiller
Clea Loci

Contributors outside CIO
Colin Craib
Shane Lieberman

Editors
Jess Hoeffner
Laura Amoroso

Design
CIO Content Design

Project management
John Collura
Cheryl Seligman



UBS Road to the Midterm Elections

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Unified government at a crossroads

Midterm elections rarely command the attention of presidential contests, and voter turnout typically declines—often by double digits. Complacency among the president's supporters, the rise of independents, and entrenched partisan advantages all shape turnout and outcomes in midterm elections. Yet history shows that midterms can reshape the political landscape: The Republican wave of 1858, the Democratic surge of 1930, and the Contract with America in 1994 all set the stage for profound change.

This midterm arrives at a tense moment in American history. Narrow majorities, deep polarization, and record retirements in Congress echo past periods of uncertainty. Judicial rulings on redistricting, contentious debates over fiscal policy, and persistent low approval ratings for both parties have created an atmosphere of unpredictability. The stakes are amplified by ongoing geopolitical conflict, concerns about AI disruption, and a shifting economic backdrop—making this election not just a referendum on leadership, but a test of the nation's ability to navigate division and change.

Fiscal policy is poised to shift from stimulus to restraint, with scheduled spending cuts and the expiration of key subsidies. The debt ceiling looms as a catalyst for negotiation, and divided government could introduce volatility through shutdowns or impoundments. Trade policy is also in flux, as the administration seeks to rebuild its tariff wall.

Financial markets reflect the uncertainty of the moment. Historically, stocks have traded sideways ahead of midterms, with rallies often following periods of gridlock. While some expect divided government to reduce policy risk, history shows that unified control has delivered stronger equity market returns. Meanwhile, persistently large deficits and shifting Treasury issuance add complexity to the fixed income outlook, especially amid mounting inflation pressure.

The most probable outcome of the 2026 midterms is divided government, ending two years of unified control and reshaping the legislative process. Yet the drivers of market performance—earnings, monetary policy, and economic growth—remain central. We will monitor how policy developments at this inflection point feed through to these fundamentals and, ultimately, financial markets.



Ulrike Hoffmann-Burchardi
Chief Investment Officer Americas and Global Head of Equities



Kurt Reiman
Head of Fixed Income, CIO Americas

The balance of power

Republicans gained unified but narrow control of the federal government in 2025. Heading into the midterm elections, Republicans hold a 217-212 seat majority in the House of Representatives with one Independent who generally votes with Republicans and five vacancies, as well as a 53-47 seat majority in the Senate. Despite holding majorities in both chambers and having enacted a significant portion of the president's policy priorities in 2025, intra-party differences have emerged on issues such as voting policy, immigration funding, and housing affordability. Republicans can afford to lose only a limited number of seats in each chamber in the 2026 midterm elections if they are to retain their majorities.

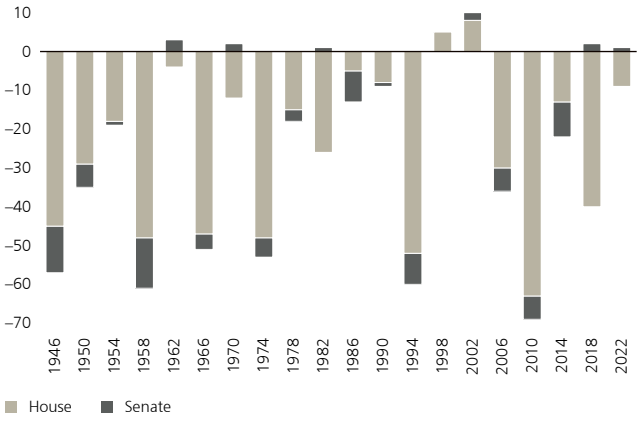
Midterm elections have historically served as a referendum on the sitting president, regardless of party affiliation. In the postwar period, the president's party has lost seats in the House of Representatives in the midterm elections, with only a few exceptions (see Fig. 1). The pattern in the Senate is similar, though less consistent, in part because only one-third of the chamber is contested in each election cycle, and the number of seats held by the president's party that are up for election varies over time.

Historically, there has been a relationship between presidential job approval ratings and the magnitude of seat changes in the House, with larger losses generally occurring when approval ratings are below 50% (see Fig. 2). Current approval ratings

Figure 1

President's party traditionally loses seats in the House after midterms

Congressional seats gained/lost by the president's party in midterm elections

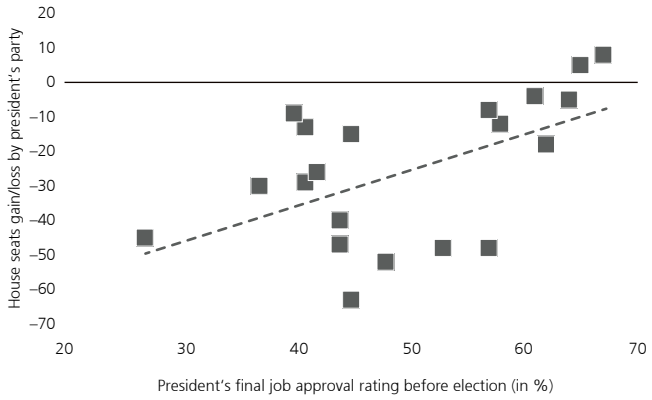


Source: The American Presidency Project, UBS, as of 12 May 2026

Figure 2

Presidential job approval influences the party's hold on House seats

Change in House seats held by the president's party following midterms versus president's job approval rating



Source: Gallup, The American Presidency Project, UBS, as of 12 May 2026



Mid-decade redistricting has dominated headlines in the current election cycle.

for President Trump are lower than those of many recent presidents at a comparable stage in their terms. While there are a limited number of contested seats, President Trump's low approval rating does not portend well for Republicans running in those seats (see Fig. 3).

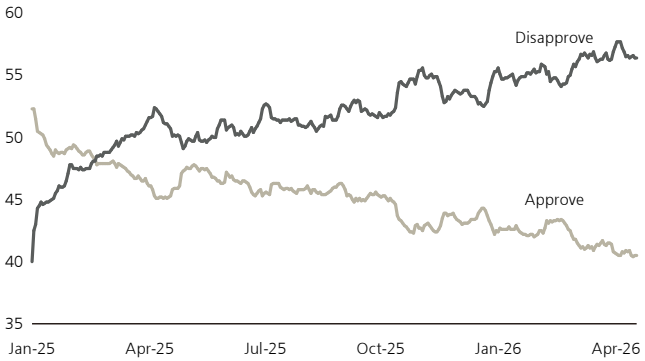
Americans also assign low approval ratings to the president's handling of the key issues, creating an opening for Democrats to campaign on a contrasting vision for addressing voter concerns (see Fig. 4). However, low favorability ratings for Democrats—ones that are on par with those for Republicans—mean that Democratic candidates will need to not only ensure independent voters turn out to vote, but also earn their vote. This should prove especially true for Senate races in North Carolina and Georgia where registered independent voters make up a sizable portion of the electorate.

Mid-decade redistricting has dominated headlines in the current election cycle, especially in light of the Supreme Court's ruling on the Voting Rights Act and the Virginia Supreme Court ruling on its state redistricting plans. While the net effect of the various redistricting efforts appears to modestly benefit Republicans with a gain of 6-10 seats, it is unlikely to offset broader headwinds or prevent them from potentially losing House control, though it could influence margins and position the party more strongly for 2028. Adding to the potential for higher turnover in the House is the highest number of retirements and resignations in the post-war era for a midterm election (see Fig. 5). Heightened polarization, safety concerns, and an expected difficult campaign season are among the many reasons members have cited for not seeking reelection.

Figure 3

President's approval rating fell to new low after start of Iran conflict

RealClearPolitics poll average job approval and disapproval ratings, in %

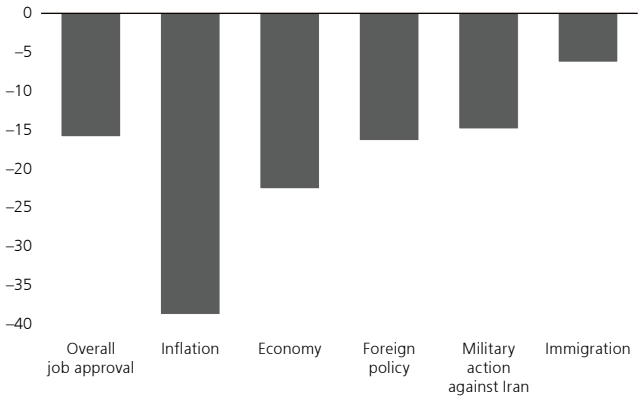


Source: RealClearPpolitics, Bloomberg, UBS, as of 12 May 2026

Figure 4

President Trump has a negative net approval rating on key issues

RealClearPolitics net approval poll average

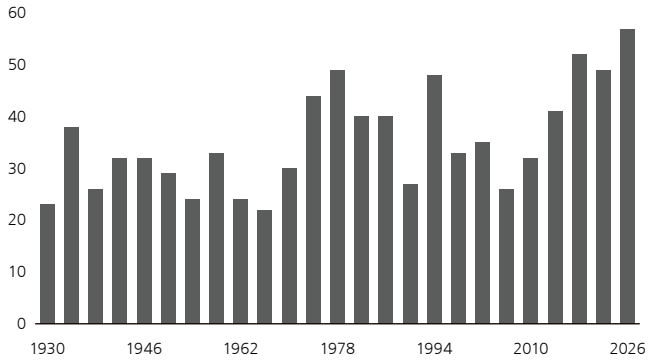


Source: RealClearPolitics, UBS, as of 12 May 2026

Figure 5

Steady increase in midterm House retirements with 2026 a new peak

House retirements during midterm election years, in number of seats



Source: Brookings Vital Statistics on Congress, UBS, as of 15 May 2026

Scenario analysis

When we look at the historical relationships between approval ratings and House seat changes, the 2026 midterm elections could produce a divided government after two years of unified Republican leadership of the federal government.

This has recently become the norm. President Biden lost his majority after one cycle, as did Presidents Trump and Obama in their first terms. President George W. Bush was the last president to keep unified control for longer than a single election cycle, and 9/11 had a sizable impact then. A possible constellation to emerge, in our view, is one where the Democrats retake the House of Representatives, but the Republicans retain control of the Senate, yielding a divided Congress.

Another possible outcome we're watching closely is one where the Democrats sweep the 2026 midterms and retake both chambers of Congress. Redistricting developments and primary elections in the months ahead to determine the candidates will greatly influence the probability of this scenario. While we wouldn't entirely rule out the status quo outcome where Republicans retain control of both chambers of Congress, the public's approval rating of the job they are doing would have to improve substantially between now and November for this outcome to occur. For completeness, we exclude the scenario of Republicans holding the House while Democrats retake the Senate given the very low likelihood of this outcome.

	Scenario	**Status quo** Republicans retain narrow control of both chambers of Congress	**Divided Congress** Republicans retain control of the Senate but lose the House	**Democratic sweep** Democrats assume control of both the Senate and the House
Summary	**Election outlook**	The likelihood that Republicans retain their narrow majority in the House is low given the tendency for the president's party to lose seats in the midterm elections, but especially given the president's low job approval rating. Redistricting will benefit Republicans but will likely prove insufficient to overcome the party's low favorability. The Supreme Court's decision to limit portions of the Voting Rights Act remains a wild card that will continue to develop. Several Republican states have used the decision to redistrict, but the ramifications of the Supreme Court's decision are likely to have a bigger impact in the 2028 cycle.	Democrats face a tougher uphill climb in the Senate where they would need a net gain of four seats to obtain a majority. Thirty-three Senate seats are up for reelection together with two special elections for the Senate seats vacated by Marco Rubio (R, FL) and JD Vance (R, OH) joining the administration. Battleground states held by Republicans include Alaska, Iowa, Maine, Ohio, North Carolina, and Texas. Battleground states held by Democrats include Georgia, Michigan, and New Hampshire.	The potential for a Democratic sweep has increased since the Iran war, but the competitiveness of some elections will hinge on each party's nominees. A narrow Democratic majority in the Senate would constrain legislation without the consent of the minority except for judicial appointments and budget reconciliation.
	UBS probability	15	50	35
	PredictIt forecast	28	33	39
	Polymarket forecast	22	34	44

Continued on page 6 ›

	Scenario	Status quo Republicans retain narrow control of both chambers of Congress	Divided Congress Republicans retain control of the Senate but lose the House	Democratic sweep Democrats assume control of both the Senate and the House
Policy implications	**Fiscal**	Republicans likely attempt to use reconciliation to achieve targeted spending goals and tax cuts, but narrow majorities and wide budget deficits curtail ambitions. Fiscal drag from cuts to Medicaid and food assistance programs would take effect after the midterms as scheduled. Small growth in annual budget spending continues.	Partisan differences complicate budget appropriations and effectively remove the possibility of using reconciliation to achieve fiscal goals. Higher risk of government shutdowns and debt limit brinkmanship, but some potential for bipartisan agreement to postpone planned spending cuts to social programs in exchange for higher defense spending. Potential for 5% increases in the annual budget.	Democrats use reconciliation in an attempt to postpone or reverse Medicaid and food assistance cuts enacted to fund 2025 tax cut package. President Trump would likely veto such a package, but it could serve as a starting point for negotiations. Republicans agree to compromise on increased defense spending, leading to wider deficits and less fiscal drag. Democratic push for higher taxes likely faces insurmountable obstacles. Potential for 5% increases in the annual budget.
	Trade	Unlikely to see Republicans mount a challenge to the president's trade agenda, consistent with the first two years.	Democratic efforts to challenge the president's trade authority don't reach the Senate floor for a vote. House Democrats likely to perform aggressive oversight on the administration's use of tariffs including more frequent hearings with US Trade Representative Jamieson Greer.	Without a veto-proof majority, Democratic challenges to the president's trade agenda are unlikely to become law.
	Debt limit	Fewer fireworks over raising the debt ceiling under unified Republican control of government, even if some members demand deeper spending cuts under reconciliation as part of any agreement.	Greatest potential for conflict over lifting the debt limit likely brings deadline down to the wire as in earlier episodes, rekindling concerns over technical default risk.	Debt limit deadline forces agreement between White House and Congress on a package of increased defense spending and postponed cuts to social programs enacted in the 2025 tax cut legislation.
	Transportation & energy	Continued push away from renewable energy sources such as solar and wind via a combination of administration agency actions and congressional Republicans removing renewable energy tax credits that survived the One Big Beautiful Bill Act or imposing fees and taxes such as an EV tax to help fund the Highway Trust Fund. Additionally, a partisan permitting reform bill is on the table which would lead to a rollback of current environmental protections in exchange for quicker approval of infrastructure projects, especially for traditional energy projects.	A bipartisan permitting reform bill is possible but difficult. Such a bill would keep more environmental protections than a Republican-only bill but would aim to speed up the permitting process for domestic infrastructure. Notably, a bipartisan bill would likely aim to speed up energy projects across the board, including renewables. The balancing act to both pass Congress and get signed into law by President Trump is difficult. Nuclear energy will continue to gain interest from lawmakers on both sides of the aisle.	Democrats pass legislation focused on restoring tax credits for energy efficiency and renewable energy, which will be vetoed by President Trump. The potential for a bipartisan compromise still exists after partisan attempts fail.

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	Scenario	Status quo Republicans retain narrow control of both chambers of Congress	Divided Congress Republicans retain control of the Senate but lose the House	Democratic sweep Democrats assume control of both the Senate and the House
Policy implications	**Artificial intelligence (AI)**	The priorities in President Trump's National AI Legislative Framework continue to be brought up in Congress; however, the need for 60 votes in the Senate means success is unlikely. Federal preemption of state AI laws will still be a policy priority for Republicans.	House oversight will be exercised on the executives of AI companies, and there will be significant interest in hearings to learn more about the Pentagon's decision to drop Anthropic. However, there will also be significant interest in bipartisan legislation to tackle the rising energy prices caused by data centers. Legislation that tackles both permitting reform for data centers while legislating the burden of the costs onto the companies using these data centers is plausible.	Without a veto-proof majority, Democratic priorities are unlikely to advance. However, there will be interest in passing messaging legislation designed to protect American workers and hold AI companies accountable for the actions of their platforms. If polling continues to find Americans' opinion of AI souring, this will likely become a potent issue in the Democratic presidential primaries with candidates who are sitting senators introducing anti-AI legislation.
	Housing	If Republicans are unable to pass their signature housing legislation this year, a similar variation of it will be proposed again in 2027.	If no housing bill is passed this year, then Democrats flipping the House would lead to an opportunity to pass the bipartisan crafted 21st Century ROAD to Housing Act.	A more partisan housing bill that has a negative focus on corporate landlords and Wall Street is likely to emerge and gain steam, especially with affordability being the driving political issue. This bill would be unlikely to gain a veto-proof majority but could appeal to President Trump who has focused on curbing institutional investors in the housing market. Even if he were unwilling to sign a Democratic bill, the potential for a compromise bill could emerge.

Note: We do not include a fourth scenario of the Democrats reclaiming the Senate and Republicans retaining control of the House given the low probability of such an outcome. The Polymarket and PredictIt odds are separate contracts and may not sum to 100.
Source: Polymarket, PredictIt, UBS, as of 14 May 2026

Macroeconomic considerations

Under current law, fiscal policy is set to shift from stimulus to restraint, creating a less supportive backdrop for economic growth. Earlier support from measures such as retroactive tax cuts from the One Big Beautiful Bill Act (OBBBA) should fade, while spending cuts embedded in the legislation point to tighter fiscal conditions. Upcoming adjustments to Medicaid and the Supplemental Nutrition Assistance Program (SNAP, food assistance for low-income households) are scheduled to reduce outlays by around USD 50 billion annually, increasing the pace of spending cuts in the coming years (see Fig. 6).

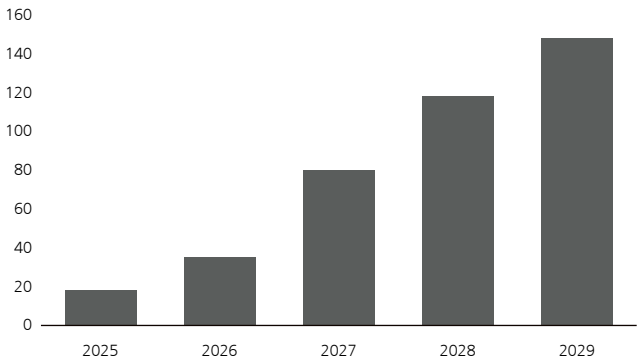
As a result, fiscal policy is likely to move from providing a boost to growth to acting as a drag. We estimate that the swing from incremental stimulus to restraint could lower GDP growth by roughly 0.6 percentage points over time (see Fig. 7). If Democrats were to gain control of one or both chambers of Congress, they would likely push to delay or soften these program changes and seek higher annual spending levels on already-expired ACA insurance subsidies, which could reduce the near-term drag. However, even in that scenario, the overall direction would still be toward less fiscal impulse, not renewed stimulus.

The timing of any softening in these scheduled spending cuts will likely hinge on the debt ceiling, which could become binding in the first half of 2027. Unlike prior episodes, the debt ceiling is not currently tied to a fixed date, and its timing will depend on factors such as war-related funding needs (supplemental appropriations for defense or foreign aid) and other near-term legislative actions. If Democrats control at least one chamber of Congress—most notably the House—they would have leverage in debt ceiling negotiations to unwind pieces of the OBBBA (the current budget and tax law framework). We expect any changes to focus on delaying scheduled spending cuts rather than eliminating them outright, while reversing enacted tax decreases remains unlikely.

Figure 6

Democrats might try to delay planned spending cuts with a deal

Proposed spending cuts under current OBBBA law excluding student loan programs, in USD billions

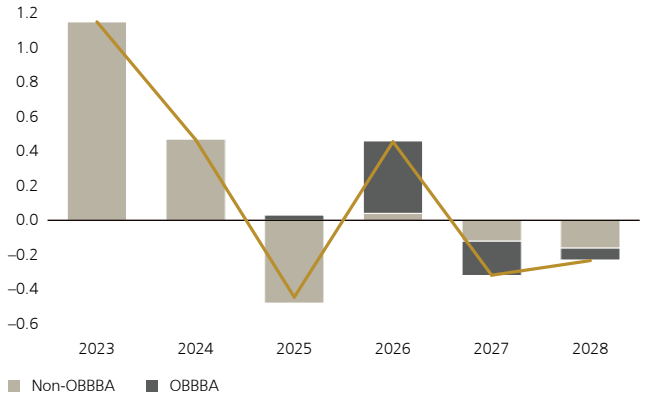


Note: Spending cuts include health and food insurance programs but exclude student loan programs.
Source: UBS, as of 12 May 2026

Figure 7

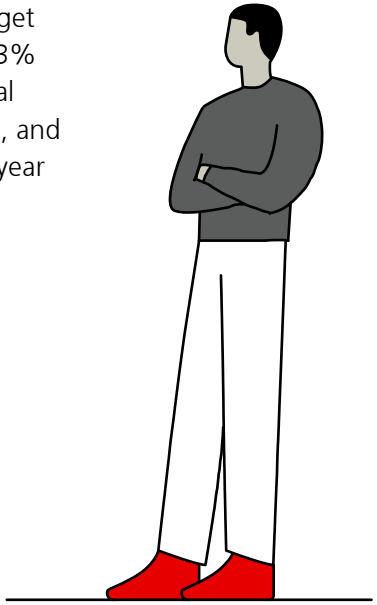
Fiscal policy turns from stimulus to restraint in 2027 under current law

Fiscal policy contribution to real GDP growth, in percentage points



Source: UBS, as of 12 May 2026

The baseline budget assumes around 3% growth in nominal spending in 2026, and the growth next year could rise to 5%.



Importantly, the budget environment has also shifted. Federal spending had been constrained by statutory spending caps (legal limits on discretionary spending growth) through 2025, but those caps are no longer binding (see Fig. 8). The baseline budget assumes around 3% growth in nominal spending in 2026, and the growth next year could rise to 5%. At the same time, the political appetite and fiscal conditions do not currently support larger deficit-funded increases.

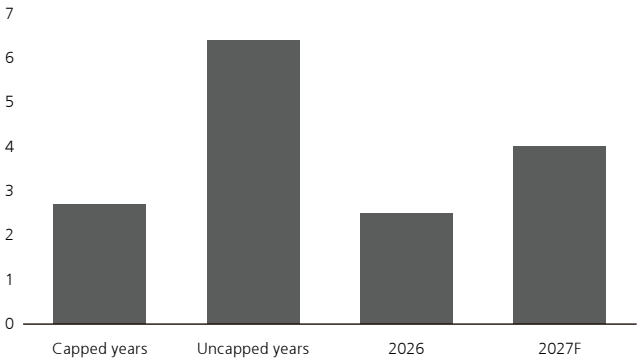
Finally, a divided government could introduce additional fiscal volatility. If interactions between the president and a Democratic-controlled House or Congress become contentious, the risk of government shutdowns (temporary suspension of non-essential government operations) or impoundments (executive decisions not to spend funds already appropriated by Congress) would rise. As seen in past episodes, these disruptions can create short-term swings in government spending and add noise to GDP data, even if the longer-term economic effects are limited.

We do not expect the election outcome to materially alter the trade policy outlook, as a shift in congressional control would have limited relevance for future tariff decisions. The Section 122 tariffs (a short-term trade authority allowing the president to impose temporary tariffs to address balance-of-payments pressures), which are set to expire in July, are likely to be replaced by Section 232 tariffs (tariffs imposed on national security grounds, e.g., autos) and Section 301 tariffs (tariffs responding to unfair trade practices). These authorities have a stronger legal footing and significantly less congressional oversight, making trade policy continuity more likely than reversal. We therefore expect effective tariff rates to remain in the 10-15% range (see Fig. 9).

Figure 8

Spending caps slow discretionary spending growth

Annual discretionary spending growth from 1980-2023, in %

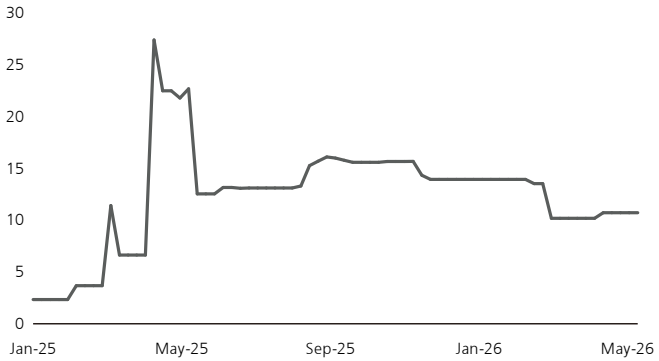


Note: Excludes emergency appropriations for 2009 stimulus and the 2020-21 pandemic, as well as emergency spending changes in 2025-26. 2027 is a UBS forecast.
Source: Office of Management and Budget, UBS, as of 12 May 2026

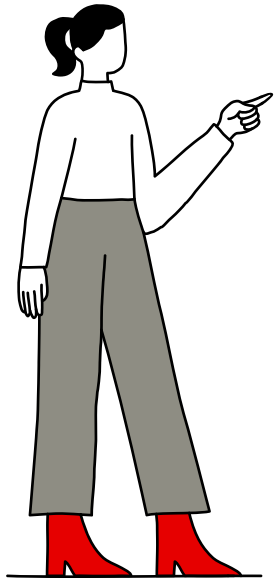
Figure 9

President Trump will pursue additional tariffs for the remainder of his term

Estimated weighted average effective tariff rate, in %



Note: Rate on US imports from the indicated country computed using 2024 trade composition and tariff changes implemented to date.
Source: Bloomberg Economics, UBS, as of 12 May 2026



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Financial market impact

2026 has so far given us no shortage of market-moving headlines. From sharp positioning rotations, inflation, affordability issues, AI disruption concerns, and the escalation of the US-Iran conflict, US stocks have felt like they have been on a roller coaster. Now as markets trade near record highs, investor attention is starting to shift toward the midterm elections later this year.

Historically, stocks have tended to trade sideways leading into midterms, which we identify as year 2 in Fig. 10. There could be some influence from increased policy uncertainty in specific years, but other factors such as seasonal patterns and other key topics of focus for markets are likely playing a larger role. As in other years, stocks have typically rallied in the last few months of the year, underscoring the importance of staying invested.

Zooming out, as we show in Fig. 11, US equity market returns have historically been the weakest in year 2 of the presidential cycle. While interesting, we think it is important to be mindful of what else was influencing stocks during these years. For example, just four years ago in 2022, the Russian invasion of Ukraine coincided with a Federal Reserve that started to tighten monetary policy, sending stocks sharply lower. In 2018, the Federal Reserve was also tightening monetary policy while US trade tensions with China were escalating. And in 2002, the negative effects of the dotcom bubble bursting and the collapse of companies such as Enron and WorldCom were still making their way through the system. These are only a few examples, but we think that they support our view that there are more important factors than elections that drive stock performance, such as earnings, monetary policy, and the economy.

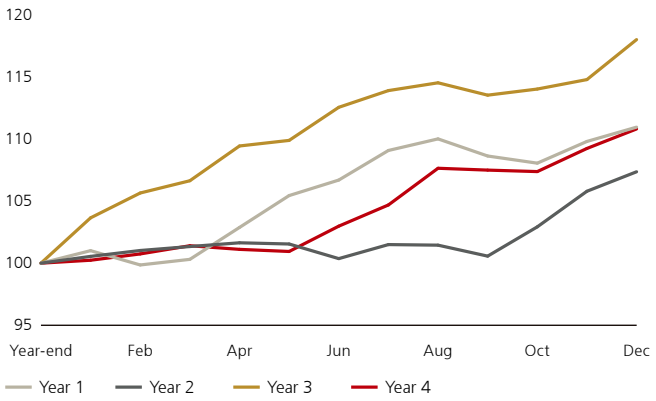
A Democratic House and Republican Senate are a possible outcome. Since 1928, there have only been six instances of a Republican president with a divided Congress. Historically, stock market returns in this scenario have not appeared strong. In fact, they have been the weakest in this composition as we show in Fig. 12. It is important to take a few points into consideration. First, the sample size is small, with only six instances. Second, the average returns are heavily skewed by the Great Depression in the early 1930s and the dotcom bubble bursting—both materially negative events for stocks. Excluding these two instances, historical returns were quite positive, with the average coming in closer to 18%.

Finally, some investors have the expectation that a divided government (when the party in control of the White House is

Figure 10

Policy clarity tends to lift stocks after elections

S&P 500 performance during each month of a president's term since 1928, indexed to 100

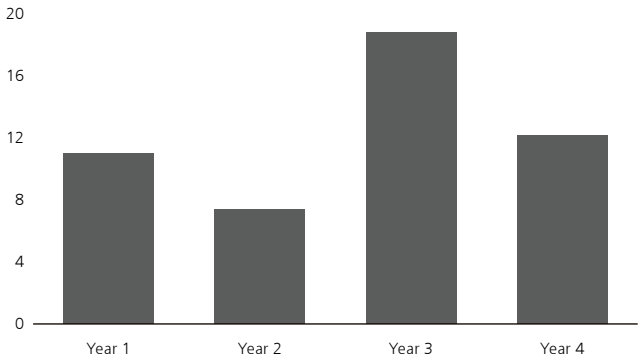


Source: Bloomberg, UBS, as of 12 May 2026

Figure 11

Stocks have typically lagged during second year of a president's term, but context matters

Average calendar year S&P 500 total returns throughout a president's four-year term from 1928-2025, in %

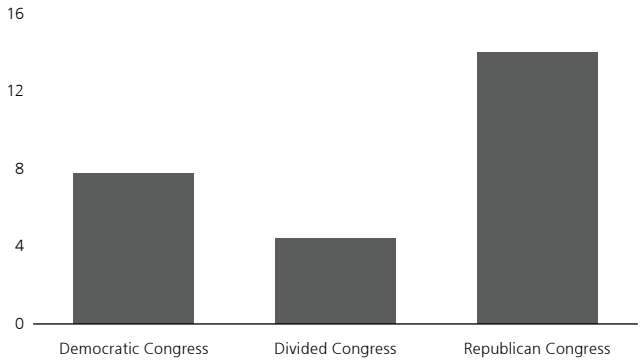


Source: Bloomberg, UBS, as of 12 May 2026

Figure 12

Returns have lagged during divided Congress and Republican presidents, but small sample size

Average annualized 2-year S&P 500 total return segmented by majority of Congress with Republican president from 1928-2025, in %



Note: Democratic Congress n= 11, Divided Congress n= 6, Republican Congress n= 6
Source: Bloomberg, UBS, as of 12 May 2026

not in control of Congress) leads to better returns. This is due to the thinking that "gridlock is good," meaning that this composition reduces political uncertainty because little can get done. This allows investors to focus on other drivers of the market and businesses to plan more confidently. However, when we look at the data, it tells a different story. In Fig. 13, the S&P 500 has performed best during years of a unified government when the White House and Congress are both under Republican or Democratic control. Although the likelihood of a unified government following the midterm elections appears low, historical returns remain solid in a divided government scenario and generally in line with the longer-term S&P 500 annualized return.

As previously mentioned, a divided Congress appears the most likely outcome. Looking ahead, we do not think this result will lead to major policy changes, and by extension, changes in key market drivers. The government is currently unified, and there haven't been too many pieces of legislation that have had an impact on markets. The One Big Beautiful Bill Act (OBBBA) passed last year, but the overall impact is still under consideration. Additionally, we expect President Trump to continue to use his executive authority in areas such as tariffs, foreign policy, deregulation, and immigration policy which would be consistent regardless of the election outcome. So ultimately, we do not think a divided Congress outcome would be too different for markets from the first two years.

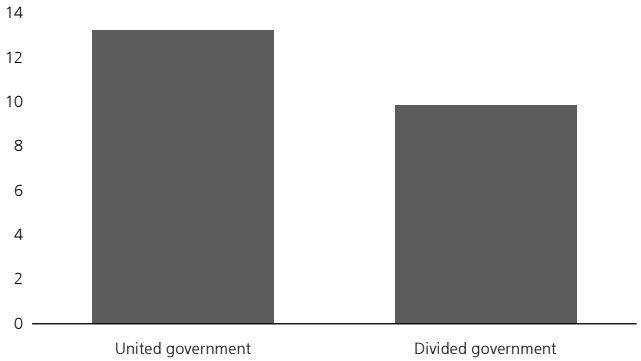
Beyond fiscal policy, we think that other drivers of the bull market over the past few years will also remain in place. Profit growth continues to be healthy as we near the tail end of the first quarter earnings season. AI adoption is improving, giving hyperscaler companies the green light to invest heavily to meet demand. Monetary policy remains in an easing bias. With growth expected to moderate, we expect the Federal Reserve to deliver two rate cuts toward the end of 2026 and early 2027. With Kevin Warsh taking over as Fed Chair, further developments over the coming weeks and months could change our view.

The future Fed policy path will also be a main driver of US yields, along with expected inflation and economic activity. Treasury yields may temporarily deviate from these drivers around midterm elections as uncertainty about future legislation and policy dominates market attention. Historically, we find that US yields have tended to rise in the first half of the midterm election year and then decline in the second half (see Fig. 14). This is true even after excluding periods marked

Figure 13

Stocks have delivered stronger performance during united government

Average annualized 2-year S&P 500 total return segmented by united and divided government from 1928-2025, in %

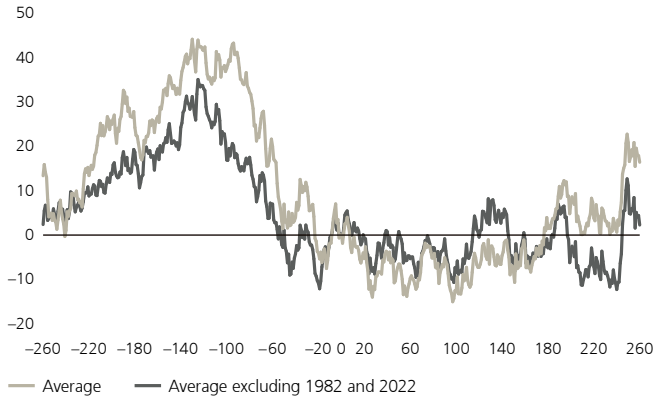


Note: United government n= 24, Divided government n= 25
Source: Bloomberg, UBS, as of 12 May 2026

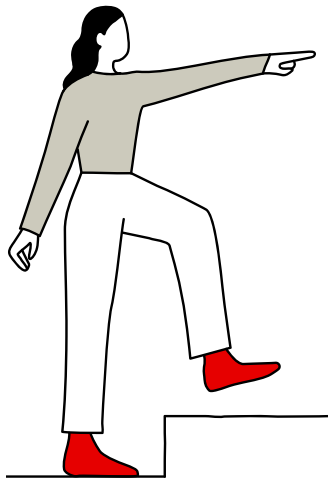
Figure 14

Bond yields fall steadily into the midterm elections on average

Average change in 10-year Treasury note yields since 1978 one year before and after midterm elections, in bps



Souce: Bloomberg, UBS, as of April 2026



Persistently large budget deficits have now pushed federal debt toward USD 40 trillion.

by extreme policy shifts, such as those in 1982 or in 2022. One possible explanation for the move in yields is that policies aimed at boosting economic growth enacted in the first year of a president's term begin to bear fruit in the second year. Such messaging shapes investor expectations and leads markets to anticipate stronger growth, which has historically been associated with higher interest rates and volatility (see Fig. 15). As the year progresses however, the narrative often shifts. Midterm elections frequently result in the governing party losing seats in Congress, increasing the likelihood of legislative gridlock. This gridlock reduces the probability of large growth-oriented policy initiatives and limits the scope for major new legislation. History also demonstrates that midterm years have often coincided with periods of declining inflation, making it difficult to separate the impact of election dynamics from underlying economic fundamentals.

Even if monetary policy fundamentals are the dominant driver of interest rates, understanding the policy priorities associated with different political outcomes remains important when assessing how new legislation could influence the bond market's perception of future growth and inflation.

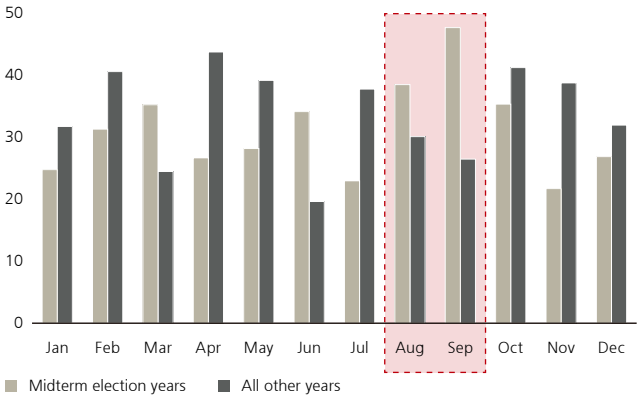
Today's environment is unique in many ways, making it difficult to assess whether historical patterns will repeat. Under a base case expectation for divided government, legislative gridlock likely limits prospects for sweeping legislative and fiscal policy changes, which could keep a lid on rate volatility and benefit risk assets. It does not eliminate the concerns about a wide budget deficit and its potential impact on longer-end Treasury yields, however.

Persistently large budget deficits have now pushed federal debt toward USD 40 trillion. While President Trump began his second term with a stated focus on reducing government spending, the trajectory of the deficit has so far remained unchanged (see Fig. 16). In addition, the fiscal costs associated with the Iran war introduce another layer of uncertainty around future Treasury supply. Treasury Secretary Scott Bessent has shifted

Figure 15

Volatility has spiked in the month leading up to the midterm elections

Average monthly volatility of 10-year US Treasury note yields throughout the calendar year during midterm election years and all other years since 1976

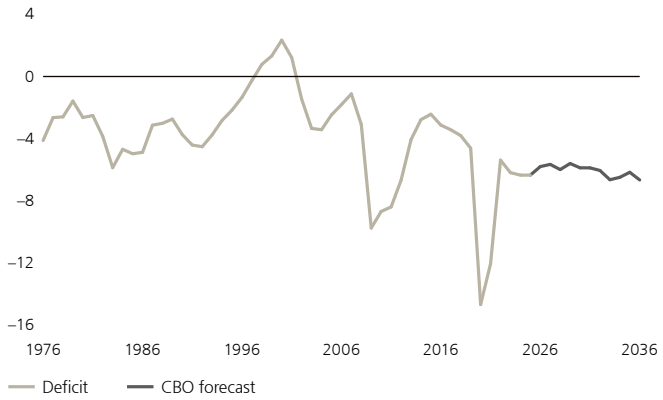


Sources: Bloomberg, UBS, as of April 2026

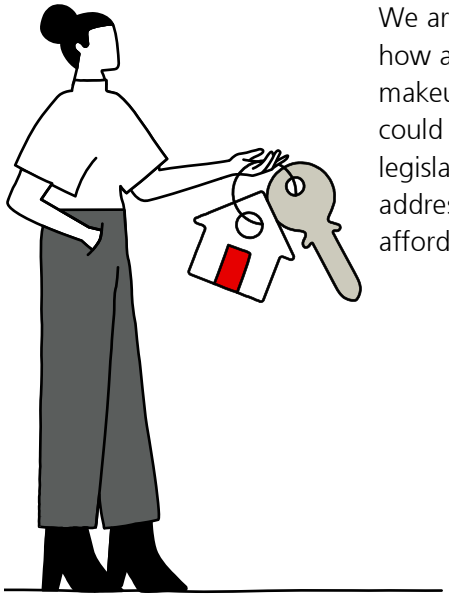
Figure 16

Wide deficits projected to persist for the next decade

US federal budget deficit and CBO deficit forecast, as a share of GDP, in %



Source: Bloomberg, CBO, UBS, as of 12 May 2026



We are mindful of how a shift in the makeup of Congress could impact legislative efforts to address housing affordability.

issuance further toward the front end of the yield curve, relying heavily on T-bills while maintaining supply at longer maturities. This strategy has helped absorb increased funding needs in the near term, but it also raises questions about rollover risk and longer-term supply dynamics should deficits remain elevated. These technical considerations are closely linked to the broader fiscal outlook, which has historically been highly sensitive to the political composition of government.

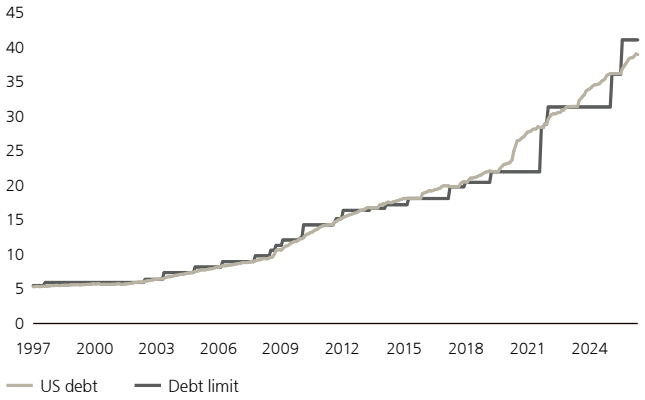
Historical analysis of US fiscal deficits shows that outcomes vary meaningfully with party control, although crisis-driven policy responses explain a large part of the variation. Unified Democratic governments have historically recorded the largest average deficits, primarily reflecting the passage of sizable fiscal stimulus packages during periods of economic stress, while unified Republican governments have tended to sit closer to the historical average. Periods of divided government—particularly Democratic presidents facing Republican-controlled Houses—have often been associated with greater fiscal discipline, reflecting the stronger influence of fiscal hawks in the House. Looking ahead, a Republican president with a divided Congress could still skew deficit risks to the upside, as bipartisan negotiations have historically resulted in more spending rather than fiscal consolidation. The debt ceiling is likely to become a key catalyst, with the next extension likely required before the end of FY27 (see Fig. 17). Congressional Democrats have historically been less inclined to use the debt limit as leverage for fiscal tightening, increasing the likelihood that any eventual agreement adds to the deficit rather than restrains it.

We are also mindful of how a shift in the makeup of Congress could affect legislative efforts to address housing affordability, which could delay, block, or hasten legislation aimed at lowering mortgage rates, with implications for MBS and CMBS markets.

Figure 17

The debt limit is approaching rapidly owing to wide deficits

US federal debt and the statutory debt limit, in USD trillions



Source: Bloomberg, UBS, as of 12 May 2026

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