INSIGHTS

WHAT MIDTERM ELECTIONS & DEFICITS MEAN FOR INVESTORS

This midterm election season, investors are watching the outcome for signs of who will control Congress. However, it's important to maintain a broader perspective when it comes to investing.

Whatever the election result, the federal budget deficit grew to just under $2 trillion over the past year, its highest level in absolute terms since 2021. Because rising interest costs and entitlement spending have built up over decades, the gap is likely to persist regardless of which party controls Congress. This adds to the national debt, which has risen past $40 trillion, or over 120% of the size of the economy.

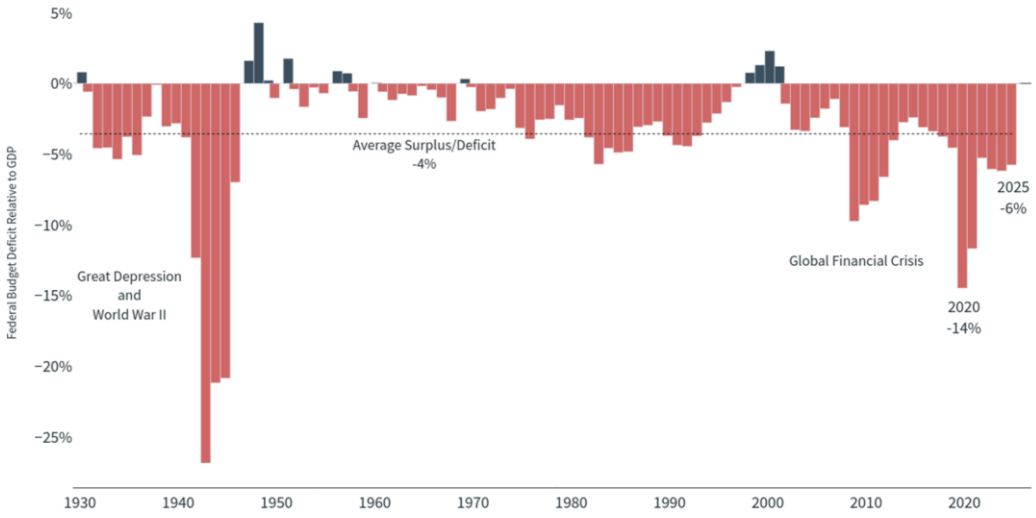
These headlines can feel concerning regardless of political views, which is why it's important to separate political issues from investment and financial planning ones. What do investors need to know about the deficit and election this season?

The federal budget deficit has grown

The federal government recorded a $1.99 trillion deficit for the fiscal year that ended September 30, 2026, up 12% from $1.78 trillion the prior year. It spent $7.4 trillion but collected only $5.4 trillion in revenue via taxes, tariffs, and other means. The gap is covered by issuing Treasury securities, and the latest deficit is likely to be around 6% of Gross Domestic Product (GDP), similar to 2025.

Federal Budget Deficit to GDP

Annual federal deficit to U.S. GDP since 1930



Sources: Clearnomics, U.S. OMB.

Recent deficits have been high relative to history. The deficit has averaged 4% of GDP for nearly a century, widening during periods of disruption such as World War II and the 2008 global financial crisis. Surpluses are rare: the budget was last balanced during the Clinton administration, and before that during the Johnson and Eisenhower administrations in the late 1960s and mid-1950s.

These annual deficits add to the national debt, which surpassed $40 trillion for the first time in August. According to the Congressional Joint Economic Committee, this represents around $117,707 per American, or $298,606 per household.

While these figures represent real fiscal challenges, adjusting portfolios around them would historically have worked against financial goals. Deficits are largest during times of economic and financial distress, when markets tend to be near their lows. Counterintuitively, these would have been the best times to invest.

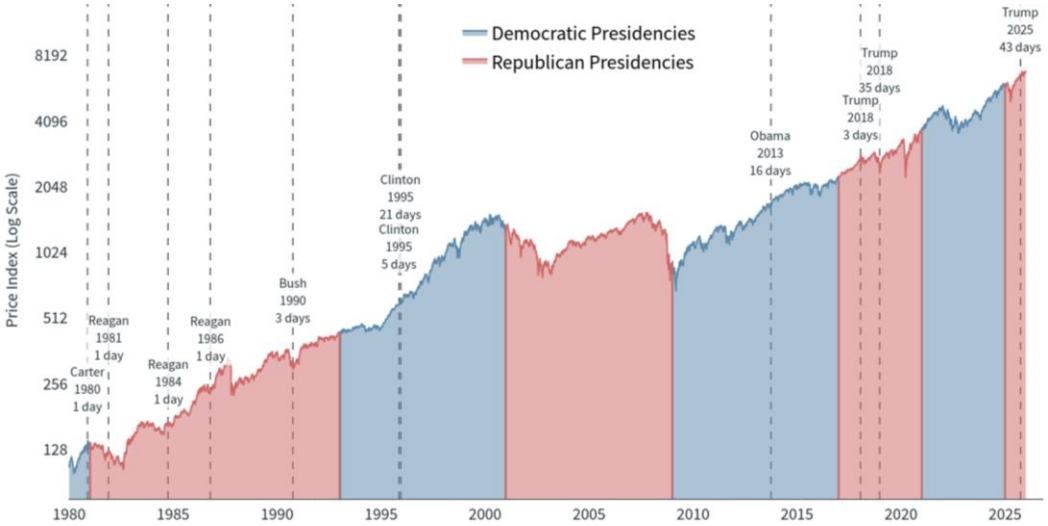
Budget deadlines, the debt ceiling, and rising interest rates could be in the news

That said, long-term investors should be aware of two implications. First, the national debt is approaching the $41.1 trillion statutory debt ceiling set by the One Big Beautiful Bill Act last year, which could be reached by mid-2027. The deadline for a new federal budget is December 11, shortly after the midterm election. Raising the debt ceiling will likely be a key debate for the next Congress, and a missed deadline could mean a government shutdown.

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Government Shutdowns and the Stock Market

S&P 500 price index on a log scale with major government shutdowns annotated



Sources: Clearnomics, Congressional Budget Office. Latest data point is Dec 31, 2025.

Shutdowns can cause hardship for federal workers and short-term market swings, but major indices have tended to stabilize quickly, even during historically long shutdowns in 2018 and 2025. The chart above highlights past shutdowns alongside the stock market's steady rise. The past is no guarantee of the future, but this underscores the importance of not overreacting to political news.

Second, rising interest rates are compounding the government's fiscal challenges. The 30-year Treasury yield has remained above 5% since June, while the 10-year yield hovers near that level. As existing debt matures, it must be refinanced at higher rates, increasing interest payments and worsening the budget imbalance. This is one reason the Treasury Department has bought more Treasury securities to help stabilize rates and has even supported the Japanese yen to do so indirectly.

Policy uncertainty can lead to short-term volatility

The national debt is a long-term challenge with no simple solutions, since it involves decisions around taxes, entitlement programs, and spending priorities. At the same time, policy predictions have not always been accurate, especially during periods of strong economic growth. For example, the market decline that followed last year's tariff announcements was shorter than many expected and gave way to a rebound that brought major indices to new all-time highs.

This is why it's important to stay level-headed about political topics. The chart above shows that economic policy uncertainty has contributed to short-term market swings in recent years, but these periods have tended to be short-lived. This year's geopolitical conflict in the Middle East created volatility as investors weighed its economic impact. While oil prices are still elevated, markets have performed well due to healthy economic trends.

None of this is to say that every year is positive, that the national debt is not a challenge, or that policy is irrelevant. Instead, underlying factors such as corporate earnings, interest rates, and longer-term economic trends tend to be the primary drivers of market performance over time. It's more important to make sound investment decisions based on these trends than on political headlines or which party controls Congress.

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