

What the Midterm Election, Budget Deficit, and National Debt Mean for Your Portfolio



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With midterm election season underway, investors are paying close attention to the potential implications for Congressional control. Current forecasts point to a divided government as the most probable outcome, given that Republicans hold slim majorities in both the House and Senate.¹ Although a shift in party control would mark a departure from the past two years, such outcomes are not unusual and tend to be a recurring feature of midterm election cycles.

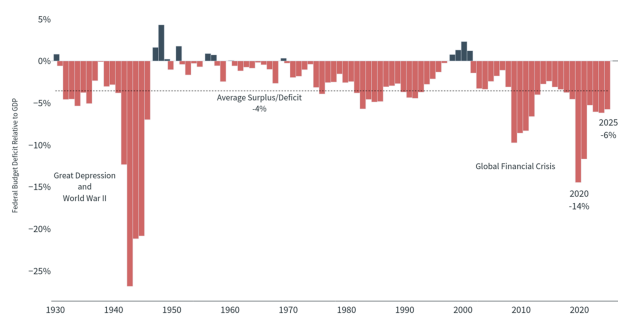
Regardless of how the election unfolds, one clear development is that the federal budget deficit climbed to just under \$2 trillion over the past year, reaching its highest level in absolute terms since 2021.² This reflects a situation in which government spending significantly exceeded revenues. The challenge is likely to persist no matter which party holds the majority in Congress next year, as structural pressures such as rising interest costs and entitlement spending have accumulated over several decades. These annual shortfalls continue to add to the national debt, which has now surpassed \$40 trillion, equivalent to more than 120% of the size of the entire economy.³

For investors who follow these developments, it is natural to feel some concern, regardless of political affiliation. Maintaining a long-term perspective that separates political issues from investment and financial planning decisions is therefore essential. What should investors understand about the deficit and the upcoming election during this political season?

The federal budget deficit has expanded in recent years

Federal Budget Deficit to GDP

Annual federal deficit to U.S. GDP since 1930

Sources: Cleareconomics,
U.S. OMB
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To understand the impact of government spending on financial markets, it helps to start with the numbers. For the fiscal year ending September 30, 2026, the federal government recorded a deficit of \$1.99 trillion, an increase of 12% from the \$1.78 trillion deficit recorded the prior year.⁴ The gap arose because the government spent \$7.4 trillion while collecting only \$5.4 trillion in revenue through taxes, tariffs, and other sources.⁵

The shortfall is financed through borrowing, primarily via the issuance of Treasury securities purchased by investors and institutions around the world. Based on current Gross Domestic Product (GDP) figures, the latest deficit is expected to represent approximately 6% of GDP, a ratio similar

to that seen in 2025.⁶

As the chart above illustrates, recent deficits have been elevated relative to historical norms. The budget deficit has averaged around 4% of GDP over nearly a century, with wider gaps typically occurring during periods of financial stress or global disruption, such as World War II and the 2008 global financial crisis.

Deficits have generally narrowed following such periods, though genuine budget surpluses have been rare. The most recent balanced budget occurred during the Clinton administration, following a decade of strong economic growth. Before that, surpluses were recorded under the Johnson and Eisenhower administrations in the late 1960s and mid-1950s, respectively.

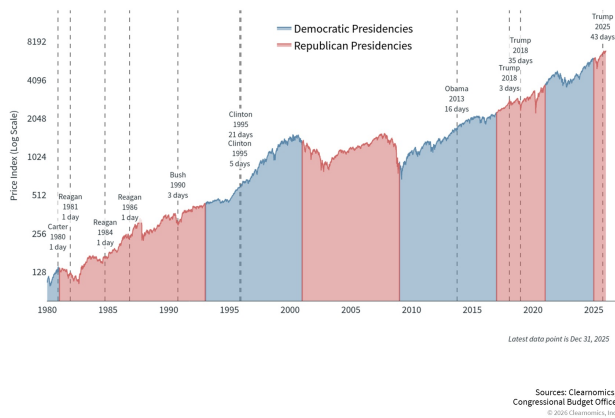
Over time, these annual deficits accumulate into the total national debt, which surpassed \$40 trillion for the first time in August. According to the Congressional Joint Economic Committee, this translates to approximately \$117,707 per American, or \$298,606 per household.⁷

While these figures are substantial and represent genuine fiscal challenges, interpreting them in the context of investing requires care. Historically, adjusting portfolios in response to deficit concerns has tended to work against long-term financial goals. Deficits are often largest during periods of economic and financial distress, which coincide with market lows. Counterintuitively, those periods have historically represented some of the most compelling opportunities to invest.

Budget deadlines, the debt ceiling, and interest rate pressures may dominate headlines

Government Shutdowns and the Stock Market

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



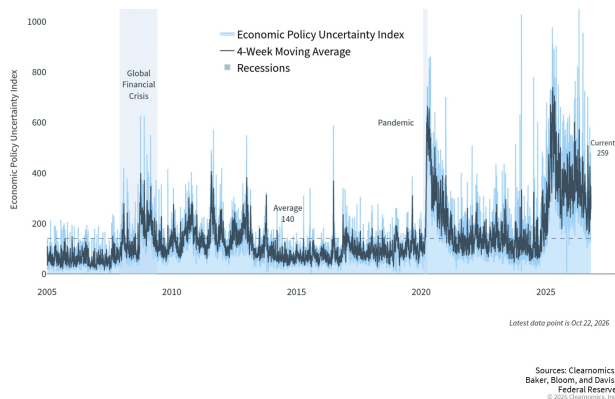
shutdowns, including those in 2018 and more recently in 2025. The chart above highlights past government shutdowns alongside the broader upward trajectory of the stock market over this period. While the past is no guarantee of future results, it does underscore the importance of avoiding overreactions to political news when making investment decisions.

Second, elevated interest rates are compounding the government's fiscal pressures. The 30-year Treasury yield has remained above 5% since June, while the 10-year yield continues to hover near that level. As existing government debt matures and must be refinanced at higher rates, interest payments rise and the budget imbalance deepens. This is one reason the Treasury Department has intervened by purchasing additional Treasury securities to help stabilize U.S. interest rates.⁹ Other operations, such as supporting the Japanese yen, have also been undertaken to indirectly address rate pressures.

Policy uncertainty has historically contributed to short-term market swings

Economic Policy Uncertainty

Uncertainty based on news, taxes, and forecaster disagreement
Index of 100 represents the average from 1985 to 2009



There are two key implications that long-term investors should be aware of. First, the national debt is approaching the statutory debt ceiling of \$41.1 trillion established by the One Big Beautiful Bill Act last year, a threshold that could be reached by mid-2027.⁸ The federal government faces a budget deadline of December 11, shortly after the midterm election. Raising the debt ceiling is likely to become one of the central debates for the incoming Congress, and a failure to act in time could result in a government shutdown.

Although shutdowns can create hardship for federal workers and contribute to short-term market volatility, major indices have historically stabilized relatively quickly and looked past such disruptions. This pattern held even during historically lengthy

The national debt represents a long-term challenge with no straightforward solutions, as it involves complex trade-offs across taxes, entitlement programs, and spending priorities. At the same time, policy predictions have not always proven accurate, particularly during periods of robust economic growth. For instance, the market decline that followed last year's tariff announcements proved shorter-lived than many anticipated, giving way to a rebound that carried major indices to new all-time highs.

This is why maintaining a steady, level-headed approach to political developments is so important for investors. As the chart above shows, economic policy uncertainty has contributed to short-term market volatility in recent years, but such episodes

have generally been brief. Earlier periods of disruption, including this year's geopolitical conflict in the Middle East, introduced volatility as investors assessed the potential impact on the economy and corporate profits. While oil prices remain elevated, markets have performed well overall, supported by healthy underlying economic conditions.

None of this is meant to suggest that every year delivers positive returns, that the national debt is not a genuine concern, or that policy is without consequence. Rather, the key point is that underlying factors such as corporate earnings, interest rates, and longer-term economic trends tend to be the primary drivers of market performance over time. For investors, making sound decisions grounded in these longer-term fundamentals is far more important than reacting to political headlines or anticipating which party will control Congress.

The bottom line? The midterm election and the expanding federal deficit are meaningful topics, but history demonstrates that long-term portfolio outcomes are shaped by fundamentals rather than by political outcomes.

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Index Descriptions

S&P 500

The Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

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