Election Outcome – Key Highlights

- Democrats secured control of both the US Senate and House of Representatives, delivering a major setback to President Donald Trump and the Republican Party.
- The outcome reflects growing voter dissatisfaction with the Trump administration, particularly over inflation, cost of living, economic conditions and foreign policy.
- Democratic control of Congress is expected to increase scrutiny of Trump's policies and create potential legislative challenges over the remaining two years of his presidency.
- The new congressional balance could influence US foreign policy, defence spending, trade policy and fiscal decisions.

US Mid term Election Results 2026	Senate	House
Total Seats	100	435
Majority Required	51	218
Democrats	54	240
Republicans	44	147

Source(s): Associated Press News, AHCML Research

Implications for the Middle East

- Iran Conflict: Democratic control of Congress could increase pressure on Trump to pursue diplomatic negotiations and reduce military escalation with Iran.
- Regional Stability: Potential progress towards a US-Iran ceasefire could reduce geopolitical uncertainty and improve regional stability.
- Oil Prices: Crude oil prices declined following Republicans' loss of control of both chambers of Congress, amid expectations of reduced US-Iran tensions and a potential reopening of the Strait of Hormuz. Brent crude fell 1.03% to US$93.65/bbl, following an over 8% decline in the previous session, while WTI dropped 1.29% to US$86.98/bbl.
- Israel-Palestine: Democratic lawmakers may push for greater scrutiny of US military assistance to Israel and advocate stronger oversight of military operations in the region.
- Geopolitical Risk: Any escalation in Iran-related tensions could keep oil prices elevated and increase volatility across global financial markets.
- Overall Impact: A diplomatic approach towards Iran could prove positive for regional stability, although a change in congressional control does not guarantee an immediate shift in Trump's foreign policy.

Implications for Pakistan

- Pakistan-US Relations: Democratic lawmakers may increase engagement with Pakistan on regional security, counterterrorism, democratic governance and economic cooperation.
- Foreign Policy: Pakistan may have opportunities to strengthen diplomatic engagement with Washington, although major policy decisions will remain influenced by the White House.
- Current Account: Lower international oil prices could reduce Pakistan's petroleum import bill and improve external account dynamics.
- Pakistani Rupee: Reduced import-related dollar demand and improved external balances could support currency stability.
- Inflation: Lower energy prices could ease domestic fuel and transportation costs, helping moderate inflationary pressures.
- Monetary Policy: Improved inflation dynamics and external stability could provide additional room for monetary easing by the State Bank of Pakistan.
- IMF Programme: Improved external account conditions could support macroeconomic stability, although continued IMF compliance and external financing remain critical.
- Overall Impact: Pakistan could benefit indirectly from lower oil prices, improved regional stability and reduced external financing pressures.

Implications for Global Markets

- Equities: Reduced geopolitical uncertainty and expectations of a more constrained Trump policy agenda could support global equity market sentiment.
- US Dollar: A weaker dollar could provide support to emerging-market currencies and improve international capital flows.
- Emerging Markets: Lower oil prices and improved risk appetite could encourage foreign investment in emerging-market equities.
- Bonds: Political uncertainty over fiscal spending and government funding could create volatility in US Treasury yields.
- Trade Policy: Congressional scrutiny could increase pressure on the administration over tariffs and trade restrictions, although existing executive trade powers remain relevant.

Implications for Pakistan Stock Exchange (PSX)

- Market Sentiment: A potential reduction in Middle East tensions could improve investor confidence and support the continuation of the PSX rally.
- Liquidity: Improved macroeconomic stability and foreign investor sentiment could support equity market liquidity.
- Oil Prices: Lower crude prices would be positive for Pakistan's import-dependent economy, reducing pressure on the current account and inflation.
- Interest Rates: Improved inflation expectations could support monetary easing, benefiting interest-rate-sensitive sectors.
- Currency Stability: A lower import bill could help stabilize the Pakistani rupee and reduce foreign exchange concerns.

Key Risks to the Market Outlook

- Renewed escalation between the US and Iran could push international oil prices higher.
- Continued disruption around the Strait of Hormuz could increase Pakistan's energy import bill.
- Changes in US trade and tariff policies could affect Pakistan's export competitiveness.
- Dollar strength and volatility in global interest rates could pressure emerging-market currencies.
- Pakistan's macroeconomic outlook remains dependent on IMF programme continuity, foreign financing and reserve accumulation.
- Political uncertainty in the US could create volatility around government spending and fiscal policy.

Overall Investment View

- **Near-term PSX outlook:** Constructive, supported by improving geopolitical sentiment and the possibility of further lower international oil prices.
- **Medium-term outlook:** Dependent on the trajectory of crude prices, domestic monetary policy, IMF programme progress and external account stability.
- Preferred sectors: OMCs, fertilizer, cement, power and selected consumer stocks could benefit from lower energy costs and improved macroeconomic conditions.
- **Key sectors to monitor:** E&P and refineries, where the impact of lower crude prices will depend on realizations, inventory movements and refining margins.
- Investment Strategy: Preference for fundamentally strong companies with attractive valuations, sustainable earnings and balance-sheet strength.

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