

# US Political Risks for 2026

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Equities, fixed income, and exchange rates all face considerable US political risks in the coming year. We are closely tracking the big four.

- Funding the government through January 30, 2026, shutdown rinse and repeat?
- Tariff decision from the Supreme Court?
- New chair of the Federal Reserve?
- November Congressional elections?

Political events have the power to move markets, suddenly, and sometimes in unexpected ways. Political risks are inherently different from typical market or economic risks. The dynamics of political risk respond to shifts in public opinion and can turn on a dime. And just to make things more complicated, political risks are overlayed on top of the traditional market and economic risks. In this research note, we will dive into challenges posed by the known big risks coming from US politics in the new year.

## **Funding the US Federal Government**

A few lessons were learned from the 40+ day US partial federal government shutdown that started on October 1, 2025, when the US Congress was unable either to pass separate appropriations bills for various parts of the government or pass a stopgap resolution to keep the government running. A government shutdown's impact on the economy is non-linear. If the government is only closed for a few days, there is no impact at all. If the government is closed for a few weeks, the impact on the economy seems relatively minor. But once the government shutdown starts to run for about a month or longer, the economic impacts grow significantly larger and may extend well beyond the end of the shutdown. Air traffic is slowed and thrown into some disarray with thousands of cancelled flights. This time around food assistance programs were not funded. Workers still being asked to stay on the job without pay start calling in sick more often. And once the economic impacts start to multiply, public pressure for an end to the shutdown builds rapidly.

Today's government shutdowns are much more divisive than in previous decades. President Reagan faced eight shutdowns, but none lasted longer than three days and four of them were over in a day. President Clinton presided over a 21-day shutdown, and President Obama had a 16-day shutdown. But the intensity of the

political divisiveness has been illustrated by President Trump's 34-day shutdown in 2018-19 and now this recent episode crossing the 40-day mark. As shutdowns have gotten longer and more damaging to the economy, compromises to end the shutdowns have been more elusive and difficult. Earlier shutdowns, under Presidents Reagan, Clinton, and Obama ended with a degree of budget policy compromise. The main political purpose of the latest US government shutdown was essentially for each party to stake out the issues, such as health care and affordability, which may define the upcoming Congressional elections in November 2026. With the issues defined, our current assessment is that the US Congress will find a way to avoid another shutdown episode when the temporary funding legislation runs out at the end of January 2026.

## **Tariffs**

The big event on the tariff front involves the Supreme Court's decision on whether the President has broad powers to declare emergencies and impose tariffs. In his second term, President Trump has vastly widened the scope of his tariff initiatives to include virtually all trading partners, to raise revenue, to address protectionist challenges, as well as security issues. Not all, but many of the protectionist tariffs have been levied by executive order based on The International Emergency Economic Powers Act of 1977.

The International Emergency Economic Powers Act of 1977 does not mention tariffs specifically as it is focused on economic sanctions, freezing assets, and the like. This law was invoked by past Presidents related to the Iran hostage episode of 1980, the September 11, 2001, terrorist attack on the U.S., the Russian invasion of Ukraine in 2022, etc. The use of the emergency powers in this act to levy tariffs may (or may not) have been part of the original intent of the U.S. Congress, and that is the question to be decided by the U.S. Supreme Court.

Our assessment is that the Supreme Court is more likely to issue a limited and nuanced ruling that may give the Trump Administration some time and leeway with its various bi-lateral tariff negotiations. And there are several other laws that the President could use for certain types of tariffs. So, whatever the ruling, the tariff debates are likely to continue to be disruptive for markets. [For a short history of US tariff debates see: "Tariff Debates are as Old as America", October 2025, published by The Andersen Institute for Finance and Economics, <https://anderseninstitute.org/tariff-debates-are-as-old-as-america/>.

The biggest surprise would be a ruling that required the US government to refund tariffs already collected under the International Emergency Economic Powers Act. While the government's lawyers in front of the Supreme Court tended to downplay the revenue-raising that has already occurred, it now totals close to some \$200 billion year-to-date. It is a low probability outcome, but refunding \$200 billion would throw budget plans into chaos and probability disrupt the US Treasury note and bond markets. Equities, though, might well rally in a setback for tariffs. Low

probability outcomes with big impacts are exactly the type of risk management scenarios that need to be stressed tested.

## **The Fed and the Dollar**

The person chosen by President Trump to lead the Federal Reserve (Fed) will be able to shape the culture and character of the institution well into the future. While the President is widely expected to appoint a person that supports low interest rates, how expansive or limited the rate cuts might be is likely to have a huge impact on the US dollar and on US Treasury note and bond yields. If the new Chair leads the Fed toward 2% or lower short-term interest rates, we would expect dollar depreciation and a steepening of the yield curve (i.e., short rates go down more than longer-term yields, which might even rise if inflation fears are stoked). By contrast, if the federal funds rate target zone were to drop to around 3% and stay there, the dollar might appreciate.

The different scenarios have to do with the critical role played by the US dollar as the world's primary reserve currency. If the consensus culture of the Fed is maintained and short-term rates stay at or above inflation expectations, then the dollar's global role is supported. A move to aggressively lower rates, especially if coupled with asset purchases (i.e., quantitative easing) would roil exchange markets and the long-term credibility of the Fed.

We note that in the last few months, with the Fed gaining a new board member appointed by President Trump, the meetings of the Federal Open Market Committee (FOMC) have been characterized by sharp differences of opinions. Policy votes have seen dissenting votes for both keeping rates high or lowering them faster. These divisions have already impacted how federal funds futures trade in the month ahead of an upcoming FOMC meeting. Under previous Fed Chairs, from Bernanke, to Yellen, to Powell, there was a strong desire to provide solid forward guidance as to the rate decision to be taken at the next upcoming meeting, even if longer-term guidance was characterized as data dependent. Now, every meeting is "in play" so to speak, with greater uncertainty even just weeks and days before the decision. The need to stress test portfolios for differing rate and FX scenarios could not be more acutely required.

## **Election 2026**

The big political event for 2026 is the Congressional elections in November. Republicans now hold majorities in the House of Representatives and the Senate. If the House were to flip to a Democratic majority, the government would effectively be at a policy stalemate. While some economists like to argue that a government in stalemate cannot make any big moves, it is more predictable for the economy, reducing uncertainty. We would not make that argument this time around. The political divides over tariffs (effectively taxes), health care, and housing affordability are not going away. Moreover, we would argue that traders and investors will increasingly focus on which stocks will be winners or losers depending on the policy

in question, rather than the election outcome lifting all stocks inside an index. That is, one scenario that is rising in probability is the possibility of a relatively trendless equity market at the index level with considerable variability and volatility at the single stock level. It is going to be an interesting year in politics and markets.