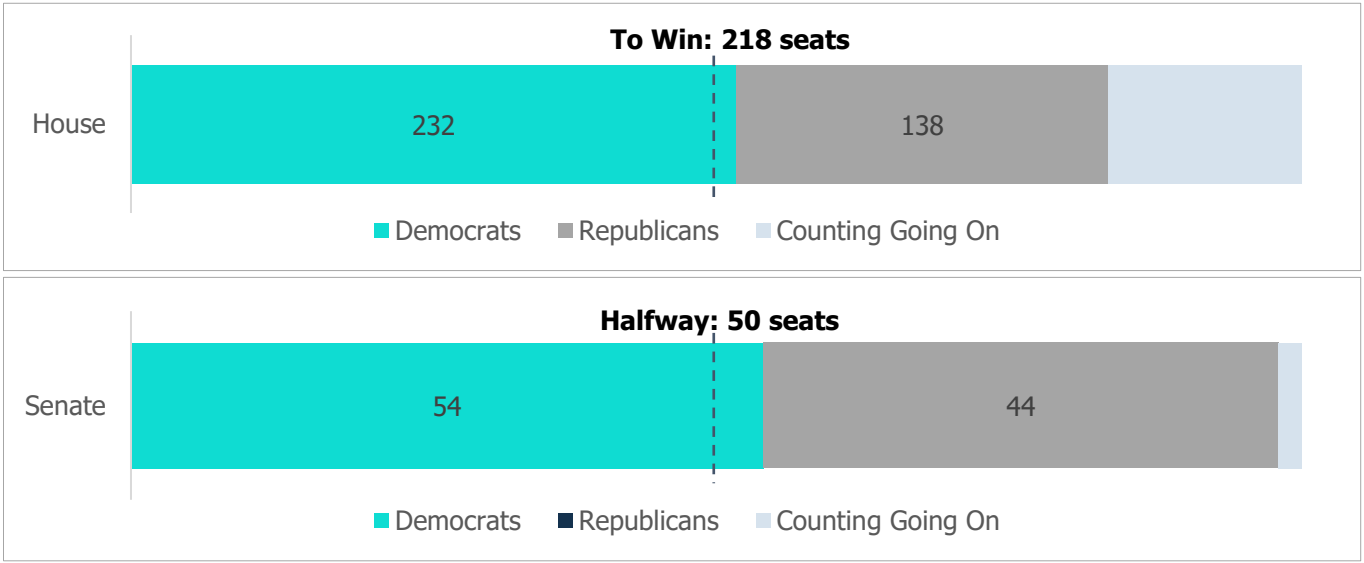
Washington's Political Reset: What the US Midterm Elections Mean for India?

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Democrats Take Control of Both Chambers of Congress

Early midterm results show Democrats capturing both chambers of Congress – the House and the Senate. This marks a shift from Congress's earlier composition, when Republicans held power in both chambers. The political reset is expected to have implications for India – particularly through matters such as tariffs, the Iran conflict, AI development and immigration. In this report, we review the US midterm results and assess the plausible implications for India.

Exhibit 1: Mid-Term Early Results



Source: Associated Press, CareEdge. As of 4 pm, 3rd November 2026. Counting is still in progress.

Exhibit 2: Summary of the US Political Situation

Feature	House of Representatives	Senate
Total Seats	435	100 (two per state)
Term Length	2 years	6 years (one-third elected every two years)
Nearest Indian Parallel	Lok Sabha	Rajya Sabha
Powers	Tax and spending bills start here; holds power to start the impeachment process of President of the US	Confirms judges, Federal Reserve governors, and ambassadors; ratifies international treaties
Before 3 Nov	Republicans held 219 seats (majority)	Republicans held 53 seats (majority)
After 3 Nov	Democrats holding majority	Democrats holding majority

Source: CareEdge, Associated Press. Note: Counting is still under way, and the final tally is awaited.

Where Does the US Congress Stand?

The US keeps the President separate from the legislature, called Congress. Unlike India's Prime Minister, the US President is elected directly every four years and does not need a majority in Congress to stay in office. Donald Trump's term runs to January 2029 regardless of the midterm result, as this is not a presidential election. Congress has two chambers – the House of Representatives and the Senate. A bill becomes law only if both chambers pass it and the President signs it. Midterms are the congressional elections held halfway through a presidential term. House members serve two-year terms, and senators serve six-year terms. This time all 435 House seats and 35 Senate seats were contested.

The result matters even though President Trump stays, because Congress controls the purse strings – it decides how much the government can spend and borrow. So, a hostile Congress can delay spending plans, extract concessions and investigate the administration. The Democrats' victory in the House of Representatives would significantly strengthen the party's oversight powers, allowing it to take control of key congressional committees and intensify scrutiny of the Trump administration. This would give Democrats greater authority to launch investigations, summon senior government officials and examine the administration's policy decisions. Potential areas of scrutiny could include U.S. military engagement with Iran, immigration enforcement, federal spending, and allegations of corruption.

A Democrat's majority in the Senate would further shift the balance of power in Congress. It would give the party greater leverage over confirming presidential nominees, including federal judges, senior administration officials, and other key appointments.

Together, control of both chambers would provide Democrats with substantial legislative and oversight influence, potentially constraining the administration's ability to pursue its policy agenda without congressional scrutiny. However, President Trump would retain significant executive powers, including the authority to veto legislation passed by Congress. President Trump has already expressed a desire to use his veto power after the midterm results to address friction with Congress. To override a veto, the Democrats would require a two-thirds majority in both chambers. For impeachment, the House can proceed with a simple majority, but conviction in the Senate would require two-thirds. This could set the stage for heightened confrontation between the White House and Congress, making legislative deadlock and prolonged political battles more likely.

The Lame-Duck Session till January 2027

Democrats won both chambers on 3 November. They needed a net gain of just three House seats and four Senate seats, and cleared both bars, flipping Senate seats in states such as North Carolina, Ohio, Iowa and Texas. Hakeem Jeffries, the Democrat leader in the House, is set to become Speaker, the chamber's presiding officer and agenda-setter; Chuck Schumer is expected to lead the Senate. The new Congress takes office on 3 January 2027. Until then, the outgoing Republican majorities sit in a so-called lame-duck session. With both chambers changing hands in January, Republican leaders have only a few weeks to push through key legislation while they still hold their majorities. A key task is to pass government funding by the 11 December deadline; without a full-year spending bill or another short-term stopgap, the government will face a partial shutdown. A major friction point remains a dispute over a record $1.5 trillion (vs spending of about USD 1 trillion in 2026) defence spending request.

Implications for India:

1. **Trade and tariffs:** We expect no tariff relief from the new Congress. Indian goods pay the normal MFN duty plus a 10% Section 301 levy (forced labour levy), and that layer, like the Section 232 and Section 338 actions, is set by the President, with Congress having only a limited role. India's goods exports to the US stood at ~USD 90 bn in FY26. A significant chunk of goods exports to the US - generic medicines, smartphones and items already under Section 232 - falls outside the 10% levy. The interim deal framed in February is still unsigned, and negotiations for a full-fledged trade deal are ongoing. However, Congress can still matter in the following ways:

    - **Oversight over rollback:** Expect more hearings on how tariffs impacted US prices and fresh interest in trimming presidential tariff powers, including repeal of Section 338. Any such bill could meet a Presidential veto.
    - **Russia Tail risk –** Lindsey O. Graham Sanctioning Russia and Iran Act of 2026, signed on 18 September, permits tariffs of up to 100% on the largest buyers of Russian crude, a group that includes India. The executive waiver issued on 16 October has no expiry date, and a Democrat-led Senate is no softer on Moscow. Thus, the tail risk remains even after the political rejig.
    - **Closing the trade deal.** Implementing a bilateral pact does not need a new statute, so timing rests with the White House and the Indian government. Congress's role in closing the deal is therefore limited. However, if the pact evolves into a full-scale FTA, or requires changes to US law, it will typically need congressional approval as a congressional-executive agreement.

In short, the White House can put tariff structures or interim arrangements in place on its own, but Congress can still hold hearings, use its budget powers, pass new trade legislation and challenge executive actions that go beyond statutory limits.

2. **Oil and the Iran conflict:** For India, the most immediate and direct economic implication of the US midterm elections is likely to be through the crude oil price channel, with implications for inflation, the current account deficit, fiscal deficit, financial markets and overall macroeconomic stability. Brent crude prices, currently trading near USD 104/bbl, remain highly sensitive to developments around the Strait of Hormuz and the risk of disruptions to energy supplies.

    The Democrats' victory offers only a marginal near-term reprieve. Once the new Congress convenes in January, greater Democratic control could allow lawmakers to impose conditions on additional funding for military operations, raising the political and fiscal costs of further escalation and potentially strengthening the case for diplomatic engagement. However, the intervening period remains uncertain. The President retains command authority over military operations, and the possibility of seeking additional war funding during the lame-duck session cannot be ruled out. Even limited military strikes could undermine ongoing mediation efforts and trigger renewed volatility in oil markets. For India, a sustained easing of crude price pressures is crucial.

3. **Markets could be slightly positive**: The initial market reaction points to some risk aversion, alongside the possibility of sectoral rotation. US Treasury yields have eased marginally following the early election results, reflecting increased investor demand for safe-haven assets. The dollar index has also softened, with a higher risk of a correction in US equity markets, mainly led by AI stocks. Beyond the immediate market reaction, a potential shift in sectoral preferences warrants attention. Democrats have traditionally advocated stronger

federal oversight of the technology sector, tighter safeguards and greater data privacy protections. Democratic lawmakers have also raised concerns about the implications of data centre expansion for electricity and water consumption, as well as the potential impact on utility costs. Proposals to tax AI infrastructure and companies have also emerged in the past, partly to compensate for potential losses in payroll tax revenues and finance worker-transition programmes amid AI-driven labour displacement. Any regulatory tightening or higher compliance costs that weigh on US technology and AI valuations could encourage global investors to diversify towards other markets, including India. The initial FPI inflows in November provide some optimism on this front.

However, the medium-term outlook carries some underlying risks. The recent rally in longer-dated US Treasuries could prove temporary, with fiscal concerns likely to resurface as the next debt-ceiling confrontation approaches in mid-2027. Additionally, if a sharp correction in AI stocks occurs instead of a sector rotation, it could trigger recession fears and affect economies globally.

4. **People mobility to receive limited support**: Visa rules are being settled by the courts and the White House, not by Congress. The USD 100,000 charge on new H-1B petitions was renewed on 18 September to run until 21 September 2027. Two federal court orders currently bar collection, and the government is appealing. Large Indian IT firms have sharply cut new H-1B registrations and are leaning on US hiring and offshore delivery. Democrats generally favour skilled migration and will press the issue in committee but cannot overturn a proclamation the President would defend with a veto.

5. **Strategic engagements to continue**: India has deep bipartisan roots with the US but has seen some tensions under the current administration. The 2026 National Defence Strategy left out India and the Quad altogether, but Congress used the 2026 National Defence Authorisation Act (NDAA) to call for wider engagement with India, including through the Quad. The Act, signed into law in December 2025, calls for closer US ties with India, Japan, Australia and South Korea to strengthen deterrence, support a free and open Indo-Pacific and respond to regional security challenges. Democrats want to keep defence spending below the Republican goal of USD 1.5 trillion. That could slow new US programmes but favours India's pitch for co-development and co-production. The future trajectory of the strategic engagement needs monitoring, especially in a volatile geopolitical environment. Russia could remain a sore point even with the new Congress. Democrats are often no softer on Russia. The new Russia-hawkish Senate could closely monitor India's oil and defence purchases.

Way Forward

For India, the midterm result is less a turning point than a shift in the balance of risks. Overall, the midterm outcome leaves India’s near-term position positive at the margins. Tariffs, the trade-deal timeline, H-1B visa rules and the Russia-sanctions waiver remain largely in the hands of the White House and the courts, so the impact on trade, mobility and strategic ties is broadly neutral. The risk of Russia-related tariffs persists even under the new Congress. The modest positives lie in the rupee and FPI flows, supported by a weaker dollar. A slowdown in the AI investment globally could renew foreign investment flows into India. A democrat led Congress could constrain war funding from January 2027 and increase scrutiny thereby strengthening the case for diplomacy. Overall, higher scrutiny by the Congress could increase guardrails around the policy uncertainty, even though Trump retains the veto power. However, in the near term there is risk of escalation in tensions in West Asia before the new Congress convenes in January 2027. Hence, India should be vigilant and maintain a sanguine approach towards its relationship with the US.

Exhibit 3: Summary of Assessment of Impact on India

Channel	Net Impact on India	Assessment
Rupee and FPI flows	Mildly positive	A slowdown in the AI investment globally could renew foreign investment flows into India. Additionally, a weaker USD should support the rupee and could draw further support FPI inflows into India.
Oil and West Asia	Neutral to mildly positive	A Democrat led Congress could strengthen the case for diplomacy around the Strait of Hormuz, but curbs on war funding can only be imposed once the new Congress convenes in January 2027. The intervening month and a half are therefore crucial, as the risk of further escalation in West Asia remains.
Tariffs and Trade Agreement	Neutral	Current tariffs (under section 301 and section 232) remain in place, as the President sets them with only a limited role for Congress. The timing of the trade deal still rests largely on the progress of negotiations between New Delhi and White House. The Congress is expected to step up scrutiny of the administration's trade policies, though President Trump continues to retain his veto power.
Russia-Sanctions Tariff	Risk unchanged	The waiver issued on 16 October for the Lindsey O. Graham Sanctioning Russia and Iran Act carries no expiry date and can be withdrawn at any time. So, the threat of tariffs of up to 100% on large buyers of Russian crude, including India, persists. Democrats are also no softer on Russia.
H-1B Visa and IT Services	Neutral	Visa policy remains largely under the purview of the White House and courts, rather than Congress. The proposed higher H-1B fee remains blocked by two federal court orders, pending appeal. While Democrats favour skilled migration, their ability to influence policy remains limited, particularly given the constraints on overriding a presidential veto.
Strategic Engagement	Neutral	Strategic ties continue to enjoy bipartisan support in Congress. However, the new Russia-hawkish Senate is likely to scrutinise India's oil and defence purchases from Russia more closely.

Source: CareEdge Ratings.

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