



CIO Insights

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What Is the Market Expecting?

Read-Through of the U.S. Prediction Market

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Politics & Elections – U.S. Midterm Elections

Democrats Are Increasingly Expected to Sweep

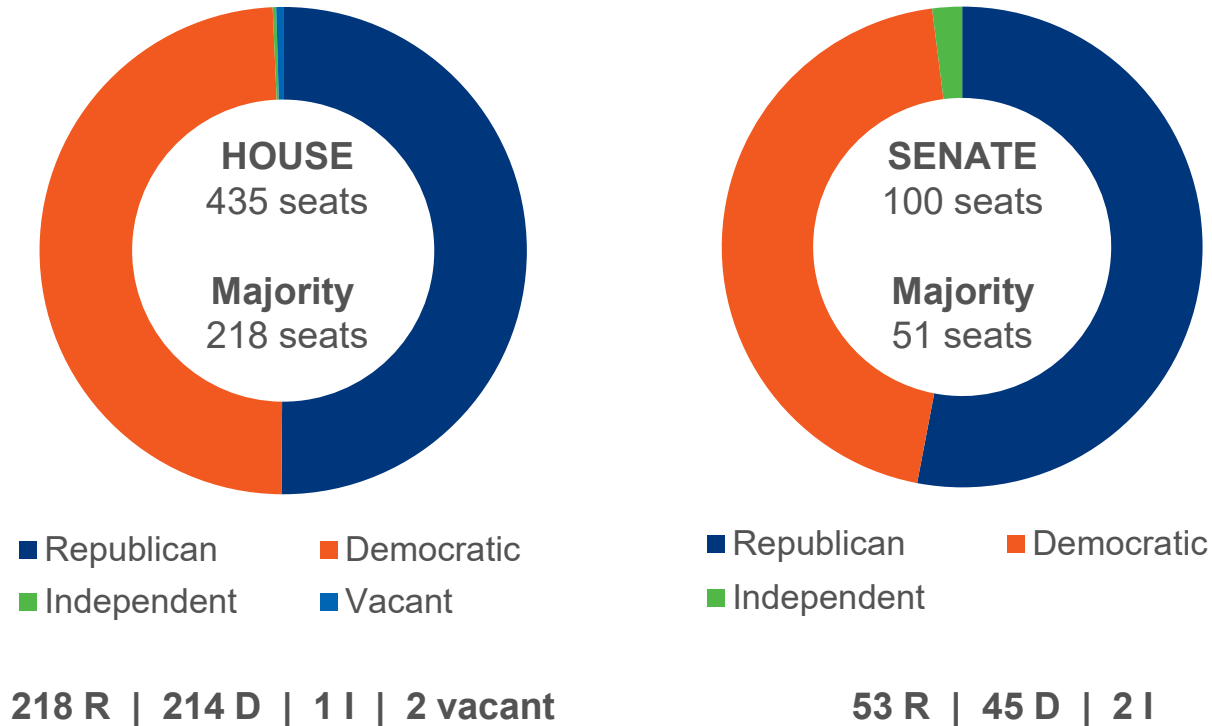
Theme	Current Polymarket contract	Live implied odds	Odds one month earlier
2026 U.S. midterm balance of power	Democrats control the House	Yes: 92.5%; No: 7.5%	Yes: 88.5%; No: 11.5%
2026 U.S. midterm balance of power	Democrats control the Senate	Yes: 62.5%; No: 37.5%	Yes: 50.5%; No: 49.5%

- Online prediction markets now assign a 92.5% probability that Democrats will control the House of Representatives – a four-percentage-point increase from the previous month.
- Expectations for Democratic control of the Senate have also risen, from 50.5% last month to 62.5% today.
- Together, these odds imply that the likelihood of Democrats controlling both the House and Senate has climbed from 44.7% (88.5% x 50.5%) to 57.8% (92.5% x 62.5%).
- The prospect of Democrats controlling only the House, rather than both chambers, is no longer remote. For markets, a full sweep has far more significant policy implications.

A Narrow Margin Could Flip the House

Market Volatility Is Expected to Increase Ahead of the Midterm Election

Who Controls Congress Today?



House change: a net gain of three Democratic seats is the rule-of-thumb threshold.

Senate change: Democrats would need a net gain of four seats to reach 51.

Both chambers: Democratic control would strengthen oversight, funding and confirmation powers.

Why markets care: the outcome determines who can advance policy – and who can slow it down.

Markets May Not Be Fully Pricing in a Democratic Sweep

The Party That Performs Less Poorly Will Win

Result	What changes in Washington	Why markets may care	What to watch
Republicans keep Congress	The administration has more room to work with Congress on its agenda.	Markets focus on the size and timing of tax, spending, trade and rule changes.	More policy room; possible effects on budgets and industries.
Democrats Win the House / Republicans Keep the Senate	Big bills are harder to pass. The Senate still handles confirmations.	Less chance of sweeping new laws, but more House oversight and budget pressure.	Budget fights, hearings, shutdown risk and debt-limit stress.
Democrats win both chambers	Democrats gain more say over confirmations and spending conditions. The president can still veto bills.	More limits on appointments and the administration's ability to move policy quickly.	Funding conditions, investigations and slower implementation.

A Democratic Win Could Disrupt the Established Order

The Risk-Reward Profile for Renewables and Healthcare Looks Attractive

Industry	Possible direction	Why it may be affected	What investors can check
Renewable energy / clean tech	Could benefit	More attention on clean-energy support and fossil-fuel subsidies.	Tax credits, grants, permits, supply chain and interest rates.
Healthcare providers / generic drugs	Could benefit	Support for ACA funding and pressure around drug pricing.	Reimbursement, policy details and valuation.
Traditional energy / defense	Could face pressure	More questions about environmental rules, land leases and government spending.	Government sales, permits, program budgets and backlog.
Banks / financial companies	Could face pressure	Possible tougher consumer rules, supervision and capital requirements.	New rules, capital, credit quality and the broader economy.

Source: KGI

Macroeconomics – War, Inflation and Rates

Short-Term Rate Hikes Are a Given

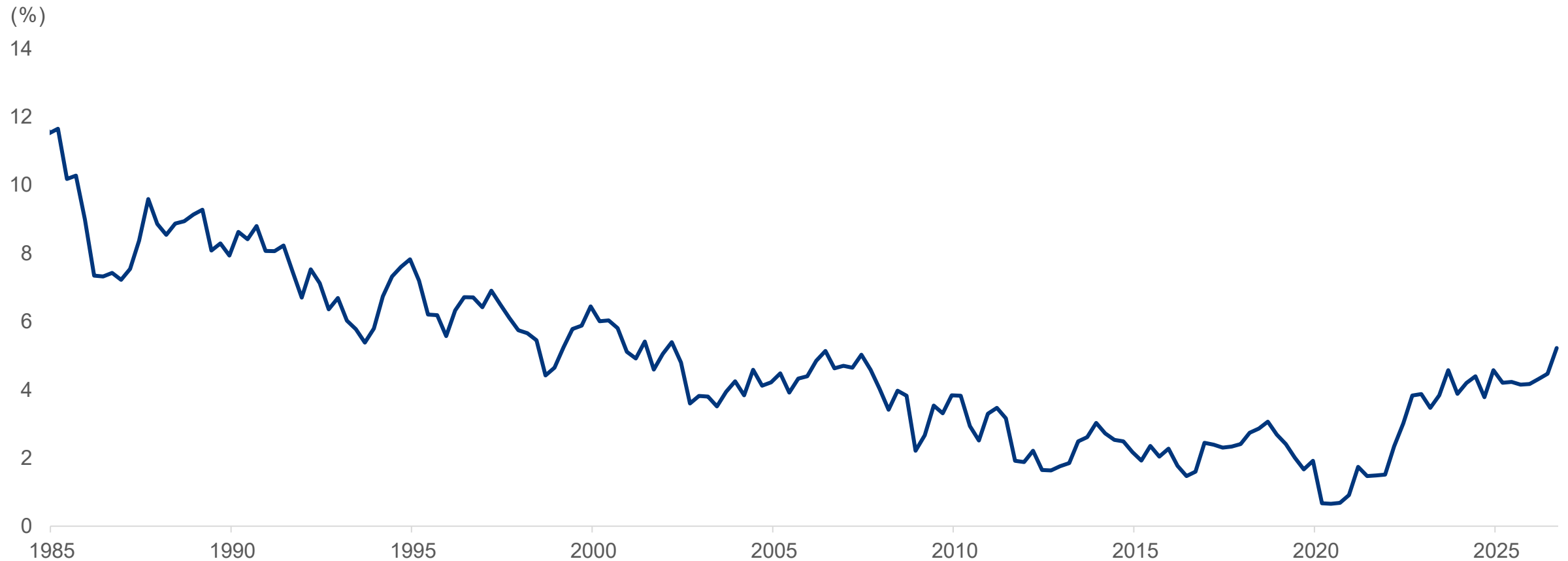
Theme	Current Polymarket contract	Live implied odds	Odds one month earlier
U.S.-Iran military escalation	U.S.-Iran ceasefire continues through Dec. 31	Yes: 32.5%; No: 67.5%	-
Strait of Hormuz disruption	Traffic returns to normal by Dec. 31	Yes: 20.5%; No: 79.5%	Yes: 32.5%; No: 67.5%
WTI exceeds \$90/bbl	WTI hits a high of \$90 in October	Yes: 94.5%; No: 5.5%	-
U.S. annual CPI threshold	September annual inflation	3.6% print: 47%; 3.7%: 30.5%; 3.5%: 11.5%	-
Next Fed rate decision	Fed decision in October	25 bps hike: 64.5%; hold: 33.5%; 25 bps cut: 0.45%; 50+ bps hike: 0.85%; 50+ bps cut: 0.25%	25 bps hike: 23.5%; hold: 71.5%; 25 bps cut: 3.65%; 50+ bps hike: 1.05%; 50+ bps cut: 1.35%

- Unsurprisingly, online prediction markets assign a low probability to a U.S.-Iran ceasefire holding through 31 December and to the Strait of Hormuz returning to normal by then.
- With the conflict unresolved, the consensus view is that inflation will edge slightly higher. This aligns with the prediction that WTI has a 94.5% chance of reaching a high of \$90 in October.
- Both bond markets and prediction markets assign a probability of more than two-thirds to a 25 bps increase in the federal funds rate at the upcoming meeting.

Long Bonds Reflect a Slowing-Growth Scenario

Alongside Other Forces, Such as National Debt and De-dollarization

U.S. 10-Year Treasury Yield



Source: Bloomberg, KGI

Long-Bond Yields Are High, but Short Rates Are Rising Faster

Rising Inflation Expectations amid Slowing Growth Are Flattening the Yield Curve

Date	2Y	5Y	7Y	10Y	30Y
14-Sep	4.662	4.824	4.903	4.990	5.348
15-Sep	4.665	4.830	4.912	5.004	5.369
16-Sep	4.740	4.882	4.952	5.025	5.364
17-Sep	4.666	4.781	4.855	4.934	5.287
18-Sep	4.748	4.858	4.925	4.998	5.328
21-Sep	4.751	4.829	4.886	4.953	5.286
22-Sep	4.758	4.838	4.895	4.965	5.303
23-Sep	4.899	5.005	5.056	5.116	5.402
24-Sep	4.928	5.061	5.126	5.202	5.483
25-Sep	4.856	4.989	5.074	5.165	5.497
Chg (bps)	19.4	16.5	17.1	17.5	14.9
Chg (%)	4.16%	3.42%	3.49%	3.51%	2.79%

Source: KGI

The Roller Coaster of U.S. Interest Rates

Lock In Attractive Long-Term Rates Before the Rate Cycle Turns

Our 12-month target for the 10-year U.S. Treasury yield is 4.50%, but the path is likely to be volatile and unfold in two phases. Historically, the 10-year yield trades 100-150 bps above the effective federal funds rate. At the current 3.875% midpoint, the 10-year yield's roughly 130 bps spread is consistent with fair value.

Phase I: Now to 1Q27 (Upward Pressure)

- **Inflation & Commodity Risks:** The ongoing conflict involving Iran and elevated crude prices are likely to push inflation readings higher, albeit unevenly, in the coming months. As a result, we expect the Fed to implement one to two additional rate hikes.
- **BoJ Policy & Rate Differentials:** Alongside inflation, the Bank of Japan's policy stance remains pivotal. As the BoJ signals its resolve to curb inflation and support the yen, Japanese yields may rise in the near term. This could increase pressure on the Fed to preserve the U.S.-Japan rate differential.
- **Yield Outlook:** In this high-inflation, tight-policy scenario, the 10-year Treasury yield could rise to 5.375%-5.675%.

Monetary Easing and Liquidity Will Re-emerge in 2Q27

Interest Rate Trajectories Are Not a One-Way Street

Phase II: From 2Q27 Onward (Normalization & Moderation)

- **Disinflationary Drivers:** Base effects from recent oil-price spikes should begin to fade by late February. As a result, CPI readings are expected to soften noticeably from 2Q27 onward.
- **Fed Policy Pivot:** We expect Fed Chair Kevin Warsh to use signs of moderating inflation to reverse recent hikes, bringing the target rate back to its previous 3.50%-3.75% range.
- **Yield Outlook:** Following policy easing, the 10-year UST yield should drift back toward our 4.50% baseline. This target remains conservative, as it does not assume a significant steepening of the yield curve caused by a sharper slowdown in growth.

Business & Tech

Early Positioning Ahead of Bitcoin Halving and Policy Easing Could Drive Re-Rating from 2Q27

Theme	Current Polymarket contract	Live implied odds	Odds one month earlier
Bitcoin reaches \$100,000 before year-end	Bitcoin reaches \$100,000 by Dec. 31, 2026	Yes: 34.5%; No: 65.5%	Yes: 30.5%; No: 69.5%
2028 U.S. presidential winner	Presidential Election Winner 2028	JD Vance: 20.85%; AOC: 13.15%; Jon Ossoff: 11.55%; Marco Rubio: 8.75%; Gavin Newsom: 7.55%; Kamala Harris: 4.05%	JD Vance: 24.15%; AOC: 13.95%; Jon Ossoff: 9.95%; Marco Rubio: 10.65%; Gavin Newsom: 8.65%; Kamala Harris: 3.25%
Frontier AI flagship release	No next Google Gemini Pro release by Nov. 1	No release: 37.5%; release by Nov.1: 62.5%	No release: 46.5%; release by Nov.1: 53.5%

- Online prediction markets assign only a 34.5% probability that Bitcoin will reach \$100,000 by 31 December – implying roughly 20% upside from current levels.
- We believe the catalyst for a Bitcoin re-rating will emerge in 2Q27. The next halving is expected around 1Q28, and reduced new supply should support a sustained re-rating cycle.
- Investors typically position themselves about nine months ahead of major events. We therefore expect attention to build in 2Q27, especially as rate-cut expectations return to focus and market liquidity improves.

Source: KGI

Investment Strategies

Switching from Winners to Underdogs

- Democratic control of the Senate is becoming increasingly likely, a scenario that we believe the market has already partially priced in. The current Trump administration favors traditional energy, defense, Big Tech, and financial-sector deregulation. However, the Democratic Party's growing influence in Congress is expected to stall favorable policies for these sectors. Instead, **renewable energy, healthcare service providers, and generic drug companies could return to the spotlight.**
- Over the next few months, economic data will determine the path of U.S. interest rates. With the conflict in Iran unlikely to be resolved before year-end, persistent upward pressure on oil prices – and, consequently, inflation – will likely prompt the **Fed to hike rates once or twice more. Slowing growth and elevated inflation pressure will continue to flatten the yield curve.** However, we expect **monetary easing to resume in 2Q27 as the CPI baseline normalizes.** The Fed will view any easing in inflationary pressures as a signal to cut rates. We recommend locking in elevated yields at the long end of investment-grade (IG) corporate bonds.
- Market volatility is likely to remain elevated, particularly across the tech sector. We will capitalize on rich option premiums by **selling calls on existing holdings or selling puts/buying FCNs to take advantage of expected range-bound trading over the next few months.**

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