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FIRST CAPITAL RESEARCH
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What the U.S. and Israeli Elections Mean for Sri Lankan Markets

Election outcomes and their read-through to oil, global markets and Sri Lanka

ECONOMIC UPDATE | GLOBAL | 13th Nov 2026

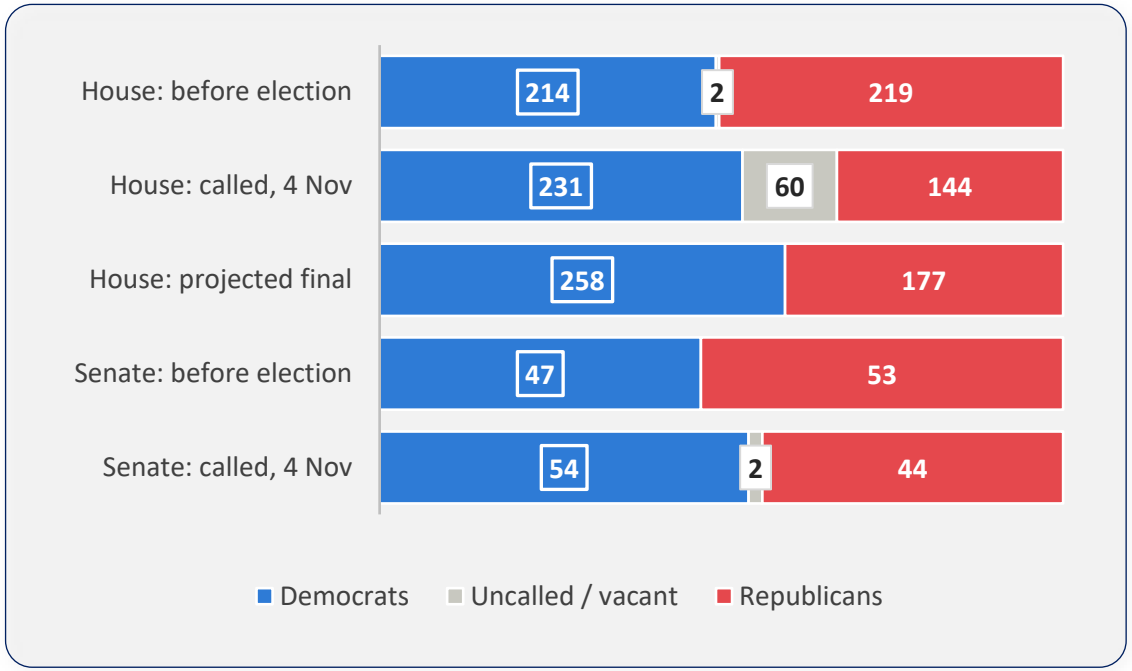
Please refer page 12 for an important disclaimer

Election Summary

US

Democrats win both chambers: divided government

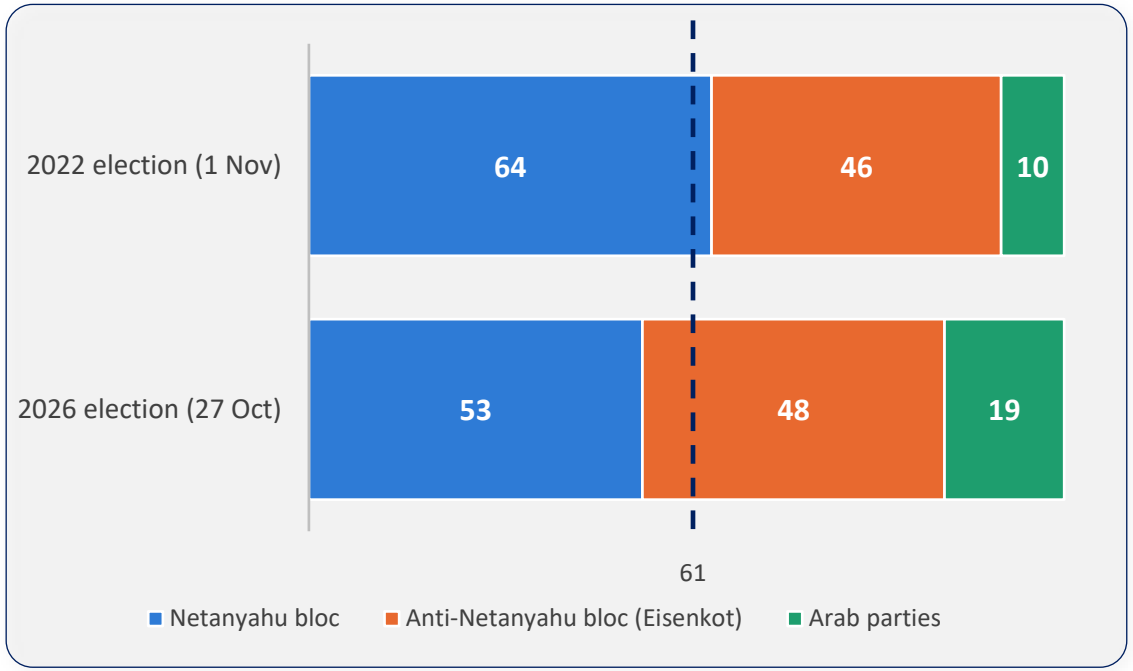
2026 U.S. Congressional Election Results: House and Senate Seat Distribution



Israel

Hung Knesset: Eisenkot leads coalition talks

2022 vs 2026 Israeli Knesset Composition



Source: NBC News Decision Desk, AP, CBS News

Israel After the Election: Impact on the Iran War

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Where things stand

- Eisenkot has the mandate to form a government: 28 days (about Dec 5), plus a possible 14-day extension to form a government.
- Most likely outcome is a fragile minority government that relies on outside Arab-party votes.
- **That fragility could give leverage to the right wing**, as happened after 2021.

Impact on the Iran war

- Short to medium term: short term positive for de-escalation.
- Eisenkot is less likely than Netanyahu to push Trump to resume the war or to resist a U.S.-Iran settlement.
- However, Eisenkot is a security hawk with the same core aims; and would not rule out joining a U.S. escalation if Iran's nuclear programme advances.

Source: Reuters; The Times of Israel; INSS

Iran and the Houthis: Likely Post-Election Moves

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Attitude to the outcome so far

Iran:

- ***Publicly triumphant following the U.S. elections***. Officials call the Democratic win a rejection of Trump's war.
- Yet, Supreme Leader Mojtaba Khamenei says U.S. hostility will persist whoever governs, and warns against any submission.
- Sources indicate they fear Trump may strike to offset the defeat.

Houthis:

- The Houthis are aligned with Iran and primarily focused on Saudi Arabia.

What they will likely do

Iran:

- ***hold out for better terms.*** It wants the war ended on all fronts and the blockade lifted before reopening Hormuz, while talks run via Qatar.
- If struck again: Iran threatens U.S. bases and civilian infrastructure in neighbouring states.

Houthis :

- ***continue pressuring Saudi Arabia, including efforts to disrupt Saudi-linked shipping and consolidate positions along the Red Sea coast.***
- Likely escalators: Houthis would step up attacks on Saudi Arabia and Red Sea shipping ***only if Iran is struck***.

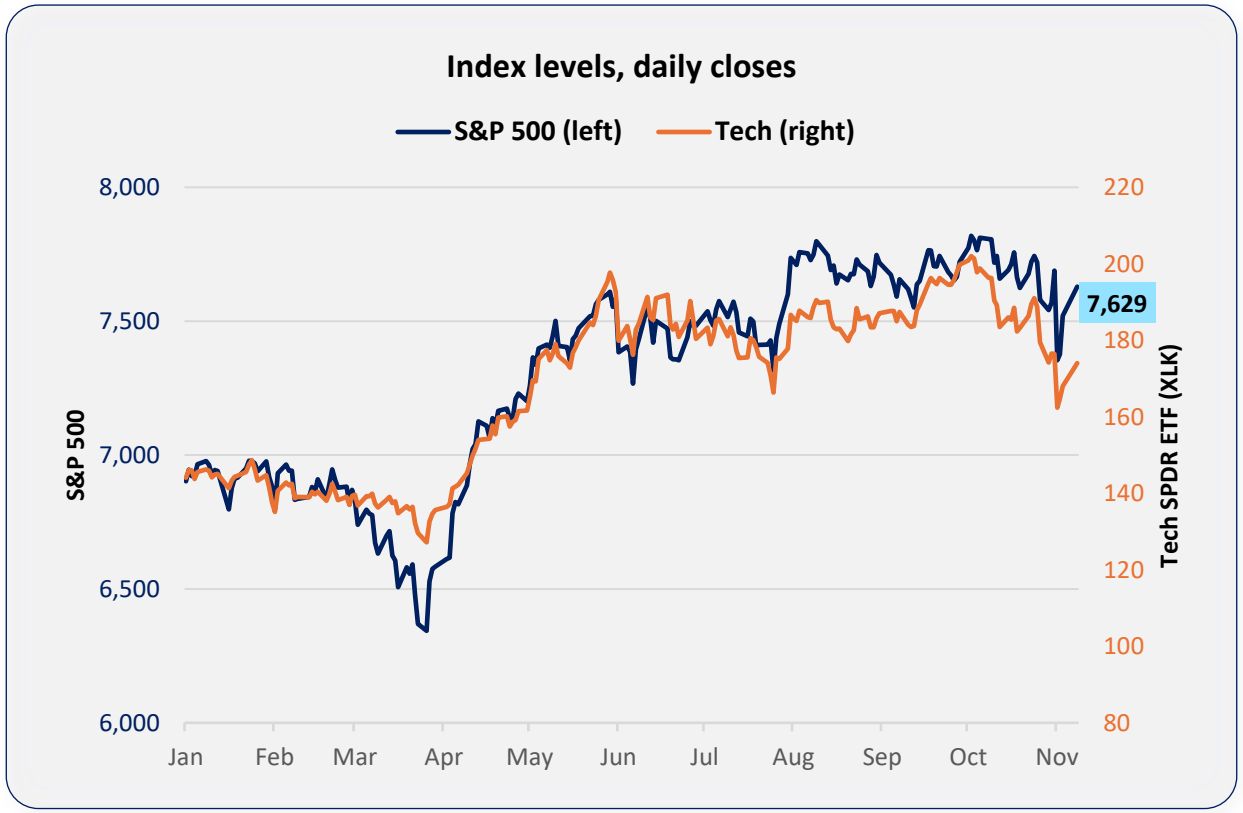
Reuters; AP; Khamenei.ir; Al Jazeera; Institute for the Study of War (ISW); UKMTO

Market Movement – US Stocks and Bonds

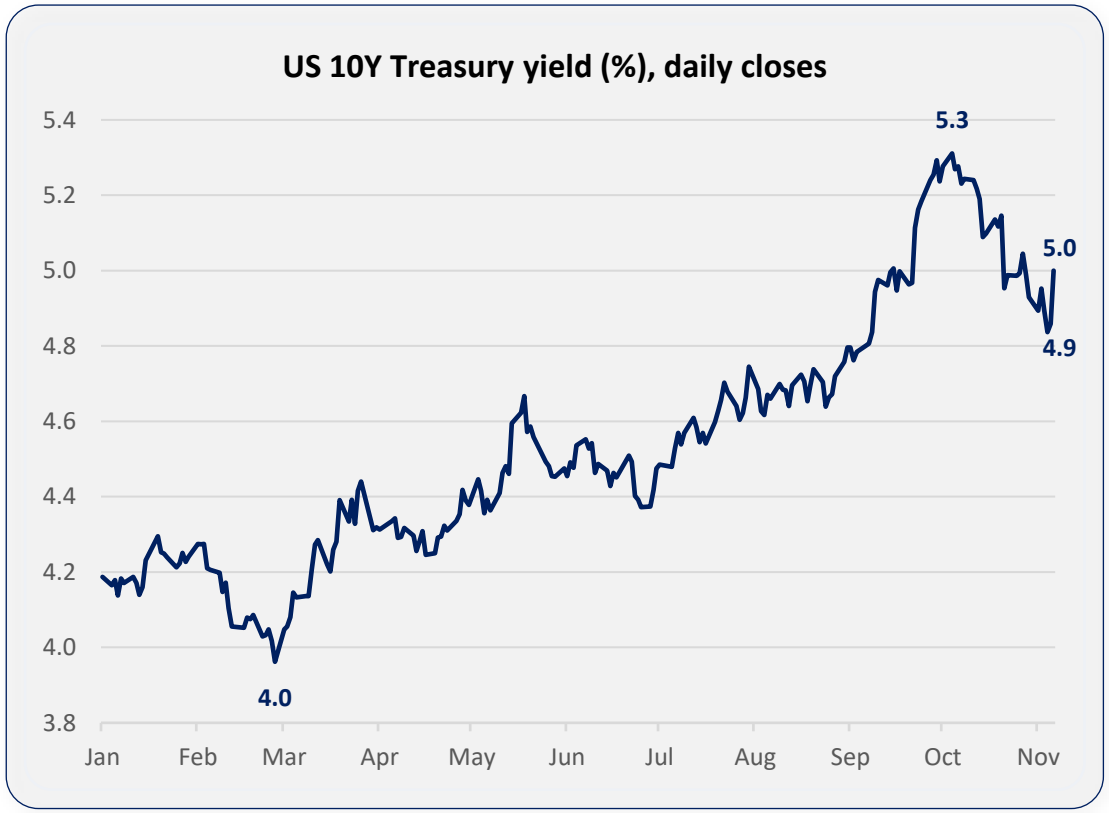
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*US stocks hit a record in early October (S&P 500 7,818.9) before a tech-led pullback (Tech -8.0% on 5 Nov) that looks sector-specific, not risk-off; the 10-year yield has eased from its 5.3% peak to around 5.0%, supportive for frontier markets - **though October's hot CPI keeps a December Fed hike in play**.*

U.S S&P 500 & Tech Index



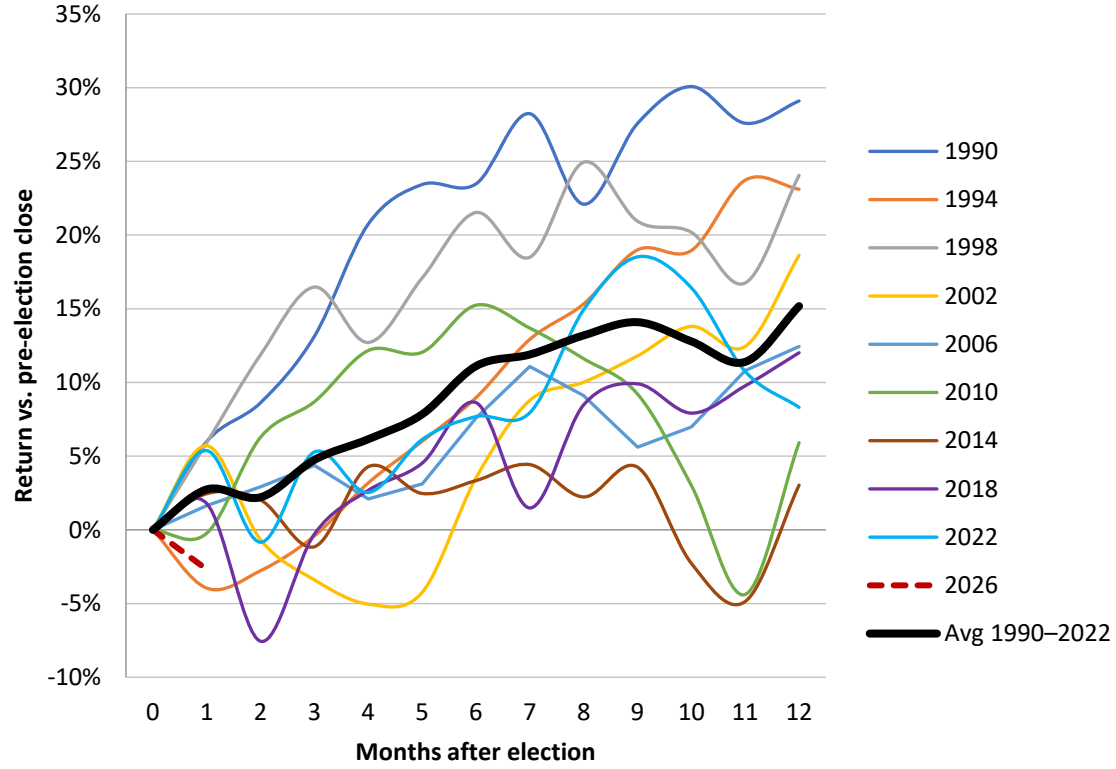
US 10 Year Bond Yields 2026 YTD

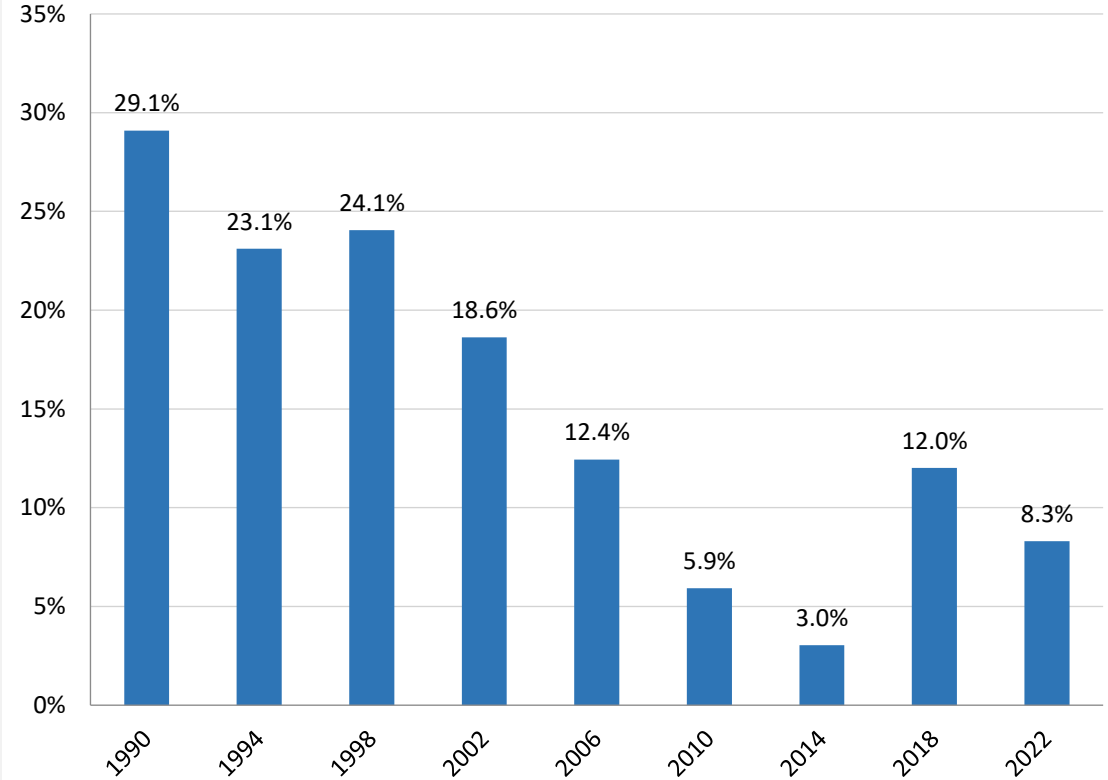


Source: Bloomberg

General Post Election Markets

History is on the market's side: the S&P 500 has risen in the 12 months after every midterm since 1990 (average 15.2%), so the early post-election dip (-2.7%) looks like a wobble rather than a turning point - for emerging and frontier markets such as Sri Lanka, a stable risk environment and continued investor appetite for risk assets support capital flows.

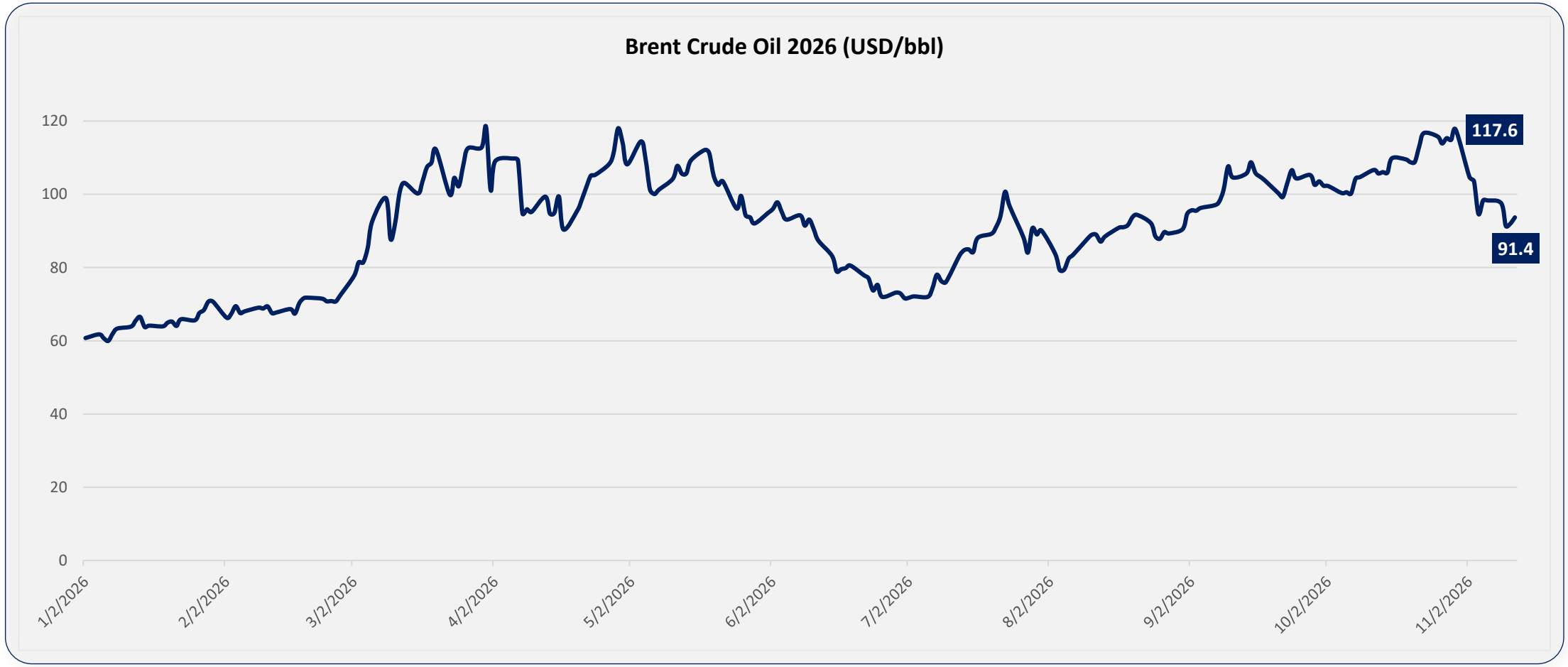




Source: Reuters; The Times of Israel; INSS

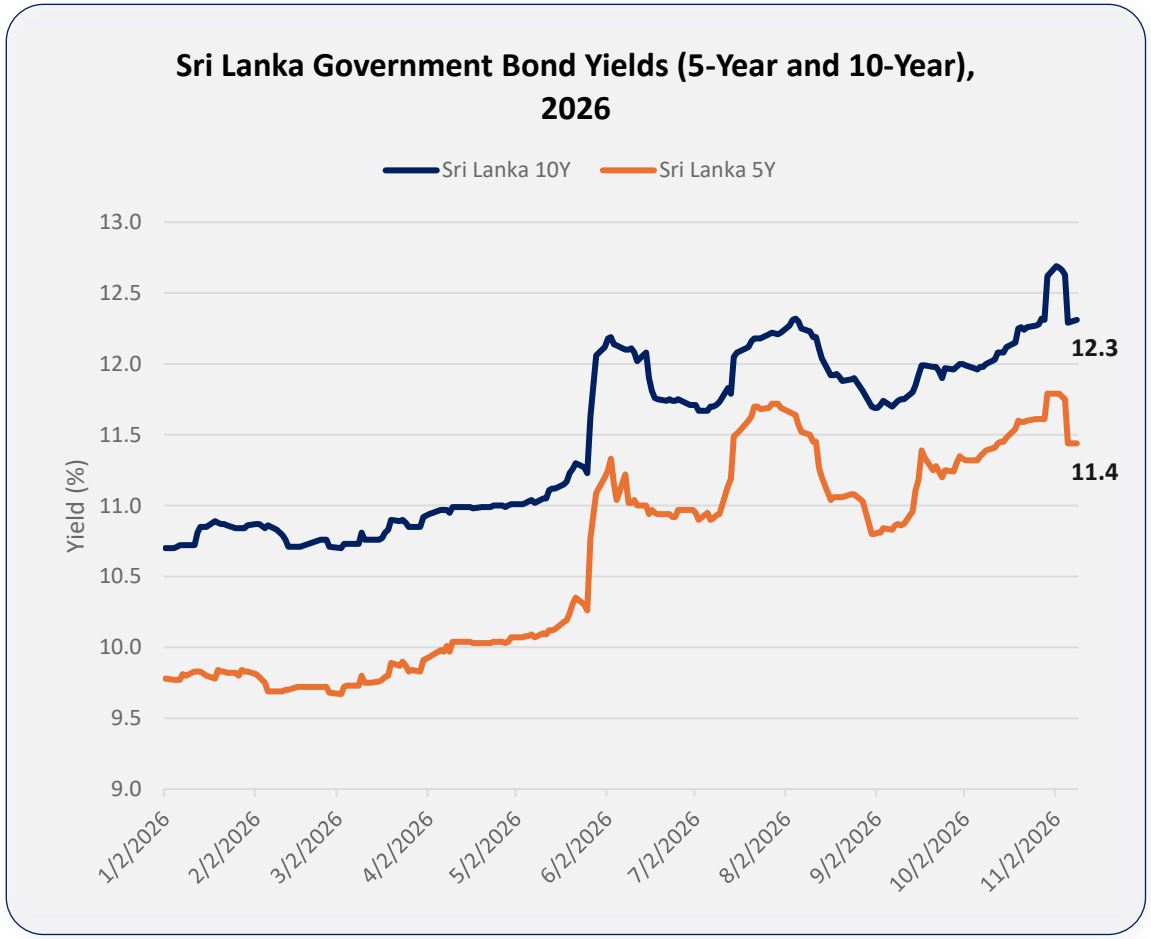
Oil Prices

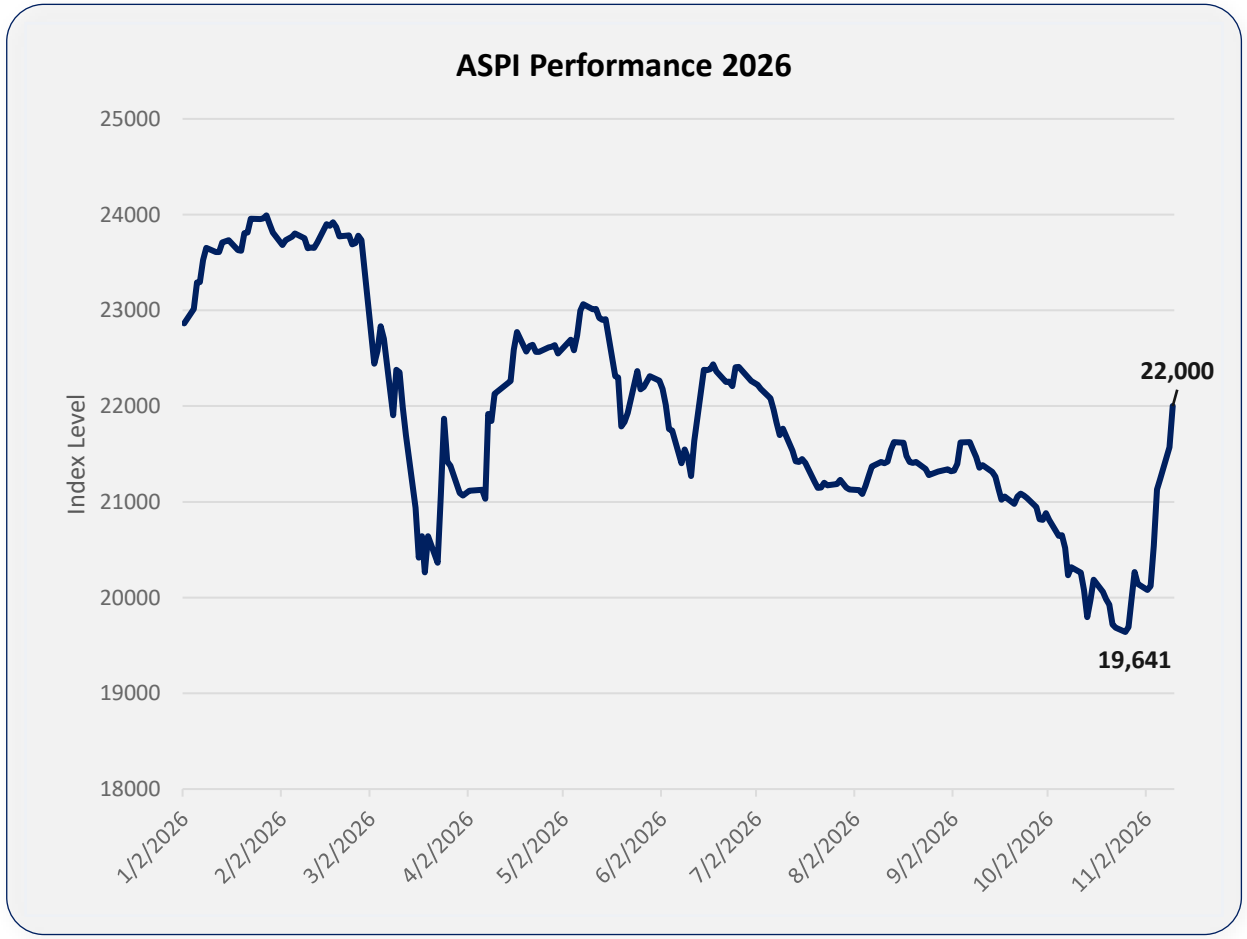
Brent has dropped from USD 117.6 at end-October to USD 91.4 as post-election de-escalation hopes build - still well above January's USD 60.8, but easing the pressure on Sri Lanka's import bill, inflation and interest rates.



Sri Lanka: Bonds and Stocks

Sri Lankan yields climbed this year (10-year yields rose from 10.7% in January to 12.9% in October) as oil-driven inflation risks built, but have since eased from their recent peak, while the ASPI has rebounded 12.0% from its 26 October low to 22,000.



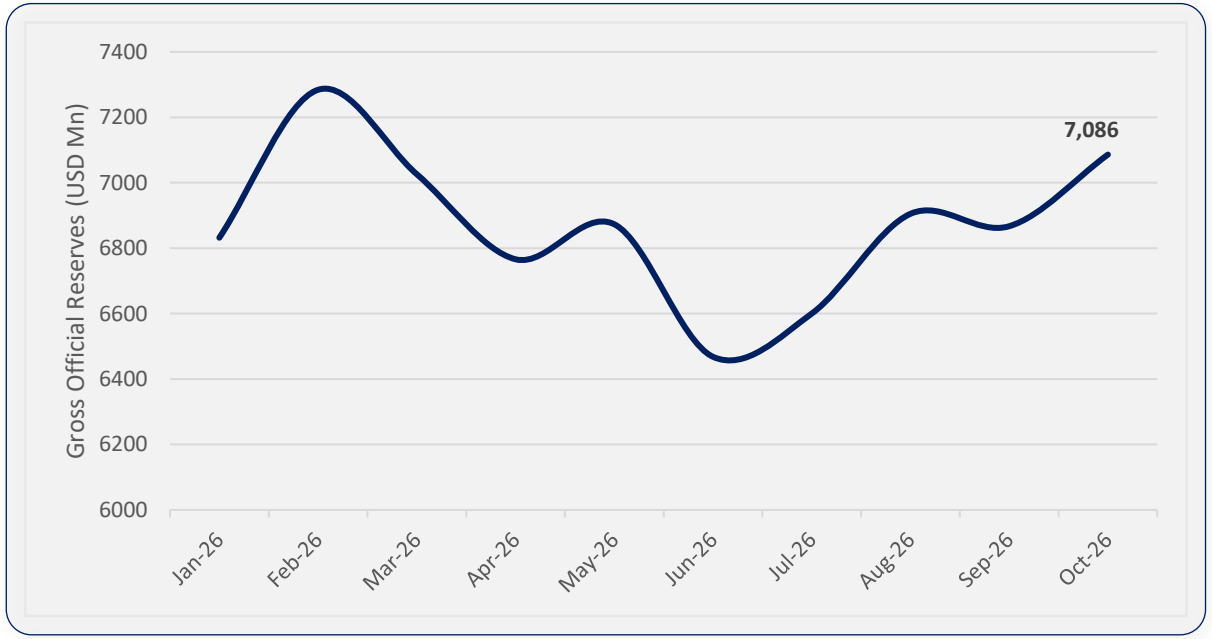


Source: FC Research; CSE

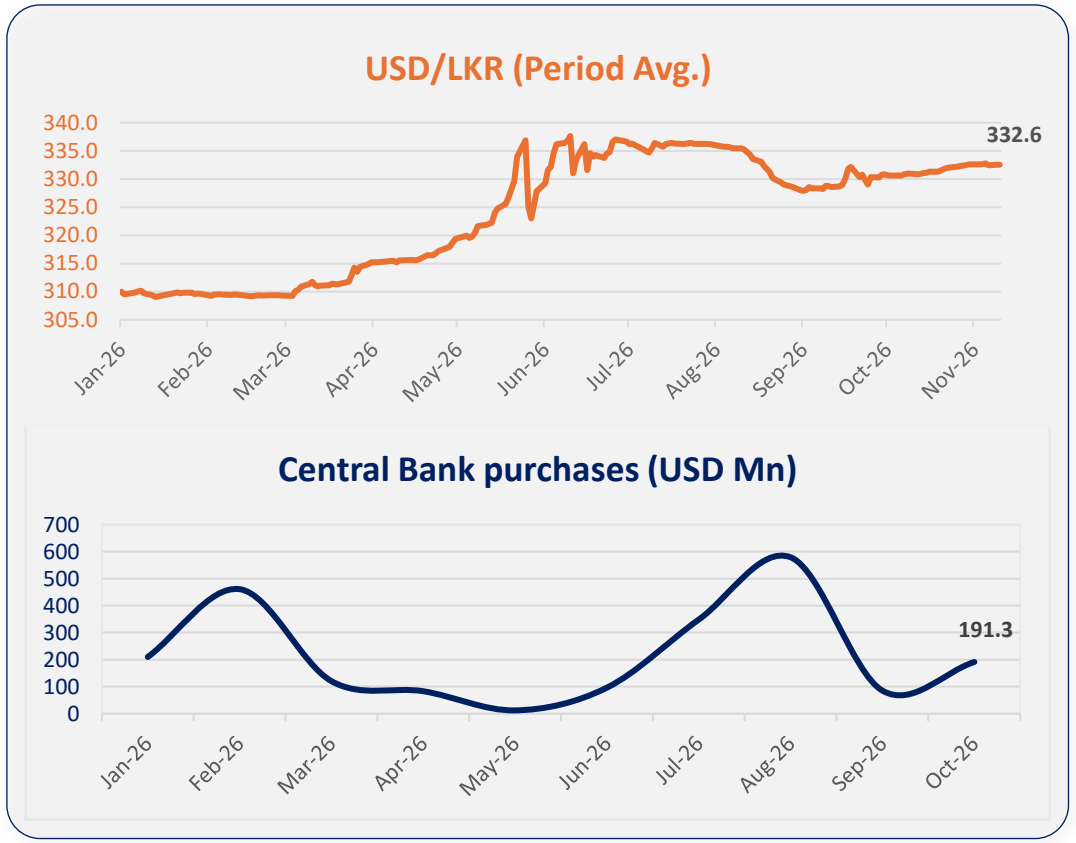
Sri Lanka: Reserves and Dollar Purchases

Reserves have rebuilt to USD 7.1bn in October from a June low of USD 6.5bn, helped by about USD 2.2bn of Central Bank dollar purchases this year, even as the rupee weakened from 310.0 to 332.6 per US dollar - a buffer the oil scenarios ahead will test.

Sri Lanka international reserves



USD/LKR & CB Dollar purchases



Source: CBSL

Outlook: Politics, War Risk and Oil

U.S. - divided government

- Trump keeps his executive and foreign-policy powers. Democrats gain control over every new defence dollar, plus committee chairs, subpoenas and hearings.
- A weakened president now faces a hostile Congress.
  - Trump has signalled **he is not** planning to resume the war.
  - Iran has reportedly sent a nuclear proposal through Qatar.
- Congress has shown appetite to restrict the Iran war. Senate Democratic leader Chuck Schumer pledged on Nov 4 to move to end it (a commitment, not yet legislation).

Scenarios and probabilities (By Mid 2027)

20%	SCENARIO 1 | POSITIVE **Durable De-escalation**	Brent **USD 60–68**
50%	SCENARIO 2 | NEUTRAL **Fragile Truce**	Brent **USD 68–80**
20%	SCENARIO 3 | CAUTIOUS **Renewed Flare-up**	Brent **USD 80–95**
10%	SCENARIO 4 | RISK-OFF / REPRESSION **Full Shock: Strait Closure**	Brent **USD 95+**

Major Events to Watch

Nov 18	Fed minutes from the Oct 27-28 meeting
Nov 29	OPEC+ monthly meeting
Early Dec	Israel: Eisenkot's coalition deadline
Dec 8–9	**Fed rate decision (Dec 9 statement), new dot plot**
Dec 11	**U.S. government funding deadline**
Ongoing	U.S.-Iran talks via Qatar; Hormuz shipping incidents
Jan 3, 2027	New Congress seated

Inflation outlook & Fed hike odds

84% chance of a 25bp hike

15% chance of a 50bp hike

October CPI (released 10 Nov)

Headline	**+0.4% m/m (exp. 0.3%)**
Core	**+0.3% m/m (exp. 0.2%)**

Third straight 0.3% core print. Fed Governor Waller says a 50bp hike 'should be considered'.

Risks: Tighter US policy is a headwind for frontier-market flows.

Source: CNBC, Yahoo Finance, CME FedWatch

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Thank you!

"SUCCESSFUL INVESTMENTS IS ABOUT MANAGING RISKS"



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