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Economic Insights

Global Markets Research
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Economics - North America

US – Midterms election preview

- The political and economic backdrop has moved in Democrats' favor ahead of the November midterm elections. A divided government following the midterms remains our base case. Democrats are almost certain to gain control of the House, while the Senate remains a tossup.
- Senate control would matter for appointments and policy implementation. A Democratic Senate could prevent Fed, judicial, and executive-branch confirmations.
- Major legislation in 2027-28 is unlikely, regardless of Senate control. The White House could try to advance key priorities during the lame duck session later this year. Fiscal risks remain skewed toward higher outlays.
- Key Senate races could offer an early signal on the Democratic Party's direction. The relative performance of centrist and progressive Democratic candidates may influence the party's positioning ahead of the 2028 presidential race.

Our base case

We assign a roughly 90% probability to Democrats taking control of the House and around a 60% probability to a Democratic sweep of both chambers. The House remains the clearer call, while Senate control is more finely balanced given the more challenging map for Democrats.

National backdrop

Both the political and economic backdrops have moved in Democrats' favor ahead of the 3 November midterm elections. *Reuters/Ipsos polls* show President Trump's approval rating stands at a record low.

Cost of living remains the dominant concern for voters. Earlier *polling* showed that a majority of respondents *attributed* at least some responsibility for higher gasoline prices to the Iran conflict. Tariffs have also added to concerns about prices. Also, recent consumer sentiment surveys suggest that higher interest rates exerted negative psychological effects on households through increased borrowing costs and reduced home affordability.

AI concerns have also become more prominent. Voters are *increasingly concerned* about employment implications and costs associated with the data center buildout, in contrast with the Trump administration's push to accelerate AI investment.

House races

House elections tend to closely track the national political environment and therefore provide a useful gauge of voter sentiment (*Fig. 1*). *Historically*, the President's party has lost House seats in 18 of the past 20 midterm elections since 1946 (*Fig. 2*).

Recent national polling also shows a broad Democratic advantage on the generic congressional ballot. *Reuters/Ipsos* currently has Democrats ahead by 7pp among registered voters. Historically, the generic ballot has been a useful indicator of the national House vote, although its translation into seats is not one for one.

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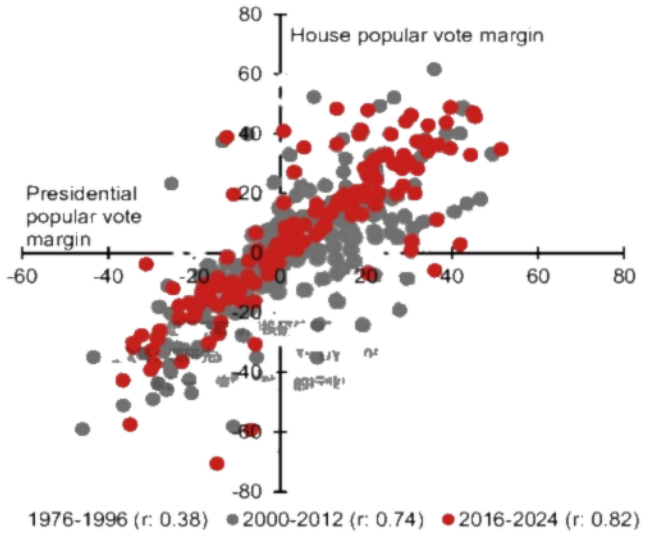
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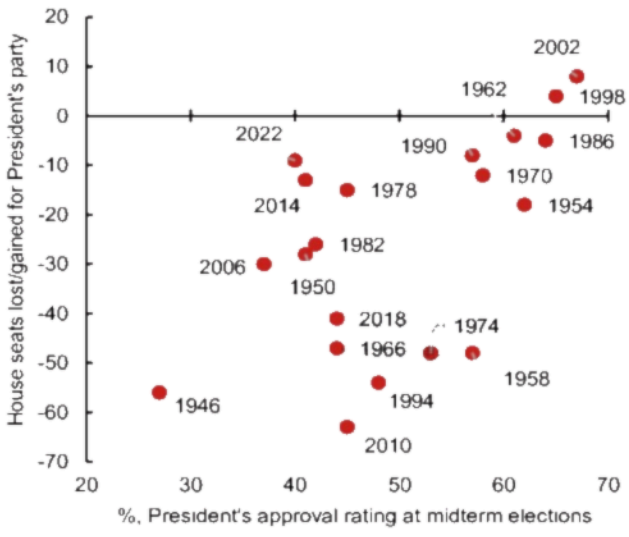
See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

Fig. 1: The total number of votes cast for a party is highly correlated between the Presidential and House elections



Note: Correlations in parentheses
Source: MIT Elections Lab, Nomura

Fig. 2: House elections tend to closely track the national political environment, and historically the President's party has lost House seats in a majority of midterm elections



Source: UCSB, Nomura

Redistricting has likely improved the Republican starting point (*Fig. 3*). Republican-controlled states have adopted or pursued maps creating additional GOP opportunities, while Democrats have gained partial offsets primarily through California and Utah. On the other hand, more retirements of House Republicans than House Democrats might be a headwind with reduced incumbency advantages.

Fig. 3: Redistricting has likely improved the Republican starting point

Impact on House seats from mid-decade redistricting

States	Cook Political Report	New York Times	CNN
Texas	GOP + 3-5	GOP + 2-5	GOP + 5
North Carolina	GOP + 0-1	GOP + 0-1	GOP + 1
Ohio	GOP + 0-2	GOP + 0-2	GOP + 2
California	DEM + 3-5	DEM + 3-5	DEM + 5
Utah	DEM + 1	DEM + 1	DEM + 1
Florida	GOP + 1-4	GOP + 3-4	GOP + 4
Tennessee	GOP + 1	GOP + 1	GOP + 1
Louisiana	GOP + 1	GOP + 1	GOP + 1
Alabama	GOP + 1	GOP + 1	GOP + 1
Net Impact	**GOP 0 to +8**	**GOP +2 to +11**	**GOP +9**

Source: CPR, NYT, CNN, Nomura

Senate races

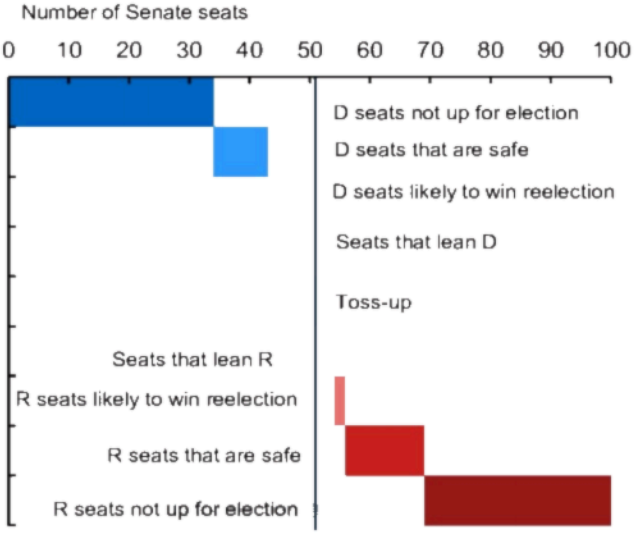
The Senate map is more difficult for Democrats (*Fig. 4*). They need a net gain of four seats for control (*Fig. 5*), requiring them to make significant inroads in states that have recently leaned Republican, while also defending Michigan. Of the six GOP-held states that *CPR* currently rates as Toss Ups – Alaska, Iowa, Kansas, Maine, Ohio and Texas – Trump won five by double digits in 2024, with Maine being the exception. Additionally, Republicans retain a meaningful financial advantage across several battlegrounds.

Fig. 4: The Senate map is more difficult for Democrats

State		Implied seats	Candidates		Prediction markets win probability	2026 Senate polling margin	2024 Presidential voting margin
		Republican	Republican	Democrats	Republican	Republican less Democrats	
Rep. seats not up for election		31					
Including solidly Republican		44					
Nebraska	NE	45	**Pete Ricketts (R)**	Dan Osborn (I)	**98.9%**	**0.5%**	**20.8%**
South Carolina	SC	46	**Darline Graham (R)**	Annie Andrews (D)	**86.0%**	**1.5%**	**18.1%**
Kansas	KS	47	**Roger Marshall (R)**	Adam Hamilton (D)	**66.7%**	**-0.3%**	**16.5%**
Iowa	IA	48	Ashley Hinson (R)	**Josh Turek (D)**	**56.0%**	**-0.9%**	**13.5%**
Maine	ME	49	**Susan Collins (R)**	Troy Jackson (D)	**44.1%**	**-1.8%**	**-6.7%**
Ohio	OH	50	**Jon Husted (R)**	Sherrod Brown (D)	**36.6%**	**-3.6%**	**11.4%**
Texas	**TX**	**51**	**Ken Paxton (R)**	**James Talarico (D)**	**35.6%**	**-3.2%**	**14.1%**
Alaska	AK		**Dan Sullivan (R)**	Mary Peltola (D)	**27.7%**	**-3.2%**	**13.7%**
Michigan	MI		Mike Rogers (R)	Abdul El-Sayed (D)	**27.7%**	**-3.5%**	**1.4%**
Minnesota	MN		Michele Tafoya (R)	Penny Flanagan (D)	**14.9%**	**-2.5%**	**-4.3%**
New Hampshire	NH		John Sununu (R)	Chris Pappas (D)	**12.7%**	**-7.1%**	**-2.8%**
Georgia	GA		Mike Collins (R)	**Jon Ossoff (D)**	**3.9%**	**-9.3%**	**2.2%**
North Carolina	NC		Michael Whatley (R)	Roy Cooper (D)	**3.2%**	**-10.3%**	**3.2%**
Including solidly Democrat		43					
Dem. seats not up for election		34					

Note: *prediction markets refer to Kalshi, "Implied seats" shows the cumulative Republican seat total if the party wins that state and all states ranked as more likely Republican. Incumbents in bold.
Source: Politico, CPR, Race to the WH, Bloomberg, Nomura

Fig. 5: Democrats need a net gain of four seats for Senate control, requiring them to make significant inroads in states that have recently leaned Republican



Source: CPR, Nomura

Policy implications – Fed vacancies

Senate control would have particularly important implications for appointments. A Democratic-controlled Senate would be able to prevent the administration from confirming executive branch, judicial, and Fed nominees.

The confirmation power is especially important for future Fed vacancies. Powell's term as a Fed Governor ends in January 2028. The Trump administration is also continuing its efforts to remove Governor Cook over mortgage-related allegations. *Reports* suggest that the administration may cite the SVB failure as grounds for removing Governor Barr. Trump's attempt to dismiss Fed officials and more importantly subsequent nominations

could be tricky if the Senate goes to the Democrats.

If a vacancy emerged around the election, the White House could try to secure confirmation before the new Congress takes office. There is precedent for a post-election confirmation as Christopher Waller was confirmed to the Fed Board on 3 December 2020, by a 48-47 Senate vote during the lame duck session.

Regional Fed leadership will also be worth monitoring over the next two years as several presidents approach mandatory retirement (*Fig. 6*). Richmond Fed President Barkin, NY Fed President Williams, and SF Fed President Daly are slated to retire in January 2028, June 2028, and October 2028, respectively. Formally, these appointments are not political – nominations are made by regional Reserve Bank boards and approved by the Fed Board of Governors, with no involvement from the President or Senate. However, the ongoing Atlanta Fed search has attracted unusual attention after the process was *reset* following Kevin Warsh's appointment as Fed Chair. *Media reports* have suggested White House officials have attempted to influence the Atlanta president search process.

Fig. 6: Regional Fed leadership will also be worth monitoring over the next two years as several presidents approach mandatory retirement

Name	Mandatory retirement	Bank	Age Now	Age Appointed
Thomas Barkin	Jan-28	Richmond	65	56
John Williams	Jun-28	New York	64	56
Mary Daly	Oct-28	San Francisco	63	55
Cheryl Venable*	—	Atlanta	—	—
Susan Collins	Jul-32	Boston	67	63
Jeffrey Schmid	Aug-33	Kansas City	68	65
Alberto Musalem	Apr-34	St. Louis	57	55
Austan Goolsbee	Aug-34	Chicago	57	53
Anna Paulson	Jul-35	Philadelphia	61	60
Beth Hammack	Jan-37	Cleveland	54	52
Lorie Logan	Feb-38	Dallas	53	49
Neel Kashkari	Jul-38	Minneapolis	53	42

Note: *Acting interim president following Raphael Bostic's resignation effective 28 February 2026.
Source: FRB, Regional Federal Reserve Banks, Brookings, Nomura

Legislation

Under divided government, we expect little major legislation after the new Congress is sworn in. Fiscal negotiations would likely become more difficult, increasing reliance on continuing resolutions (CRs) rather than full-year appropriations bills and raising the risk of recurring government shutdown threats (*Fig. 7*). Disagreements over fiscal priorities would also complicate the passage of budget resolutions, limiting the scope for reconciliation. As a result, large fiscal packages such as the One Big Beautiful Bill Act (OBBBA) or American Rescue Plan appear unlikely to be enacted in the new Congress.

Democrats may pursue healthcare-related legislation (e.g., reversing parts of the 2025 Medicaid and SNAP changes and restoring enhanced ACA premium tax credits), but such proposals are more likely to remain messaging bills, given the need for White House approval.

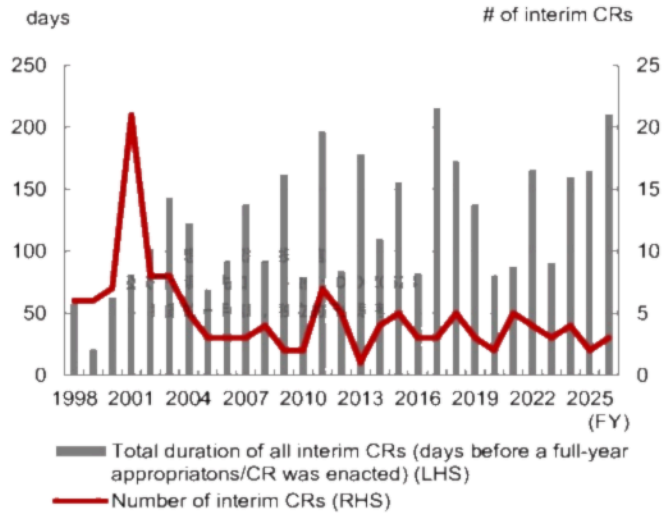
The more immediate focus could shift to the lame duck session, with the White House and congressional Republicans having an incentive to advance key priorities before the new Congress takes office.

The debt limit is one area where Republicans may focus following the elections. The statutory debt ceiling currently stands at $41.1tn and the Treasury is *expected* to reach that limit sometime in 2027 (*Fig. 8*). A Democratic-controlled chamber could seek policy concessions in exchange for supporting an increase or suspension, raising the incentive for Republicans to address the issue during the lame duck session.

Defense spending is another potential lame duck priority. The administration's FY2027 budget requests roughly $1.15tn in discretionary defense funding alongside $350bn in mandatory resources through reconciliation. If a large package is pushed into the next Congress, particularly under Democratic control of either chamber, negotiations could

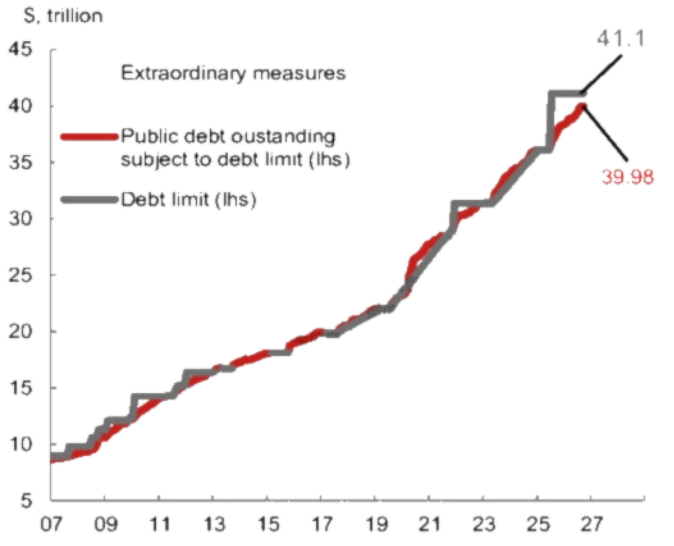
become more difficult and involve concessions on domestic spending or healthcare.

Fig. 7: Under a divided government, fiscal negotiations would likely become more difficult, increasing reliance on CRs and raising the risk of recurring shutdown threats



Source: CBO, CRS, Nomura

Fig. 8: Debt limit would be in focus during the lame duck session since the limit is likely to be reached sometime in 2027



Source: CBO, US Treasury, Nomura

Implications for 2028

Midterm results will likely inform the Democratic Party's strategy ahead of 2028 general elections.

Several potential 2028 presidential candidates are running in midterm elections, with a strong performance a potential boost to their candidacy. Jon Ossoff, Democratic Senator for Georgia, is among the leading names in Democratic nomination betting markets, making his reelection performance an important race to watch. Governor Josh Shapiro in Philadelphia is another such candidate.

Momentum of progressive candidates in the midterms is also important to watch. Abdul El-Sayed's primary victory in Michigan was widely viewed as a test of progressive strength, while his general election against Republican Mike Rogers remains competitive. A strong performance could strengthen the case that progressive candidates, such as *Rep. Alexandria Ocasio-Cortez*, can remain competitive beyond safely Democratic constituencies.

Watch out for AI

We think major federal legislation on AI data model guardrails or nation-wide regulations on data center construction remains unlikely under divided government.

Regarding data center construction, most immediate policy action is occurring at the state level. Governors and state legislatures have become increasingly active on electricity costs, water usage, permitting and AI safeguards.

Given the geographical concentration of data center projects, gubernatorial elections in a few key states bear monitoring such as Texas, Ohio, New Mexico and Georgia. In Texas, *Governor Greg Abbott recently halted new state-issued permits* for data centers pending a review of their impact on the power grid. Democratic gubernatorial nominee Gina Hinojosa has separately criticized tax incentives for data centers and made their costs a campaign issue. Both gubernatorial candidates in Ohio have proposed to limit data center construction. Also, some local jurisdictions will vote on ballot measures to tighten control over data center constructions.

House races could offer an early indication of the importance of AI and data-center development heading into 2028. Key races to watch include Republican Rep. Scott Perry (Pennsylvania's 10th Congressional District), who has generally supported a faster permitting, and Rep. Tom Barrett (Michigan's 7th Congressional District), who has backed measures aimed at accelerating infrastructure development alongside stronger local oversight of data centers.



Policy beyond the midterms

We expect the Trump administration to continue to pursue its foreign policy, trade and regulatory agenda regardless of the midterm outcome. These areas rely heavily on executive authority, limiting the direct impact of congressional control. The election itself may nevertheless have delayed some politically sensitive decisions, particularly those that could add to near-term inflation pressures.

Foreign policy is one such area. Middle East tensions could remain elevated after the election given the lack of progress in recent negotiations and the possibility of renewed US military action. Trump has suggested that bombing could potentially resume if negotiations fail, but *only after 3 November*.

The administration could also accelerate its broader deregulation agenda. Financial regulators are already moving toward more streamlined supervision and greater predictability in bank capital requirements.

We expect continued tariff de-escalation, although we could see more aggressive trade-related headlines following the elections. The administration could threaten to use Section 301 investigations into excess capacity or invoke the recently enacted Russia sanctions law to expedite trade deals.