

US Midterms 2026

A stoppable force meets a movable object – Part 1

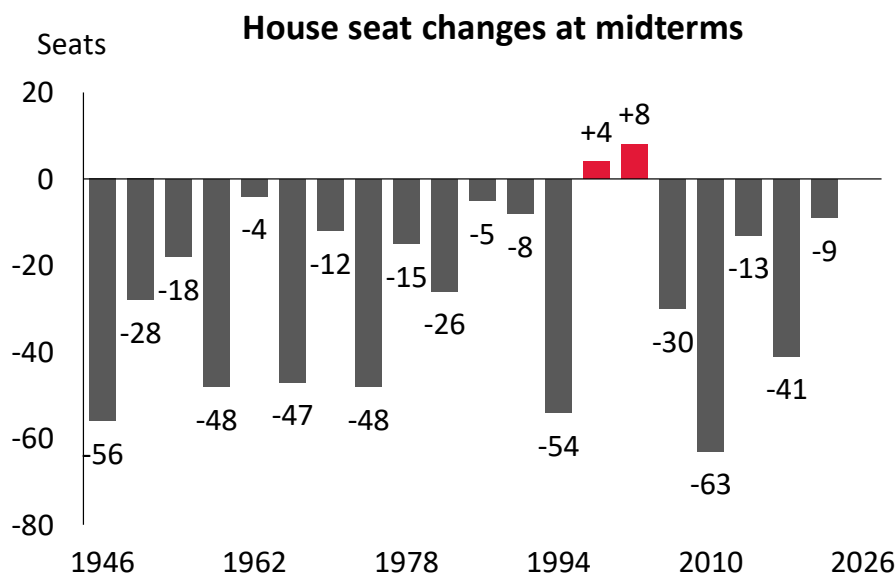
- The 2026 midterms are less a clash of strength than a contest of weakness. Democrats appear well placed to win both chambers, but the result may reflect voter dissatisfaction with Republicans more than enthusiasm for the Democrats.
- A Democratic sweep would constrain, rather than overturn, President Trump's agenda. Democrats could challenge Iran funding, healthcare reforms, and tariffs, etc., but presidential veto powers would limit major policy reversals.
- Divided government would likely mean prolonged fiscal and policy uncertainty. On the flip side, political compromise could keep federal spending and borrowing elevated, adding to pressure on Treasury yields.

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A contest of weakness

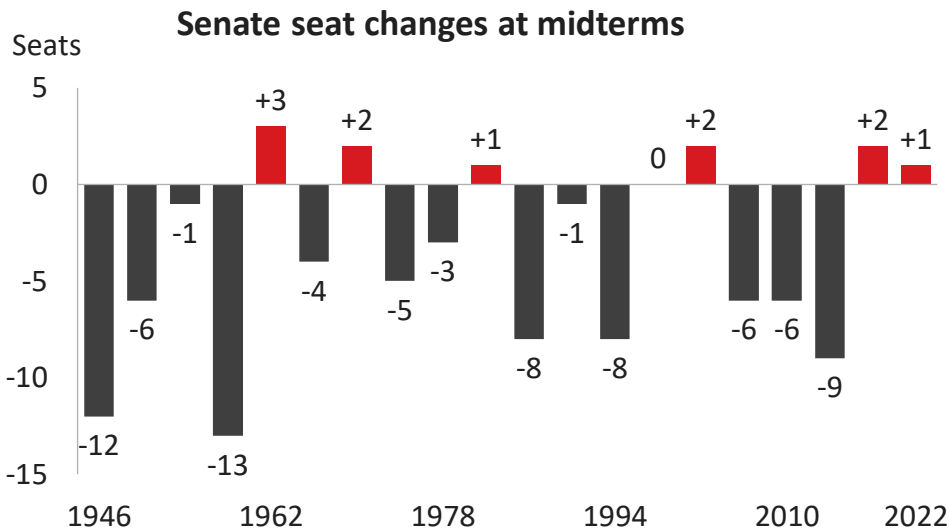
Midterm elections are rarely kind to the party occupying the White House. History provides Democrats with a powerful tailwind, as the president's party has lost House seats in 20 of the past 22 midterms and Senate seats in 15 out of 22 since 1938. But even without considering the historical turnover, the Republicans are vulnerable. The difficult electoral backdrop for the incumbent party has been compounded by stubborn cost-of-living pressures. Those pressures have been exacerbated by a costly political own goal in the form of the Iran war. Nearly seven months into the conflict, it is hard to imagine its economic costs not spilling over into the political arena. Some Republican candidates have begun distancing themselves from the administration's approach after the war, while Trump's approval rating has fallen to 35.5%.



Source: American Presidency Project, OCBC Group Research.

Yet one would be hard-pressed to describe the Democratic force as unstoppable.

The Democratic Party enters the election with many of the advantages typically enjoyed by an opposition party. However, this is far from an Obama-style 2008 wave that would sweep Democrats into Congress on a tide of left-wing enthusiasm. The Democratic coalition remains divided between progressive and more centrist wings, and disagreements have spilled visibly into several important Senate and House contests. Nor has a clear presidential candidate emerged around whom the party can coalesce. The potential 2028 presidential field remains unusually open, with no obvious standard-bearer. Hence, a Democratic victory in November might not amount to an affirmative endorsement of the Democratic Party but might simply reflect disillusionment with the Republicans.



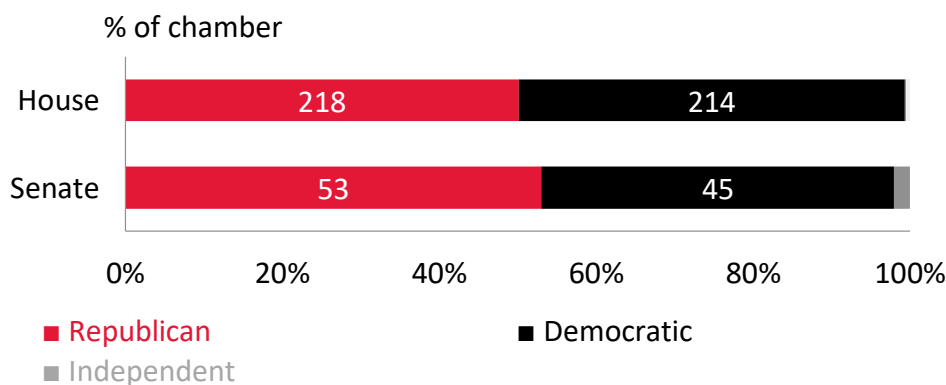
Source: American Presidency Project, OCBC Group Research.

Hence, the central question of the 2026 midterms may not be which party is stronger, but which party's weakness is more apparent. In the article below, we will examine the key races, political dynamics and policy debates that will shape the outcome of the midterm elections.

The math behind the midterms

The House has 218 Republicans, 214 Democrats, one independent and two vacancies. Meanwhile, the Senate has 53 Republicans, 45 Democrats and two independents. With both independents remaining aligned with Democrats, that gives a 47-member caucus. For Democrats to regain control of Congress, the math is straightforward. The party needs just four additional seats in the House to reclaim the chamber and must gain at least three seats in the Senate to overturn the current Republican majority.

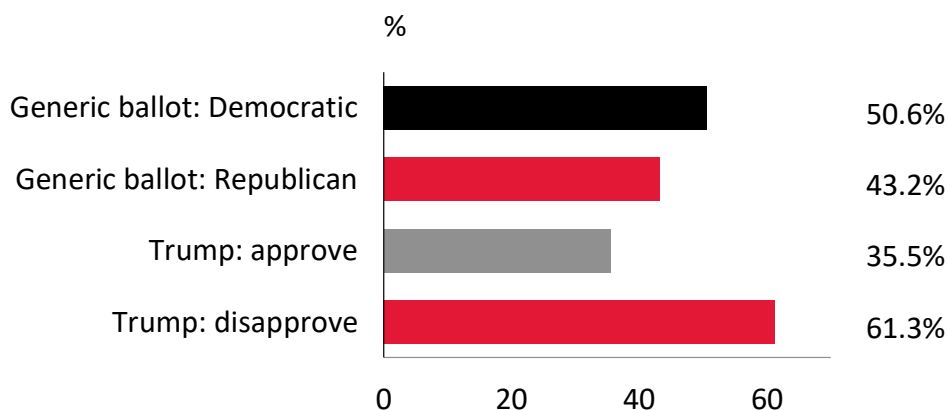
Congress Composition with Republican majorities



Source: U.S. Senate, OCBC Group Research.

Currently, national polling points to a difficult backdrop for the Republicans. FiftyPlusOne's congressional ballot average at the time of writing shows Democrats leading 50.6% to 43.2%, while Trump's approval rating stands at just 35.5%.

National polling points to Republican vulnerability

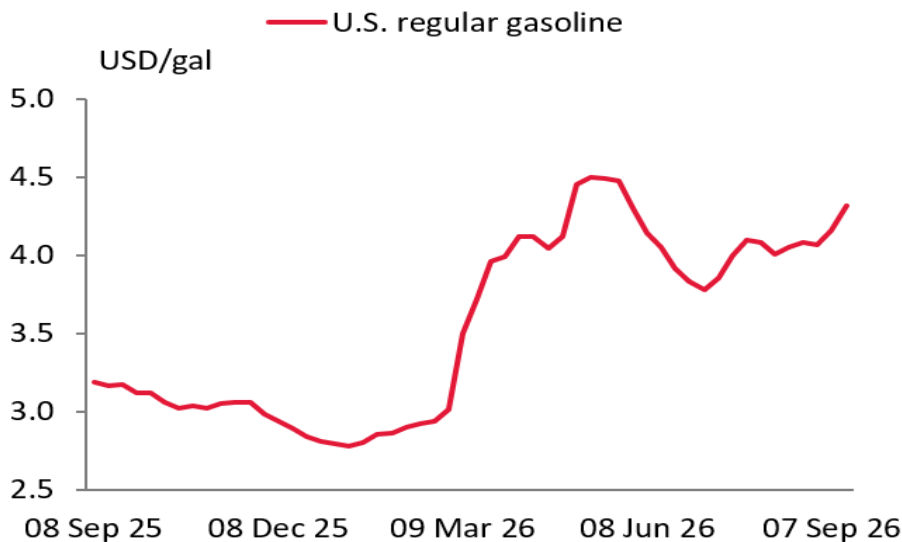


Source: FiftyPlusOne, OCBC Group Research.

Economics behind the midterms: higher fuel costs are stressing household budgets again

The protracted war with Iran and the resulting rise in fuel prices have brought cost-of-living concerns back to the forefront of voters' minds after the re-escalation in the Middle East. Few inflation components are as politically sensitive as gasoline prices, which have broad pass-through effects across the economy. The national average price of regular gasoline rose from USD4.071 per gallon at end-August to USD4.478 by September, increasing by around 10% over a three-week period. The increase is even more striking when viewed against January's reading of USD2.796 per gallon, with prices up 60.2%.

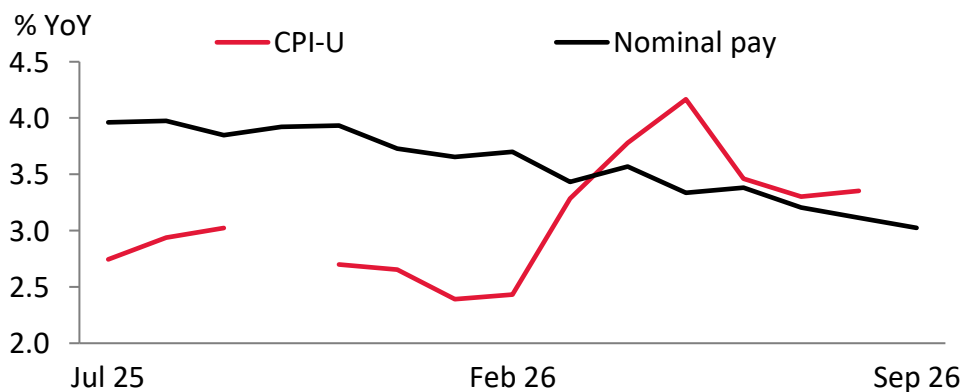
Regular gasoline rose by USD1.13



Source: EIA, OCBC Group Research.

The timing of recent re-escalations is politically uncomfortable because concerns over household expenses were already elevated. In the latest Reuters/Ipsos survey, just 17% of Americans approved of President Trump's handling of the cost of living, making it one of the administration's weakest-rated economic issues.

CPI exceeds pay growth



Source: BLS, OCBC Group Research.

Despite a robust labour market, pressure is also visible on the income side. Average hourly earnings rose 3.0% YoY in September, but the latest consumer prices increased by 3.4%. As a result, real average hourly earnings fell 0.4% YoY. The disconnect helps explain why household sentiment remains subdued despite solid headline growth. Higher gasoline prices and wages struggling to keep pace with inflation are putting renewed pressure on purchasing power. There will likely be a political cost for the incumbent party at the ballot box.

Possible permutations for Congress

November's election will decide which party President Trump works with on the budget and broader policy agenda. Major decisions are already approaching, including funding for the Iran conflict, the next fiscal package, and Medicaid reforms. These debates come at a time of rising fuel prices and renewed Fed tightening. The four scenarios below show how different congressional outcomes could affect policy and the economy.

Congress	Political implications	Economic implications
Democratic House + Democratic Senate (62% implied probability)	Democrats could push ahead on Iran and healthcare in both chambers, but Trump could still veto any bill they pass.	Democrats would have the most power to check President Trump's agendas in this scenario – further tax cuts and federal spending will be curtailed, and the next 2 years will be focused on oversight rather than new policies
Democratic House + Republican Senate (29% implied probability)	Democrats would have a say over any budget decisions left unresolved and could negotiate the terms of more Iran funding. Republicans would still control Senate appointments.	Democrats could protect some domestic spending from cuts, but that could mean more borrowing. The war costs alone are unlikely to change the fiscal picture much.
Republican House + Democratic Senate (1% implied probability)	Republicans could pass Trump's proposals in the House, but would need Senate Democrats to agree. Democrats would also have a say over appointments and could challenge his tariff powers.	Uncertainty over tariffs could weigh on business costs and investment. Any new tax or spending deal would need support from both parties.
Republican House + Republican Senate (10% implied probability)	Trump would have the easiest path to pursue his agenda, though he would still need Republicans to agree among themselves.	More spending could go to defence and less to domestic programmes. Extra borrowing could add to pressure on Treasury yields.

Source: Polymarket, OCBC Group Research.

Democratic House + Democratic Senate

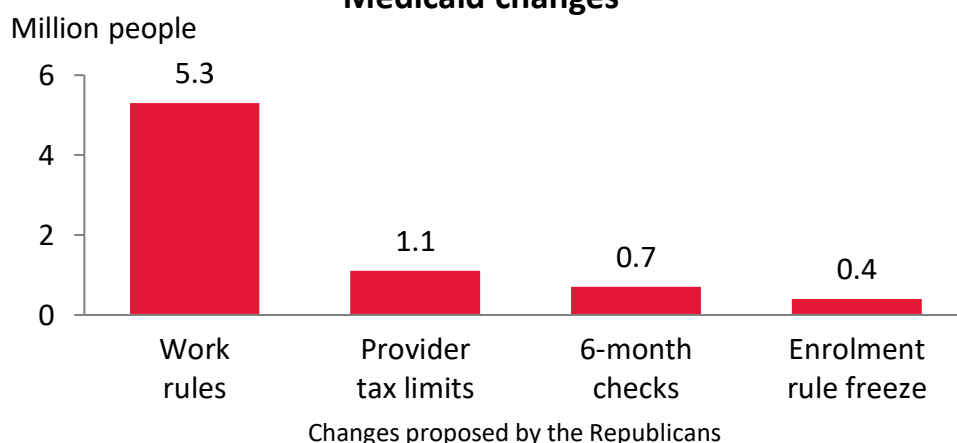
Political implications: A Democratic sweep of Congress is the most likely outcome. Democratic control over Congress would give the party the power to push back against President Trump through legislation, investigations and appointments. However, it would stop well short of giving the party full control over policy. Democrats would be able to bring issues such as Iran and healthcare to the floor and approve them in the Senate. President Trump would still retain the power to veto legislation. This means any major reversal of existing laws would still require either cooperation from the White House or enough bipartisan support to override a presidential veto.

Iran could provide an early test case for coordinated congressional action. On 24 September, the Senate narrowly rejected a measure to restrict military action against Iran without congressional authorisation, with the vote failing 50-49 despite support from four Republicans. A Democratic-controlled Congress would likely revisit the issue, with the ability to advance similar legislation through both chambers. However, securing passage would not

resolve the matter, as any legislation would still need to survive a presidential veto, which is unlikely to happen.

Healthcare could emerge as an important area of focus if Democrats gain control of Congress. On 22 September, the Center for Medicare & Medicaid Services (CMS) cancelled 315,000 health insurance plans after determining that they had not been properly approved. The move affected more than 760,000 individuals but is expected to save the government roughly USD2.2bn in tax-credit payments. A Democratic Congress would likely scrutinise the decision by investigating how the approval failures occurred and whether affected individuals were given adequate opportunities to appeal the cancellations.

7.5m people to be uninsured if Repulicans pass Medicaid changes



Source: CBO, OCBC Group Research.

Economic implications: A Democratic sweep of Congress reduces the scope for further debt-funded tax cuts, which could be seen as a positive for fiscal savings. With Trump still in the White House, passing large new tax or spending packages would become more difficult, potentially limiting future federal borrowing relative to a scenario of continued Republican control.

With the Democrats eager to check President Trump's war powers, tension with Iran could ease and there is an increased likelihood that Gulf energy supplies would normalise, reducing pressure on oil prices and inflation. Any near-term relief for households would still hinge on whether Democrats and the White House can reach agreement on measures to offset higher energy costs, a difficult outcome given the strained relationship between the two sides.

Meanwhile, new federal Medicaid rules take effect on 1 January 2027, just two days before the next Congress is sworn in. Enacted under the Working Families Tax Cut Legislation, this law requires non-disabled adults aged 19–64 to log 80 hours a month of work, education, or community service to retain their health insurance. The law has faced strong opposition from Democrats, who have pledged to delay, amend or repeal the new requirements. However congressional control alone would not be sufficient. Any legislative changes would still require President Trump's approval or enough support in Congress to overcome a veto, which is unlikely to happen.

On AI, Democratic control could bring greater scrutiny of the costs that data-centre expansion imposes on electricity systems and local communities. Policymakers may push for developers

to shoulder more of the cost of grid upgrades, while imposing stricter environmental and community-impact requirements.

Nonetheless, a Democratic House and Senate scenario would give the Democrats the most power to curtail President Trump's economic agendas, including restricting use of the budget reconciliation process. Tax-friendly policies will also be curtailed, including President Trump's recent proposal for the federal gasoline tax to be axed.

Democratic House + Republican Senate

Political implications: A Democratic House would likely constrain President Trump on future budget negotiations. However, how much influence Democrats ultimately wield will depend on what the current Congress can complete before leaving office on 3 January 2027. The current funding law signed on 2 September expires on 11 December. If lawmakers can agree on a full-year budget before then, much of the FY2027 spending debate could be settled before Democrats take control of the House.

For 2027, one likely area of disagreement would be the administration's plan to shift resources from domestic programmes towards defence, as Democrats could push back against some of the proposed cuts or seek to delay them. If the Iran conflict stretches into next year, funding for the war would also be part of the debate. According to the CBO, the Pentagon had incurred roughly USD38bn in additional conflict-related costs through 1 August, with the war costing a further USD2-3bn per month. If the administration requests additional funding in 2027, House Democrats are highly likely to block the request.

A Republican-controlled Senate could still give Trump substantial room to shape the administration through appointments to judicial or regulatory posts, even if a Democratic House blocked part of his legislative agenda. This would include Fed Vice Chair Philip Jefferson's four-year term, which expires in September 2027. However, the macro significance should not be overstated given that his underlying Board term runs until 2036 and monetary policy is set collectively by the FOMC.

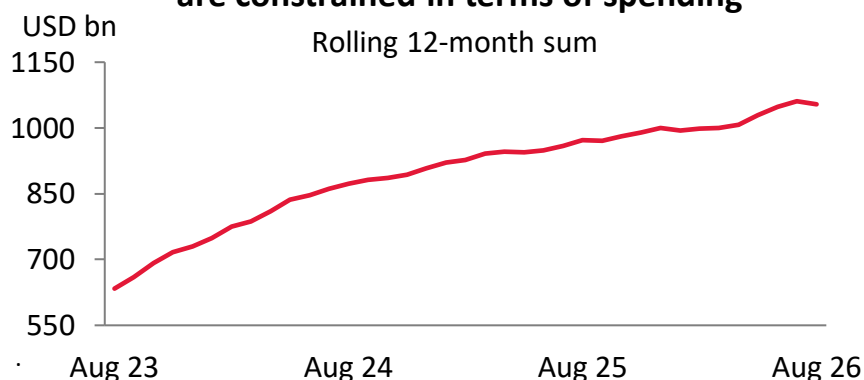
Economic implications: We mentioned earlier that funding for the Iran war is likely to be a large part of any fiscal debate if the Democrats win the House and control the purse strings. What we failed to mention was that any additional cost of the war is minute compared to the whole defence budget. The aforementioned USD38bn for the Iran war amounts to only 4% of annual defence spending and only 0.5% of overall federal outlays. The ongoing costs of USD2-3bn are not prohibitive and are unlikely to change the overall fiscal picture, despite the press narrative. Hence, any impact on Treasury issuance is likely to be modest.

Still, the Iran war could give the Democrats leverage over the wider budget. Any additional war funding would have to pass Congress, giving Democrats an opportunity to make their support conditional on increasing spending on domestic priorities like healthcare and education. The current administration's FY2027 budget proposes USD1.15tn of defence spending, around USD251bn more than FY2026, while seeking sizeable reductions in other domestic programmes. With the Democrats likely to push their own agenda, a political compromise is increasingly looking like a scenario in which everyone gets what they want and taxpayers pick up the bill. Under such an outcome, a Democratic House would not necessarily lead to tighter fiscal policy, especially if Democrats seek to cushion inflationary pressure by providing direct fuel relief.

With fiscal spending set to remain elevated and the ensuing financing pressure on the government likely to increase, the Federal Reserve will be in a tough spot, despite perceived independence. President Trump has repeatedly pushed for rates as low as 1%. He argues that lower rates can ease the government's interest burden. However, Fed officials have warned that cutting rates to ease fiscal financing could backfire by lifting inflation expectations and

long-term borrowing costs. The Federal Reserve could find itself in an unusual position in 2027. Faced with a divided Congress, mounting fiscal pressures, and an assertive president, the Federal Reserve may find itself pressured to respond to movements in yields rather than occupying its more familiar role of deciding them. However, we do not expect this to be the base case.

Higher interest outlays means both parties are constrained in terms of spending



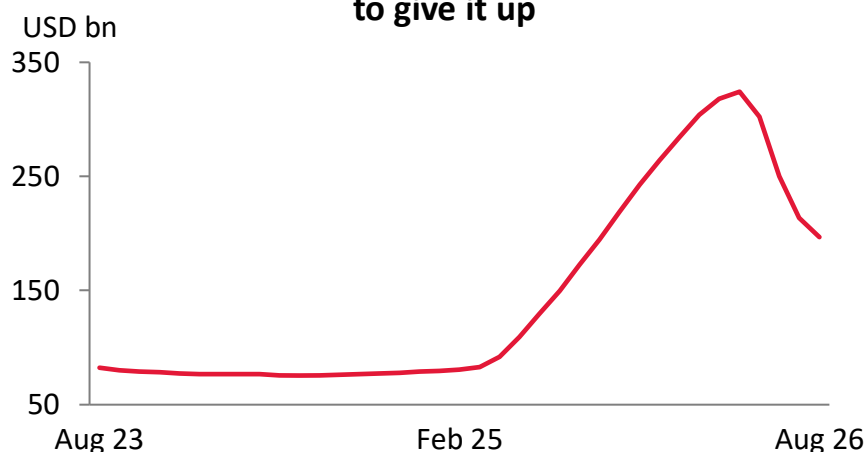
Source: US Treasury, OCBC Group Research.

Republican House + Democratic Senate

Political implications: A Republican House/Democratic Senate would give President Trump an easier route to advance his tax, defence and spending agenda through the House. However, many of the implications for a divided Congress would still hold in the event of a Republican House and a Democratic Senate. The main political change would be the latter's control over appointments and its ability to block or reshape legislation coming from a Republican House. The House could still pass Trump's preferred tax and spending measures, in addition to higher spending on the Iran war. However, they would likely be blocked in the Senate before becoming law. Like the previous scenario of a Democratic House and a Republican Senate, this would force more negotiations across party lines.

Economic implications: On tariffs, a Republican House could advance trade legislation broadly consistent with the administration's approach. However, any measures would still have to pass a Democratic Senate. The Senate Finance Committee has explicit jurisdiction over tariffs, import quotas, reciprocal trade agreements and USTR. This would give Senate Democrats the ability to amend measures or block nominees. Hence, this would give Democrats more leverage over the institutional direction of trade policy than in the reverse split. The Congressional Trade Powers Reform Act of 2026, introduced by Senate Finance Committee Democrat Ron Wyden, provides a glimpse of how a Democratic Senate could seek to constrain executive authority on trade. The bill would require congressional approval for new tariffs and create a bipartisan review mechanism for tariff actions. It would also strengthen congressional oversight of trade agreements and subject the USTR to greater scrutiny. The legislation is unlikely to become law, given the need for presidential sign-off. Even so, it sends an important political signal that Democrats are increasingly determined to rein in President Trump's unilateral trade powers if they take over the Senate. This may reduce the credibility of an immediate tariff-escalation threat in negotiations with China after the trade truce expires on 10 January. However, bipartisan support for restrictions in strategic sectors means Beijing should not interpret Democratic control as a broader softening of US-China policy.

Tariff revenue lower but neither party likely to give it up



Source: US Treasury, OCBC Group Research.

Republican House + Republican Senate

Political implications: Republican control of both chambers would allow the administration to pursue its tax and spending agenda without negotiating with an opposition-controlled chamber. Its priorities are already apparent in the FY2027 budget request: more spending on defence and less on domestic discretionary programmes.

However, agreement within the Republican Party would remain important, particularly over Iran. There were four Republican senators who supported September's war-powers resolution, which shows that party control of Congress does not guarantee support for every aspect of the administration's approach. Finally, if Republicans retain Congress, Donald Trump can pass major tax and spending laws with a simple 51-vote majority using a budget shortcut. However, he will still need to negotiate with Democrats to get the 60 votes required to pass standard bills.

Economic implications: A Republican-controlled House and Senate would mean a unified government, which is unlikely to be deficit-friendly as the Republicans can continue to increase spending and their tax cuts. Federal spending priorities would likely tilt further towards defence. Relative to its updated current-law baseline, the Congressional Budget Office estimates that the President's FY2027 budget proposals would increase discretionary defence spending by USD2.4tn over FY2027–2036. Over the same period, non-defence discretionary spending would be reduced by USD2.6tn, while mandatory spending would rise by USD351bn, largely due to defence-related programmes. Higher defence spending could benefit equipment manufacturers, contractors and associated employment, while reductions in domestic spending could weigh on funding for public services and grant programmes.

Importantly, the proposed spending increases are front-loaded, while most of the projected domestic savings accumulate gradually over time. As a result, the CBO expects total spending, excluding debt-servicing costs, to be higher in the initial years under the proposals, potentially increasing near-term borrowing requirements despite sizeable cuts over the full decade.

In the financial sector, unified Republican control could support ongoing efforts to ease or refine bank capital requirements. In September, Federal Reserve Vice Chair for Supervision Michelle Bowman said she expected reforms to risk-based capital rules and the supplementary capital requirement for the largest banks to be finalised before the end of 2026. While this is scheduled to be completed before the new Congress takes over, unified

Republican control would create a more favourable regulatory environment for banks, supporting ongoing efforts to ease capital requirements.

We assess that Republican control of both chambers is likely to be worst scenario for the sizeable budget deficit. The deficit already reached USD2.0tn in the first 11 months of FY2026 and shows no signs of slowing down. Further borrowing to fund fiscal support could add to inflation and worries over the debt outlook, ultimately pushing Treasury yields and refinancing costs higher.

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