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Economic Briefing

Big win for Democrats

4 November 2026

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In the U.S. midterm elections, the sharp shift toward the Democrats that pollsters had projected has materialized. Democrats are poised to capture majorities in both chambers of Congress. They even scored victories in traditionally Republican strongholds such as Texas. The outcome is so decisive that it has defused any debate over potential election manipulation. For President Trump, who has already acknowledged the defeat, the result represents a significant setback. In the final two years of his term, he is now likely to rely even more heavily on executive orders and foreign policy, areas in which the president enjoys greater freedom of action and faces fewer constraints from Congress.

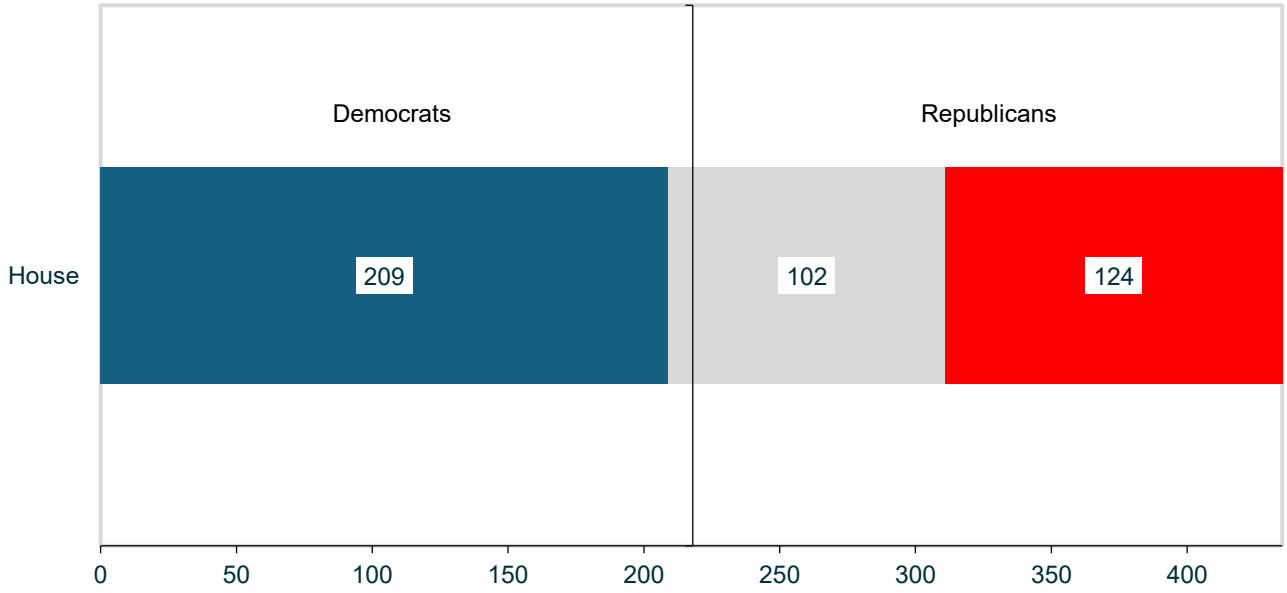
In yesterday's congressional elections, President Trump's Republicans appear to have suffered the substantial defeat that had been widely anticipated. In fact, the Democrats seem to have performed even better than most polls had suggested. Until now, Republicans held majorities in both chambers of Congress. The balance of power has now shifted decisively in favor of the Democrats, giving them significantly greater influence over the legislative agenda and the broader direction of U.S. politics.

Democrats on track for clear majority in both houses ...

In the House of Representatives, where all seats were up for election, Republicans previously held a majority of 219 to 214 seats, with two vacancies. Based on the current vote count, the **Associated Press** projects that Democrats have secured 209 seats, while Republicans have won only 124 (Chart 1). Another 102 races remain undecided.

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Chart 1 - Democrats likely to win majority in House
Seats in the House of Representatives, AP estimates as of 07:00 CET. Grey: not yet called



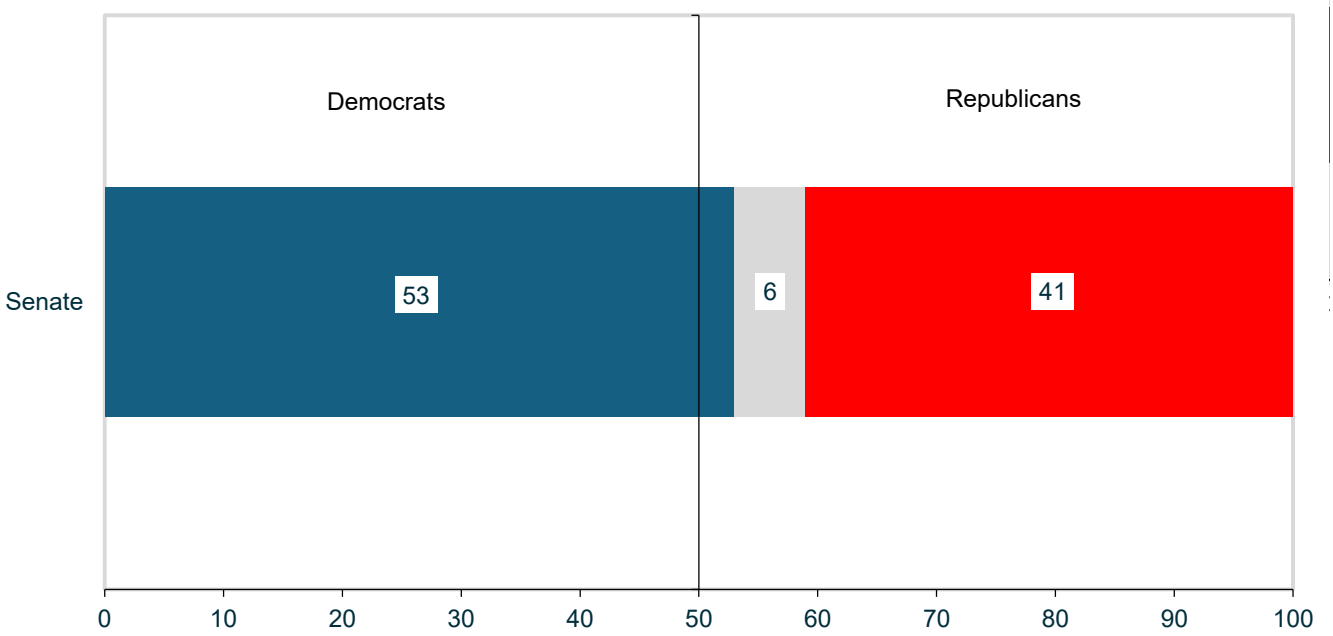
Source: AP, Commerzbank-Research

... and in the Senate as well

In the Senate, the polls were less clear-cut regarding a Democratic victory. Only 35 of the 100 senators were up for election to six-year terms (one third of the Senate is elected every two years). Until now, the Republicans had held a 53–47 majority, with the two independent senators counted among the Democrats because they caucus with them.

So far, the Democrats have gained at least six additional seats: in Ohio, South Carolina, North Carolina, Kansas, Iowa, and Texas (Chart 2). Even in deeply Republican Texas, the Democratic candidate is currently twelve percentage points ahead of the Republican candidate. The last time Democrats won a Senate seat in Texas was in 1988. Further gains are possible, for example in Maine.

Chart 2 - Democrats win majority in Senate
Senate election results, AP estimates as of 07:00 CET. Grey: not yet called



Source: AP, Commerzbank Research

Our first take

Historically, the US president's party almost always has a hard time in midterm elections. According to polls, the main negative issue this time was high inflation. Solid growth and the stable labor market, on the other hand, took a back seat. In addition, the Republican candidates suffered from President Trump's low popularity.

The issue of artificial intelligence/data centers, which is a concern for many voters, may also have played a role. In some states, such as Texas, Ohio and Georgia, where the expansion of data centers is being particularly promoted, the Republican governors were voted out of office. This could slow down the expansion plans.

Among the Democrats, the discussion of direction is likely to continue. On the one hand, the left wing of the party (DSA, Democratic Socialists of America) is likely to feel vindicated, as a number of its representatives were elected. On the other hand, moderate Democrats achieved spectacular successes on what is typically Republican terrain. Another argument against a clear shift to the left of the voters is that the proposal for a wealth tax for billionaires in California was probably rejected (**current status** 57% rejection after half of the votes were counted).

Implications

The clarity of the victory has pulled the rug out from under debates about election manipulation at an early stage. This should have put an end to the risk scenario of contested elections, a prolonged phase of uncertainty and, in the end, even an erosion of the rule of law.

Despite the majority in both chambers of Congress, however, the Democrats have little room for manoeuvre. For example, many Senate decisions require 60 votes to overcome procedural hurdles. Even if there were enough "defectors" from the ranks of Republicans in individual votes, the Democrats' agenda would be stopped by a presidential veto at the latest, such as a reversal of cuts in the health care system or restrictions on the ICE immigration agency. Congress could only lift such a veto with an unrealistic two-thirds majority in both chambers.

This means that a far-reaching legislative blockade is likely. At the same time, Republican plans for further deregulation, tax cuts or reforms in social benefits, for example, would meet with considerable resistance in the Democratic-controlled Congress.

A plus point of the election result from the Democrats' point of view, however, is the expanded parliamentary possibilities as a majority faction. For example, the committee chairs would be provided and investigations into the activities of the Trump administration in the

last two years could be initiated. How far this would ultimately lead after the experience with the impeachment proceedings against Trump, however, remains open. In addition, the Department of Justice could let some of these investigations fizzle out.

It is also important that the Democrats can block appointments of the Trump administration with a Senate majority. This applies, for example, to governors of the Federal Reserve. For example, former Fed Chairman Powell must vacate his current post as "regular" governor by January 2028 at the latest. A Democratic majority in the Senate would certainly prevent a Trump loyalist from taking over the post. For Trump's attack on the independence of the US Federal Reserve, a loss of the Republican majority in the Senate is therefore a decisive setback.

In the absence of parliamentary majorities, President Trump will probably rely largely on executive orders in the future and focus on those areas of politics in which the president has great leeway. This is especially true for foreign policy. The tariffs issue is therefore likely to be retained, even if Trump had to look for other legal bases after legal defeats. In any case, in view of the existing fundamental differences of opinion between Trump and most European governments on many international issues, Trump's more intensive foreign policy activities could become unpleasant for Europe.

At the same time, the risk of budget conflicts remains high. These could be ignited, for example, by the financing of the Iran war. Currently, the federal budget is secured by means of transitional financing until December 11, 2026. By then, either a regular budget for the fiscal year that has been running since October 1 must be adopted or another bridge financing ('continuing resolution') must be adopted. Otherwise, there is a risk of a government shutdown, similar to the one in the fourth quarter of 2025.

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This report was completed 4/11/2026 07:37 CET and disseminated 4/11/2026 07:37 CET.

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