# US midterms – a reckoning for Trump

Midterm elections for Congress are scheduled for Tuesday in the U.S. Polls suggest significant losses for the Republicans. Presumably, not much would change in the second half of Trump's term, provided the Republicans accept defeat.

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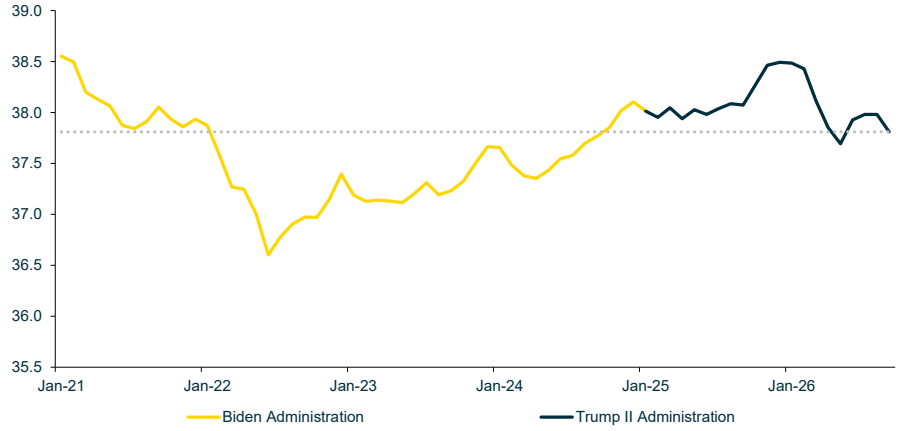
## Trump's poll numbers are at rock-bottom levels, ...

Next Tuesday, Americans will elect a new Congress. All 435 seats in the House of Representatives and 35 of the 100 Senate seats are up for election. The Republicans, who currently hold a majority in both chambers, are heading into the Midterms with a serious handicap: President Trump's approval ratings are extremely low. Most recently, only 38% of Americans said they were satisfied with his performance in office, while 60% were dissatisfied. With a net approval rating of -22%, Trump is currently faring even worse than his equally unpopular predecessor, Biden, who had a net approval rating of -11% at the same point in his term (cover chart).

## ... because inflation has risen again, ...

The main reason for Trump's low approval ratings is likely that he failed to keep his promise to lower prices starting on Day 1 of his administration. On the contrary: His policies—the imposition of tariffs and the war with Iran, which led to a spike in energy prices—have reignited inflation. Rising rents, food prices, and gas prices are therefore playing a prominent role in the election campaign. The Democrats are focusing on "affordability"—that is, the ability to make ends meet without financial hardship. Real hourly wages are currently lower than they were when Trump took office in January 2025 and even lower than they were at the start of the Biden administration nearly six years ago (Chart 1).

Chart 1 - Real hourly earnings are lower than at Trump's inauguration
Average hourly earnings, in September 2026 dollars. Dotted line: most recent reading




Source: BLS, Commerzbank Research

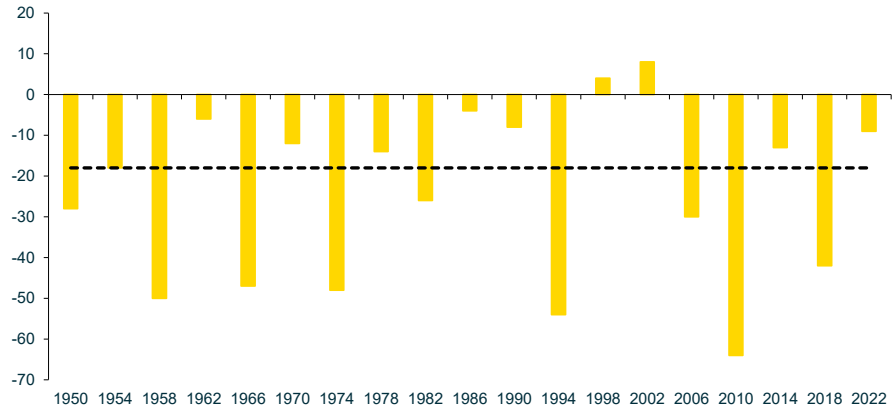
## ... which points to a Republican defeat, ...

Even with a president more popular than Trump, the sitting president's party has usually suffered losses in the House of Representatives during midterm elections. Since 1950, those losses have averaged just under 20 seats (Chart 2). There have been only a few exceptions, such as the 2002 elections, the year after the attacks on the World Trade Center.

This time around, too, the Republicans are likely to lose their already very slim majority of four seats. Even the redistricting they have pushed for is unlikely to change that. Current polls suggest that the Democrats will gain at least 20 seats and thus become the majority party.

Chart 2 - President's party usually loses Midterms

Seats in the House of Representatives gained (+) or lost (-) by the President's party. Dashed line: median loss




Source: House of Representatives, Commerzbank Research

In the Senate, it initially looked as though the Republicans might narrowly hold onto their majority (they currently have 53 senators), especially since a 50-50 split would be enough for them—as the vice president's vote breaks a tie. Furthermore, the ruling party has not suffered as frequent defeats in Senate midterm elections as it has in the House of Representatives. After all, not all senators are up for re-election—only about one-third. Under favorable circumstances, the ruling party can therefore perform relatively well. This was evident, for example, in the 2018 midterm elections during Trump's first term, when the Republicans gained one Senate seat while losing more than 40 seats in the House of Representatives.

In recent weeks, however, the tide has also turned in the Senate race. Now, even in Texas—a state that has long been "red," meaning Republican-dominated—the Democratic Senate candidate is a slight favorite. With the election approaching, polls suggest the Democrats could gain up to five additional seats, which would give them a majority in this chamber as well.

## … while the Democrats are likely to win both chambers of Congress

From today's perspective, it is highly probable that the Democrats will win the House of Representatives; betting markets assign a probability of well over 90% to this scenario. In addition, they are also likely to secure a majority in the Senate; betting markets assign a probability of at least two-thirds to this outcome.

The theoretically possible outcome—that the Republicans would retain their majorities in both chambers—is extremely unlikely. This would run counter to all political trends and would be an unprecedented disaster for the institutions conducting the election polls.

## The consequences for the U.S., …

In the months following the midterm elections, attention in the U.S. tends to focus more and more on the presidential election scheduled two years later—especially when, as in Trump's case, the incumbent president is ineligible to run again. In such cases, politicians and the media increasingly turn their attention to the question of who will succeed him. If Trump suffers a decisive defeat in the midterm elections, his loss of authority is likely to be even more pronounced, as he would be perceived even more strongly as a "lame duck" without a majority in both chambers of Congress.

This is further exacerbated by the fact that the Democrats, with a majority in the House of Representatives, would gain additional powers. They would then be able to appoint all committee chairs, initiate investigations and subpoenas—including, albeit a largely symbolic one, the impeachment of the president—and determine the legislative calendar (i.e., which bills are debated and voted on). Furthermore, under the U.S. Constitution, budgetary authority rests with the House of Representatives, which means that all bills concerning federal revenue and spending must originate there. If—as is to be feared—no agreement is reached between the administration and Congress, there is a risk of another "shutdown," meaning the closure of many federal agencies. Currently, funding for the federal government is only in place through December 11 of this year.

With all these options, the Democrats could make life difficult for President Trump politically. Trump would then likely rely even more heavily on executive orders than he has so far. After all, since Trump's election—not least due to decisions by the Supreme Court—the administration's position vis-à-vis Congress has been strengthened. According to the latest court rulings, the president can effectively dismiss the heads of the top agencies at will, with the exception of the Federal Reserve.

A loss of the Republican majority in the Senate would be a decisive setback for Trump's attack on the independence of the Federal Reserve. Without a majority in the Senate, Trump cannot fill open positions at the Fed Board as he sees fit.

## … the rest of the world …

Domestically, not much is likely to get done from here on out. From an economic policy perspective, Trump will be able to weather this, since he already pushed through much of his agenda last year with the "One Big Beautiful Bill." As a result, Trump will likely focus more on foreign policy, where he can act more freely and independently of Congress. This focus poses considerable risks to the global economy:

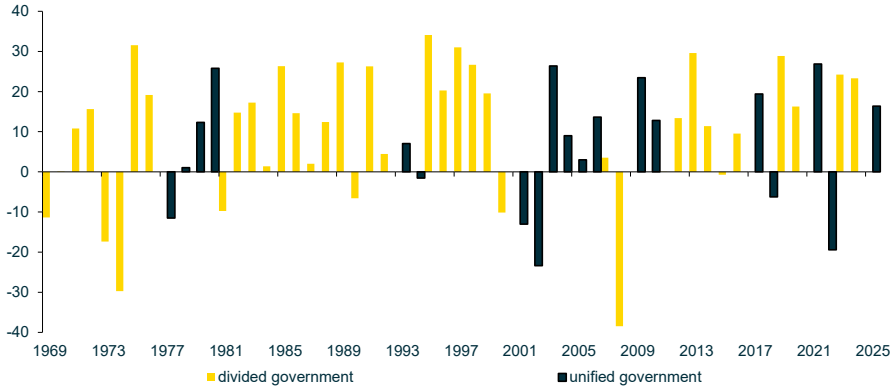
- **Escalation of the Middle East crisis:** According to press reports, Trump might try once again after the election to force Iran to back down through renewed attacks. The deployment of additional troops to the Middle East lends these reports added credibility. It is uncertain whether the U.S. would have more success with a more aggressive approach than it did in the spring. It is fairly certain, however, that prices for oil and petroleum products would then rise, with corresponding consequences for inflation and growth.
- **Strain on relations with Europe:** Trump could align himself even more closely with Russia to force Ukraine to back down and thereby bring the war to an end after all. The EU's security interests would once again take a back seat, and NATO would come under further strain.
- **New rounds of tariffs:** Trade conflicts have generally subsided recently, and the effective U.S. tariff rate has fallen slightly again over the course of this year. Trump could ramp up tariffs here, especially since he could cite several major investment announcements by foreign companies in the U.S. as evidence of the tariffs' success.

## … and the markets

A "divided government," in which the president's party did not hold a majority in both chambers of Congress, has been the rule rather than the exception over the past 50 years. Yet these were not necessarily bad times for the capital markets. This is likely due in part to the fact that such a situation undermined extreme ideological approaches. For example, since 1969, the S&P 500 Index has risen by an average of 9% per year under a "divided government," outperforming the 5% average under a "unified government" (Chart 3).

With regard to the dollar, we have often emphasized that the greatest risks likely lie in the areas of trade and foreign policy. This is because these areas present the greatest potential to undermine the dollar's dominance as the world's reserve currency. And these risks are likely to persist after the election. We therefore remain skeptical about the dollar. USD investors should be prepared for the possibility that, even after the midterm elections, hedging against exchange rate fluctuations could once again become significantly more expensive at any time.

Chart 3 - Divided government the rule, not the exception
S&P 500 stock market index, annual performance in %




Source: Bloomberg, Commerzbank Research

## Will the Republicans accept defeat? The risk scenario

Our baseline scenario does not take into account the possibility of disputed election results, nor the possibility that elected officials will be denied taking office. In this context, an opinion piece by former U.S. Treasury Secretary Rubin caused a stir a few days ago [1]. In it, he discusses the risk that Donald Trump and the Republicans will refuse to accept defeat. Instead, they might attempt to manipulate election results or prevent the House of Representatives from convening, should it secure the expected Democratic majority. Procedural rules and regulations theoretically provide avenues for doing so. In any case, a wave of lawsuits and demonstrations would likely follow. Threats to public order could then be fabricated, which in turn could be used to justify the use of federal power. Trump's behavior following his loss in the 2020 presidential election has led some observers to fear a serious constitutional and domestic political crisis. The U.S.'s reputation as a nation governed by the rule of law would be at risk. Yet it is precisely this reliable institutional framework that is likely one of the main reasons for the country's economic success. If this pillar were undermined, there would be a risk of capital flight.

One might consider these fears exaggerated; after all, Trump failed in his attempts to impose federal mandates on elections (the "SAVE America Act")—which many viewed as an effort to make it harder for minorities to vote. Furthermore, the states have invested significant

funds to improve election procedures and make fraud more difficult. However, the mere fact that such scenarios are even being discussed by serious figures like Rubin is noteworthy. We therefore assign such a scenario only a low probability—though one that is greater than zero.

## Outlook for 2028

Many observers will be scrutinizing the election results for their implications for the next presidential election in 2028. In general, a Democratic victory next week would likely fuel expectations that there will also be a change in political leadership in the White House two years from now. This would shift the political focus to the potential presidential candidates from the Democratic and Republican parties.

Within the Democratic Party, the question is whether the party's left wing will continue to gain ground if its candidates perform well. The same applies to the Republicans, where the dominance of MAGA candidates could be confirmed. This would further fuel political polarization—though it would leave open the big question of which side the growing number of independent voters will choose. For the presidential election in two years, in addition to the choice of candidates, the economic outlook leading up to the election and whether inflation noticeably eases are likely to be key factors.

### Box: Election Schedule for November 3

- The first polling places in parts of Indiana and Kentucky will close on Tuesday, November 3, at midnight German time.
- The last polling places in parts of Alaska will close on Wednesday at 7 a.m. German time.
- Key Senate races: Maine, Ohio, Texas, Iowa, Kansas. In addition, the races in Minnesota, Michigan, South Carolina, and Alaska could be close.
- It may take some time before the winners are determined. In 2024, the winner of the Pennsylvania Senate seat wasn't determined until November 21—16 days after the election. If the balance of power in Congress depends on such seats, this would mean a period of uncertainty.
- The new Congress will convene in early January 2027.

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[1] Robert E. Rubin "In Six Decades of Public Life, I Never Thought I Would Write This Piece", New York Times, 21 October 2026 (back to text)

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