Brian Gardner
Chief Washington Policy Strategist
bgardner@stifel.com

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WASHINGTON POLICY STRATEGY

Potomac Perspective

With the midterm elections approaching, we thought it was time to provide an update. Our base case continues to be that Democrats will re-take the House and that Republicans will retain the Senate. We discuss what a Democratic win could mean for certain sectors and how policy may, or may not, change. Following that, we explain why we think a Democratic takeover of the House is likely, but by a smaller margin than has occurred in past elections. We also present our reasons why we think that Republicans are currently favored to win the Senate.

- Implications if Democrats Win – We do not anticipate major policy changes even if Democrats win either the House or Senate in the midterm elections.
    - **A Democratic Congress won't be able to block or roll back the Trump agenda** – President Trump can veto whatever legislation Congress sends him and the odds that Congress will be able to override the veto will be low.
    - **Slowing, but not stopping, the regulatory agenda** – Democratic investigations and inquiries will consume time and resources at executive agencies, but Democrats will lack the tools to block the Trump regulatory agenda. They could slow down the administration's agenda but not stop it. A Democratic Senate will try to block some Trump nominees, but the Biden administration and the first Trump administration both demonstrated how to use "acting" agency heads to circumvent the confirmation process.
    - **Private sector impact** – We expect a Democratic congressional majority will investigate the Trump administration and that these inquiries might have implications for the private sector. Probes into administration actions could reveal communication between companies and the administration that could paint certain firms and sectors in a negative light. For example, companies that have not requested refunds for tariffs paid (that were later struck down by the courts) will probably be asked about their motivations and about communications with the White House regarding this matter. Democrats are also expected to lean into issues that they think will help them in 2028. Some sectors that could be seen as valuable scapegoats for voters' anxieties include:
        - Technology and social media
        - Pharmaceuticals and healthcare insurers
        - Energy
        - Defense
        - Cryptocurrencies
        - Financial services
    - **Greater risk of shutdowns** – The Democratic base, which is having its "Tea Party moment," will find it difficult to compromise with the Trump administration regarding government funding levels. This would increase the chances of lengthy government shutdowns over the next two years.
- Implications of a Republican Win – Republicans would, obviously, breathe a sigh of relief if they defy history and keep their majority in the House. However, any majority would be by a slim margin which would limit what the party can do. The challenges of passing legislation with their current narrow majority have been evident over the first two years of the Trump

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administration. The White House would avoid the investigations that are expected under a Democratic House, but passing legislation would not be much easier than it has been to this point.

- House Outlook – *A Democratic takeover of the House remains our base case* despite developments regarding redistricting in several states. Recent Supreme Court decisions related to the Voting Rights Act and campaign finance laws, as well as a reversal of Virginia's redistricting efforts, place a ceiling on potential Democratic gains. These developments do not, however, negate the Democrats' other advantages.
  - Democrats need to gain only three seats, net, in order to retake the House. History suggests that this is highly likely.
  - Since World War II, the average gain for the party not holding the White House is 25 seats. During that time, there have been only two instances when the party out of power failed to gain seats – 1998 and 2002. In those midterm elections, the job approval ratings for the sitting Presidents (Bill Clinton and George W. Bush) were in the 60s. President Trump's job approval rating is currently 41% according to the RealClearPolitics (RCP) average. Midterm elections are typically a referendum on the sitting president and Mr. Trump's poll numbers are similar, if not lower, than the poll numbers of other presidents whose party has suffered losses in past midterms.
  - Democrats currently hold a 5.1-point lead in RCP's average generic congressional ballot, which we view as a decent proxy for the outcome of the race for the House majority. The Democrats' current lead signals that the party will win more than enough seats to flip the House.
  - Lastly, special elections held since the 2024 election and the 2025 state and local elections all show a similar pattern. In races across the country, there has been a significant shift towards the Democrats and away from the Republicans when compared to the results of the 2024 election.
  - Although we think Democrats' chances of regaining the House are quite high, **we also believe that their gains will probably be lower than the 25-seat average gain during the post WWII era. It is still early and the situation is fluid, but we think gains between 10 and 20 seats are likely.**
  - **We currently think the Democrats' chances of winning the House are around 90%. For context, Kalshi currently has the probability at 84%.**
- Senate Outlook – In our view**, the probability of Republicans retaining the Senate is around 60%. Kalshi currently has the probability at 56%**. Currently, we are following 10 races that will decide control of the Senate. Republicans are defending seven of these seats while Democrats are defending the other three. Despite the fact that Democrats have more pick-up opportunities, many of these races are being contested on Republican turf which makes the Democrats' task difficult. A Democratic gain in North Carolina appears likely, and Maine is a possible pick-up, too (but far from certain). Winning two additional seats while avoiding losses of seats in Michigan and Georgia is a tall order.
  - **Key Republican seats (7) – Alaska, Iowa, Maine, North Carolina, Nebraska, Ohio, and Texas**
  - **Key Democratic seats (3) – Georgia, Michigan, and New Hampshire**
- How Republicans can defy history – If Republicans can turn the election from a referendum on President Trump into one on the Democratic Party, especially on the Democratic socialists who are ascendant within the party, then 2026 could possibly be the exception to the rule and the GOP might be able to keep control of Congress. In order for this to happen, President Trump's job approval rating would need to improve by more than the 1.5-point increase since its May 2026 low. Also, Republicans would need to turn out their base in massive numbers. The Republican National Committee (RNC) and allied super-PACs certainly have the resources and the expertise to accomplish this, but Republican voter turnout in recent primaries and special elections makes us highly skeptical about their chances.

- The Republican National Committee has an 8:1 advantage in cash-on-hand compared to the Democratic National Committee. In addition, RNC-aligned groups are sitting on large stockpiles of cash. Individual Democratic candidate campaign committees have, in some cases, outraised the Republican opponents, but the money race leans heavily towards the GOP. It remains to be seen whether this will offset the advantage in enthusiasm that Democrats seem to enjoy.

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