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WASHINGTON POLICY STRATEGY

Potomac Perspective

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Political tailwinds have benefited the financial services sector during the first two years of President Trump's term. We doubt that a Democratic win in the midterm elections would create a headwind for the industry, but in our view, it might not enjoy as strong of a following breeze as it has to this point. In this note, we discuss how the political environment could change for financials. We expect some headline risk, especially for the Global Systemically Important Banks (GSIBs). However, we expect few changes in policy, although we acknowledge an increased risk for the credit card industry.

We have also updated our thoughts on the state of the midterms. Our base case remains: The House is likely to flip, while the Republicans still maintain a slim advantage to retain the Senate (an admittedly nonconsensus view). In the Senate, Democrats lead the polls in enough races to win, but several of the leads are within the margin of error. We question whether they will hold up.

- **Financials** – Even if Democrats sweep the midterm elections, they will have limited leverage to change policies that impact the financial services sector. Due to the Senate's filibuster (which Democrats will not scrap with a Republican in the White House), a Democratic Congress will be constrained in its ability to pass legislation. A Democratic House might pass legislation, but it would likely die in the Senate. Furthermore, President Trump would have the ability to veto legislation. Overriding that would be nearly impossible. Democratic-run committees will be able to conduct investigations and request documents from federal agencies. This can slow down, but not stop, the regulatory process. Thus, the Trump administration's regulatory agenda for financials should continue, albeit at a slightly slower pace.
- **Chairs** – A change in power in Congress would mean new committee chairs and new priorities. In the House, Representative Maxine Waters (Democrat-California) is likely to reclaim the gavel at the Financial Services Committee. Although we do not view Waters as a friend of the banking industry, especially the big banks, we expect that her focus would be on housing. This could leave the sector relatively unscathed with one exception (see below). The situation on the Senate Banking Committee is more complicated. Senator Elizabeth Warren (Democrat-Massachusetts) is in line to become the chair. However, former Senator Sherrod Brown (Democrat-Ohio) is running to win back a Senate seat. If Brown were to win, he could reclaim his seniority, but it is unclear whether that includes the chairmanship of the Banking Committee. In our view, a Brown chairmanship would produce fewer negative headlines for the banking industry than would a Warren-led committee. Like Waters, we think Brown would focus on housing more than he would on the big banks. If Warren becomes chair, then we would expect a heavy focus on the Wall Street banks and more negative headlines.
- **Subsectors** – We look at several subsectors and discuss what a Democratic Congress could mean for them.
 - **Crypto** – Democrats are likely to include cryptocurrency. The industry's ties to President Trump and his family will be among their highest-priority investigations. Given that Waters, Warren, and Brown are

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crypto-critics, the chances of passing a revised CLARITY Act could be close to zero. For CLARITY, it might be “the lame duck session or never.”

- **Banks** – As noted above, some of the potential chairs will probably focus on housing rather than banking, which could be a silver lining for the industry. Democrats smell blood in the water regarding the Jeffrey Epstein scandal. As they investigate the Trump administration’s handling of the matter, their inquiries could put some large banks in a negative light to the extent that these institutions had relationships with Epstein and if the inquiries produce new information. Democrats might be more open to changes in deposit insurance, which could be a positive for the mid-sized banks. We do not see an immediate impact on bank merger activity. However, banks will be on the clock to complete larger deals as the 2028 presidential election and a possible change in merger policy approaches.
- **Credit cards** – We are skeptical that Democrats will be able to enact policy changes with President Trump still in the White House. However, a cap on credit card interest rates might be a possible exception to this rule given Trump’s previous support for the idea. A one-year cap on credit card interest rates could play well in an environment where voters are concerned about affordability (not to mention in a high-interest-rate environment). In our view, a 10% cap would probably not pass Congress since such a proposal could face even Democratic opposition. However, an alternative proposal (20%?) could have a better chance of passing. Assuming that the Credit Card Competition Act does not pass during the lame duck session (our base case), it could reemerge in 2027. With the upcoming retirement of one of its main sponsors, Senator Richard Durbin (Democrat-Illinois), the legislation’s prospects could decline as it could take some time before another Democrat emerges who is willing to devote as much political capital to the bill as Durbin has.
- **Fintech** – Congressional Democrats might conduct hearings regarding the banking regulators’ policies toward fintech, but we doubt this will be a priority for them.
- **Mortgage** – Congressional Democrats are likely to push housing legislation as part of their focus on affordability. Their agenda will likely emphasize demand-side policies, which we doubt will help the housing market. The agenda could also include an expansion of the Federal Housing Administration’s (FHA) footprint and efforts to make FHA more competitive with private mortgage insurance. Proposals could include MI cancellation (when the remaining loan balance reaches 78% of the original value). Democrats could also push down-payment assistance programs which could lower the LTV on some mortgages below 80% and eliminate, or reduce, the need for mortgage insurance coverage.
- **Capital markets** – Similar to fintech (above), a Democratic Congress could hold hearings regarding the Securities and Exchange Commission’s (SEC) deregulatory agenda as well as the SEC’s enforcement policies. This does not, however, appear to be a top priority for Democrats.
- **The Federal Reserve** – The future of Fed Governor Jerome Powell’s seat is intriguing. Powell has remained on the Board since his chairmanship ended a few months ago. It seems that he is remaining on the Board, rather than retiring, in order to protect Fed independence. If Powell does not resign from the Board by the end of the year and if the Senate flips, then we doubt that his seat will be filled before the next presidential election. This would deprive Trump of the opportunity to further remake the Fed.
- **Updated Election Forecast** – We continue to expect that Democrats will win the House and that Republicans will win the Senate. The situation remains fluid and voter anxiety over the economy and prices is making the

possibility of a Democratic sweep more likely. However, we believe that Republicans have a slight advantage to retain the Senate.

- **House** – The race for the House majority has, in our view, been over for some time. Democrats need to gain only three seats, net, to retake the House and they are well positioned to do so. Historically, the party that does not control the White House has gained seats in 17 of 19 midterm elections since World War II and the average gain has been 25 seats. Due to Republican redistricting efforts in certain states, Democrats might not meet the historical average, but we expect that they will win enough seats to flip the House. Currently, Kalshi shows a 90% probability that the Democrats will win the House. We agree with that assessment, which has been our view for quite some time.
- **Senate** – Kalshi currently indicates that Democrats have a 64% chance that they will win the Senate. We think it is too bullish regarding the Democrats’ chances, although they currently have momentum in some key races. In our view, Democrats have a 40-45% chance of winning the Senate. We acknowledge that many forecasters share Kalshi’s view. However, we think some Republican voters who are disgruntled with the President will “return home” and save enough seats to keep the Senate Republican. As we show in the following tables, many of the seats that Republicans are defending voted for Trump by double-digit margins in 2024. Democrats could win several of those seats, but we are not convinced, yet, that they will win the net four seats that they need to flip the Senate.

Key Republican Seats						
State	Republican	Democrat	RealClearPolitics Average (as of October 12, 2026)	Kalshi Odds for Incumbent Party (as of October 12, 2026)	2024 Presidential Result	Stifel Washington Policy Strategy Rating
Alaska	Sullivan	Peltola	Peltola +1.4	28%	Trump +13	Toss-up
Iowa	Hinson	Turek	Turek +0.5	58%	Trump +13	Toss-up
Kansas	Marshall	Hamilton	Marshall +0.2	63%	Trump +16	Lean R
Maine	Collins	Jackson	Jackson +1.0	43%	Harris +7	Toss-up
Nebraska	Ricketts	Osborn	Ricketts +2.0	74%	Trump +20	Likely R
North Carolina	Whatley	Cooper	Cooper +9.0	5%	Trump +3	Likely D
Ohio	Husted	Brown	Brown +3.1	40%	Trump +11	Lean D
Texas	Paxton	Talarico	Talarico +3.0	36%	Trump +14	Toss-up

Key Democratic Seats						
State	Democrat	Republican	RealClearPolitics Average (as of October 12, 2026)	Kalshi Odds (as of October 12, 2026)	2024 Presidential Results	Stifel Washington Policy Strategy Rating
Georgia	Ossoff	Collins	Ossoff +8.1	95%	Trump +2	Likely D
Michigan	El-Sayed	Rogers	El-Sayed +3.1	68%	Trump +1	Lean D
Minnesota	Flanagan	Tafoya	Flanagan +2.2	85%	Harris +4	Likely D
New Hampshire	Pappas	Sununu	Pappas +5.9	90%	Harris +3	Likely D

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