



CIO PERSPECTIVES

3 July 2026

US midterms and Why They Matter!

Happy 250th Birthday, USA! As Fourth of July barbecues sizzle, we look ahead to this autumn’s hot topic: the US midterm elections. We had the pleasure of interviewing Nicholas Van Ness, Group Chief Economist for the US at Crédit Agricole CIB, and Amy Greene, Franco-American Senior Fellow at the Institut Montaigne, renowned specialist and author on US politics, who is also a regular guest at Indosuez Wealth Management client events. The race is a close a call and the first occasion for voters nationwide to deliver a verdict on two years of Trump 2.0. The question of affordability undeniably lingers in the forefront. But are Democrats ready for the comeback? What impact can we expect from a divided government? One thing is for sure, market volatility is to be expected, but it is not motivation enough, according to our cross-asset strategist, to shy away from stock market opportunities, even if the non-negligible risk of politically motivated fiscal stimulus checks coming up to the November election could add pressure on rates.

TOWARD A DIVIDED US GOVERNMENT WITH GROUP US CHIEF ECONOMIST



An interview with Nicholas Van Ness, Chief Economist US, Crédit Agricole CIB.

Q: How is the outlook for the 2026 US midterm elections evolving?

Nicholas Van Ness: Our central scenario remains unchanged: we expect Democrats to regain control of the House of Representatives, while Republicans narrowly retain the Senate. That said, our conviction on the Senate outcome has weakened—it is now very close to a coin flip.

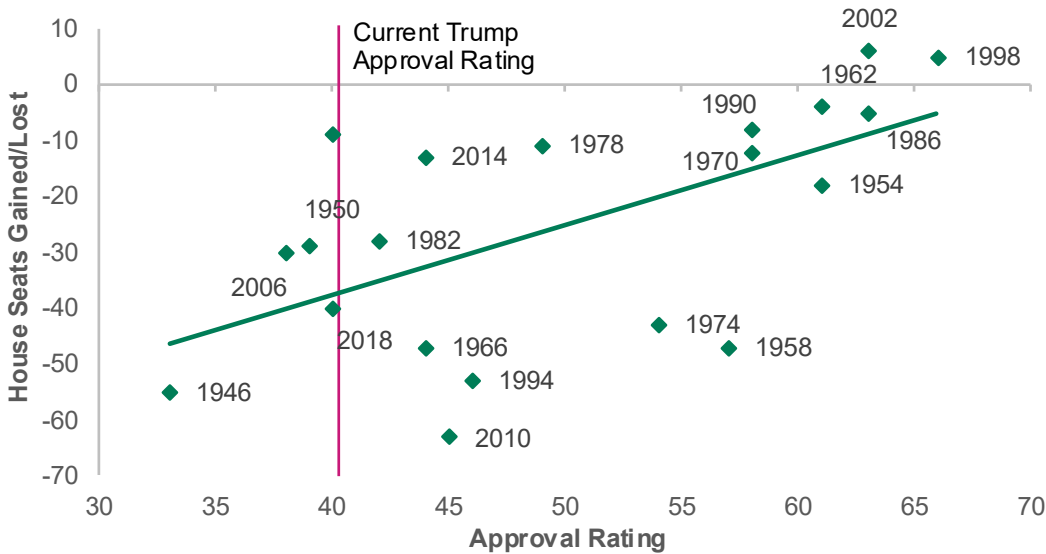
Q: Why are Republicans set to lose the House?

NVN: Before we even look at polling or any other factors that could influence the outcome, the historical pattern suggests an uphill climb for Republicans. Here, midterm elections typically see the incumbent president’s party losing seats in the House, and many times the losses involve a substantial number of seats. This is a very clear pattern as there are only two instances in the 20 midterm elections since World War II in which the president’s party has gained seats, and even then, the gains were small.

In that context, losses are far more common, and in fact they have averaged around 25 seats over this timeframe. There also tends to be a relationship with a president’s approval rating, in which lower approval ratings are correlated with a larger loss of seats. When a president’s approval rating is below 50%, for example, losses average 34 seats, and even an approval rating of above 50% sees an average loss of 14 seats. The only two instances when the incumbent president’s party has gained seats involved a president with an approval rating north of 60%. In the current situation, Donald Trump is nowhere near that threshold, with an approval rating based on the latest RealClearPolitics (RCP) average of just 40.3%. Using a simple regression, Donald Trump’s current approval rating would suggest a loss of somewhere in the neighbourhood of -40 seats (Chart 1).

Democrats only need a net gain of three seats to secure a majority, which is a relatively low hurdle. Generic congressional polling has consistently favoured Democrats this year, and betting markets also imply they have a strong chance—currently above 80%—of taking control.

Chart 1: Presidential approval rating vs. House seats gained/lost in previous midterms



Source: Gallup, RealClearPolitics, Crédit Agricole CIB.

Q: How is the Senate battle different?

NVN: The Senate can be a bit of a different animal and tends to come down to the cycle’s map, which, unlike the House, changes every two years. This is due to the fact that Senators serve six-year terms with elections staggered such that roughly one-third of seats are up for election every two years, in contrast to the House where every seat is up for re-election every two years.

In 2026, the map is more favourable to Democrats in terms of the pure number of seats each party has to defend, as they have to defend only 13 seats compared to 22 for Republicans. That said, many of these states lean strongly one way or the other, with only a limited number really in play. For example, the Cook Political Report lists two seats held by Democrats as “Lean D” and one seat held by Democrats is “Toss-up”, with one Republican-held seat listed as “Lean D”, two as “Toss-up” and three as “Lean R” (Table 1).

Table 1: Cook Political Report Senate ratings

| Lean D | Toss-Up | Lean R |
|---------------------|---------------|-------------------|
| Georgia-Ossoff | Maine-Collins | Arkansas-Sullivan |
| North Carolina-Open | Michigan-Open | Iowa-Open |
| New Hampshire-Open | Ohio-Husted | Texas-Open |

Note: The colour in the table represents which party currently holds the seat e.g. blue is a Democratic incumbent and red a Republican.
Source: Cook Political Report, Crédit Agricole CIB.

Republicans currently hold a 53-47 advantage, meaning that Democrats would have to gain a net of four seats to take control as a 50-50 tie would be broken by Vice President JD Vance. This means that they would have to sweep the three Lean D seats along with the three “Toss-up” races and win at least one of the “Lean R” seats. As such, we think this may be a hurdle too high, giving Republicans a slender advantage in the upper chamber. Recent developments, including a more competitive race in Texas, have narrowed the odds, but Republicans still hold a slight advantage.

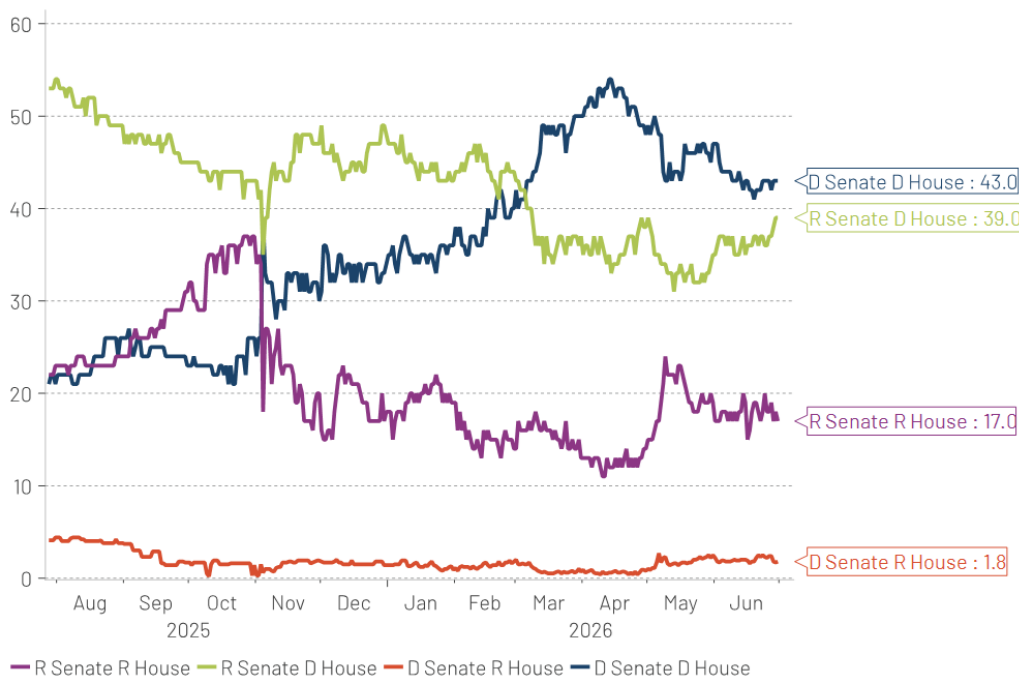
Q: What is the key issue influencing the election outcome?

NVN: Affordability remains the dominant political issue. Energy prices, in particular, will be important. If recent diplomatic efforts between the US and Iran help restore shipping through the Strait of Hormuz and ease pressure on oil prices, lower gasoline prices could provide some support for Republicans. Conversely, sustained high energy costs would likely strengthen the Democrats’ position.

Q: What would divide government mean in your perspective for investors?

NVN: If Democrats win the House (scenario with highest probability before the Iran conflict, Chart 2), Washington is likely to enter a period of legislative gridlock. That would significantly reduce the likelihood of major fiscal legislation through 2028, regardless of who controls the Senate. Senate control still matters because it determines confirmation of Federal Reserve (Fed) nominees, judges and other senior appointments. However, even if Democrats were to win both the House and the Senate, passing major legislation would remain difficult given the Senate filibuster¹ and President Trump's veto powers. In other words, legislative gridlock is the most likely outcome under almost any scenario. President Trump would still be able to pursue policies such as trade and immigration through executive authority. However, we think many of the main changes with respect to these issues may already be in place before 2027, and midterm elections can still have consequences for the other issues highlighted above such as fiscal policy.

Chart 2: Polymarket balance of Powers for midterms



Source: Polymarket, Macrobond, Indosuez Wealth Management.

VIEWS ON DEMOCRAT COMEBACK WITH AMY GREENE



Amy Greene is a Franco-American Senior Fellow at the Institut Montaigne and renowned specialist in US politics.

Q: Do the 2026 US midterms still matter?

Amy Greene: Yes. November is the first occasion for voters nationwide to deliver a verdict on two years of Trump 2.0 and his Republican-controlled Congress. Since January 2025, local elections across the country have given resounding victories to Democrats, viewed widely to be a rebuke of the highly unpopular president.

The results in November, much larger in scale with thousands of local and national seats at stake, will give a clear indication of voter sentiment on the most pressing issues and the degree of rejection of the Republican party, setting the mood and expectations for the next two years and heading into 2028.

¹ The Senate tradition of unlimited debate has allowed for the use of the filibuster, a loosely defined term for action designed to prolong debate and delay or prevent a vote on a bill, resolution, amendment, or other debatable question.

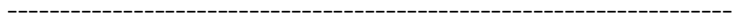
The midterms will also determine in part how governing happens. Donald Trump will likely continue to rely on executive orders (EOs), further attempting to bypass Congress and consolidate decision-making in the White House, while letting the courts decide any formal challenges to them. EOs are a volatile tool with no legislative anchor and being immediately reversible by any future president; but they have proven to be Donald Trump's preferred method, a way to go fast and announce results, no matter how vague. Otherwise, a Democratic-controlled or split Congress will reintroduce structural constraints on the president's power without fully hindering his ability to pursue his agenda. One example: a Democratic Congress could defeat a White House-backed budget proposal, but a Republican Senate could strike down the version passed by the House, ultimately leading to a shutdown. As presidential season approaches, the stakes of a government deadlock are even higher as parties vie to take back the White House, and the incentive for compromise – or at least the instinct to blame the other – will be higher.

Q: Are Democrats ready for the comeback?

AG: Yes and no. Democrats have been able to win local races since January 2025 with a successful mix of highly local solutions and linking local Republican candidates to the president. Instead of a large-tent, single vision Democratic platform, they have proven that local candidates playing to very diverse local political sentiment works. This has allowed for a Mamdani in New York, a Governor Spanberger in Virginia, and a Governor Sherrell in New Jersey – all with varied brands and degrees of Democratic politics. But to sustain wins at a national level and create a wave of opposition, Democrats will ultimately need more than an anti-Trump strategy. Instead, they need a convincing and concrete vision for America in 2028, particularly for tired and beleaguered American voters with overwhelmingly unfavourable opinions of both parties. For Democrats, the day after the midterms usher in a period of internal debate about which people and ideas will be the face of national Democratic leadership. That debate is both healthy and necessary for both Democrats and for the American people. 2028 will be an election of generational change for both sides of the political spectrum. Americans are ready for renewal, and taking the time for a robust competition of ideas (on both sides) in this watershed moment is a win for the American people and the health of American democracy.

Q: Could Democrats reach for the impeachment lever?

AG: If Democrats take back the House, impeachment is very likely but not certain. Unless the Senate is also controlled by Democrats, the chances of a conviction are close to none. And without a vote to convict, a historic third impeachment is unlikely to have meaningful political consequences even if the symbolic importance is undeniable. However, a Democratic House will most certainly use the full extent of its structural powers to investigate as much as possible. Conflicts of interest, corruption, etc., the list of issues is long – and potentially embarrassing or worse – on which Democrats would absolutely launch investigations, convene high-ranking administration officials to testify before Congress in televised hearings, and dominate media cycles as much as possible with information about actions taken by this administration and its Republican allies with little or no previous Congressional oversight.



INVESTOR TAKEAWAYS WITH OUR CROSS-ASSET STRATEGIST

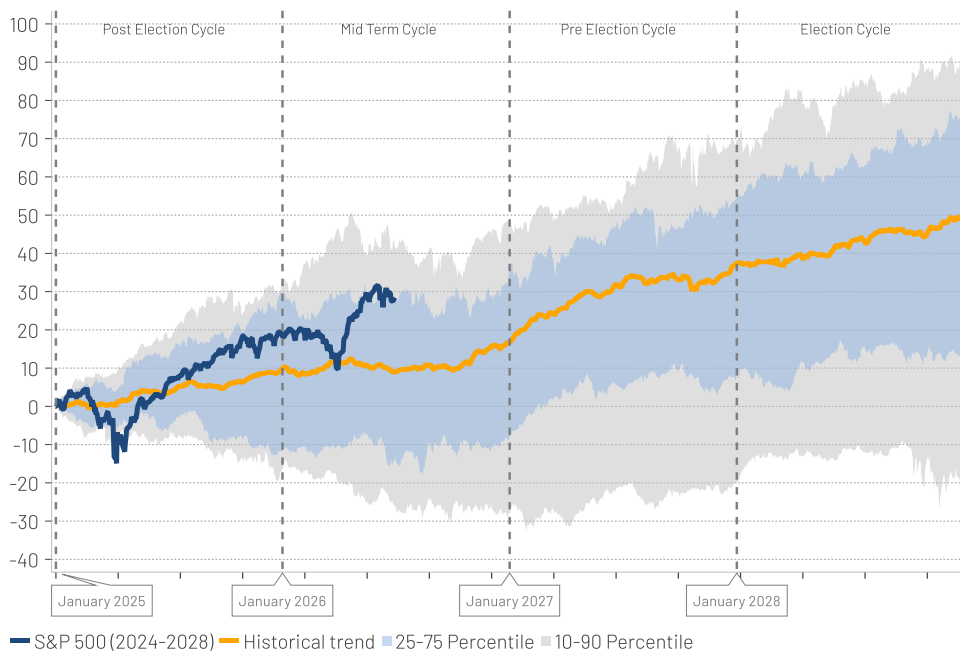


An interview with Lucas Meric, Cross Asset Strategist, Indosuez Wealth Management.

Q: What do midterms mean historically for financial markets?

Lucas Meric: Despite episodes of volatility linked to geopolitical tensions in the Middle East, financial markets have remained particularly resilient, supported by the boom in artificial intelligence (IA) and sustained economic activity. Historically, however, the second year of the presidential cycle, during which the midterm elections take place, has been the weakest year for financial market performance (Chart 3): an average of 5.4% since 1950, compared to an average of 13% for the other years of the presidential cycle.

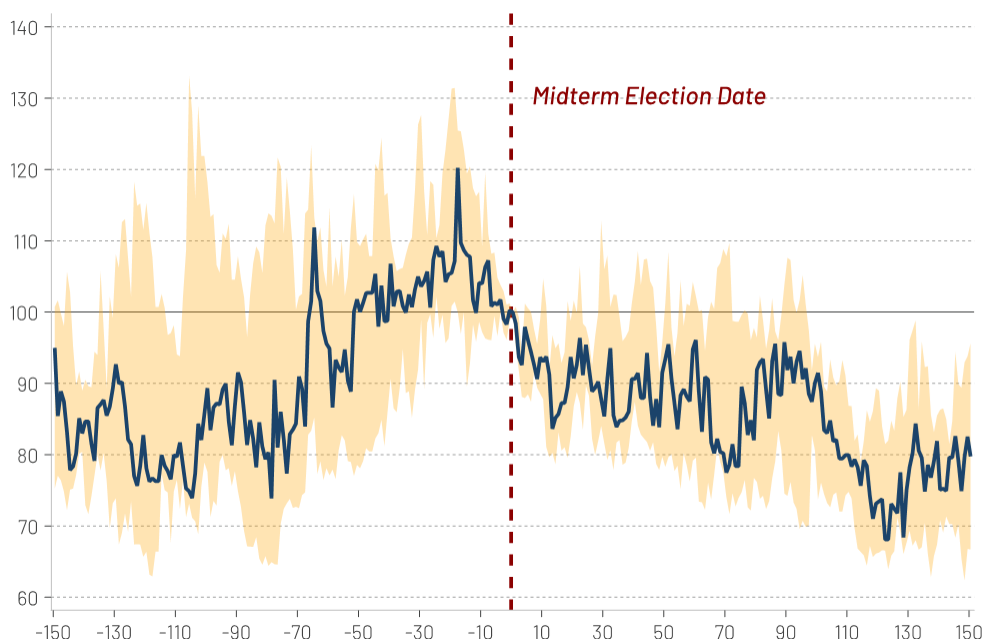
Chart 3: S&P 500 4-year Presidential election cycle (since 1950)



Source: Macrobond, Indosuez Wealth Management.

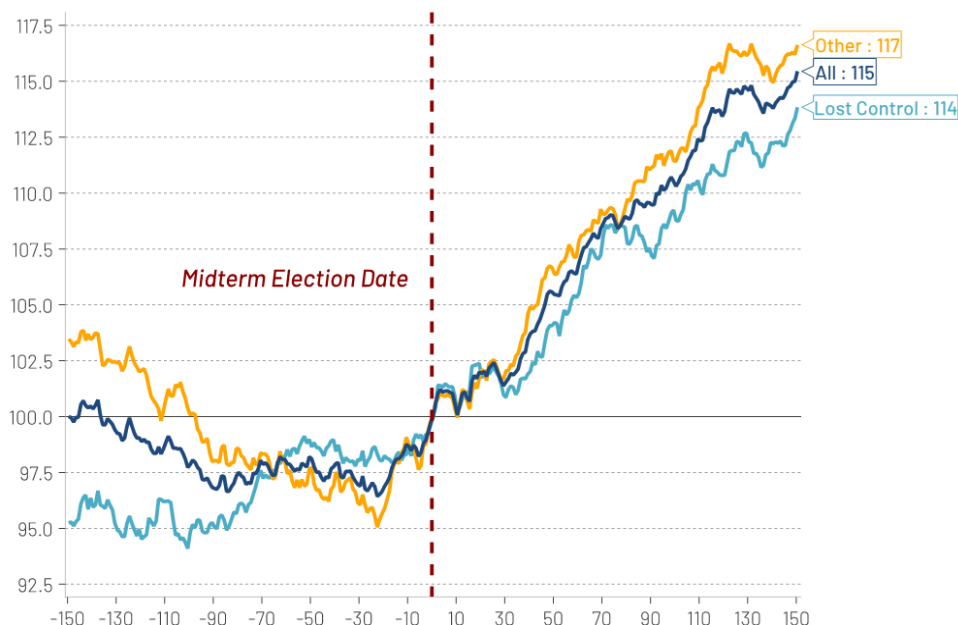
Midterm election years have historically broken down into two phases: a period of volatility ahead of the elections (Chart 4), followed by a rebound once the uncertainty of the election is lifted. Indeed, in the three months preceding the election, a spike in implied volatility on the S&P 500 has historically been accompanied by an average performance of nearly 3%, compared to more than 9% in the three months following the election. As mentioned above, the Republicans are very likely to lose the House of Representatives, with a non-negligible chance of also losing the Senate. However, the outcome of the election has only a slight influence on the average historical performance of financial markets after the election, which remains positive under all scenarios (Chart 5), even though the scenario in which the president loses at least one chamber has historically underperformed the others (7.2% vs. 11.2% in the three months following the election).

Chart 4: VIX around midterms elections (since 1950)



Source: Macrobond, Intercontinental Exchange (ICE), Chicago Board Options Exchange (CBOE), Indosuez Wealth Management.

Chart 5: S&P 500 Around midterms (since 1950)



Source: Macrobond, Intercontinental Exchange (ICE), Chicago Board Options Exchange (CBOE), Indosuez Wealth Management.

Q: Aside from this possible rise in equity volatility, what is your short-term concern for markets?

LM: We note that investors have become more concerned in recent weeks about the risks of a reacceleration in inflation and the return of Fed rate hikes. In a context where a significant portion of consumers are penalised by rising inflation due to higher energy prices following the conflict in the Middle East, we will monitor any proposed fiscal plans ahead of the elections. Donald Trump has already mentioned the possibility of "dividend checks" for lower-income households earlier this year, even though declining revenues from tariffs, and already high deficits and interest rates limit the scope for further stimulus.

This is a risk we will continue to monitor, which reinforces our view to remain cautious on duration. As with equity markets, new stimulus plans would likely be perceived positively at first, given their support for growth, but second-round risks related to inflation and monetary policy could subsequently pose a risk to market valuations, as markets have already shown greater vulnerability in recent years when 10-year yields approached 4.5%.

Q: On balance, how do these approaching midterms impact the Indosuez Wealth Management investment strategy?

LM: The short-term volatility that comes with these elections does not constitute a reason to divest in our view. We prefer to focus on a market driven by solid earnings *momentum*, supported by the strength of AI and resilient growth. We therefore maintain a constructive stance on US and Emerging equity markets, even though we remain vigilant regarding concentration risks in certain technology segments, as well as how the topic of AI will be addressed in the political debate at a time when the technological revolution is accompanied by inflationary pressures on electricity and certain technological goods, and a growing desire for AI regulation among voters across the political spectrum².



Alexandre Drabowicz
Global Chief Investment Officer
Indosuez Wealth Management

² [The AI Safety Majority - AI Policy Institute.](#)

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