The Investment Institute
by UniCredit

Coffee Break

Coffee Break is our daily publication, offering topical insights as an intellectual ingot to start the day.

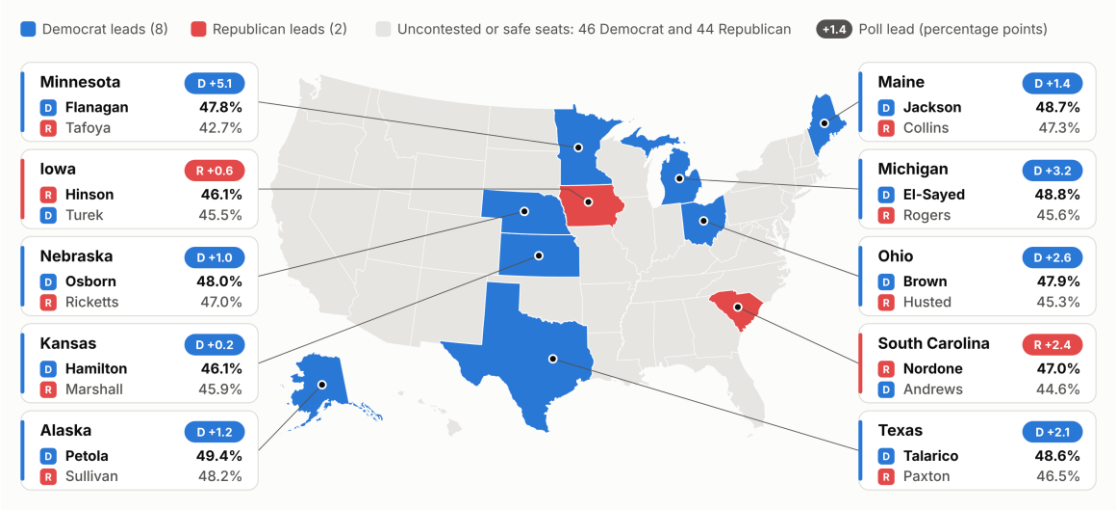
Potential for a "blue wave" has consequences for US policy extending into 2028

30 October 2026

Recent polling data show potential for greater losses for Republican candidates than previously expected. As a Democratic majority in the House becomes more likely, attention is increasingly shifting to the Senate races.

DEMOCRATS HAVE A VIABLE PATH TO GAIN A MAJORITY IN THE SENATE

STATES CONSIDERED TOSS-UPS BASED ON RECENT POLLING DATA



Source: RealClearPolitics, YouGov, The Investment Institute by UniCredit

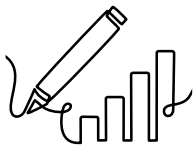
THE CONTEXT

Although most polls for the US midterms on 3 November have shown a steady deterioration in support for Republican candidates, the outcome for control of Congress remains far from certain. A Democratic majority looks increasingly likely in the House of Representatives, as all 435 seats will be contested in a year when the incumbent party is likely to suffer a setback due to President Donald Trump's unfavorability ratings. The Senate majority, however, remains in doubt as the 33 seats that will be contested favour geographies that tended to vote Republican in 2024. But if the Democrats can regain majorities in both chambers, this will have major consequences for the political backdrop in the US as the country transitions toward the 2028 elections.

THE DATA

The most recent polling data on the US midterm elections have been unfavourable for Republicans. In general election polls asking registered voters which candidate they prefer, Democrats are favoured nationwide by six percentage points, according to the most recent data from YouGov, compared to one percentage point at the start of Trump's second term. President Trump's approval rating has also continued to deteriorate, with 61% disapproving of his performance compared to 37% approving, according to the non-partisan Cook Political Report's poll of polls. This compares to 49% disapproval and 47% approval at the start of his term. The Cook Political Report's most recent analysis of the races for the House of Representatives moved 19 additional races in favour of the Democrats and sees them as favoured outright in 218 of the 435 seats that will be contested, which would be enough for a majority. The same analysis counts 17 toss-up seats, resulting in a projection of a Democratic majority in the House that would range from 227 to 237 seats. In their conclusion, a Republican path to a majority in the House "has all but evaporated". This augurs for a much different political environment than the current narrow majority the Republicans have in the House with 219 seats and one independent who caucuses with Republicans.

Since the outlook for Republicans' ability to maintain control of the House is deteriorating, attention is increasingly shifting to the Senate races, where Republicans hope to maintain their 53-47 majority. In order to gain control, the Democrats need to flip 4 seats while facing unfavourable geographies in the 33 seats up for election. Up to 10 of these seats are considered toss-ups currently, with Democrats currently leading polls in 8 of them, according to RealClearPolitics (albeit within the margin of polling error). What makes this outlook especially concerning to Republicans is that Trump won some of these states (e.g. Iowa, Nebraska, Kansas, Ohio, South Carolina, Texas and Alaska) by more than 10 percentage points in the 2024 election, showing how much more challenging the electoral map has become for them in the last two years. The Cook Political Report is projecting Democratic gains in the Senate of two to six seats, making a Democratic majority a distinct possibility but far from assured.

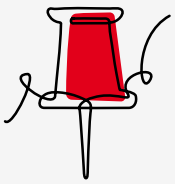


OUR VIEW

Although prediction markets and leading pollsters estimate around a 90% probability that Democrats will take control of the House and 60% for the Senate, there is considerable uncertainty about how the results will turn out, due in part to the Republicans' significant funding advantage. The results will give important clues about whether voters are prepared to support fringe candidates outside either party's centre (e.g. Democratic socialists or further support for the Republican MAGA movement) as attention pivots to the 2028 presidential election. Although even a "blue wave" would not give Democrats the power to override a presidential veto or filibuster when making laws, they would have more oversight of the administration. Democrats are already planning initiatives and investigations that would meaningfully curtail the president's ability to set the policy agenda. There are also at least 49 local ballot initiatives in 13 states currently involving data centres, AI and electricity demand that will test whether this will become a focus of partisan politics in the coming election cycle.

Finally, Trump's reaction to the outcome of the midterms also has potential to roil markets. If the Republicans suffer a major defeat, he could lash out on the international stage or in executive orders, to fend off a perceived lame-duck status, or he could come under increasing pressure from his own party to change direction if his policies are seen as being responsible for election losses. On the other hand, since incumbent parties typically lose seats in the midterms, a minor electoral defeat for the Republicans could be interpreted as an outperformance (similar to Biden's 9-seat House loss and 1-seat Senate gain in 2022) and an affirmation of Trump's policies that could keep him at the centre of the Republican party as attention turns to the 2028 election. Therefore, the results of the midterm elections can be expected to set off new discussions on the direction of American politics that involve considerable uncertainty and will be of major importance to markets through 2028.

OTHER THINGS TO NOTE



BoJ on hold: focus on CPI, but only core CPI median projections for 2027 were increased

As widely expected, the BoJ remained on hold at 1.25% overnight, with only one dissenter in favour of an immediate rate hike. The focus remains on upside inflation risks, but core CPI median forecasts were raised only for 2027, to +2.6% yoy from +2.4% yoy in July, while they were left unchanged for 2026 at 2.5% yoy and at 2.0% yoy for 2028. A 25bp rate hike is expected at the meeting on 18 December, although forwards are now assigning only a 60% likelihood to this happening. USD-JPY is only slightly weaker, with renewed AI jitters dragging down equities worldwide. (R. Mialich)

EUR-USD back to around 1.12 as AI jitters hit equities and bring yields down

AI concerns have dragged down equity markets worldwide, spreading from the US to Asian markets overnight, with South Korea's KOSPI index falling the most. Consequently, global yields dipped further, starting with USTs, with the 10Y maturities down to 4.93% and thus getting closer to 4.80%, the level prevailing at the beginning of September, before the bond market sell-off started. Transatlantic spreads have tightened. In FX, the USD has lost some of its shine, with EUR-USD reapproaching the 1.12 handle. Although political tensions still act as a brake on a more sustained recovery of the common currency, the move still provides the pair with a further cushion to the downside after the YTD low of 1.1106 reached just yesterday. (R. Mialich)

TODAY'S DATA RELEASES

Time (CET)	Country	Data	Period	UniCredit	Consensus	Previous
10:00	GE	Real GDP (% qoq)	3Q	0.1	-	0.3
10:00	IT	Real GDP (% qoq)	3Q	0.0	-	0.2
11:00	EZ	Real GDP (% qoq)	3Q	0.2	-	0.6
11:00	EZ	Unemployment rate (%)	Sep	6.4	-	6.4
11:00	IT	Consumer price index, CPI (% yoy)	Oct	5.1	-	4.2
14:00	GE	Consumer price index, CPI (% yoy)	Oct	2.8	-	3.3

Source: Bloomberg, The Investment Institute by UniCredit

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