

Research @ Citi Episode 89: Three Keys to the 2026 Midterms

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Transcript:

Opening Teaser (00:00)

Rob Rowe (00:01)

Hi, everyone, and welcome to the Research @ Citi podcast. I'm Rob Rowe, Acting Global Head of Research. And with us on the podcast today, I'm very pleased to say, is Candi Wolff, who heads our political effort down in Washington, D.C.

Candi, thanks for being on the podcast.

Candi Wolff (00:03)

Thanks, Rob. Thanks for having me.

Rob Rowe (00:21)

Absolutely. And what's exciting about it is that we are approximately a month away from the elections. These elections, I think, are looming large right now, given everything that's going on — I think they're even important internationally, these midterm elections. Maybe where we can start is just getting a quick, current outlook on how you think the election will play out.

Obviously, a lot of people feel that the Democrats will make headway. There's a lot of concern around inflation. But what do you think is driving this election? What do you think is top of mind for voters right now? And how do you think it plays out?

Candi Wolff (00:59)

So let's start with the first overarching view — what's our baseline, what everyone is looking at. We do think that Democrats will retake the House. The discussion — and we can talk about this — is, “By what amount? What is their ceiling?”

Because the numbers will actually matter when we start talking about what the Democrats will do from a policy perspective and what they can influence. So, do they have 225 or do they have 235? Those margins will make a difference. In the Senate, I'm at a 50/50 — not 50/50 in terms of the makeup of the Senate, but a 50/50 percentage likelihood of a toss-up

as to who wins it. I think some of the prediction markets and other pundits look at the Senate race and probably say it's more likely that Democrats pick up the Senate. I'm not there yet.

So if you think about what this election has come down to, the Democrats are in a really good position from a political-environment standpoint. Whether it's the presidential approval rating, which is in the upper 30s, or some polling that has the president down in the mid-30s — I think he's somewhere around 39% if you use the RealClearPolitics average. On the generic ballot — “Do you support a Democrat or Republican for Congress?” — Democrats are up eight and a half points. That's a pretty big spread.

Now, there are big question marks around polling. The same question as before: Is this really reflective of the voting population? Even if you take a couple of points off of that, they're still up over 6%, and that's a pretty high generic ballot.

And then the enthusiasm gap is pretty large — 79% of Democrats are absolutely certain to vote, compared to 65% of Republicans. So the political environment definitely benefits Democrats.

One of the reasons I think Republicans could maintain the Senate is because of the structural benefits they have. Structurally, between redistricting — which really helps on the House side, not the Senate side — it gives them like seven-plus seats, which limits the margin that Democrats can pick up even if they win the House.

And the more important part is that Republicans hold a two-to-one advantage in money raised. That's very unique. It's usually the case at this time in an election cycle that Democrats have a higher fundraising advantage.

So we're now in a situation of, Will money, no pun intended, trump the political environment? With a month to go, what will money do? Money changes the favorability of certain candidates, and advertising helps to drive turnout. But the markets are also getting very saturated, because in the Senate there are probably five races that really matter and everybody is focused on — and that's Iowa, Maine, Alaska, Texas, Ohio. And then Michigan would be the other one I'd put in there. Those are the main races.

Some of it is candidate quality — and in some cases Republicans have stronger candidates, in other cases Democrats have the stronger candidate. So between environment, money, and candidate quality, it does shift the outcome a bit for the Senate. I'm not convinced that Democrats are going to win it, but it easily could be 51 Democrats, it could be 50-50 Republicans, or it could be 51 Republicans. So we're going to keep watching to see what the outcome is.

In terms of what the issues are, I call them the three A's: affordability, AI, and anti-establishment populism. The anti-establishment populism is not so much an issue as it is a sentiment. It's the continued reaction against the establishment — we've seen change elections every election cycle. Pretty much it's either the House, the Senate, or the White House flips. We don't like who's in charge, but that anti-establishment populism has been growing, and so that's underlying all of this.

And then affordability, still the top issue: inflation, gas prices, food prices, health care. That is the strongest Democratic message.

AI, let's talk about that separately. It's not a latent issue, but it's underlying some of that anti-establishment concern and the affordability theme. It links together, but it's also a factor that is having an impact on individual races.

Rob Rowe (05:49)

Candi, I remember when Mamdani ran for mayor, he ran on one of the three A's. He ran on affordability. The voter base seems to have embraced socialist candidates a little more than they have in the past. I can't remember a year where they've made these kinds of gains, especially in places like Michigan and some other states, as well as in New York. What is that message? You're willing, in a way, to vote for someone who — and you said “anti-establishment” — has almost a different political structure in mind than the current one. How would you articulate it? Is it mostly just affordability? I can't seem to get what I want from any of these politicians, so I'm voting for a socialist?

Candi Wolff (06:37)

I think that's a really interesting question that's going to play out in 2028, in my view, and we're starting to see the seeds of it in this election cycle. Perhaps we could say we saw the seeds of it when Mamdani won last year. But if you look at the current polling, there's a Gallup poll that was issued in August: A record high 43% of adults view socialism positively. And within that group, the most favorable view of socialism is with voters between the ages of 18 and 34. Overlay that with the fact that Gen Z and millennial voters will be the largest voting bloc in 2028, and they're also the most distrustful and anti-establishment compared to previous generations. And then you add the other polling that shows the wealth gap — that wealth itself is now viewed as divisive as politics.

So if you look at the sentiment, I think it's affordability, but it's affordability because socialism is viewed as a way to achieve fairness. It avoids this view that the wealthy are getting wealthier, that younger people can't get ahead — where's the American Dream? There's a level of unfairness. And so socialism is rising as a concept, and it's not viewed as socialism in the same way that you and I would think about it from an economic

perspective. Rather, it's viewed as, Hey, government should step in, government should intervene, there should be a willingness to weigh in and help with the fairness issue.

So I think a lot of factors are playing out in the affordability message. But something that, from a sentiment perspective, all of us and our clients need to keep an eye on is, Where is that sentiment going to go as we go into 2028?

I hate to pivot from 2026 to 2028, but 2026 is just going to set the stage for where 2028 is going to be. Will we see this rise of DSA candidates? Some of their ideas may be too extreme, but some of the underlying economic concepts — that sense of "somebody is looking out for me and it's not somebody engaged in insider trading or benefiting off of deals and playing the Washington game" — all that sentiment is going to start playing out.

When I look at it and ask what we all should be paying attention to over the next couple of years, it's, Where is that trajectory between capitalism and socialism going, and how is it going to play out politically? Because you've got real interesting factions of voters — anti-establishment, wealth-gap concerns, affordability. That's a cauldron of challenges that are going to start playing out politically.

Rob Rowe (09:59)

Let's hold that thought and also think about, even though there's a lot of focus on who controls the House and the Senate, what does this mean for the policy agenda in Washington? What are the main implications for the business community? And maybe we can also bring the DSA into that. How will the Democrats have to think about policy now that they have the DSA well ensconced in their party?

Candi Wolff (00:03)

The margins, as I said earlier, the high-water mark for Democrats is probably 235. If you talk to any of the Democratic consultants, they don't think they'll hit the high-water mark, but a good night would be closer to 230 or 231 — that would be more of a wave. The expected outcome would be around 225. 218 is the majority.

And if you've got five to six DSA candidates coming in, what does the speaker need? He needs to have a margin. That means he can work with a conference where the noisy portion is as small as possible — the larger the conference for him, the better off he is in terms of reaching consensus. So five to six DSA members at 225 makes it a challenge for Democrats to figure out how they're going to move the policy agenda and get consensus.

Because don't forget, there's going to be a big push to put the DSA-type agenda at the forefront to tee up the presidential election — it becomes the messaging vehicle. Then there are going to be others in the Democratic Party who say, No, we want to deal with affordability, health care, child care, housing. We actually want to get something done. In a

divided government, Trump might do some deals — there's a big question whether he will do deals and whether Democrats will want to engage with him.

We've seen the story of divided government — it tends to limit the number of things that actually get done. The must-do items have to happen: We need to fund the government, and we've got a debt limit that needs to be increased next year. That's going to require bipartisan support and negotiation. Absent that, the rest of the agenda is going to be, I think, conflict — focused on oversight and investigations. Democrats have indicated they want to spend time on accountability.

Rob Rowe (12:53)

Does that include the potential for impeachment? I think there's a possibility.

Candi Wolff (13:03)

It depends on the makeup of the Democratic caucus. I think if the Democrats get the House and the Senate, you'll see a greater likelihood of impeachment. If you only have the House, the House passes the articles of impeachment, but the Senate does the trial — and you still need two-thirds of the Senate to convict. If Democrats don't have the Senate, it's just the articles of impeachment, they don't really go anywhere. So I think you'd see higher pressure or greater pressure, I should say, if it's both houses.

Rob Rowe (13:57)

What are the must-do items on the policy agenda? I think there's a lot more concern about fiscal issues right now. The market itself, when you look at the yield curve, may be expressing a view on inflation, but it also seems to be expressing a view on issuance and fiscal concerns. And those fiscal concerns are not isolated to the U.S.

But how do you think that plays out? If the Democrats get control of Congress — and potentially the Senate — is this something they need to address? Because the markets could dictate it a little bit.

Candi Wolff (15:00)

Well, it may take the markets dictating in order to put enough pressure on Congress to address the issues. So it's hard to predict.

One scenario I'd note: a negotiation between the White House and a Democratic Congress, or particularly a Democratic House, around overall government funding leads to higher spending, because the White House and Congressional Republicans want more funding for defense, while Democrats want more funding for health care and non-defense issues. What does that tell you? It doesn't lead to less spending, it leads to more spending — all

the numbers go up. At the same time, Congress is going to have to address the debt limit. We don't know if it's the end of the first quarter or beginning of the second quarter — everyone is waiting to find out what that X date will be.

I think there's going to be some pressure to start dealing with some of the entitlement questions. And I don't know if there's enough political will, or whether it's really going to have to become a presidential issue to drive real action. But 2030, I think, is the date when the Social Security trust fund is supposed to run out. There are a lot of underlying issues — with demographic changes going on, is there enough money to really fund Social Security? All these issues start to hit around 2028, 2029, 2030. You can see Congress continuing to punt absent further pressure from the bond markets to decide that now is the moment to act.

In my view, it's an issue that will garner more attention and there will be some focus, but I have a bit of skepticism in the short run.

Rob Rowe (16:58)

And what other must-dos might be there? Is it addressing the debt limit? Are there other things that they must do?

Candi Wolff (17:06)

Well they always have to fund the government. Could there be another government shutdown? Possibly. That's a short-term issue, because Congress has to deal with it in December or kick it into next year.

And then there's the one area I want to leave you with: We haven't talked about AI. There is growing concern by members of Congress that there need to be guardrails around AI. There's also growing concern specifically with data centers.

There was legislation in the Senate — fairly partisan — that got shut down, though Republicans had their proposals and Democrats have counter-proposals. There are races, like the Ohio Senate race, that's tight right now. The Republican running — Senator Husted — is being challenged because when he was in the Statehouse he supported data centers, and it's being used against him. And there are other races where it's being used against candidates too.

So I think the question is, What is Congress going to do? Either during the lame-duck session when they come back, or once Democrats take control. They're going to want to do more. They have working groups. They want to start putting guardrails around the use of frontier models. The question is whether there's enough political will on both sides of the

aisle to move forward. So the cyber risks and some of the other challenges are out there. The political environment may shift enough that you're going to see potential federal legislation.

My other point on that: As investors look at AI and what's going to happen, absent Congressional action, you will see state action. Because data centers and the politics around them are not Republican or Democrat. It's both parties. It's much more about populism. And that intersection means the states that feel pressure in local elections — where individuals are losing because they supported a data center in a particular district — could lead to a lot more restrictions. So I think you're going to see AI front and center, both post-election within Congress and certainly in 2027. That's going to be one of the big topics.

Rob Rowe (19:58)

Candi, would you define that as one of the top one or two things? If you're sitting in a boardroom looking at Washington over the next two years, what are the one or two political or policy risks you'd be paying the most attention to? Is AI one of them, or are there others?

Candi Wolff (20:29)

Yeah, AI — and in particular, from the boardroom perspective, the cyber impacts. That's really where the board mentality is: What guardrails do we have? What have we done ourselves to make sure we're protected? How do we have the infrastructure? And what should government be doing vs. what should the private sector be doing? So I think AI is number one.

And then the other is the conversation we had earlier — watching the shift between capitalism and socialism. How does that accelerate? Does it get muted? How does it play out in 2028? Because that's going to have very significant impacts on business, depending on the outcomes — on tax policy, industrial policy — and because the anti-establishment sentiment is really also anti-business. So there's a lot in the mix that we've got to sort out. I'm watching both of those trends to figure out where the divergences are and how they'll have implications for how the economy operates.

Rob Rowe (21:20)

And lastly, because I know we've run out of time — the 2028 presidential election. Do you want to take a shot at two candidates on either side that you think might be in the running? You can back out of that one if you want to.

Candi Wolff (21:38)

What we know is that the election is going to kick off with the invisible primary the day after the 2026 midterms end, and then it will become more visible. Very short period of time. All

these candidates are going to have to line up, get funding, start setting out campaign issues, and figure out what segment of the vote they're going after. The reason for that is the primary season is going to start in January or early February of 2028, which is not that far from November of 2026. So it's going to kick off pretty quickly.

Whoever runs for president is going to be the AI president — they have to address it, have a platform, and figure out how they're managing it, because that's going to be one of the big policy issues. And whoever is at the top of the polling list today, I guarantee will not be the person who emerges at the end — that's the conventional wisdom that has always proved wrong. You saw that with Bill Clinton. You saw that with Donald Trump. And you saw it with Barack Obama.

So I think we don't know yet. It's going to be fascinating to watch. There's a wide open primary for the Democrats, less so for the Republicans. But there's a big question: How does MAGA carry over to support the Republicans going into 2028? Is that a voting bloc that can carry from President Trump to his successor, yet to be determined?

Rob Rowe (23:05)

Got it. Well, listen — the way you've set all of that context, I just want you to know I'm not running in 2028.

Candi Wolff (23:10)

Are you sure, Rob? You might as well!

Rob Rowe (23:15)

Candi, thanks so much for being on the podcast with us today.

Candi Wolff (23:17)

Thanks for having me.

Disclaimer (23:21)

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