

## Our Snap, Preliminary, Too Early Take on America's Midterms

Patience is an underrated virtue. *November 2022*

Two days after the votes were due, much remains unclear about America's midterm elections. Votes are still being tallied in the Arizona and Nevada Senate races, Georgia is headed for (another!) Senate runoff election on December 6, and quite a few House races are undecided. The party that takes two of those three Senate races will control the body and, although the House *seems* to be heading for Republican control—which would usher in the bullish gridlock markets typically celebrate after midterms—even that isn't assured yet. All this is keeping uncertainty high right now, but it should start falling fast before long. There are really only a couple definitive things one can say now. One, this election went off without much protesting or squabbling over improprieties. Two, it was a very close election—in the House, there was no “red wave.” That is basically what we expected. As Fisher Investments founder and Executive Chairman Ken Fisher explained in his August *LinkedIn* column, the House's structure made a wave election highly unlikely.

Why? Because the Republican's 14 House seat gain in 2020—a year when they only won 47.7% of the national congressional vote—was exceptional. Getting it meant they won some of the “easy” seats that the party opposing the president normally couldn't win until the midterms. Consider: If the Republicans win those 38 seats previously referenced [the average change when the president's popularity is below average], they would hold 251 seats—9 and 21 seats more than they had after their huge wave election landslides of 1994 and 2010, when they picked up 54 and 63 seats, respectively. It would be their most since 1928.<sup>[1]</sup>

That said, it is probably fair to say this House race has proven a little closer and more unclear than even we expected. Now, most projections suggest the GOP will take control—in line with our expectations. The *Associated Press* gives them 211 seats presently, with 7 more needed for a majority. The Democrats, as we type, have 192. That leaves 32 undecided, with the Democrats ahead in most. Analysis from *The New York Times*—not known as a Republican bastion—puts the House GOP majority at 221 seats. But a 221 – 214 majority, if that is what winds up happening, is historically dinky. This implies the Democratic Party did quite well relative to history, although, again, even this isn't assured. There are votes left to count and we aren't making any presumptions about how they will look. That said, we expect to know the winners in the coming days, which should add quite a bit of clarity.

The Senate's tightness doesn't surprise us whatsoever. In our view, the structure of this vote meant that only a handful of races really mattered, and they slightly favored the Democrats. So far, the Democrats have gained one seat (Pennsylvania's). According to the *Associated Press*, the GOP has taken 49 seats to the Democrats' 48, with the aforementioned 3 undecided. We should know the Arizona and Nevada winners in the coming days. Meanwhile, voting in Georgia begins next week but won't conclude until December 6. That could mean we don't know who will control the body for the better part of a month, which could prolong uncertainty somewhat and may—*may*—delay or dampen the typical post-midterm stock market gridlock-driven rally, as it extends the contentious campaigning that often rattles sentiment before the vote. But don't carry it too far. All markets really need to get the gridlock they seek is either chamber flipping to the Republicans. It doesn't take both. If—and again, this is an if—the House changes hands, the margins don't matter and neither would the Senate. The majority, even a one seat majority, determines what legislation does and doesn't come up for a vote. That would divide government and would likely forestall extreme legislation and major change that complicates businesses' planning and creates winners and losers, although it may take stocks longer to realize this if a long Republican leadership tussle extends uncertainty in the near term.

Conversely, if the Democrats hold the House and Senate, legislative risk could rise. And it could also be that current House Speaker Nancy Pelosi tries persuading a couple Republicans to flip parties and maintain the Democratic lead. But neither of these outcomes are assured and regardless, politics are only one market driver. You have to assess things from a holistic, global point of view. But we are getting ahead of ourselves. For now, we suggest staying cool and waiting for the election's lingering results to roll in, granting the clarity markets seek.

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[i] "Forget Red and Blue—Midterms Are a Green Light for Markets Either Way," Ken Fisher, *LinkedIn*, 8/24/2022.

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