

**C.ALLAN**  
FAMILY OFFICE

# Post-Midterm Election Thoughts

November 14, 2022

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# Midterm Election

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**“We exist in a financial universe that is subject to massive gravitation pulls from states. States tug at us. States bend us. And, tirelessly, states seek to determine our orbits.”**

- Mohsin Hamid

While political experts would claim polls have skewed in favor of the Democrats over the last few election cycles, several recent polls seem to have over corrected in favor of the Republicans this time around. The red tsunami, or even a red wave, failed to materialize on November 8th. Florida was an exception as Governor Ron DeSantis was re-elected in a landslide 20-point margin along with other Republicans on down the ticket. In other states, however, it was more like a red trickle. While Republicans are still favored to take a slight majority in the House, we now know that wins in Arizona and Nevada have given Democrats control of the Senate, regardless of what happens in the run-off in Georgia is decided. All told, Democrats ended with a better-than-expected performance.

Going into the midterm elections, the Democrats had control of the House of Representatives and Senate (by virtue of a Vice President tie breaker) and expected to lose seats in both. Underpinning this was the historic pattern of the incumbent party giving back political ground in the midterms. Further, President's Biden's low 40% approval rating suggested that voters would make this a change election given elevated inflation and voters suffering the effects of higher prices on energy, food, housing etc. This mattered to many voters, but there were other variables under-estimated by many of the polling experts.

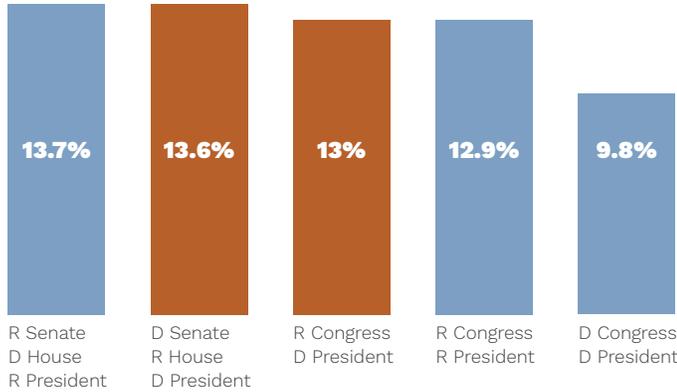
The election results are not final, but we now have a good sense for the outcomes. First, the Democratic party won more House of Representative seats than consensus expected.

There are still elections that have not been called but it is likely that the Republican Party will have a small majority when the final votes are tallied. Second, the Senate will stay in Democratic control. The one unsettled item is the Georgia election, which is headed to a runoff as neither candidate received the minimum of 50% of votes to be declared the winner. The runoff will be December 6th. If our overall projections are correct when the election results are complete, it will mean a split Congress that will make it difficult for either party to advance their agenda.

There is an interplay between politics, the markets, and tax policy. This has meaning for our clients. On a legislative front, these results may provide enough support that President Biden and the Democrats will stay the course with their agenda. This could affect energy policy (more on this later). From a financial market perspective, the projected outcome of a split Congress is not necessarily bad as it makes the future legislative path more predictable. Extreme political items, which could be disruptive to the fiscal debt situation, economy, or select industries, are more remote. There is precedent suggesting this is a supportive landscape for equities. Since 1933, during periods of a divided government, the S&P 500 rose 7.5% per year. Yes, gridlock can be a double-edged sword.

Please see the chart from our research provider, Strategas, that shows historic market returns under various Partisan Control scenarios for the S&P 500. The ones in orange (+13.6%, +13.0%) are the most likely scenarios.

## Partisan Control Average Annual S&P Performance



On a more targeted basis, we do think energy policy could be altered with a reduced political ability to unleash oil and gas drilling activities. This has flow through implications into inflation. We are not seeing the markets make any material adjustments to interest rate or inflation expectations, at least for the moment. This is something we will follow closely given the grip monetary policy has on the markets at large. December's Fed Fund futures markets still suggest a 50 (most likely) or 75 basis point increase. We continue to expect the Fed will remain vigilant with its inflation-fighting objective and are not anticipating a material pivot with monetary policy. We anticipate the top upcoming legislative priorities going forward to include:

- National Defense Authorization Act for 2023, an omnibus bill passed by the House in July, which could include additional non-defense amendments to the bill.
- These amendments could include legislation funding the government ahead of a December 16th deadline to avoid a government shutdown.
- In addition to funding the government to avoid a shutdown there could be an effort to add more funding support for Ukraine, which might be difficult depending on the majorities in the House and Senate.
- If the Democrats fail to keep a majority in the House this could limit them to a 4–6-week window to get this legislation passed.
- The House and Senate came back into session on Monday, November 14th with the House scheduled to work through December 15th, and the Senate in session until December 21st, with the same one-week break at Thanksgiving. Both

of those schedules are subject to change, depending on the final Senate and House election results.

- Several bills will have bipartisan votes in the Senate post-election, including codification of same-sex marriage equality and reforms to the Electoral Count Act.
- The same-sex marriage bill is being drafted by a bipartisan group of senators.
- The bill reforming the Electoral Count Act, would amend the process for counting Electoral College votes in Congress. More specifically, it would define the vice president's role in the process and change the rules allowing an objection to a state's electors.
- Democrats will focus on confirmation votes for judicial nominees and even more so if they lose their Senate majority, where a Republican Senate could impede the confirmation process.
- There are 25 judges who have received committee votes and are ready for full Senate consideration. Some of them received tied committee votes and require an additional procedural hurdle and there are several nominees awaiting Judiciary Committee votes and more awaiting hearings.
- Democrats also have executive nominations pending on the Senate calendar and expected to prioritize lifetime appointments to the bench.

Noticeably absent in the immediate list of priorities are any pending or proposed income tax or gift and estate tax changes. However, we would not be surprised to see something proposed prior to the existing sunset provision, which provides for automatic repeal of the federal gift and estate tax exemption at the end of 2025.

These transitional periods will present challenges and opportunities and our team will draw on their experience to best navigate it. Please call your relationship team to learn more about our latest views on the markets and tax policy and their impacts on your financial picture.

**Did You Know?** Since 1962, the S&P 500 has had a positive price return in every 6-month period after U.S. midterm elections (November 1st to April 30th). The average return during these was +15.1%.

SOURCE: BLOOMBERG DATA, U.S. BANK

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**C.ALLAN**  
FAMILY OFFICE

[Info@CallanFO.com](mailto:Info@CallanFO.com)  
[CallanFamilyOffice.com](http://CallanFamilyOffice.com)