

TRANSITIONS

Impact of the Midterm Elections on the Markets

Hooray, they won! Now what? Except for the winning politicians, everyone else continues their daily tasks. Commerce continues, life continues, all with the saving grace we will be spared from receiving further political advertisements and mailers.

From the perspective of the markets, the election removes an element of uncertainty. The outcome of these elections was expected, with the Senate remaining under Republican control, and the House of Representatives now under Democratic control.

The consensus on Wall Street is that a split Congress has been bullish for equities and will be so for the next few years. Gridlock is positive for the markets.

Expect a lot of political grandstanding beginning with a flood of subpoenas against President Trump. This will be emotionally charged, exciting news to watch, but will have no impact on the markets. The House Democrats likely will invest enormous amounts of time and effort to display their dislike of Trump, including the possibility of holding impeachment hearings. At the end of the day this will be much ado about nothing, as this is unlikely to result in a conviction in the Senate.

One of the big events of this election is that this midterm election removed the risk of an Obamacare repeal. It also removed any possibility of a big legislative change to the U.S. health system.

Defense stocks may underperform the markets as budget concerns trim spending on big ticket items like warships. But in certain areas,



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like cybersecurity, will likely see increased funding, especially in the defense budgets.

Consumer discretionary and technology spending will increase, but that is more about a stronger economy than election results.

Trump may propose an infrastructure or a highway bill in early 2019, which may be one of only a few issues to pass Congress. Although there will not be any further Trump tax cuts, the 2018 tax reform and the deregulation will continue for at least another two years.

There will be headline risk on financial banks, but with the presidential veto threat, major legislation will not pass without the support of both Speaker Pelosi and the President. Given the large egos involved and obvious dislike of each other, it is easy to conclude no material legislation occurs.

The dominant story is not which politician gets the new office or gets to hold the gavel for the cameras, but rather the solid economic fundamentals of the U.S. economy.

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