

Does the midterm election matter?

By Andrew Goldberg | Billy Huzar | Anthony Chan

Politicking is picking up steam as we barrel toward the November 6 midterm elections, and media coverage is near-constant. But what's news and what's noise? And what does it all mean for the markets, the U.S. economy—and your investments?

Bottom line, if you don't read anything else: Leading up to the election, uncertainty around the outcome could cause market volatility to pick up. After the election, who controls Congress could have wide-ranging policy implications. Regardless of the outcome, we expect the U.S. economy to maintain its momentum through the rest of this year, as fundamentals appear healthy. History also shows that markets tend to rally as uncertainty dissipates. As such, we believe our clients should stay invested.

Midterms 101: What's at stake?

Voting will be held for all 435 seats in the House of Representatives, 35 Senate seats and 36 state governorships. History also tells us that the incumbent president's party (this year, Republican) typically loses seats in Congress during the first midterm election of his term. That, plus polling data, suggests a possible tailwind for Democrats come November.

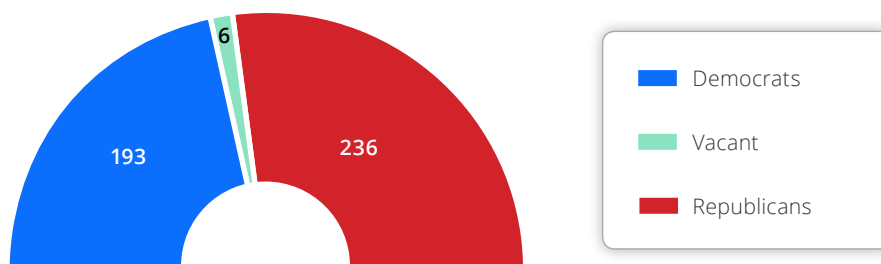
The House: Currently, the House has 236 Republicans, 193 Democrats and six vacancies. As members only serve two-year terms, every seat will be contested this November.¹

House: Republicans control

Total seats = 435 (plus six non-voting)¹

Seats contested in 2018 = 435 (plus five non-voting)

Pre-election seats held by:



¹ American Samoa, the District of Columbia, Guam, the Northern Mariana Islands, and the U.S. Virgin Islands each have one non-voting delegate. The resident commissioner from Puerto Rico is the sixth non-voting member of the House and is elected on a four-year cycle.

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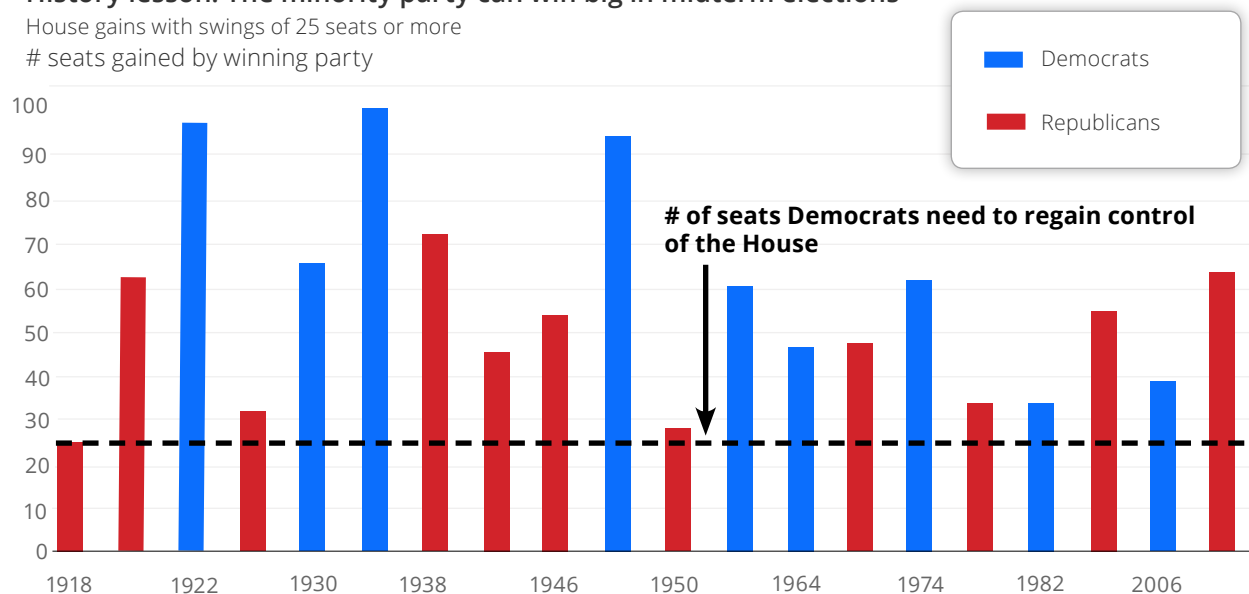
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Political observers are generally saying that roughly 180 House seats are considered solidly Democrat and 150 solidly Republican. That leaves approximately 105 competitive districts—though only about 30 are considered true toss-ups.²

To control the House, one party must win 218 seats. Democrats would need to maintain their current 193 seats and pick up an additional 25. Such large gains are not uncommon. In the last century, there have been 19 instances of a minority party's gaining more than 25 seats.

History lesson: The minority party can win big in midterm elections

House gains with swings of 25 seats or more
seats gained by winning party

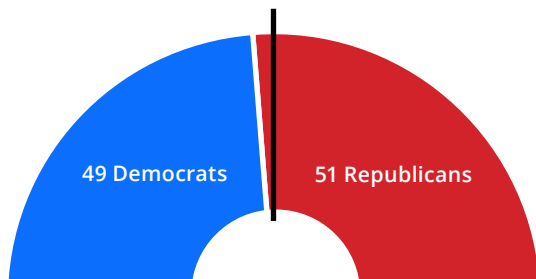


Source: David Leip Election Atlas, J.P. Morgan Asset Management. Data as of August 31, 2018.

The Senate: The Senate currently has 51 Republicans and 49 Democrats (including two Independents who caucus with Democrats). Senators' terms are six years and staggered. This year, a total of 35 Senate seats will be decided at the polls.³

Senate: Republicans control

Total seats = 100 (two per state)
Seats contested in 2018 = 33 seats (plus two special elections)
Pre-election seats held by:



² Two House seats that are currently vacant had been held by Democrats. If Democrats hold these seats, they need to flip 23 more for a majority.

³ Thirty-three Senate seats are being contested in regular elections. Two special elections will be held in Minnesota and Mississippi, respectively, to fill the seats of senators who resigned.

Winning the Senate will be more of an uphill battle for Democrats. They now hold 26 of the 35 seats that are up for grabs this year—and 10 of those are in states that voted for Donald Trump in the 2016 presidential election (albeit by margins ranging from 40 points to just one point).

To gain control of the Senate, Democrats would need to win all 26 of their seats plus two currently held by Republicans. If each party were to have 50 seats and vote along majority lines, Vice President Mike Pence (as President of the Senate) would cast the tiebreaking vote—keeping Republicans in control of the chamber.

So, what does it all mean?

For your portfolio: Volatility is likely to increase as midterms grow closer and uncertainty over the makeup of Congress grows. However, historical performance shows that markets tend to rally after elections. It's also important to remember that equity markets have rewarded long-term investors; a good reason to stay invested in accordance with your goals—despite possible bumps along the way.

For the economy: Though late in the cycle, the U.S. economy still exhibits healthy momentum. Regardless of the election's outcome, fundamentals are unlikely to change through 2018. We maintain our view that the Fed will stay on its quarterly tightening course. However, trade tensions remain a risk.

For individuals: Midterm elections could have policy implications on issues including taxes, the budget deficit, infrastructure, immigration and healthcare. But, until we know which party controls which parts of Congress, it's tough to say more about what the future may hold.

We will be back with updates as they unfold.

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