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WASHINGTON POLICY STRATEGY

Potomac Perspective

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With just over four months until the midterm elections, Republicans look well positioned to win back the House. The race for the Senate remains tight as some key races seem to be tilting toward Democrats, while Republicans might have opportunities to knock off some Democratic incumbents in seats that might be off the radar for some observers. If Republicans win at least one chamber, look for the party's evolution toward populism to present challenges for Big Business. The chances of government shutdowns and debt ceilings could increase while tax hikes would be off the table, and the rate of growth in government spending could be capped with the exception of defense spending, which could see an additional boost.

On Tuesday, several states held primaries and special elections, which further clarified the political landscape heading into the November midterm elections. These were also the first elections since the Supreme Court issued its decision in the *Dobbs* case that overturned *Roe v. Wade* and may have offered some clues about the political impact of the decision. Republicans remain the clear favorite to win the House. The situation in the Senate remains muddled – Republicans may have opportunities to win seats that are considered longshots but might also struggle in races that they need to win the majority.

TUESDAY'S KEY RACES

Nebraska held a special election to fill the seat of former Rep. Jeff Fortenberry (R) who resigned from Congress in March following a conviction related to foreign campaign contributions. The Republican candidate won the election by approximately seven points which is less than the 11 points by which former President Donald Trump carried that district in 2020. The decline in the Republican's margin of victory could be attributable (at least in part) to a reaction to the *Dobbs* decision. However, Nebraska election officials decided to run this election using the newly drawn district map. The reconfigured district is slightly less Republican than the previous district (Republicans wanted to increase the number of GOP voters in the other district), which also might have contributed to the smaller margin of victory.

In Colorado, Republicans nominated Joe O'Dea to challenge incumbent Senator Michael Bennet (D). O'Dea is generally seen as a moderate who stands a better chance of winning than did a more conservative candidate.

WHAT DOES IT MEAN FOR NOVEMBER?

The fact that the Nebraska race was run just days after the *Dobbs* decision was announced could have been a signal of things to come in November; the fact the Democratic candidate did better than Democrats did in 2020 is notable. The redrawn map, however, which is less Republican than the old map, could be signaling that *Dobbs* might have only a limited impact on the midterm elections. Following the leak of the Supreme Court's draft decision, there have been some polling and focus groups that suggest only a small impact from the *Dobbs* case. There could be several explanations for this. 1. White college-educated women tend to be among the most motivated voters regarding abortion. As a group, they already vote heavily Democratic, so how much more upside can Democrats expect? 2. Voters might support keeping *Roe v. Wade*, but in the current environment the issue is a lower priority than inflation and the economy. Inflation and the state of the economy are likely to be the dominant issues in November, blunting any impact from *Dobbs*. 3. Hispanic voters appear to continue their shift from Democrats to Republicans and cultural issues seem to play a role in that.

Earlier this week, the *Associated Press* reported that over 1 million voters switched their party registration and became Republicans compared to approximately 630,000 who became Democrats. That is a significant shift, which provides yet another data point signaling big Republican gains – at least in the House.

The situation in the Senate remains less clear. Unlike the House, where the entire chamber is up for election, only 35 Senate seats are being contested in November and, due to the results of past elections, Republicans are defending more seats (21) compared to the Democrats (14). Currently, nine seats (four held by Democrats and five held by Republicans) seem to be the key races. Democrat-held seats in Arizona, Georgia, Nevada, and New Hampshire seem most at risk to flipping. For the Republicans, seats in Missouri, North Carolina, Ohio, Pennsylvania, and Wisconsin represent close-calls.

The first four states on the list of GOP-held seats are all open seats where the incumbent is retiring. Missouri has yet to hold its primary which could be key in determining how vulnerable the state might be in November. GOP candidates in North Carolina and Ohio have a slight edge but both races are expected to be close. Early polls suggest that the Republican candidate in Pennsylvania, Dr. Mehmet Oz, is trailing by mid-single digits. A loss in PA would damage the GOP's chances of retaking the Senate. In Wisconsin, Sen. Ron Johnson (R) will likely have a close race, but Johnson has won close races before, and the national mood should bolster his chances of being reelected.

Of the four key seats that Democrats are defending, Nevada looks to be the most vulnerable. Aftereffects of the COVID pandemic on the casino industry, shifting party alignment of Hispanic voters, and some disarray within the state's Democratic Party present Republicans with an opportunity. In Georgia, Republican candidate Hershel Walker has been plagued by gaffes and negative press reports. He appears to be trailing the incumbent, Sen. Raphael Warnock (D), who won a special election in 2021. Republicans in Arizona and New Hampshire have yet to pick their candidates, but the top GOP recruits in both races passed on running.

Aside from the key races mentioned above, Democrat-held seats in Colorado and Washington could be competitive, as Republicans nominated candidates that can win in these blue states under the right circumstances. These two races should be watched over the coming months and could provide Republicans with some needed opportunities if other states fail to pan out.

A GOP AGENDA AND ITS POTENTIAL IMPACT

There is no formal agenda from House or Senate Republicans as of yet, but there are some ideas that we think Republicans will generally coalesce around if they win either chamber.

For generations, the GOP has been seen as the party of business. This is no longer the case – at least for Big Business. The party continues to evolve from a conservative party to a populist party that views concentration of power with suspicion. Republicans will be pro-business when an issue benefits small businesses and entrepreneurs but when Big Business is the primary beneficiary, then the private sector is less likely to see support from Republicans.

Since Republicans would only hold Congress (and maybe even only one-half of it), the party will be unable to enact its legislative proposals. Instead, a Republican Congress will probably use congressional hearings to investigate and highlight issues important to the party's base. This would include investigations into what Republicans view as “woke capitalism” – where large corporations attempt to use their power to influence social policy and culture. For example, congressional committees will likely hold hearings to criticize banks that refuse to serve legal but unpopular (at least in some circles) industries such as gun manufacturers. Companies that do business in China are also likely to be scrutinized.

Republican-led committees will likely hold hearings to push back against the Biden administration’s environmental, social, and governance (ESG) policies. Hearings regarding the Biden administration’s climate and energy policies are also likely. Big tech and social media are also likely to be targets of investigations and hearings. It is one area where there could be bipartisan cooperation.

Other topics that are likely to be on a Republican “to do” list include border security and payback for the January 6 hearings by holding hearings on the Capitol police’s preparation for the protests and whether the Democratic leadership was prepared for them.

Recent developments in the cryptocurrency markets could fuel an effort to pass legislation in 2023. Such efforts could be complicated if control of Congress is split between Republicans (House) and Democrats (Senate). Despite the publicized introduction of a bipartisan bill in the Senate, consensus on the regulation of digital assets remains elusive but could still be a higher priority next year.

The populist shift among Republicans also raises the odds of additional government shutdowns and standoffs regarding the debt ceiling. Politics has become a zero-sum game, and many Republican lawmakers will likely see only political risk and no political benefit in working with the Biden administration even on “must do” items, such as funding the government.

Financial markets might welcome a Republican win in November, as gridlock would further reduce the chances of tax hikes and limit the rate of growth in government spending. However, there will be risks to some sectors and to markets overall if government shutdowns and debt ceiling standoffs become more commonplace.

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