

# MARKET SIGHT LINES



## Finding Balance: The 2022 Midterms Approach

By Michael O'Keefe, *Chief Investment Officer*



This week I had the good fortune to host a client webinar with Stifel's Chief Washington Policy Strategist Brian Gardner, someone who is very busy as the 2022 midterm elections quickly approach. We've often discussed how uncertainties before an election can contribute to market volatility. We see the midterms as the first important step going forward in finding balance that may calm markets.

You can watch the midterm webinar replay [here](#), but in this week's Sight|Lines, we summarize some of the key learnings from our session on the upcoming midterm elections.

### THE TAKEAWAY:

#### REPUBLICAN VICTORY LEADS TO AN ACTIVE LAME-DUCK SESSION, THEN GRIDLOCK

During our discussion, Brian shared a view, consistent with the polls, that Republicans will likely gain control of the House, leading to an active lame-duck session and then gridlock with a new Congress and divided government:

- Brian handicaps a Republican House victory at 90%, and the Senate race a toss-up. He has identified a dozen seats to watch closely.
- High inflation, elevated crime, and a weakening economy are boosting Republican chances, with these issues apparently crowding out topics like abortion and the January 6 House hearings.
- A Republican victory will mean a very active lame-duck session through the rest of the year, including a budget, modest tax reforms, energy permitting, and judicial appointments.
- If Republicans gain control of the House, we'll have a divided government, which means very little will likely get done through 2024. Required legislation, like budgets, and some potential bipartisan topics, like anti-trust, will still be hard fought.
- If Democrats do keep control of Congress, we should expect some more dramatic moves like the elimination of the filibuster and a refocus on broader elements of Build Back Better.

HOUSE	SENATE	PROBABILITY
Republican	Democrat	50%
Republican	Republican	40%
Democrat	Democrat	10%
Democrat	Republican	<1%

Source: *Stifel Washington Policy Strategy*

## IN-DEPTH: POLLS FAVOR REPUBLICANS, BUT THERE ARE RACES TO WATCH ... WHAT IF?

Polls signal that Republicans have the advantage, driven by high inflation, crime, and the economy:

- *The House:* All 435 House seats will be contested, with the current breakdown of 221 Democrats, 212 Republicans, and two vacancies. The average gain for a minority party is 27 seats. While polls showed Democrats gaining strength in the summer, the trend has reversed and is now signaling a Republican majority.
- *The Senate:* 35 Senate seats are being contested, and Brian describes this more as a toss-up.
- *The Issues:* Polls show President Biden's approval rating remains low at 43%, with 66% of respondents viewing the country as on the "wrong track." Voters describe inflation, the economy, immigration, and crime as top issues facing the country. Most say inflation (96%) and crime (95%) are important as they vote.

Brian has identified a dozen individual races to watch closely:

- *Democratic Seats in Play:* Arizona (Kelly versus Masters), Georgia (Warnock versus Walker), Nevada (Cortez-Masto versus Laxalt), and New Hampshire (Hassan versus Bulduc).
- *Republican Seats in Play:* North Carolina (Budd versus Beasley), Ohio (Vance versus Ryan), Pennsylvania (Oz versus Fetterman), and Wisconsin (Johnson versus Barnes).
- *Other Key Races:* Colorado (Bennet versus O'Dea), Washington (Murray versus Smiley), Connecticut (Blumenthal versus Levy), and Iowa (Grassley versus Franken).

What if:

- *Republicans win the House:* A divided government will likely amplify political polarization, with the GOP focused inwardly while launching its own investigations.
- *Democrats keep the House and Senate:* Energized by victory, Congress could move to eliminate the filibuster to pursue elements of Build Back Better not yet enacted. We could see fiscal stimulus proposals in response to a 2023 recession, but hopefully care will be taken if inflation remains elevated.

I asked Brian one final question in our webinar: Who will run for president in 2024? His answer surprises me: He sees the most likely outcome as a repeat of 2020. He sees former President Trump itching to run again, which will encourage President Biden to run given his confidence he is the best candidate to beat Trump.

## CONCLUSION

I am fortunate to work with capable colleagues like Stifel's Chief Washington Policy Strategist Brian Gardner. Brian has been very busy as the 2022 midterm elections approach, but he took time to join me in a [client webinar](#), where he shared his views of a Republican victory and what that means for a lame-duck session and the buildup to the 2024 election.

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