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WASHINGTON POLICY STRATEGY

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In the wake of Representative Marjorie Taylor Greene's announcement that she will resign from Congress, we look at how markets might react if more House Republicans were to resign during the current Congress and control of the House were to subsequently flip to the Democrats. We believe that the probability of a change in control of the House before the 2026 midterm elections is low, but it's not zero. Mid-term switching of the House's majority is rare, but not unprecedented.

- **Change in control of the House or Senate in the middle of a Congress is a rare but not unprecedented event.** The last time control of one chamber flipped in the middle of a term was in 2001, when Senator Jim Jeffords (Vermont) left the Republican Party and declared himself an independent who would caucus with the Democrats. This ended a 50-50 tie (Vice President Cheney broke the tie for the Republicans) and gave Democrats a 50-49-1 majority. The S&P 500 sold off around 1.8 percent on fears that the Bush tax cut would be blocked. Jeffords announced his decision on May 24, 2001, which predated the 9/11 attacks. The terrorist bombings would strengthen President Bush's hand politically, and the tax cuts were passed a few months after the attacks.
- **The 1931 Special Elections.** Republicans held a 218-217 majority following the 1930 midterms in which they lost 52 seats, net. During 1931, 14 Representatives either died or resigned, and Democrats won enough special elections to take control of the House when it convened in December 1931. This was prior to the ratification of the Twentieth Amendment, which reduced the interregnum between Election Day and the start of a new Congress, so technically this was not a mid-session change in control. It is difficult to assess any impact that the switch may have had on the markets due to the Great Depression and the ongoing bear market, which would not reach a bottom until mid-1932.
- **If the House were to flip to the Democrats before the 2026 midterms, we think the market might sell off on fears that the Trump economic agenda might be blocked.** If this is the market's reaction to such an event, we think it would be a **misreading of the current state of Washington and policy.** Congress has passed only a few bills that significantly impact economic policy legislation. Other than the GENIUS Act (Stablecoin regulation) and the One Big Beautiful Bill Act (tax bill), most of the action on economic policy has been implemented by the administration in the form of tariffs and deregulatory actions. This would not change if the House flips, since any bills passed by a Democratic House would need support from a Republican Senate and the White House, which is highly unlikely. However, some sectors could be bigger losers than others.
 - *Sectors that might be most negatively impacted by a change in control of the House could include cryptocurrency. Passing a digital asset market structure bill (the CLARITY Act) would become more difficult than it already is. Energy could also sell off on fears that any chance of permitting reform would be diminished.*
- **Could it happen?** Republicans currently hold a 219-213 majority with three vacancies. Democrats will likely win two of those vacancies. The third vacancy, created by Representative Mark Green's (Republican -Tennessee) resignation, will be filled on December 2. Green won his 2024 race by more than 21 points, but given the shifts towards Democrats that we have seen in other special elections and the 2025 state and local elections, it is possible – albeit unlikely – that Democrats could flip the seat. In this scenario (Democrats sweeping all three current vacancies), Republicans would hold a 219-216 majority. Additional vacancies (via death or resignation) would put the Republicans' control at risk. Even if they maintain the majority, any absences will make managing the House even more difficult than it already is.

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- **Why might it happen?** Obviously, vacancies due to the death of a sitting Member are impossible to predict, but there seems to be greater angst among House Republicans, which could lead to more resignations. There appear to be growing splits between congressional Republicans and President Trump, as demonstrated by the recent falling out between him and Representative Taylor Greene. A private sector opportunity might appear to be a better option than a public spat with the White House. Also, the security risk that many Members face should not be discounted. Public officials increasingly face credible threats to their safety (as well as that of their families), and some lawmakers might decide that resigning now and not even waiting to retire at the end of the term is in their and their families' best interests.

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