



## 2018 MIDTERM ELECTIONS: RESULTS & IMPLICATIONS

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Nicholas Breit, CFA, CFP®

Senior Consultant & Financial Planning Practice Leader

Following a volatile October for global markets, investors closely followed the outcome of the U.S. midterm elections in anticipation of broader political and market implications. The article following provides a brief summary of the election results to-date and potential impacts going forward.

### Republicans Keep Control of the Senate

Heading into the election, Senate Republicans held a very narrow lead over Senate Democrats (51 to 49). A total of 35 seats were up for election (nine Republican, 24 Democrat and two Independent). Democrats hoped to win two seats and gain control of the Senate, though most projections had Republicans maintaining a narrow majority. As of early Tuesday morning, FiveThirtyEight placed the odds of Republicans maintaining Senate control at 80 percent.

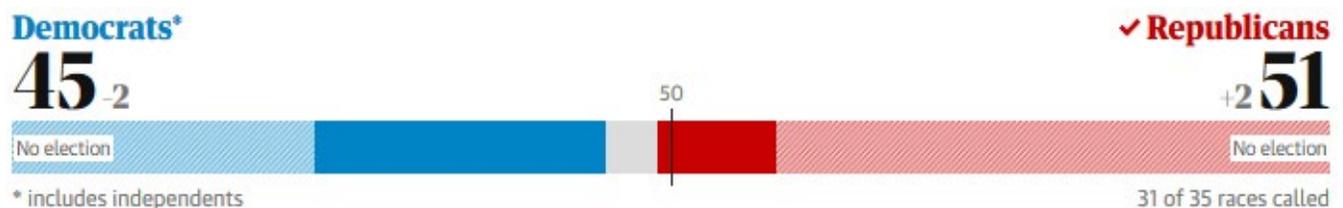
#### The balance of power



Source: FiveThirtyEight.com "Forecasting the Race for the Senate"

#### Election Update:

- As of this writing, 31 of 35 Senate races had been called, with Republicans having won an additional two seats (winning Indiana, Missouri and North Dakota, while losing Nevada).
- Republicans hold a narrow lead in the four undecided races (Arizona, Florida, Montana and Mississippi), thus leaving Republicans with the potential to add as many as four more seats.



Source: cnn.com

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### Democrats Win Control of the House

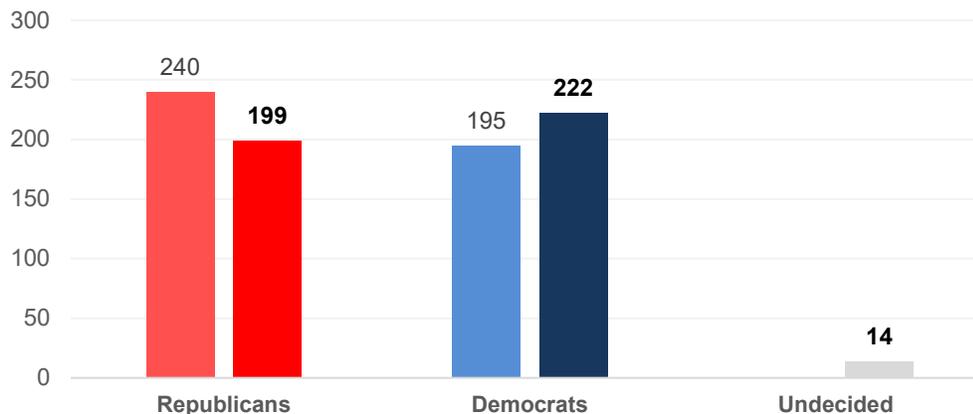
Given the two-year term for members of the House of Representatives, all 435 seats were up for election, with the House majority to be decided by the party with at least 218 seats. While all seats were up for election, the Cook Political Report (a non-partisan election handicapper) put the number of competitive races at only 75 (as defined by races considered to be a toss-up or only slightly leaning toward one party).

Prior to the election, Republicans held a 240-195 edge over Democrats. In the days leading up to the election, most projections had Democrats winning the House majority, with estimates generally ranging from a net gain of 25 to 45 seats. As of Tuesday morning, FiveThirtyEight placed the odds of Democrats winning the House at 88 percent, with an average gain of 39 seats.

#### Election Update:

- As of this writing, 421 of 435 House races had been called, with Democrats gaining control of the House with a net gain of 27 seats (thus far). This will mark the first time Democrats have held the House majority in eight years.

House Seats: Before & After



\* 218 seats needed for House majority

Source: cnn.com

### Political Implications

The most immediate impact of the midterm elections is that the Democrat-controlled House will serve as a check to the Republican-controlled Senate and President Trump, with legislative gridlock a likely outcome. In the aftermath of the elections, making individual tax cuts permanent ("Tax Cuts 2.0") and overhauling the Affordable Care Act become increasingly unlikely. The elections' resulting impact on hot button issues such as immigration, healthcare and infrastructure spending remains unclear. A Democrat-controlled House may result in further political investigations, though Democratic leadership appears wary to pursue impeachment proceedings against President Trump, particularly given that impeachment would require a two-thirds Senate vote for removal from office.

### Market Implications

While Democrats fared worse than anticipated in Senate races, election results were generally in-line with prognostications. Equity markets reacted positively to the results, gaining nearly 1 percent in early Wednesday trading.

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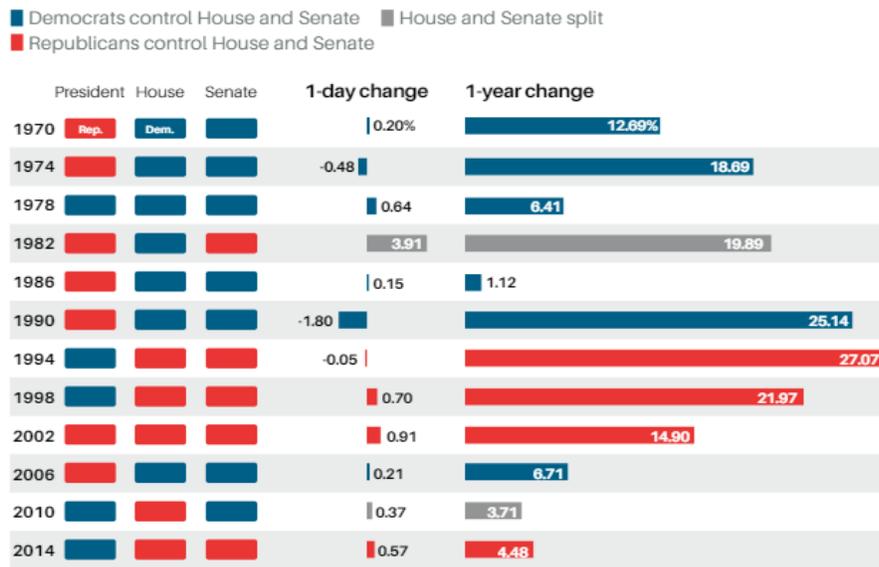
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From a historical perspective, U.S. stocks (S&P 500 Index) have typically performed well in the year following midterm elections, regardless of the party in control of Congress.

*The evidence suggests no clear relation between partisan control of Congress and the performance of the S&P 500.*

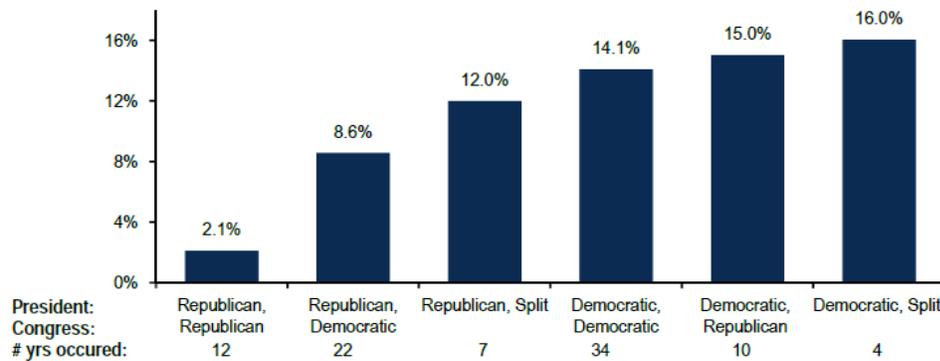


Source: Dow Jones Market Data / Barron's

...and U.S. stocks (S&P 500 Index) have historically thrived under political gridlock:

**Chart 10: Equity markets have generally thrived under gridlock in Washington**

Avg. annual S&P 500 total returns based on control of White House & Congress, 1928-present



Note: Excluding 2008, average for Republican President, Democratic Congress is 10.2% (still the second-weakest period). Total returns 1936-present and price returns prior to that.

Source: S&P, FactSet, BofA Merrill Lynch US Equity & US Quant Strategy

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### **Final Conclusion**

While the historical data shows that U.S. stocks have fared well in both the year following midterm elections as well as during periods of political gridlock, we would strongly caution investors against making reactive, tactical allocation changes in light of strong historical U.S. stock performance. It bears noting that U.S. stocks have already enjoyed an extended period of significant gains, with the S&P 500 Index having annualized at 11.9% over the past 10 years, through 09/30/18, which has sharply outpaced non-U.S. markets over that same period (MSCI EAFE 5.9% annualized, MSCI Emerging Markets 5.8% annualized). DiMeo Schneider & Associates, L.L.C. continues to emphasize that investors should adhere to a well-constructed, diversified investment portfolio anchored to long-term goals, risk tolerance and time horizon.

For more information, please contact any of the professionals at DiMeo Schneider & Associates, L.L.C.

### About the Author:



#### **Nicholas Breit, CFA, CFP®**

*Financial Planning Practice Leader, Senior Consultant, The Wealth Office™*

Nick provides investment consulting services to nonprofit organizations, corporate executives, family trusts and other high net worth investors. He services clients by providing advice and expertise on asset allocation, portfolio design, investment policy statements, manager search process and overall investment management. Nick is also a member of the firm's Core Investment Strategy Group. Prior to joining the firm in 2007, Nick was a Senior Financial Planner with The Ayco Company where he provided comprehensive advice to affluent clientele. Nick earned a BA in Finance and Economics from the University of Illinois at Urbana-Champaign. He obtained the designation of Certified Financial Planner (CFP®) from the College of Financial Planning and is a CFA® charterholder and member of the CFA Society of Chicago. Nick enjoys long distance running (having completed three marathons and multiple half-marathons) and spending time with his family.

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