



NOVEMBER 2022

*"You want a friend in Washington? Get a dog."
- Harry Truman*

The 2022 Midterm elections are over. Regardless of your political affiliation, we can all breathe a sigh of relief that the barrage of negative commercials, intrusive phone calls, and spam text messages will stop. Instead of a red wave washing over the political landscape in the U.S., there is merely a wave of relief in the Hussar household that I no longer have to field attack-ad informed questions from my 8-year-old son about John Fetterman and Mehmet Oz.

Although votes are still being counted in some key battleground states, we think it prudent to provide some color on the initial results of the midterms and what it means for the political landscape, the economy, and the markets.

The Initial Results

- As of this writing (Friday, November 11th) Republicans have a clear pathway to take control of the House of Representatives.

- The Senate race will go down to the wire, with the balance of power being determined by a few key states. Still left to be decided are the outcomes in Nevada, Arizona and Georgia, with a run-off election in Georgia likely to determine whether Republicans take control of the Senate or whether it remains a 50/50 split. Vice President Kamala Harris holds the tie-breaking vote if it comes to that.

The Political Dominoes

- With Ron DeSantis dramatically outperforming expectations in Florida and Donald Trump endorsed candidates underperforming expectations in the state specific races, the election can be seen as a referendum on Trump's sway on the Republican party. GOP hopefuls will likely turn their back to Trump and towards DeSantis as he is seen as the front-runner for the party in 2024 given his dominance across all demographic lines in Florida.

- Mixed government, and ultimately political gridlock, is a referendum from the voters that Washington should not get in the way of economy. Too much stimulus money, too little investment in domestic energy resources, high inflation - you name it, the results point to a malaise regarding the government's handling of the current environment.



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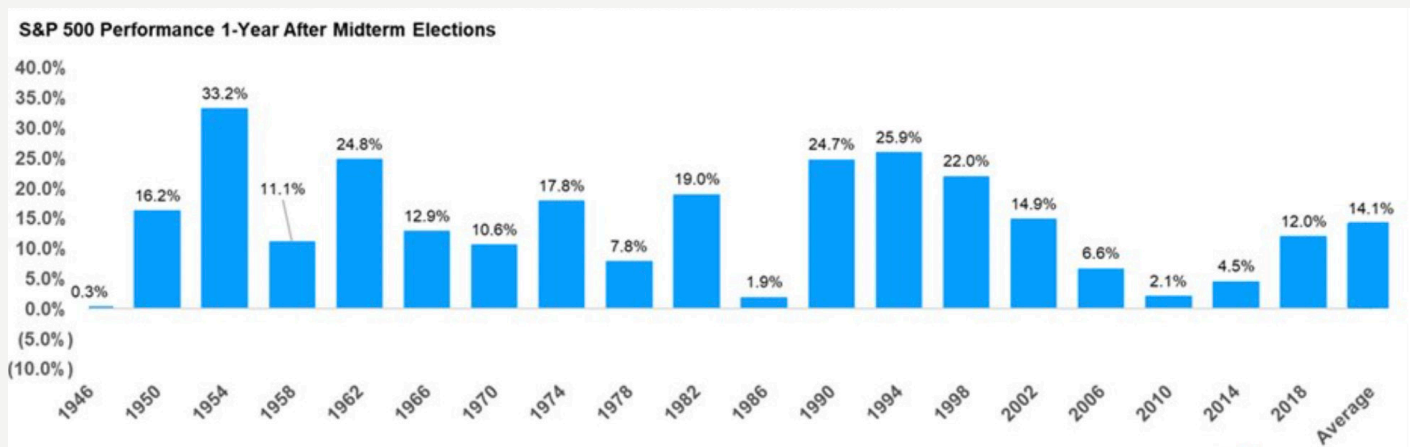
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The Market Ramifications

- Gridlock may be bad for policy initiatives, but has historically been good for markets. Midterm elections, which usually shift the balance of power from the prior Presidential election, have been followed by an average S&P 500 return of 14% in the following year.



Markets do not operate in a vacuum and when one political party dominates in Washington, the uncertainty over broad sweeping changes can often lead to volatility. However, when gridlock is present, the status quo allows for greater confidence in forecasting.

To be certain, capital markets have been more consumed by the path of interest rates and how aggressively the Fed battles inflation rather than partisan politics. Stocks posted their best day of the year after the October CPI report showed inflation data coming in much better than expected. Yet political shifts in Washington will again take center stage leading up to 2024 and it is important to assess where the parties reside as we move towards the next Presidential election. Midterm elections normally shift the balance of power from incumbents to their opponents. One of the reasons stocks tend to do well in the year following a midterm and before a Presidential election is that both parties desire positive market traction in order to take the credit for positive trends as they run for office again.



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1: Page 2 chart from Ryan Detrick, Carson Wealth - <https://twitter.com/RyanDetrick/status/1567881186105593856/photo/1>