

MID-TERM ELECTIONS

There are three key things that should provide optimism for Democrats hoping to re-take control of the House later this year. First, the majority party has historically lost seats in mid-term elections. This could stem from either a rebuke of the President's agenda, or from renewed vigor by the minority party to regain control of government. Second, a significant number of Republican lawmakers have announced their retirements since the 2016 election, thus creating opportunities for Democrats to fill the vacancies. Third, Democrats have shown much strength in recent special elections.

Several factors will temper expectations, however. First, the President's job approval is up over 6% (now above 43%) from last December, when it hit an all-time low of 37%. Additionally, the last time the Democrats gained control of the House was in 2006, when they polled 12 points ahead of Republicans on the generic ballot prior to the election. Currently, Democrats hold a much smaller margin of 6%. It seems likely that the Democrats will gain seats, but possible that they peaked early in terms of momentum heading into the fall.

Shifting to the Senate, the Republicans currently hold a small majority (51-49), but have very few incumbents subject to re-election. Of the 35 seats up for grabs, the Democrats must protect 26 of them, while the Republicans only have 9 to defend. This provides little opportunity for Democrats to flip control of the Senate into their favor. In addition, five Democratic incumbents are seeking re-election in states that President Trump won comfortably in 2016. These trends indicate that Republicans will likely hold the Senate in November, and could potentially add a couple of more seats.

Regardless of outcome, most potential outcomes indicate that things will not get much easier for President Trump in the near future. If the Republican majority in the House does narrow, it will make passing legislation even more difficult. However, if the Republicans can in fact gain a few seats in the Senate, issues such as court and agency appointments should go his way without as much resistance.

From a market perspective, if Republicans hold their majorities in both the House and Senate, the President's pro-growth, deregulatory agenda should stay largely on track, which will strengthen markets. Tax cuts should remain safe, and the overall economic environment should remain positive.