

Regarding Tuesday's U.S. Midterm Elections

November 7, 2018

Bottom-line: We expect no major tax legislation to become law during the upcoming Congress. Spending is likely to be extended around current levels. An infrastructure deal seems unlikely. Healthcare will be a major issue, but not much will get done. And trade policy should not be directly affected. While the consensus outcome occurred, the immediate bull flattening seen in the Treasury curve, alongside a modest weakening in the U.S. dollar, reflects the removal of an expansionary tail risk associated with a Republican sweep. Equities have responded positively this morning as tail risks have been eliminated (especially positive for health care, while curve flattening is unhelpful for financials).

There will likely be limited material legislation enacted next Congress: For better or worse, the bulk of the policymaking will continue to be executive actions on trade, immigration, regulation, drug pricing, net neutrality, labor market rules, and the like.

No major changes on taxes: Expect no major tax legislation to become law under a divided Congress.

Spending is likely to be extended around current levels: Under a divided Congress, expect Congress to approve discretionary caps for defense and non-defense spending for FY2020 and FY2021 that are roughly flat in real terms with the spending caps for 2019 that Congress approved earlier this year.

An infrastructure deal seems unlikely: A divided Congress is unlikely to enact a major infrastructure program. While President Trump and congressional Democrats have both supported infrastructure programs, the details differ substantially.

Healthcare will be a major issue: Healthcare was listed as a top issue for more voters than any other in exit polling, with 42% listing it as the top issue. The Democratic-majority House is likely to pass drug pricing legislation, but it will likely be blocked in the Senate. Also, ACA repeal and replace is extremely unlikely.

Trade policy should not be directly affected: The midterm election outcome is unlikely to change the Administration's direction on U.S.-China trade policy, where additional tariffs in 2019 are more likely than not. Passage of NAFTA (or USMCA) may become a little more arduous.

Legislation to legalize marijuana: Likely to pass the House, but not the Senate. Could see narrower legislation on medical use.

Little impact on the regulatory agenda: Most regulatory changes under the Trump Administration have been carried out with existing authority and have not needed congressional approval.

Tech: A Democratic House could open two fronts: (a) On antitrust, the House may put pressure on FTC/DOJ to be more aggressive against big tech; and (b) On privacy, House Democrats may highlight new privacy rules (potential concern for FB and GOOGL).

Defense: Midterm election results unlikely to be overly negative for defense spending.

More Judges: So far the Trump administration has confirmed 84 federal judges (2 Supreme, 29 Circuit and 53 District). There are another 34 judges pending in the Senate and a further 13 have been nominated. ~100 federal judges could be confirmed via the GOP Senate over the next two years.