



Preview: US 2022 Mid-Term Elections - GOP expected to take the House but the Senate is a close call

This preview includes a summary followed by a focus on the Senate, House, and Governor races. It also includes a section on the key talking points among US voters, as well as the potential market impact.

SUMMARY

The mid-term elections occur two years into a presidency where seats are up for grabs from the Senate and House of Representatives. All seats from the House of Representatives (435) are available, while there are 35 of the 100 Senate seats to be voted on. The balance of the power is currently split evenly at 50/50 in the Senate (independents Sanders and King, align with Democrats), with Vice President Harris able to cast a vote in the event of a tie. However, more moderate-leaning Democratic senators have been a stone in the shoe for the party, namely, Senators Manchin and Sinema, who are more centrally aligned. Given the already tight Senate, there is particular attention on the states which are considered a toss-up – Georgia, Nevada, and Pennsylvania, with the GOP trying to take the former two and Democrats looking to take the latter. Politico suggests that Senate control could go either way despite recent momentum for Republicans, while Real Clear Politics also sees the race as even, while FiveThirtyEight has the Senate as a toss-up, but polling has been leaning towards Republicans recently. Meanwhile, the House is currently split 221-212 in favour of Democrats, still very narrow – so the Midterms have the potential to shake things up in Washington and will influence what policies President Biden will be able to implement in his remaining two years. It appears Democrats are likely to lose the House, according to polling, with FiveThirtyEight projecting an 80% chance Republicans hold between 215-248 seats. If Democrats hold the Senate and Republicans win the house, any legislation passed in the house will most likely be dead on arrival in the Senate; this could then see Republicans leverage the debt limit and government funding to force Democrats to the negotiating table for spending cuts. There are also 36 Governorships up for grabs, as Vermont and New Hampshire elect governors to two-year terms in both the Midterm and Presidential elections. Although President Biden is not up for election at the next week, the plebiscite will determine if he has the strength to run again in 2024, if he chooses (he is expected to run again in 2024). On the Republican side, there is attention on whether former President Trump will be running again in 2024. Trump recently said he will “very, very, very probably do it again,” although there is some speculation that Florida Governor Ron De Santis will also be vying for the Republican nomination, and the outcome of his Governorship race could help signal the strength behind him.

SENATE

There are 35 seats up for election, 14 from the Democratic party and 21 from the Republican party. There will also be another special election later in the year. The terms for all Class III senators – those who were elected in 2016, plus Oklahoma’s Inhofe (retiring) – are to expire in 2023. Those elected at the Midterms will start their six-year terms on January 3rd, 2023. The Senate seats not up for election consist of 36 democratic seats and 29 Republican seats.

The Senate race is seen as a very close call and is currently a toss-up, the latest FiveThirtyEight projections have been leaning in favour of Republicans winning control of the Senate. FiveThirtyEight notes the best opportunities for Republicans are Nevada and Georgia, although Democrats are hoping to get a seat in Pennsylvania. A summary of the key Senate races with recent polling is found below. If Democrats do better than expected and they secure an extra two seats from Republicans it would be enough to overpower future policy decisions that have been rejected by the moderate senators Manchin and Sinema.

KEY SENATE RACES

R: Pennsylvania (Toss-up): Incumbent Republican Pat Toomey is not seeking re-election and Mehmet Oz (R) and John Fetterman (D) are racing against each other. Real Clear Politics poll averages have Fetterman marginally ahead 0.2pts and it is seen as a toss-up but the RCP projection is for Republicans to hold the seat, whereas FiveThirtyEight has the race marginally in favour of Democrats. Politico notes that Fetterman was struggling during the TV debate due to his health issues.

D: Nevada (Toss-up): The Nevada Senate race sees incumbent Democrat Catherine Cortez Masto run against Republican Adam Laxalt. The prior election saw a narrow win to Democrats by just 2.4pts. Polling has been mixed, but as it stands Laxalt (R) is marginally in the lead by 1.9pts, according to the RealClearPolitics average; RCP projects that



Republicans will take the Senate seat but it is seen as a toss-up. It is worth noting Nevada is the only battleground without a Senate debate for the midterms.

D: Georgia (Toss-up): The Georgia Senate race sees incumbent Democrat Raphael G. Warnock run against Republican Herschel Walker, and like Nevada, the prior election saw a very narrow win for the Democrats of just 2.1pts. The RCP average of polls suggests the race is tight, with Warnock (D) initially holding a 0.5-point edge, though Walker (R) has now taken a 1.6pt lead. The two only had one debate in mid-October and since then, the RCP polling saw Warnock narrow his lead and the race is currently predicted as a toss-up while RCP is projecting the race goes to a run-off on December 6th.

D: Arizona (Toss-up/lean Democrat): Incumbent Mark Kelly (D) is up against Blake Masters (R) and the race is also expected to be a toss-up with the polling average via RCP at just a 2.3pt lead for Kelly while the RCP projection sees the GOP picking up the spot, albeit FiveThirtyEight have the race leaning in favour of the Democrats. Before the debate, the gap in polls was quite large and favoured Kelly but the polling gap has narrowed with Kelly now just holding the 2.3pt lead.

D: New Hampshire (Toss-up/lean Democrat): The New Hampshire Senate race sees incumbent Maggie Hassan (D) vs Don Bolduc (R). RCP considers the race a tossup, and projects a GOP pickup; however, FiveThirtyEight leans in favour of Democrats. The latest polls put Hassan (D) ahead by 2.3pts on the RCP average while the prior election saw a tiny marginal win of just 0.1 points. After the debate on 27/10/22, there was around 1pt narrowing in Hassan's lead.

R: Wisconsin (Likely Republican): Incumbent Ron Johnson (R) is running against Mandela Barnes (D), the race is leaning towards Republicans and the polls have been leaning in favour of Johnson (R) reclaiming his seat and currently holds a 2.2pt lead on Barnes and the projection from RCP is for the Republican to hold his position. FiveThirtyEight also sees it as likely Republican.

R: North Carolina (Likely Republican): The incumbent Republican Richard Burr is not seeking re-election and Ted Budd (R) and Cheri Beasley (D) are running against each other. Polling averages via RCP lean in favour of Republicans and they are expected to hold the seat. Budd currently has a 3pt lead on Beasley, with the margin widening in recent weeks. FiveThirtyEight also has the outcome as a likely Republican.

R: Ohio (Likely R): Incumbent Republican Rob Portman is not seeking re-election and the primary candidates running are JD Vance (R) vs Tim Ryan (D), the average polls via RCP have Vance ahead by 2.2 points in a narrow race but the RCP projection expects Republicans to keep hold of the Ohio Senate. FiveThirtyEight also has the outcome as likely Republican.

D: Washington (Likely D): Incumbent Patty Murray (D) is racing against Tiffany Smiley (R) for the Washington Senate and the incumbent is currently ahead in polls by an average of 5pts according to RCP and is expected to retain power.

R: Florida (Likely R): Incumbent Republican Marco Rubio is up against Democrat Val Demings. Rubio is currently far ahead in the polls with an 8-point lead and seems to have garnered even more support after their debate. RCP is expecting the Republican to hold the position.

D: Connecticut (Solid D): Richard Blumenthal (D) is expected to maintain his Senate seat in Connecticut and is running against Leora Levy (R) – Blumenthal has been dominating in the polls and currently has an 11-point lead on average.

D: Colorado (Likely D): Incumbent Michael Bennett (D) is running against Joe O'Dea (R) and Bennett currently is leading in the polls by an average of 7.7pts RCP is expecting the Democrats to maintain the Senate in Colorado. The 7.7 pt lead in polls would be ahead of the prior election margin win for Bennet of 5.70.

HOUSE

The margin within the House is also very narrow, with the Democrats holding 221 seats to the GOP's 212 seats. There are 435 seats up for grabs (including 2 vacancies). The Economist notes that the race for the House is very close, but expects Republicans will win a majority; Economist predicts the GOP will win 207-239 seats, and Democrats will take between 196-228 seats. Historically, the President's party loses seats in Midterm elections, and the current climate of high inflation does little to aid the Democrats. However, the Economist pointed out that in some races, Republicans have opted for a weaker far-right candidate, and the Supreme Court decision to overrule Roe v Wade may have energised Democratic voters. House Representatives are elected to two-year terms, rather than the six-year terms for Senators. The bank Credit Suisse highlights that since the introduction of direct Senatorial Elections in 1912, "the sitting President's party has gained seats in the House only three times and in the Senate only six times out of the 27 elections. And since World War II, the president's party has lost an average of 26 seats in the House and an average of four seats in



the Senate.” Republicans are therefore expected to take the majority in the House from the Democrats; FiveThirtyEight predicts an 80% chance of GOP’s holding between 215-248 seats and suggests the “fate of the House likely rests on the outcome of a handful of key seats, such as Iowa’s 3rd District, North Carolina’s 13th District and Colorado’s 8th District. Other districts, such as the three along the Texas-Mexico border, will also be worth watching as they have shifted politically in recent years”. FTE’s model has Texas (34), Virginia (2), Nevada (1), Texas (15), Alaska, Pennsylvania (7), New York (19), Pennsylvania (17), Michigan (3) and Rhode Island (2) has the ten most competitive races.

GOVERNORS

Overall, there are 28 Republican Governors and 22 Democrat Governors across the US, and this race will be for 36 positions, made up of 20 currently Republican seats and 16 currently Democrat. FiveThirtyEight sees Massachusetts and Maryland being almost certain to flip to Democrats. Meanwhile, Republicans have a decent chance to pick up Nevada, Wisconsin, and Oregon. The Governor race can have implications for the 2024 election, with Florida Governor Ron De Santis vying for the Republican nomination; he is expected to secure another victory as the Florida Governor. Other well-positioned governors include Texas Governor Greg Abbott and Georgia Governor Brian Kemp, both Republicans. However, FiveThirtyEight points out that some weak candidates have cost Republicans chances in races they would expect to be close. Democratic Governor Gretchen Whitmer is the favourite in Michigan while Democrat Josh Shapiro is much further ahead in the polls than Republican Doug Mastriano.

The States where the governorship is currently predicted to be a toss-up include Oregon, Nevada, and Wisconsin, while Kansas is leaning towards a Democrat outcome again, while Arizona is leaning towards a Republican outcome again.

Note, the Governor is essentially the head of the state and has several powers (which vary on the jurisdiction), including budget control, policymaking and appointing officials and judges. The majority of Governors have a four-year tenure, aside from Vermont and New Hampshire, where the tenure is for two years.

TALKING POINTS

INFLATION: Rising prices have been seen as the top concern among Americans, as well as the economy. Republicans will take aim at the high inflation under the Biden administration. The October CPI report came in hotter than expected while the Core CPI metric hit a 40-year high, indicative of broadening price pressures outside the volatile food and energy components. Consumer inflation expectations seen in the UoM and NY Fed surveys remain elevated, with the September survey seeing the short-term 1yr ahead forecasts at 5.4% from the NY Fed (down from 5.7%), although the 3yr inflation expectations rose to 2.9% from 2.8% and the 5yr inflation expectations rose to 2.2% from 2%. The UoM survey for October saw 1yr inflation expectations at 5.0%, down from 5.1%, while the 5-10yr inflation expectations measure was unchanged at 2.9%. Although consumers are slightly revising lower their short-term forecast, the longer-term expectations imply consumers are expecting a slower return to normal inflation levels.

JOBS: The jobs market has held up well in recent months although a strong labour market can have inflationary effects at a time when inflation is already too high. However, given the uncertain macroeconomic environment, there have been several large companies, particularly in tech, which are now cutting jobs or freezing hiring. Monthly job gains have been stable (and positive), according to official data, although the unemployment rate has been ticking up, but perhaps not as much as had been feared given how tight monetary policy currently is. Analysts at Bank of America suggest that if the Democrats secure a victory at the Midterms, it shows the electorate is more concerned about jobs, whereas if the GOP wins, it would suggest Americans are more concerned about inflation.

ELECTION FRAUD: A majority of Republican nominees on the ballot this November for the House, Senate and key state-wide offices, which equates to 291, have denied or questioned the outcome of the last presidential election, according to a Washington Post analysis. WaPo adds that of the nearly 300 on the ballot, 171 are running for safely Republican seats. Another 48 will appear on the ballot in tightly contested races. Therefore running up to the races will be a key talking point among GOP candidates while Democrats will try to dismiss it. Voting has already begun in some states and it could lead to more calls of election fraud depending on the outcomes, voters in Georgia have already had 1mln votes submitted in early ballots.

VOTER TURNOUT: ING highlights that the turnout of voters is usually lower than what is seen in the Presidential Elections. The 2020 election saw a 67% voter turnout vs an average of 50-60% while Midterms typically see around 40% turnout; that said, the 2018 Midterms saw a 53% turnout. A lower turnout is more likely to favour Republicans. Early voting has also been an option, and Georgia, one of the key Senate races, saw over 1mln votes submitted for the midterms within just a few days.



ROE v WADE: The US Supreme Court overruled Roe vs Wade in a 5-4 vote, paving the way for abortion bans in many states. The BBC notes that several bans came into place after the overruling but some of these bans have been temporarily blocked by Courts. The views of running Senators and Representatives could have a large influence on the voting outcome, particularly for women. The NYT reports that the number of women signing up to vote surged in some states after the overruling of Roe v Wade. Looking at 10 states, Kansas, Pennsylvania, Ohio, Oklahoma, Florida, North Carolina, Idaho, Alabama, New Mexico and Main, Upshot provided analysis saw a huge increase in women voter registrations in Kansas, although some states saw little change. Upshot and the NYT report “the increase in registration among women is nonetheless consistent with a broader constellation of evidence suggesting that the court’s ruling has motivated voters, to the advantage of Democrats”. However, as time has gone on, a recent WSJ poll found “white women living in suburban areas, who make up 20% of the electorate, now favor Republicans for Congress by 15ppts, moving 27 percentage points away from Democrats since the Journal’s August poll.” That suggests “the topic of abortion rights has faded in importance after Democrats saw energy on that issue this summer in the wake of the Supreme Court’s decision to overturn Roe v. Wade.”

DEBT CEILING: An article from Reuters highlights that if Republicans win control of the House (which is expected), they could use the federal debt ceiling as leverage in their dealings with President Biden to compel Democrats to cut spending levels. They could also use it as an opportunity to limit spending on Democratic initiatives, such as climate change and new social programmes, as the US Treasury is expected to reach the USD 31.4tn borrowing limit in 2023. If the results of the Midterms see a split Congress, or if Republicans take both the Senate and the House, SocGen says that any “desire to push agendas again raise the prospect of government shutdowns and of breaching the debt limit.” SocGen adds that when the debt limit has been binding before, the Treasury curtailed bill issuance in favour of sustaining its coupon cycles which led to a shortage of bills for investors. However, “new buyback rules now allow Treasury to swap off-the-run, illiquid coupon issues for bills, thereby maintaining bill supply and steady new coupon issuance while meeting debt limits.”

STUDENT DEBT: Biden’s promise to relieve student debt will likely help sway younger voters/graduates to vote on the Democratic side. However, some are sceptical it will ever be passed, which would disappoint the 22mln Americans who have applied for the USD 20,000 relief, while the latest saw a US appeals court temporarily block it from going ahead. The appeals court has put the plan on hold after Attorney Generals from Republican-led states, Arkansas, Iowa, Kansas, Missouri, Nebraska and South Carolina sued the administration in an effort to stop its plan which a judge ruled the case lacked legal standing. Legal experts suggest the Republicans will struggle to prove they have the necessary legal standings to pursue the case, CNBC reported.

UKRAINE: There has been some speculation that the vast amount of support the US government has given to Ukraine could see public fatigue, given domestic issues such as inflation and high energy costs, WaPo reported. The Post added both Republicans and Democrats have been supportive of Ukraine from the start, albeit some Republicans have questioned support for Ukraine and argue against confrontation with Russia. However, Ukraine will likely be a factor among vote decisions and a University of Maryland Critical Issues poll found that US support for Ukraine remains high. A separate survey found the American public is prepared to pay high energy costs to help Ukraine, and Democrat citizens were more willing than those who vote Republican. Albeit reports recently have suggested that US President Biden lost his temper with Ukraine’s Zelensky on a phone call in which he requested more aid, which could be indicative of a limit being reached. Nonetheless, it was reported on Friday that US National Security Adviser Sullivan travelled to Kyiv and said US support for Ukraine will remain unwavering and unflinching after the midterm elections.

MARKET IMPACT

UBS says the S&P 500 has on average returned around 6% over the last 18 Midterms since 1950, from September to year-end, with 14% returns from October to March. However, returns were negative during the 1978 inflation crisis and the 2002 Tech bubble burst, as well as the 2018 trade war and Fed/hiking cycle. UBS notes that historically, the rallies have been driven by a rise in the P/E multiple with the S&P 500 10% cheaper on average before the election vs their model, as well as an easing in financial conditions pushing up the “fair” P/E by c. 5% on average. The desk highlights the S&P 500 is not cheap vs fair, excluding elevated medium-term EPS growth expectations that are heading lower. Therefore the CPI data on November 10th (post-Midterms) and the Fed rate decision on November 2nd (hiked 75bps, and saw Chair Powell lean hawkish to offset the dovish statement) will be key for the S&P, but notes the results of the election are an added factor conditional on inflation/monetary policy.

Meanwhile, Citi says that if Democrats manage to hold both the House and Senate, although not probable, has the potential to “ignite a convex move lower in equities and UST”. Citi also notes that “a split congress or Republican sweep can be benign in the near term, but debt-ceiling problems will likely arise in 2023”.



In terms of scenarios and the impact on the economy on the outcomes, Bank of America highlights that if the Republicans win, the electorate wants low inflation, while if the Democrats win, the electorate wants low unemployment. The desk suggests a Republican win will lead to tighter monetary policy and more yield curve inversion. Meanwhile, a Democratic win will result in looser fiscal and a steeper yield curve.

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