

 **AGF™ Insights and Market Perspectives****3 outcomes to watch as U.S. midterms draw near****Author: Kevin McCreadie****October 31, 2018**

Investors have turned their focus towards U.S. congressional mid-term elections, but with the vote just days away, the potential impact on markets remains difficult to call and may largely depend on one of a few different voting outcomes.

**1. Democrats take the House of Representatives, Republicans keep the Senate**

This is the scenario that is most widely predicted and is already largely priced in by investors. Even so, a gridlocked Congress has the potential to rattle markets because it gives the Democrats a real opportunity to trigger impeachment proceedings against U.S. President Trump. While such efforts would most likely be thwarted by the Republican-heavy Senate and ultimately fall flat, the dirty laundry that would be aired as part of the process would be incredibly polarizing for the country and represents a huge potential headwind.

**Hello, gridlock?**

**7 in 8**  
Chance Democrats win  
control of the **House**  
(86.6%)

**5 in 6**  
Chance Republicans keep  
control of the **Senate**  
(82.0%)

Source: FiveThirtyEight.com, October 29, 2018

## **2. Democrats take both the House of Representatives and the U.S. Senate**

This second scenario is not seriously anticipated by most pollsters and it's hard to see it happening once the votes start to be counted. However, if it does become reality, the market reaction could easily be negative due to concerns it would jeopardize Trump's pro-business agenda that has resulted in recent tax reforms and additional rhetoric of more fiscal spending to come. The impeachment process in this case, meanwhile, wouldn't necessarily be worse than in the first outlined above. That's because two-thirds of the Senate is required to pass a vote and even if the Democrats take the Senate, it's highly unlikely they will win that many seats and/or convince enough Republican senators to cross the floor and join their cause to oust the U.S. President from office.

## **3. Republicans keep both the House of Representatives and the U.S. Senate**

While also a bit of a stretch based on current forecasts, this outcome could be seen as a positive for equity markets. Not only does it represent the current status quo and quash impeachment proceedings outright, it likely ensures Trump's pro-business agenda is not disrupted. The bond market, however, probably takes a bit of a hit if it results in even more fiscal spending in the U.S. That would be a huge red flag with the country's unemployment rate below 4% and the government deficit at a six-year high of almost \$800 billion.

With all of this mind, it seems clear that next week's U.S. midterms could have serious implications for the future direction of markets. And when combined with other ongoing risks such as rising interest rates and global trade tensions, there's good reason to believe more market volatility is in store over the weeks ahead.

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