

US mid-term elections (don't underestimate the female voter)

As the dust has settled, post the 6th November mid-term elections, we share with our readers what we have learnt post the election results.

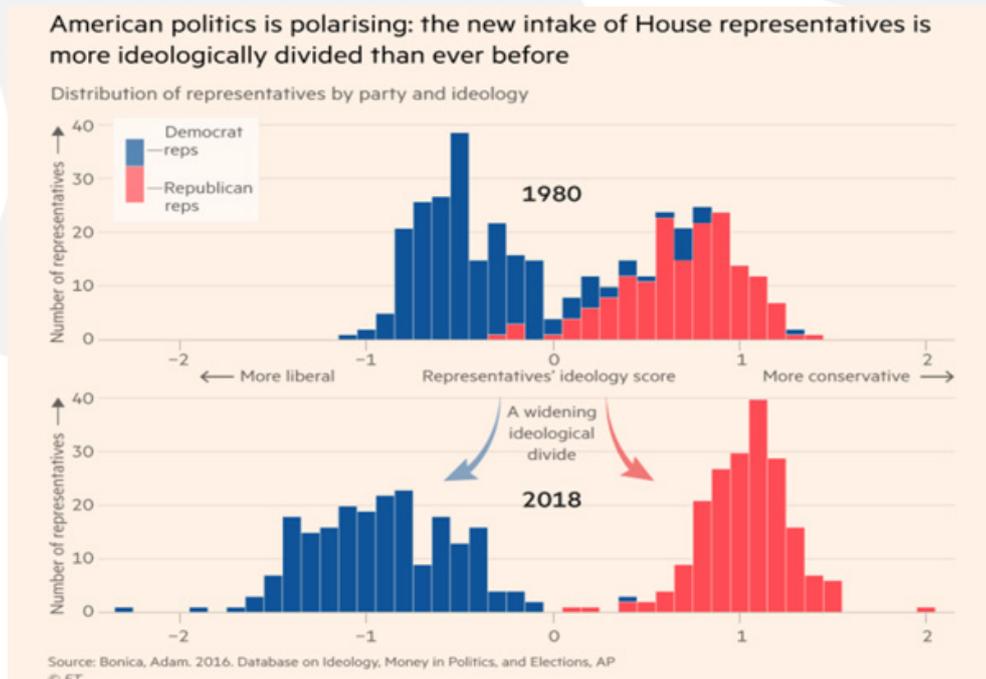
Firstly, as it is now well known, the Democrats have won the House of Representatives, winning the seats they needed to take control of the House. It is the first time the party has held the majority in the lower house of Congress for eight years.

A large part of this victory in the House was due to women voters, with the FT reporting that female voters — specifically white, college-educated women — helped carry these candidates to victory. In 2016, 44 per cent of college-educated, white women backed Donald Trump despite controversy over his attitudes to women. On Tuesday, only 38 per cent supported Republican candidates, while 60 per cent backed Democrats.

The Democrats also found favour with African-American and Hispanic voters, with the FT again reporting that they won 90 per cent of African-American votes and 69 per cent of votes from Latinos — broadly in line with their support levels two years ago.

The results from the House vote also indicate that the Democrats have become more of an urban party while Republicans have become disproportionately rural, as seen by the Republicans winning 59 out of 68 House seats in purely rural districts and 91 out of 111 seats in mixed rural-suburban areas.

Further analysis of the voting for the House, shows that moderate politicians lost their seats showing voters want either a pro-Trump or liberal Democrat waving their banner. It does speak to a bigger issue in the US today (and more broadly of the globe) of voters' polarising views. The graph below shows how voters in the US have become more extreme to the left or the right in the last few years.



The Republicans on the other hand have retained control of the Senate, the upper chamber of Congress, and will increase their majority. They gained Indiana, Missouri and North Dakota from the Democrats. The Democrats have gained only one Senate seat in Nevada.

The fact that the Democrats took the house and that the Republicans held on to the Senate was expected by the market and for the first time in a while the pollsters actually got it right! What may have come as a surprise, was how polarised American politics have become and the rising popularity of the Democratic voter, especially with younger votes. Voter turnout was also very high, with the FT reporting that 114m people voted on Tuesday, putting turnout at 48 per cent — the highest in a midterm election since 1966.

The Republicans might have kept the Senate, but this was expected as the Senate seats where elections were taking place were in Republican strongholds and it was very unlikely that many of them would have been lost (not all the Senate seats were up for election, unlike the House). The voting in the House gives a far better idea of what the average American is thinking and, in that vein, it does not bode well for Trump if he should run for the US 2020 elections.

But looking at the here and now, what does the outcome of the highly predicted mid-term elections mean for markets? Firstly, a divided government leads to gridlock, which has historically been good for markets and the surge in the US equity markets post the election result highlights this fact in the short term. Secondly, it would appear to be bad news for the dollar, as the sugar highs of tax cuts and government spending might be more difficult to come by due to a Democrat handbreak, which all things being equal should lead to slower US growth & potentially a slowdown in interest rates being hiked.

Though the cynic in me does wonder why markets have been quite so ebullient about a divided congress, when they were loving a US economy controlled by Republicans that cut taxes and increased spending. I guess when the bulls are back in charge, any comments fit the rhetoric of why markets should be justified in going up – see this tweet below, summing this up beautifully.



Jon Boorman @JBoorman · 17h

Headline writers make everyone a winner today:-

"Wall St higher as GOP maintain control of Senate"

"Wall St higher as Dems take House"

"Wall St higher as midterms result in gridlock"

It works if we finish lower too.

On trade, it's not at all clear cut, as Merian Global Investors reminds us "anyone hoping that the Democrats' win will see a more moderate tone may want to think again – belief that China has engaged in unfair trade practices is not purely a Republican trait". Plus, even though Congress is now divided, Trump retains his executive powers, which means he can continue along the path of trade wars and increases tariffs with China and the like.

So to sum it all up, if history is on your side, gridlock is good for US markets. As for emerging markets, a weaker dollar is the catalyst we have been looking for to lead to EM strength (as alluded to in [Roeloff Horne's recent commentary](#)), but the jury is out as to whether a weakened US president will tone down this trade war rhetoric or not (as an aside, in the farming States in which tariffs were supposed to bite, they overwhelmingly still voted Republican).

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