

FINANCIAL MARKETS

THE 2018
CONGRESSIONAL
ELECTION



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A BATTLE FOR POWER

FOREWORD

With the 2018 congressional election coming in November, both Republicans and Democrats are preparing and campaigning for success.

A loss could have detrimental effects for both parties, a win could be the perfect opportunity for either party to get their way.

The purpose of this eBook is to give an insight as to how the result of this midterm election could affect the US economy.

Patrick Latchford
CEO, Blackwell Global Investments (UK) Limited

ELECTIONS FOR CONGRESS

WHAT ARE CONGRESSIONAL ELECTIONS?

Every two years, all 435 seats of the House of Representatives and one-third of the 100 Senate seats are contested. These are known as congressional elections.

Senators serve six-year terms, which is why only a portion of seats are up for election in 2018.

Representatives, however, only serve two-year terms. It means all seats in the House of Representatives face the public vote later this year.

Congressional elections always take place on the first Tuesday following November 1st. This means that the 2018 midterm election will be held on Tuesday, November 6th.

WHY DOES IT MATTER?

This congressional election matters because it will determine how easy President Trump's administration can pass legislation.

It's important to remember that the White House does not solely introduce and pass bills. Both the House and Senate play a critical role in turning policy ideas into law.

HOW BILLS ARE PASSED

Let's explore how bills are passed in the United States.

Firstly, a bill cannot become law unless it is approved by the House of Representatives, Senate and President. The President also has the ability to veto any bill he does not agree with.

The legislative process typically starts in the House of Representatives, where any member can put forward a bill, providing they can find a sponsor (other House members that support it).

Before this move is made, it's not uncommon for the White House to work with Representatives and Senators to draft the bill, so that it meets their policy priorities (and to ensure it has a decent chance being passed by both chambers).

The bill then goes to the relevant committee (a selection of Representatives designated to refine policy in specialist areas, such as foreign affairs or health) for approval.

Once the bill is approved by the relevant committee, it then comes back to the House of Representatives for a debate between members, before a vote.

There are 435 seats in the House of Representatives. If a majority votes in favour of a bill (218), the bill is then approved and passed onto the Senate.

After receiving a bill from the House of Representatives, the Senate goes through a similar procedure. This involves feedback from Senate committees, debates between Senators and a final vote.

The Senate has 100 seats. Usually, it takes a majority vote of 51 to pass a bill. However, this number can increase to 60 votes when bills are 'filibustered' (which means they are the subject of debate for a long period of time).

Filibustering has become more popular in recent years because of widening ideological differences between Democrats and Republicans.

Once a bill is passed by the Senate, it's then passed onto the President, who will either sign the bill to enact it into law, or veto it altogether.

WHAT WILL HAPPEN?

MAJORITIES MATTER

Now we understand how bills are passed, it's obvious that a sitting president has an advantage if their party controls both the House of Representatives and Senate.

At the time of writing, this is what President Trump (a Republican) enjoys. The Republicans have 51 Senators and 234 Representatives (majorities in both chambers).

This makes it easier for President Trump to pass his policy initiatives into law. Should either chamber fall under Democrat control in November 2018, President Trump will find this much more difficult to do.

THE GOP'S PROSPECTS

At this early stage of the election campaign, prospects for the GOP and the Democrats are uncertain. As different polls are released,

opinions keep on changing.

At the moment, the general consensus is that things aren't looking great for Republicans.

Based on current polls, ratings and history, a Democratic sweep seems possible.

Back in November 2017, there were large Democratic gains in local elections for Virginia and New Jersey. The current polls for the congressional election have the Democratic Party leading by 47.2% to 38.6% (April 8th 2018).

Even Republican Majority Leader, Mitch McConnell, thinks that both the environment and President Trump's approval rating need to improve if there is to be GOP success.

If history is anything to go by, there is another reason to suggest that the GOP could be in danger. In the last 25 years, 4 out of 6 of the midterm results went against the party in control of the White House.

On a more positive note, 10 of the 26 seats in the Senate that are held by Democrats are actually in states that Trump won during the 2016 presidential election.

And as we now know, opinion polls should be taken with a pinch of salt. During the presidential election, a variety of polls pointed to a solid Clinton victory, which ultimately proved to be incorrect.

IMPACT ON THE US ECONOMY

We know that Democratic control would make it difficult for President Trump to progress his policy plans.

Many of his proposals have attracted controversy and criticism, so a poor result for the GOP in November's election has the power to transform President Trump's presidency and future political prospects.

It's likely that many of President Trump's contentious plans, such as building a wall on the southern border with Mexico, would not come to fruition.

Such a scenario would affect the US economy and financial markets, as Congress would essentially become gridlocked.

Should this happen, it's bad news for investors who supported President Trump's ideas to lower corporate tax and increase spending on infrastructure.

Remember, it's these promises that have fuelled the US stock market rise since his election victory in November 2016.

It's difficult to predict the exact reaction of the US economy and financial markets should the Democrats gain control. But one thing we can say is that gridlock will cause uncertainty in the markets - and that's one thing investors do not like.

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