

COMMENTARY

November 9, 2022

2022 Midterm Election Results Point to Gridlock

- Democrats appear to beat expectations but likely lose control of the House of Representatives.
- The Senate could come down to a runoff election in Georgia but remain fairly evenly split.
- There are larger market forces at play than politics.

America has voted and the midterm elections are largely behind us, although we may still see a runoff election on December 6 in Georgia. The result is likely unsatisfying for either party, Republican or Democrat. While the Democrats did better than expected, the Republicans appear to be taking a slim majority in the House of Representatives and the Senate is too close to call right now (currently split 48-48 with 4 seats to be decided). Either way the political ads dominating the airwaves are behind us, and the focus can shift back to what drives markets: the economy and corporate earnings.

The investment implications of this split Congress should be muted. While Democrats did better than expected, the expected result from this election (gridlock) was widely expected and not a surprise for investors. With neither party having a firm grip of control, we don't expect a lot of compromise and thus new legislation being drafted. Depending on your political views, political gridlock may not be a bad scenario for markets. If we look back over time, the average market returns are strong whether there is a divided government, or full control by either party. As we [tweeted](#) earlier, there have been 23 congressional cycles in the post-war era with divided government and the average annual return is 10.8%.

2-Year Congressional Cycles			
	Avg. 2-Yr S&P 500 Cycle Return (Annualized)	Occurrences Since 1945	Negative Returns
Unified Govt - Democrats	13.0%	12	1
Unified Govt - Republicans	15.1%	4	0
Divided Government	10.8%	23	4

Source: Cetera Investment Management, FactSet, Standard & Poor's. Returns shown are S&P 500 total return, which include dividends. A blue wave is when the Democratic Party occupies the White House and represents the majority of the House and Senate. A red wave is when the Republican Party occupies the White House and represents a majority of the House and Senate. Data as of 11/8/2022.

Elections can be emotional, but perspective is always important. While it is interesting to look at these types of statistics the reality is that there are larger forces at play than American politics. Inflation, the global economy, and especially the Federal Reserve will continue to have more of an impact on corporate earnings and thus stock and bond returns.

A potential risk to markets down the road could be related to the Federal debt ceiling. Next summer the debt ceiling will need to be raised to prevent a government shutdown, but Democrats will likely try to raise this on their own before the balance of powers shifts in January when the new members of Congress are inaugurated.

We'll continue to pay close attention to the shifting political landscape and update you on any investment implications. Your financial professional can help you stay focused on your long-term risk and return goals as they help you with your personalized investment objectives.

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