



Hamilton-Bates

Mid-Term Election Day Update

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Election Day is upon us, and for those eager to vote and for those eager to see Election Ads go away—that day is FINALLY here.

Here is a quick run-down of what could happen with the Election and how it may affect the markets.

The consensus view expects a split Congress outcome with a largely muted market reaction, though many are not ruling out a surprise.

In order to assess the market impact of the midterms here are the three different scenarios according to the election outcome.

Scenario 1: Gridlock - GOP Senate and DEM House (mathematically most likely): Markets may fear that economy would be more vulnerable from now on with the absence of any further economic stimulus in the event of economic slowdown, but support for trade war could erode and that would be a positive. **Overall—slightly positive.**

Scenario 2: Blue Wave - DEM Senate and DEM House: Markets would stir on speculation of potential impeachment proceedings. Potential upside risk on Infrastructure, but the market would likely decline short-term. **Overall—slightly negative.**

Scenario 3: Red Wave - GOP Senate and GOP House (least likely): The least expected scenario for the market, which would probably trigger a short-lived risk-on environment. Markets rally in the following days but Trade tensions and Fed tightening concerns could quickly be back in the market focus. **Overall—slightly positive.**

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Market Performance Before and After Mid-Terms (1934-Date)

The stock market has historically performed very well just before and for the few months after mid-term elections, as the chart below shows. Every period but one has been positive, and the average gain from the month before the Election to two months after the election is 8%. This year the market declined 7-8% in October, so the market has the potential for a 15-16% gain based on historical precedent alone. Only 1978 was negative, but that was during the height of inflation pressures with rates moving sharply higher. Every other case saw positive gains. Even a move to just a slight gain would see stocks rally nearly 10% or so from here. We remain bullish for the outlook into Year-End and early 2019.

