

October 2018

A House Divided

Two Things We Know About Mid-Term Elections

- Negative Incumbent Bias

- Average Loss = 26 seats in the House, 4 seats in the Senate.

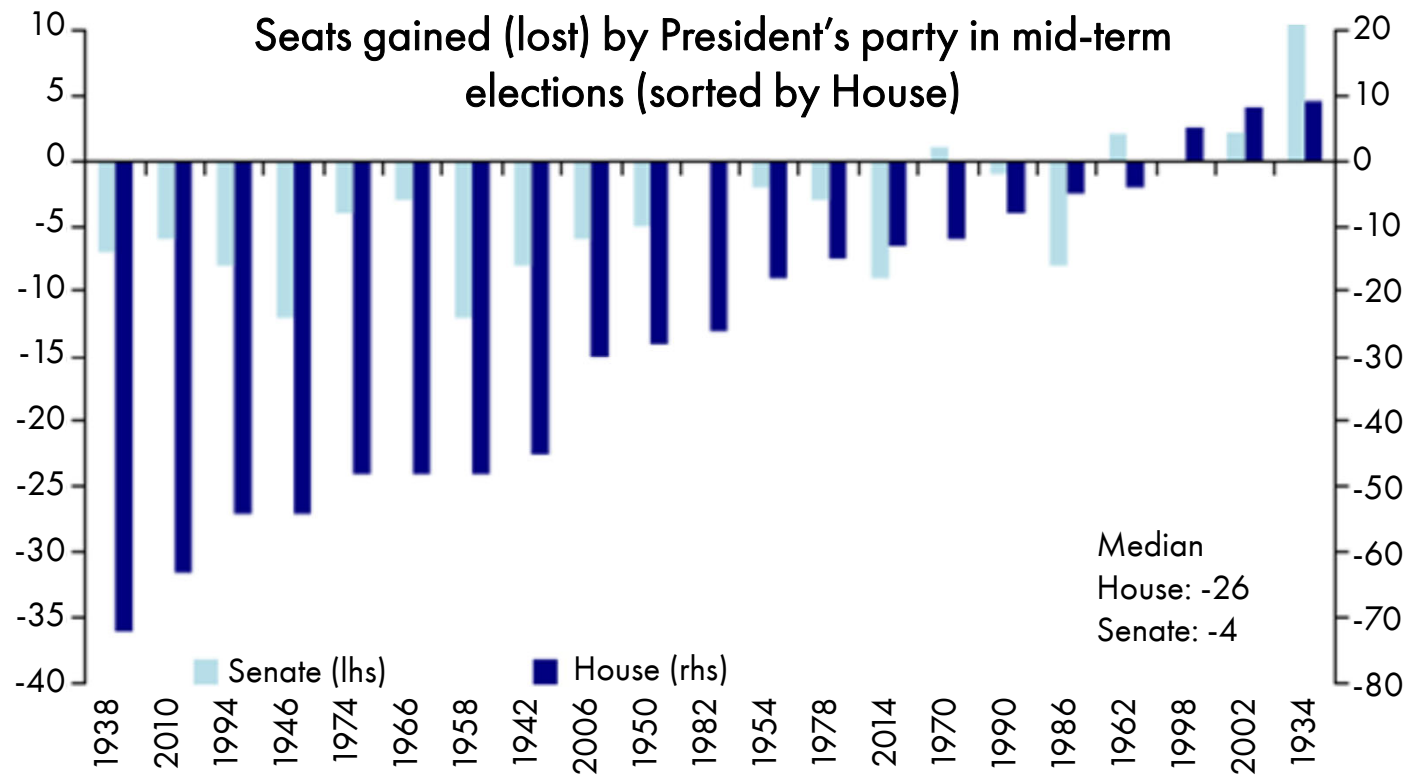
- Stock Market Gains

- Positive returns in the three months around 20 of the previous 21 mid-term elections, with gains continuing in subsequent year.



Negative Incumbent Bias

- Only Three Mid-Term Elections Since 1934 Where President's Party Gained House Seats

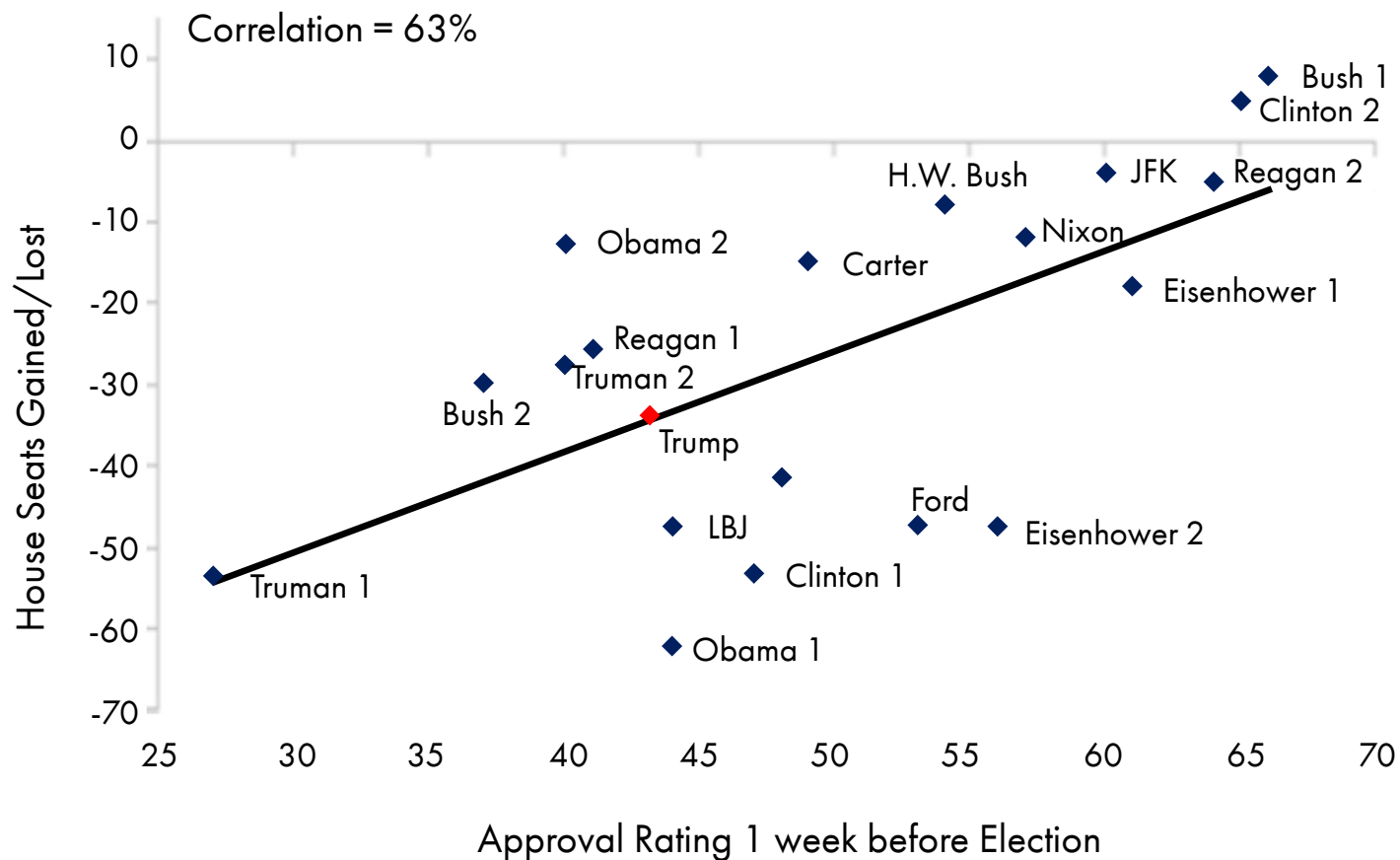


Source: US Congress website, Deutsche Bank



Negative Incumbent Bias

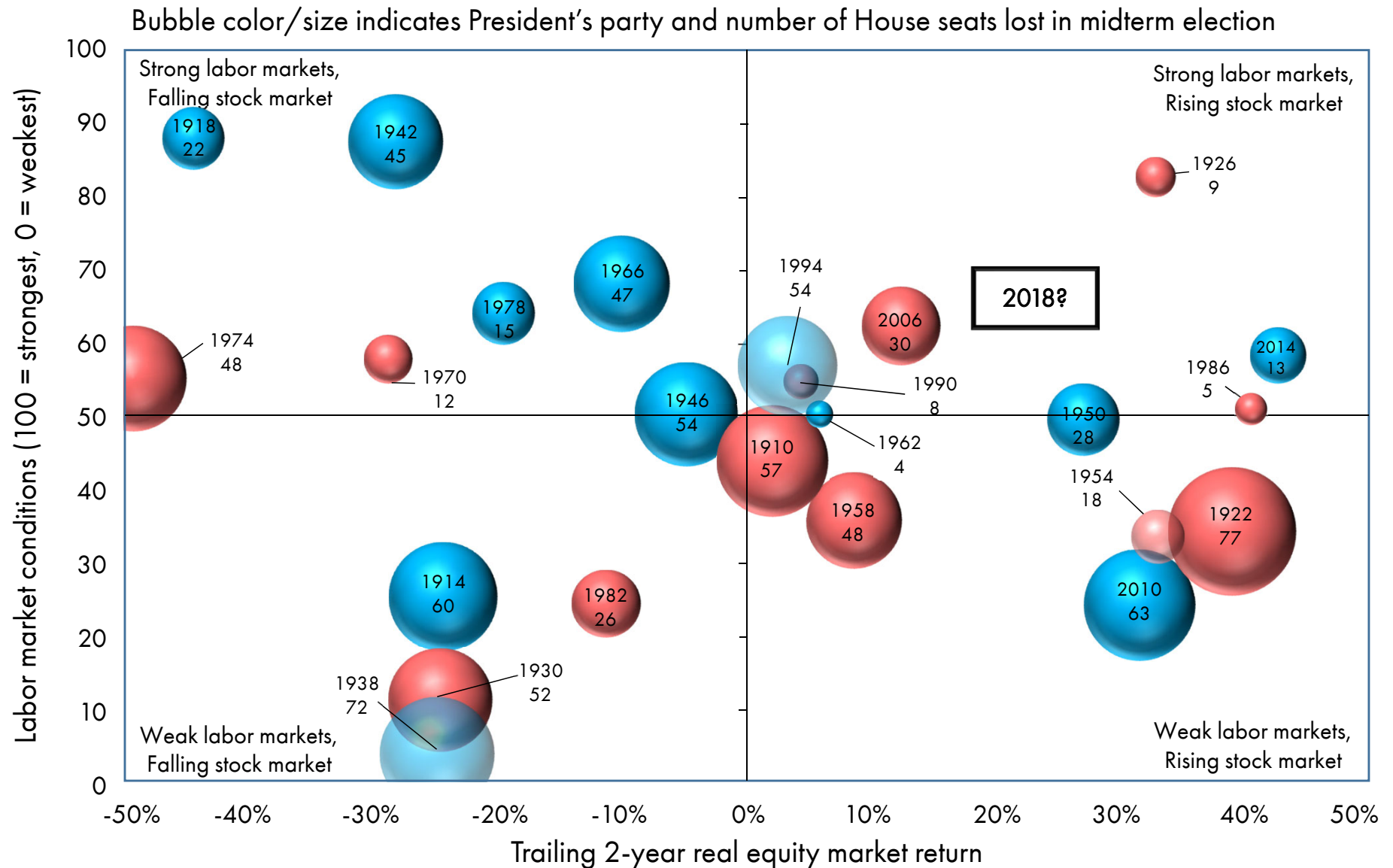
- Strong Correlation Between President's Approval Rating and Mid-Term Results
 - Loss of 35 seats, versus 26 on average, at current approval rating



Source: US Congress website, Gallup, Real Clear Politics, Deutsche Bank, Current data point is average of polls between Aug 9-22



Political Results Tied to Equity Markets and Economic Growth



Source: Robert Shiller (S&P history), C. Romer (pre-1952 unemployment data), JPMAM. 2018. Excludes midterm elections of 1934, 1998 and 2002 when President's party picked up House seats in midterm elections. Labor market conditions reflect the level of unemployment and the 2-year change.



Republicans Will Hold the Senate, Democrats Will Flip the House

Forecasting the race for the House

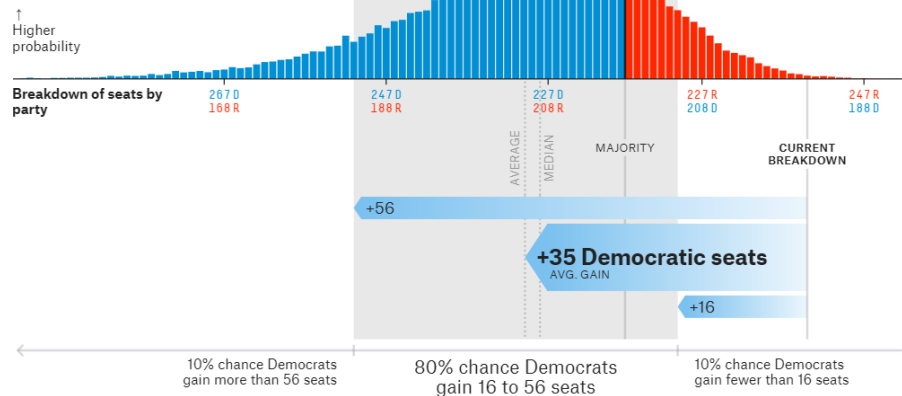
Updated Oct. 10, 2018, at 11:42 AM

7 in 9

Chance Democrats win control (77.8%)

2 in 9

Chance Republicans keep control (22.2%)



Forecasting the race for the Senate

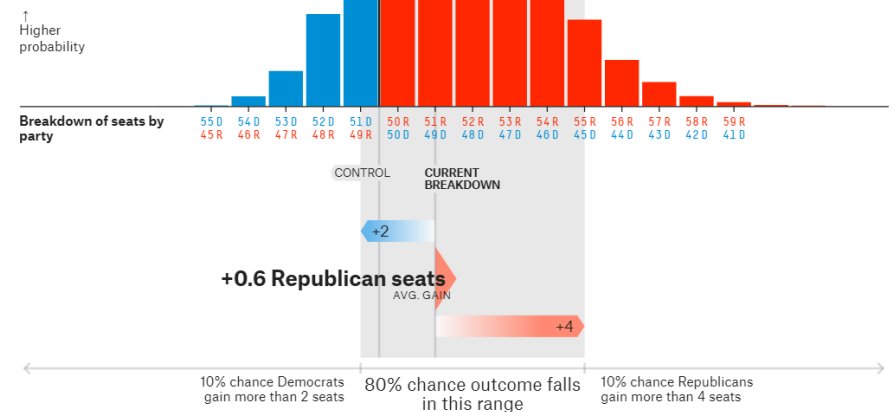
Updated Oct. 10, 2018, at 11:42 AM

1 in 5

Chance Democrats win control (19.3%)

4 in 5

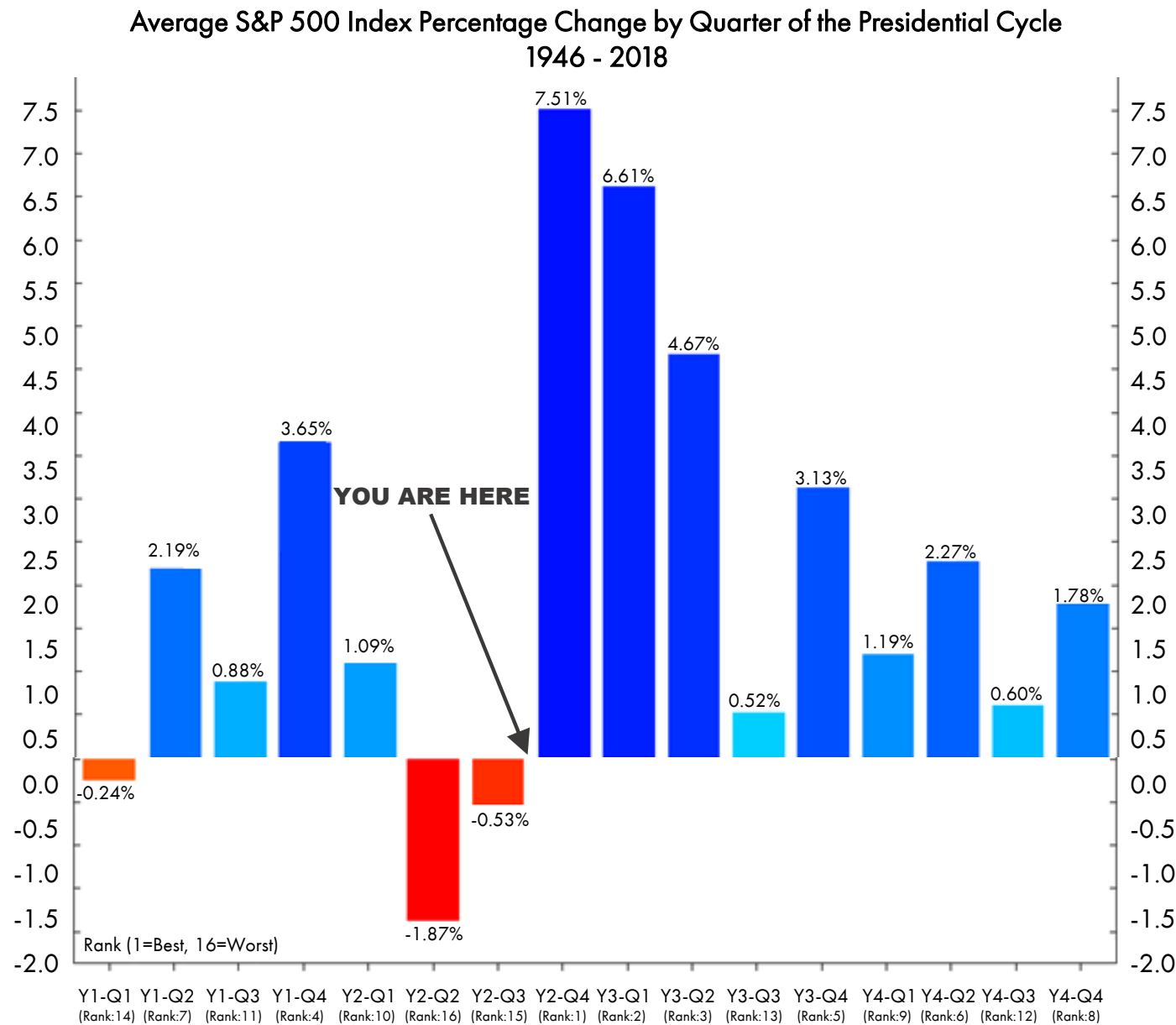
Chance Republicans keep control (80.7%)



Source: <https://fivethirtyeight.com/>



Strong Equity Markets Around Mid-Term Elections



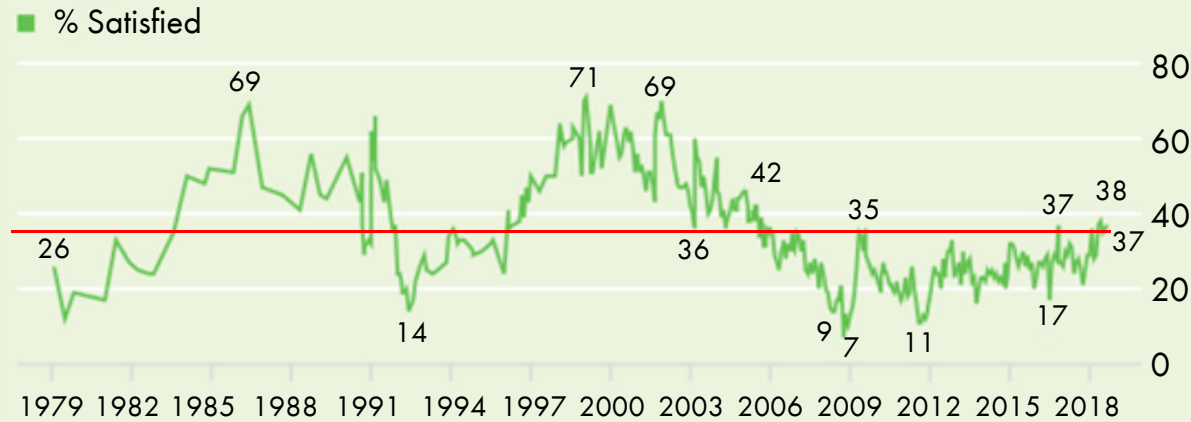
Source: Ned Davis Research & S&P Down Jones Indices



Satisfaction Gap Driven by Politics

- Overall satisfaction exactly at 40-year average

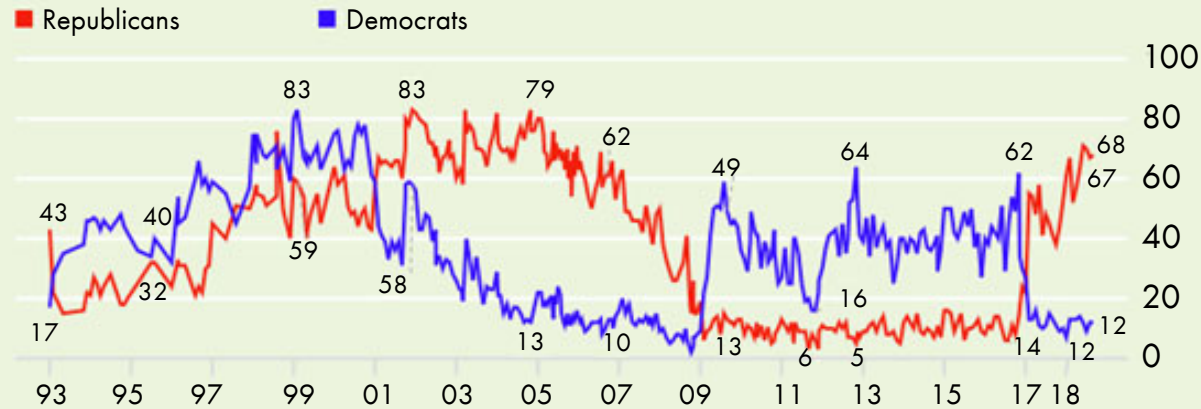
Satisfaction With the Way Things Are Going In The U.S.



- But average masks growing political divergence

U.S. Satisfaction by Party

% Satisfied



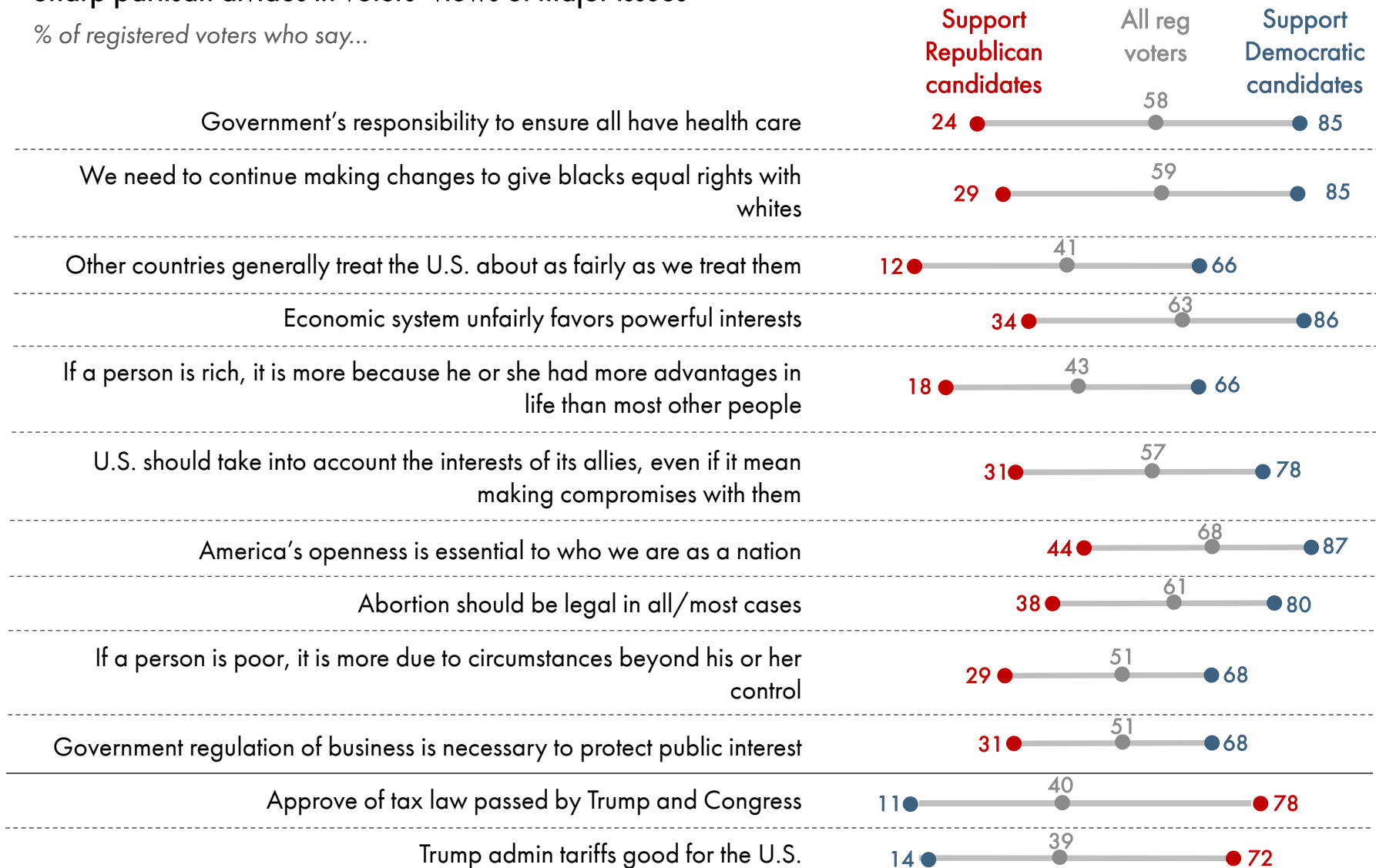
Trend for independence not shown



Divergent Views on Many Issues

Sharp partisan divides in voters' views of major issues

% of registered voters who say...



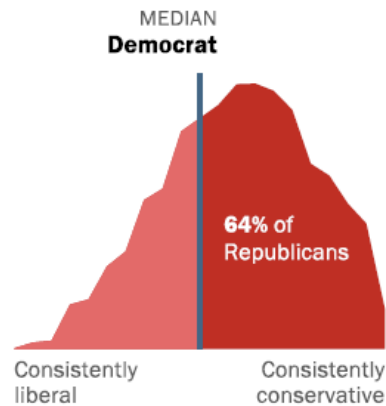
Note: Don't know response not shown. Source: Survey of U.S. adults conducted Sept. 18-24, 2018
PEW RESEARCH CENTER



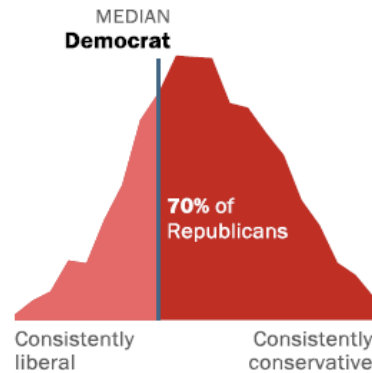
Political Moderates Becoming Extinct

Distribution of Republicans and Democrats on a 10-item scale of political values

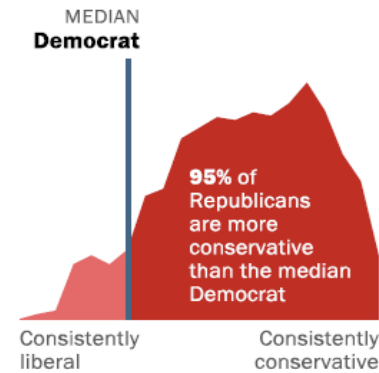
1994



2004



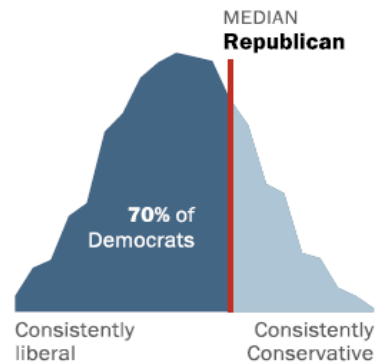
2017



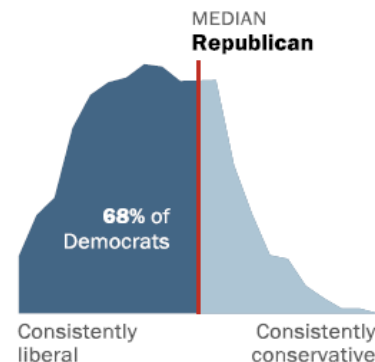
Notes: Ideological consistency based on a scale of 10 political values questions (see methodology). Republicans include Republican-leaning independents; Democrats include Democratic-leaning independents.

Source: Survey conducted June 8-18, 2017
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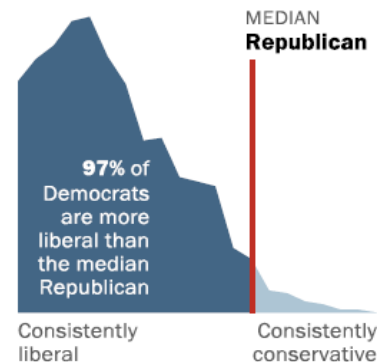
1994



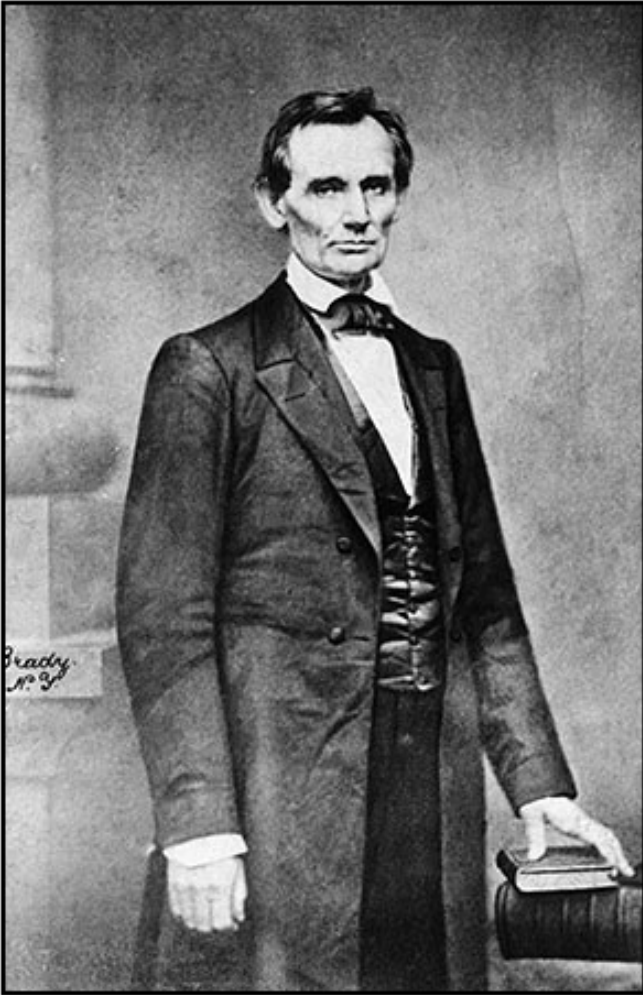
2004



2017



A House Divided....



In my opinion, [slavery agitation] will not cease until a crisis shall have been reached and passed. "A house divided against itself cannot stand."

I believe this government cannot endure permanently half slave and half free. I do not expect the Union to be dissolved – I do not expect the house to fall – but I do expect it will cease to be divided. It will become all one thing, or all the other....

delivered 16 June 1858, Illinois State Capitol, Springfield, Illinois



We Never Hide From History, We Make History

"We weaken our greatness when we confuse our patriotism with tribal rivalries that have sown resentment and hatred and violence in all the corners of the globe. We weaken it when we hide behind walls, rather than tear them down, when we doubt the power of our ideals, rather than trust them to be the great force for change they have always been....

"Do not despair of our present difficulties but believe always in the promise and greatness of America, because nothing is inevitable here. Americans never quit. We never surrender. We never hide from history. We make history....



Photo: AP





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