Election Results: Gridlock is Good

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- The much-anticipated U.S. mid-term elections are over.
- There were no great surprises in the outcome.
- Investors will now turn their attention to the Federal Reserve's rate-hiking cycle and trade tensions.

Investors are pleased to have the noise and drama of the latest political contest behind us, as evidenced by the post-election day rally in global equity markets. From Wall Street's perspective, gridlock in government is generally good for the economy. Divided government tends to stabilize the status quo, reducing the likelihood of change and uncertainty.

What That Means for the Next Two Years

The Trump administration has promoted a generally pro-business agenda and will likely continue to use executive orders to do so moving forward. Deregulation efforts in the banking sector and with regards to the environment are expected to continue. An effort may be made to finalize the replacement of the North American Free Trade Agreement between now and the end of the year. Healthcare, immigration, tax and trade policies will remain front and center.

A strengthened majority in the Senate will assist Republications in their efforts to confirm nominees for government roles, most notably in the judiciary. A Democratic House will be able to block legislation, eliminating the possibility of a second round of tax cuts.

Democrats are expected to initiate a variety of investigations that will make headlines. Overall, the divided government will likely create a lot of political noise but little in terms of economic substance. Federal policies are unlikely to change meaningfully.

What it Means for the Markets

Historically, there's been a wide range of equity-market performance outcomes during years in which a mid-term election takes place. The following year tends to be notably better or muted at worst, as seen in Exhibit 1. Keep in mind that economic conditions have far greater influence on market returns than calendar dates or elections cycles.

Exhibit 1: S&P 500 Index Performance (%)

Year	Midterm Year	Following Year
1970	0	11
1974	-30	32
1978	1	12
1982	15	17
1986	15	2
1990	-7	26
1994	-2	34
1998	27	20
2002	-23	26
2006	14	4
2010	13	0
2014	11	-1
Average	**0**	**16**

Source: Bloomberg

Overall, we believe the Federal Reserve's rate-hiking cycle, along with the likely escalation of the trade war with China, to be significantly more relevant for financial markets and investors than anything that will happen in Washington.

Index Definition:

S&P 500 Index: The S&P 500 Index is an unmanaged, market-weighted index that consists of 500 of the largest publicly traded U.S. companies and is considered representative of the broad U.S. stock market.

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