

## **Blue Wave in November? Not a surprise**

Despite the media making it sound like a blue wave in November is earth-shattering, the president's party normally loses seats in Congress.

In 2010 (Obama), Democrats lost 63 seats in the House and 6 in the Senate.  
In 2006 (Bush), Republicans lost 30 seats in the House and 6 in the Senate.  
In 1994 (Clinton), Democrats lost 52 seats in the House and 8 in the Senate.

**Democrats need 23 seats to take back the House, and it will not be a surprise if they do.**

### **The real news? Democrats do have a chance to take back the Senate**

Republicans can only afford the net loss of one seat to maintain a voting majority. They currently have 51 seats, while Democrats have 47 seats plus 2 Independents that caucus with Democrats.

Tennessee is a tossup, and would be a loss for Republicans. Texas is tightening and would be a loss for Republicans.

Challenge for Democrats: Dems have to defend 25 seats, Republicans only 7.

### **Consequence if Dems take back House:**

#### **Investigations galore**

During Clinton administration, majority Republicans had eight investigations, not including the Starr investigation into Clinton. A blue wave could create a wave of investigations.

#### **Possible impeachment**

Democrats will want to air their grievances against Trump and make their positions public as they position themselves for 2020.

Challenge for Democrats: to remove Trump from office, Senate will need 67 votes. Very unlikely.

**Why it matters to investors:** As long as 67 votes in Senate are unlikely, financial markets may pause, but not be negatively affected by impeachment proceedings. A chart of the performance of the stock market during impeachment of President Bill Clinton follows. (Market was driven by dot.com boom, which came to a halt in 2000.)



## **Trump Agenda:**

Tax cuts – accomplished

2<sup>nd</sup> wave of cuts proposed, but won't pass

Conservative appointments to Supreme Court -- accomplished

Gorsuch, Kavanaugh (now confirmation less likely)

Health Care repeal

Partial repeal, more needs to be done

Pro-business regulation cuts -- accomplished

May be challenged if Dems take back Congress Immigration reform

Wild card reform possible with Democrats, though unlikely

## **Partial repeal of Dodd-Frank**

Smaller banks will not be required to follow toughest requirements from Dodd-Frank.

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## **Threats to healthy economy and stock market**

### **Federal deficit next year will be \$1 trillion**

**Why it matters to investors:** Interest rates may rise – not because of economic activity, but because of debt market pressures due to financing federal deficit. Democrats will suggest raising taxes to bring down deficit, which could be negative impact on financial markets.

## Trump tariffs

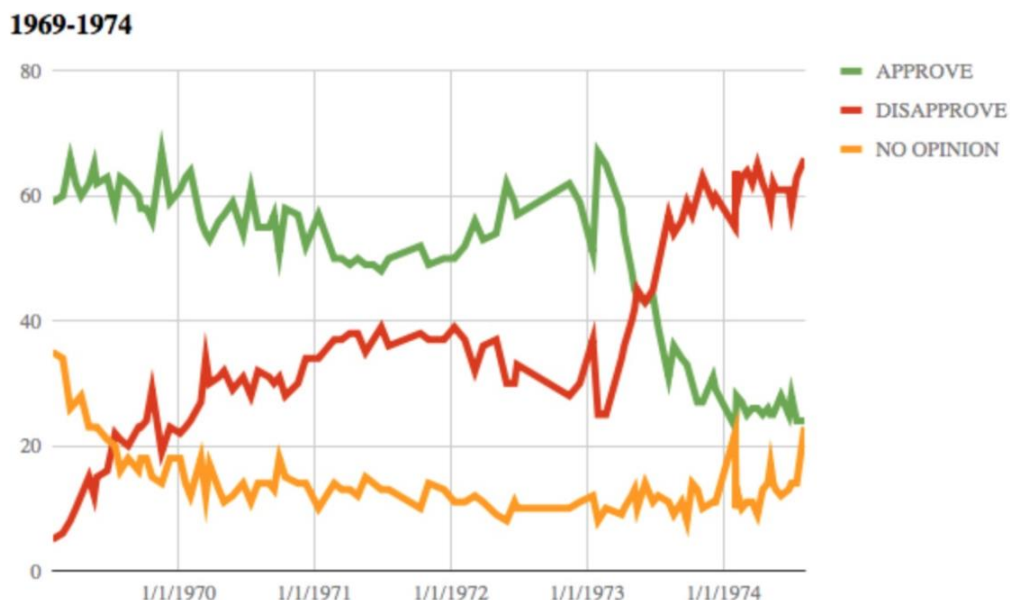
Trade wars could create unpredictable winners and losers. Tariffs against traditional allies, if not merely part of negotiating tactics, could hurt growth in sectors that were doing well.

**Why it matters to investors:** Tariffs are not conservative, free trade is. GOP is hoping the tariffs are temporary. Financial markets could have winners and losers based upon trade wars (autos, metals, construction, foreign trade), rather than free market fundamentals. BUT most Americans would support putting select tariffs on China, which has been cheating for years.

### After election will Trump fire Attorney General Sessions?

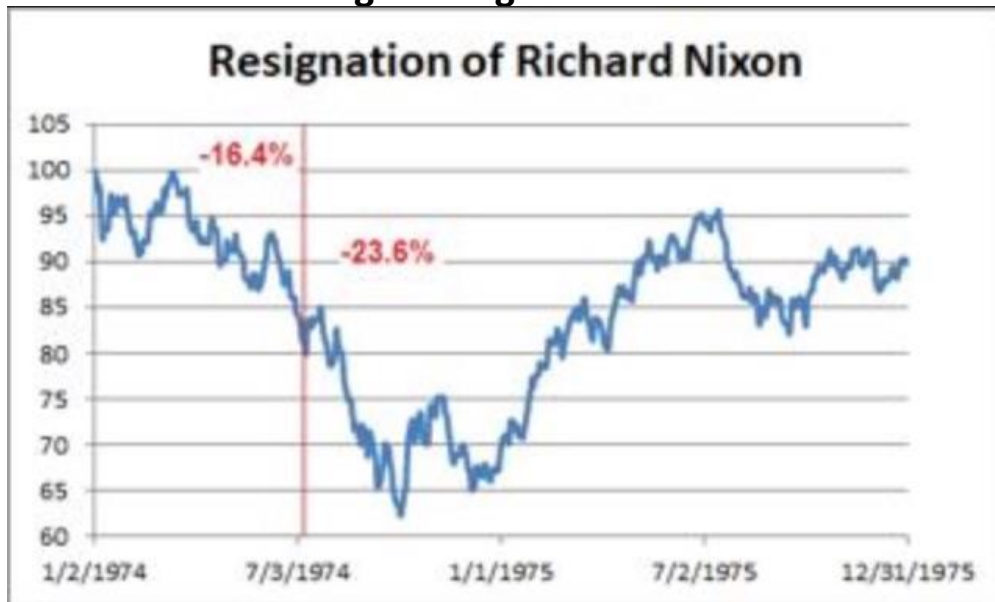
President CAN fire Sessions, but would it be a good move politically? Risk would be if it's seen as effort to stop Mueller investigation.

In October 1973, Richard Nixon executed the "Saturday Night Massacre." He asked his AG to fire the Watergate Special Prosecutor, but the AG refused to do so and resigned. Nixon then asked the assistant AG to do it, and he resigned as well. Finally, he asked his Solicitor General, Robert Bork, to do it. Bork fired the Watergate Special Prosecutor, but the public opinion began to turn on Nixon shortly after that event. (Disapproval ratings in red in chart below.)



**Why it matters to investors:** Anything that Trump does that causes a fall in his public support could cause uncertainty IF it also affects Republican support in Congress. Just firing Sessions might not do that, but it will give ammunition to critics – some of whom might be newly election to Congress. Uncertainty is never good for the financial markets.

### Stock market during Watergate



**Why it matters to investors:** The stock market was weak during Watergate, but there was a lot going on that had nothing to do with Richard Nixon's political troubles. The Watergate era was also the time of rising inflation, a developing oil crisis, and wage and price controls. The current stock market has challenges, but none like the economic scenario during the 70s.

### Outlook for stock market

#### Positives for stock market

Corporate profits, stock buybacks, Dodd-Frank changes, tax cuts working way through economy (\$1.5 trillion in personal and corporate tax cuts), aging Millennial generation starting to invest more in stocks

#### Negatives for stock market

Fed no longer providing stimulus, inflation starting to bump up, stock valuations growing, national debt growing, global trade wars, Mueller investigation.