

Capital Markets Strategy

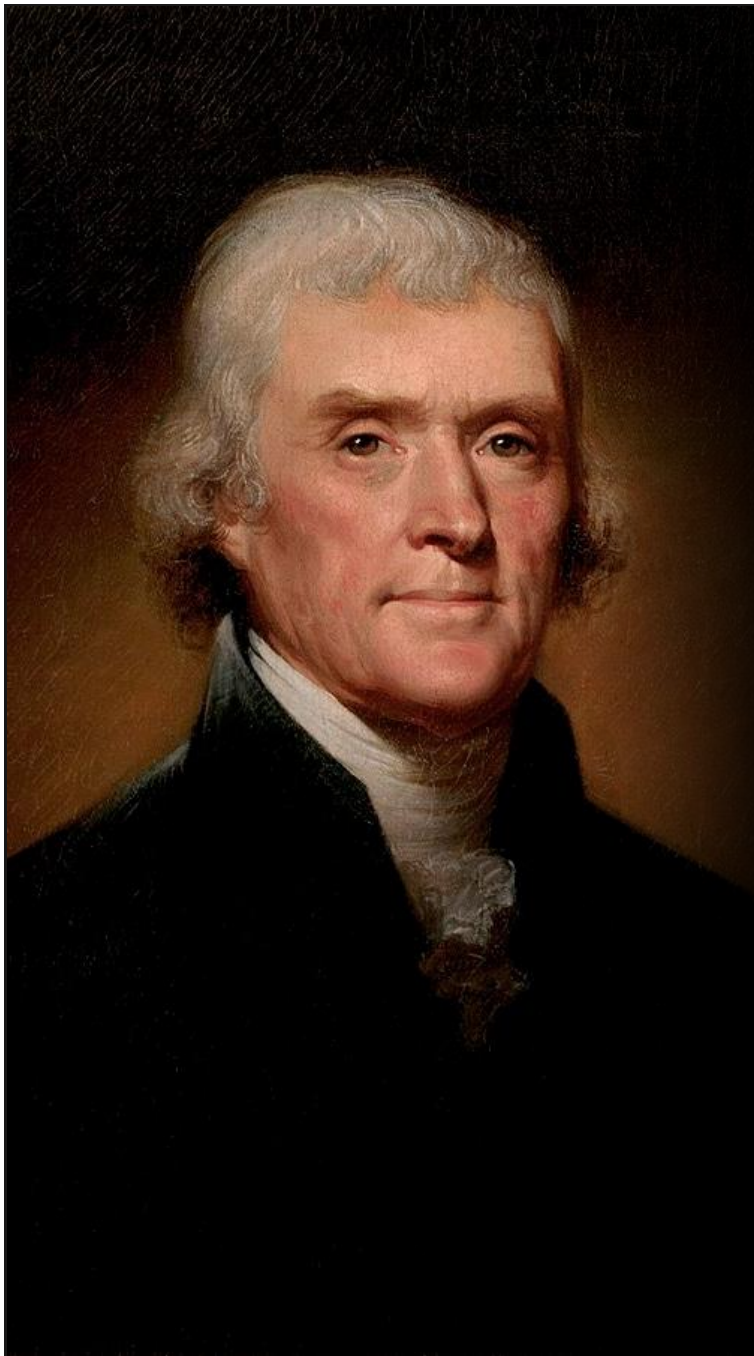
Essential insights for the C-Suite



The Midterms

Perspectives on the Upcoming US Election

OCTOBER 2022



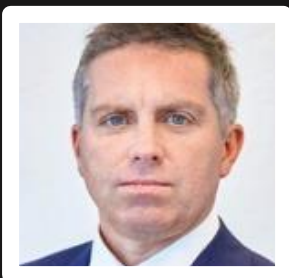
"If there be any among us who would wish to dissolve this union or to change its republican form, let them stand undisturbed as monuments of the safety with which error of opinion may be tolerated, where reason is left free to combat it."

President Thomas Jefferson's First Inaugural Address
(March 4, 1801)

Authors

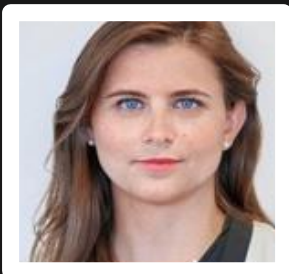
Capital Markets Strategy

New York



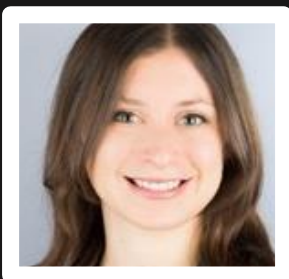
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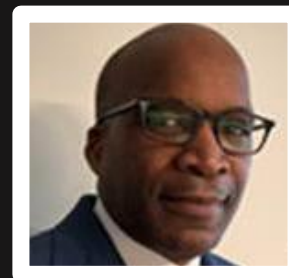


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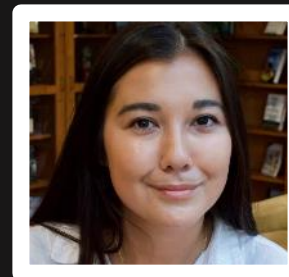
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I

Historical Perspective

Going back to WWII, the incumbent political party has lost, on average, 26 seats in the US House of Representatives and 4 seats in the US Senate. When the Presidential approval rating is below 50% the historical average of lost House seats jumps to 35.

II

Midterm Election Assessment

We believe that Democrats will suffer losses in the House and that “divided government” is all but certain. However, the data does not currently suggest that this will be a “red wave” election (i.e., net swing in house > 30 seats) and losses may come in just below historical averages. Somewhat counter-intuitively, “wave” elections tend not to happen in election years with high turnout.

III

Key Voter Issues

As infamously stated by James Carville in 1992: “It’s the economy, stupid.” With inflation above 8%, polling data strongly suggests that the economy is still the #1 issue with voters in 2022.

IV

The US House of Representatives

The incumbent party has suffered losses in the US House in 36 of the last 39 midterm elections. With just a 5 seat Democratic majority currently, Republicans are nearly certain to win back control of the US House in 2022.

Summary Conclusions

V

The US Senate

We believe that Democrats are likely to lose fewer seats than the historical average of 4 seats for the incumbent party going back to WWII. With several critical races polling inside the margin of error, we believe control of the US Senate is “too close to call.” Further, there are scenarios, including a potential Georgia runoff, where we may not know until December 6th.

VI

The Gubernatorial Elections

Democrats have certain “structural” advantages in the 36 Gubernatorial elections in 2022. Biden won 15 of the 16 states that Democrats are defending, while Trump won 14 of the 20 states that Republicans are defending.

VII

Legislative Implications

Large complex legislation is very difficult in today’s Washington, especially in the absence of a filibuster proof majority. With Republicans highly likely to take the House, and either party likely to have a razor thin majority in the Senate, expectations for post-midterm legislation are limited. Look for President Biden to turn to EOs to advance his policy agenda.

VIII

Market Implications

US stocks have advanced in the year following every midterm election for the past 80 years. While that is quite possible in the year ahead as well, we would note that the economy and markets are likely to be driven by much larger forces outside of Washington - higher global energy prices, elevated inflation, accelerated Fed tightening and recession risk.

A photograph of the Washington Monument in Washington, D.C., taken at sunset. The monument is a tall, white, obelisk-shaped structure that stands prominently in the center of the frame. It is reflected in the calm water of the Tidal Basin in the foreground. The sky is a mix of orange, yellow, and blue, indicating the time is either dawn or dusk. The surrounding trees and buildings are silhouetted against the bright sky. The overall mood is serene and historic.

1. Historical Perspective

**"If we want things to stay the way they are,
things will have to change."**

In the novel, *The Leopard* by
Giuseppe Tomasi di Lampedusa (1958)

Historical Perspective

Democrats control the White House and both chambers of the US Congress for only the third time since Jimmy Carter was President in 1978. In the 13 US midterm elections dating back to 1970, there has been a change in party control in either chamber (House or Senate) on six occasions, but four of those have occurred in the last four midterm elections.

The US midterms since 1970

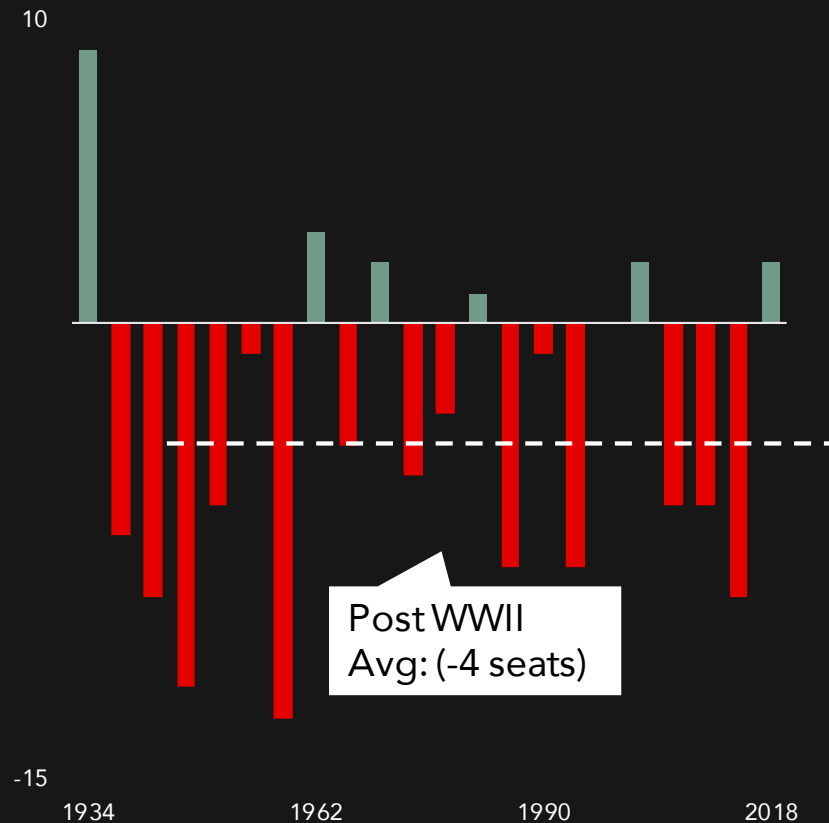
| Midterm | | President | Pre-election | | Post-election | |
|---------|---|------------------|--------------|-------------------|---------------|--------|
| | | | House | Senate | House | Senate |
| 1970 | R | Richard Nixon | D | D | D | D |
| 1974 | R | Gerald Ford | D | D | D | D |
| 1978 | D | Jimmy Carter | D | D | D | D |
| 1982 | R | Ronald Reagan | D | R | D | R |
| 1986 | R | Ronald Reagan | D | R | D | D |
| 1990 | R | George H.W. Bush | D | D | D | D |
| 1994 | D | Bill Clinton | D | D | R | R |
| 1998 | D | Bill Clinton | R | R | R | R |
| 2002 | R | George W. Bush | R | 49 / 49 ; 2 indp. | R | R |
| 2006 | R | George W. Bush | R | R | D | D |
| 2010 | D | Barack Obama | D | D | R | D |
| 2014 | D | Barack Obama | R | D | R | R |
| 2018 | R | Donald Trump | R | R | D | R |
| 2022 | D | Joe Biden | D | D | TBD | TBD |

Incumbent Party Often Loses Seats

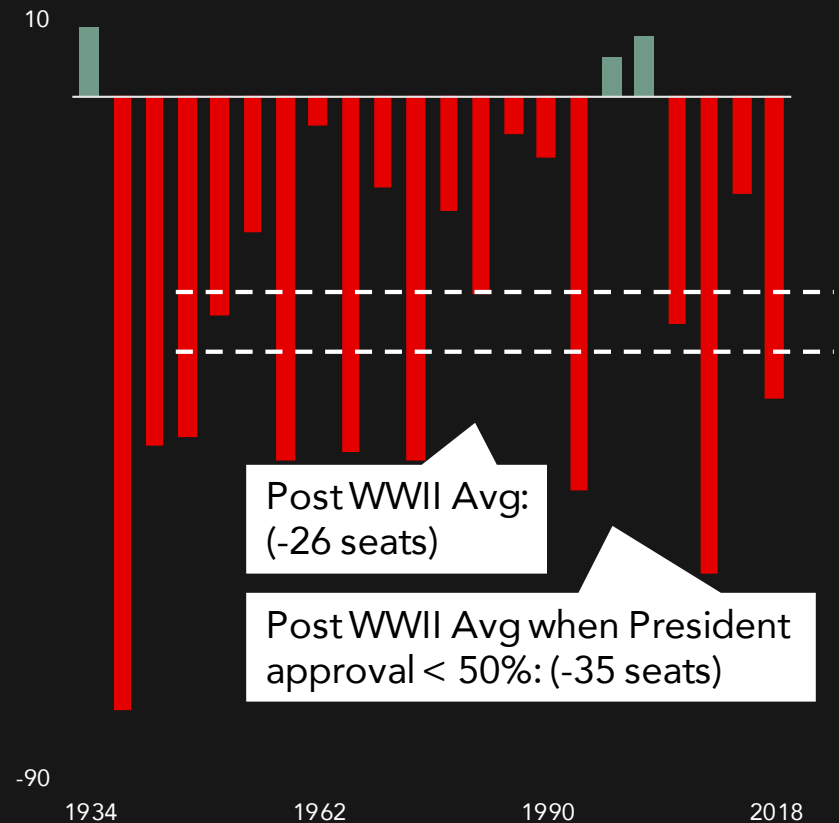
The incumbent party has lost seats in the US House in 36 of the last 39 midterm elections. Going back to World War II, the party in power has lost, on average, 26 seats in the House and 4 seats in the Senate. When the President's approval rating is under 50%, the average number of House seats lost jumps to 35.




Senate seat change, President's party



House seat change, President's party



Source: (1-2) The American Presidency Project, UC Santa Barbara.

A photograph of the Lincoln Memorial in Washington, D.C., taken at sunset. The memorial is a large, white, classical building with a prominent portico supported by columns. It is situated on a raised platform and is reflected in the calm water of the Reflecting Pool in the foreground. The sky is a mix of dark blue, orange, and red, with some clouds. The trees on either side of the memorial are dark and silhouetted against the sky.

2. Midterm Election Assessment

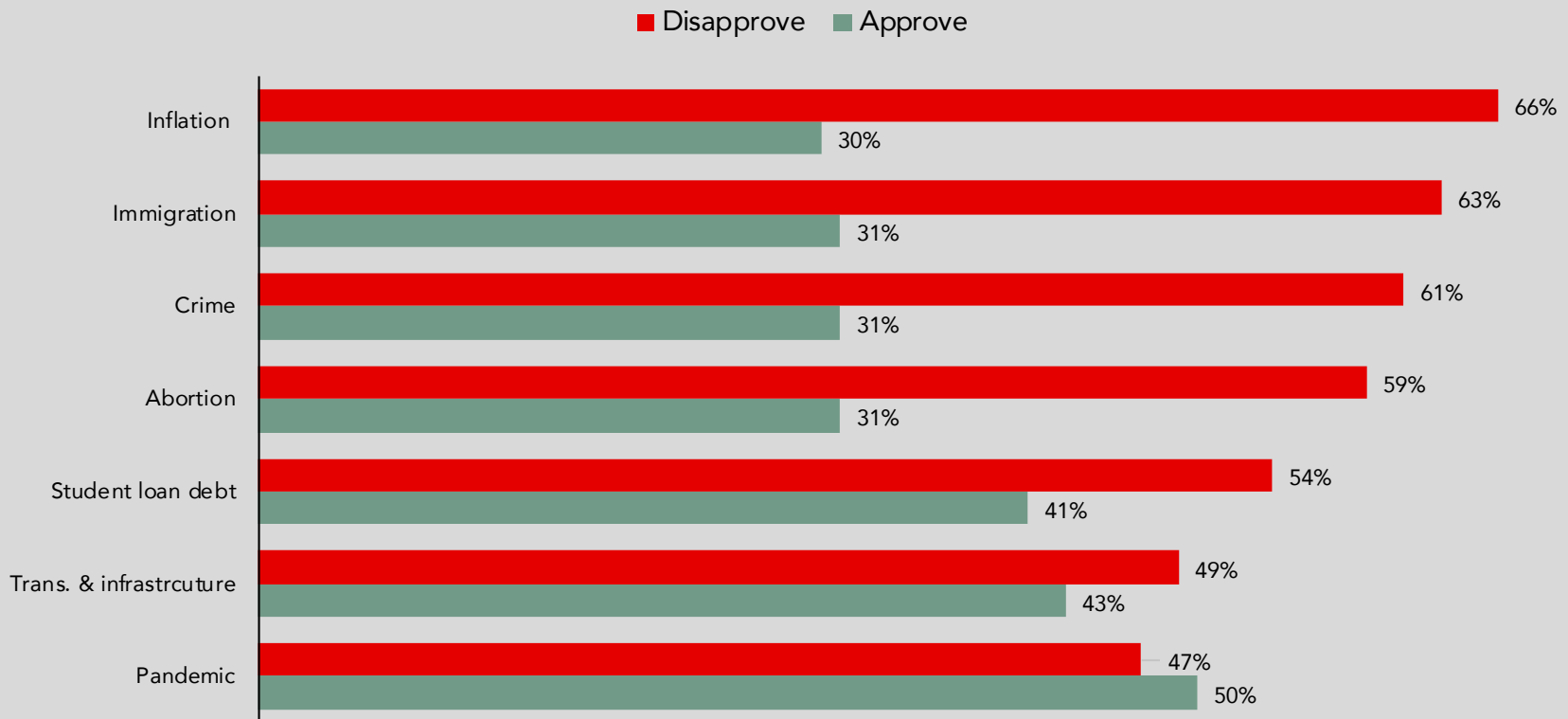
“People will forget what you said, people will forget what you did, but people will never forget how you made them feel.”

Maya Angelou, Acclaimed US writer,
poet & civil rights activist (1928 – 2014)

Presidential Approval and the Midterms

US midterm elections have historically been highly correlated with a President's approval rating. While President Biden's approval ratings are low by historical standards, they have risen modestly following a series of legislative "wins" (Inflation Reduction Act, CHIP Plus bill, gun safety bill, PACT Act). Further, while midterm elections are often viewed as "referendums" on the party in power, recent events may have galvanized voters along party lines.

Monmouth poll results on Biden's issue approval:

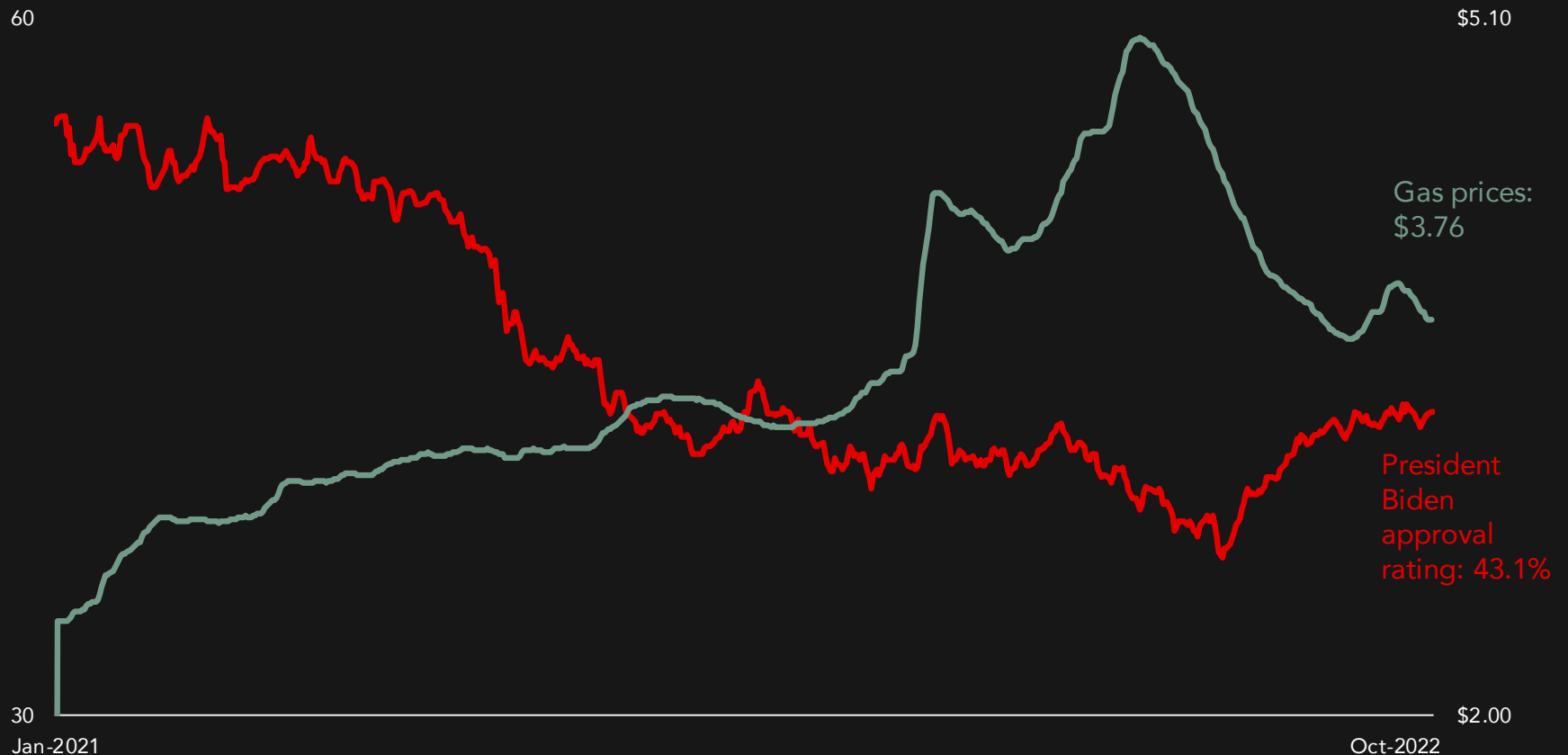


Source: (1) Ron Faucheux Lunchtime Politics (October 5, 2022).

Presidential Approval & the Economy

President Biden's approval rating has been inversely correlated with US gas prices. While individual elections are heavily nuanced by regional and local politics, Presidential approval ratings below 50% are generally associated with the incumbent party losing more seats.

Price of gas vs. President Biden approval rating

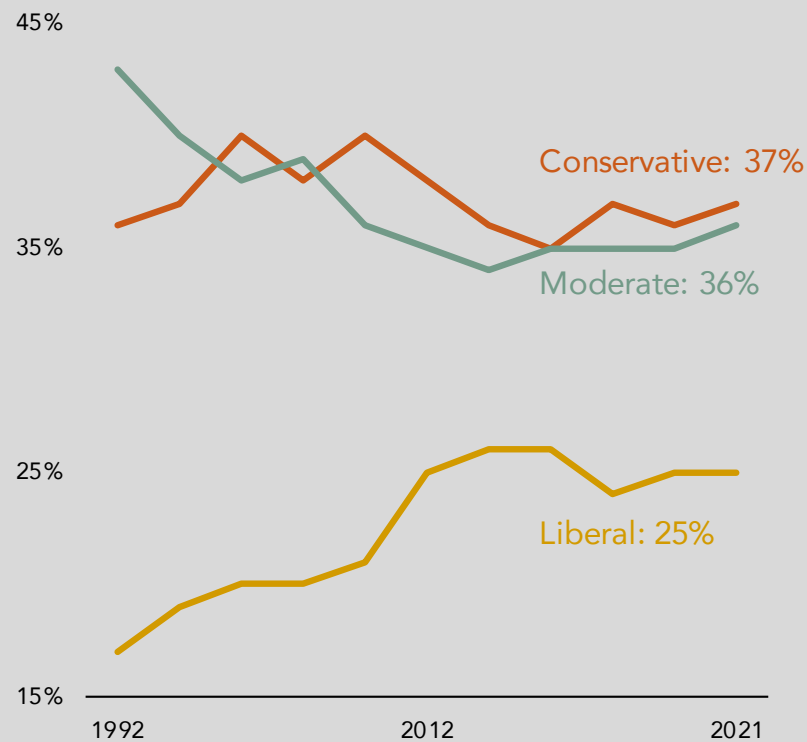


Source: (1) PIMCO (Libby Cantrill), Bloomberg. Data as of October 27, 2022. Gasoline is Daily National Average Gasoline Prices Regular Unleaded. President Biden job approval is Real Clear Politics polling data average.

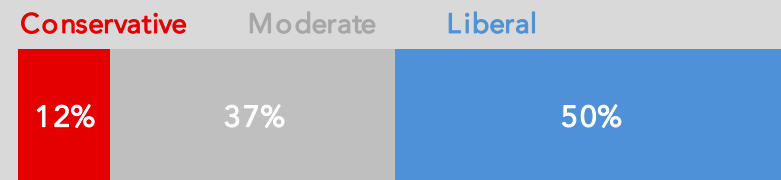
The Shrinking Middle

According to Gallup's political ideology poll, dating back to 1992, the percentage of Americans identifying as "moderate" has declined from >40% in the early 1990s to roughly 35% today. While those identifying as conservative has stayed relatively stable above 35%, the percentage of liberals has increased from 17% in 1992 to 25% in recent years.

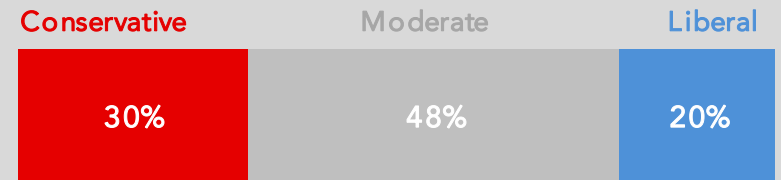
Americans' ideological views



Democrats' political ideology



Independents' political ideology



Republicans' political ideology

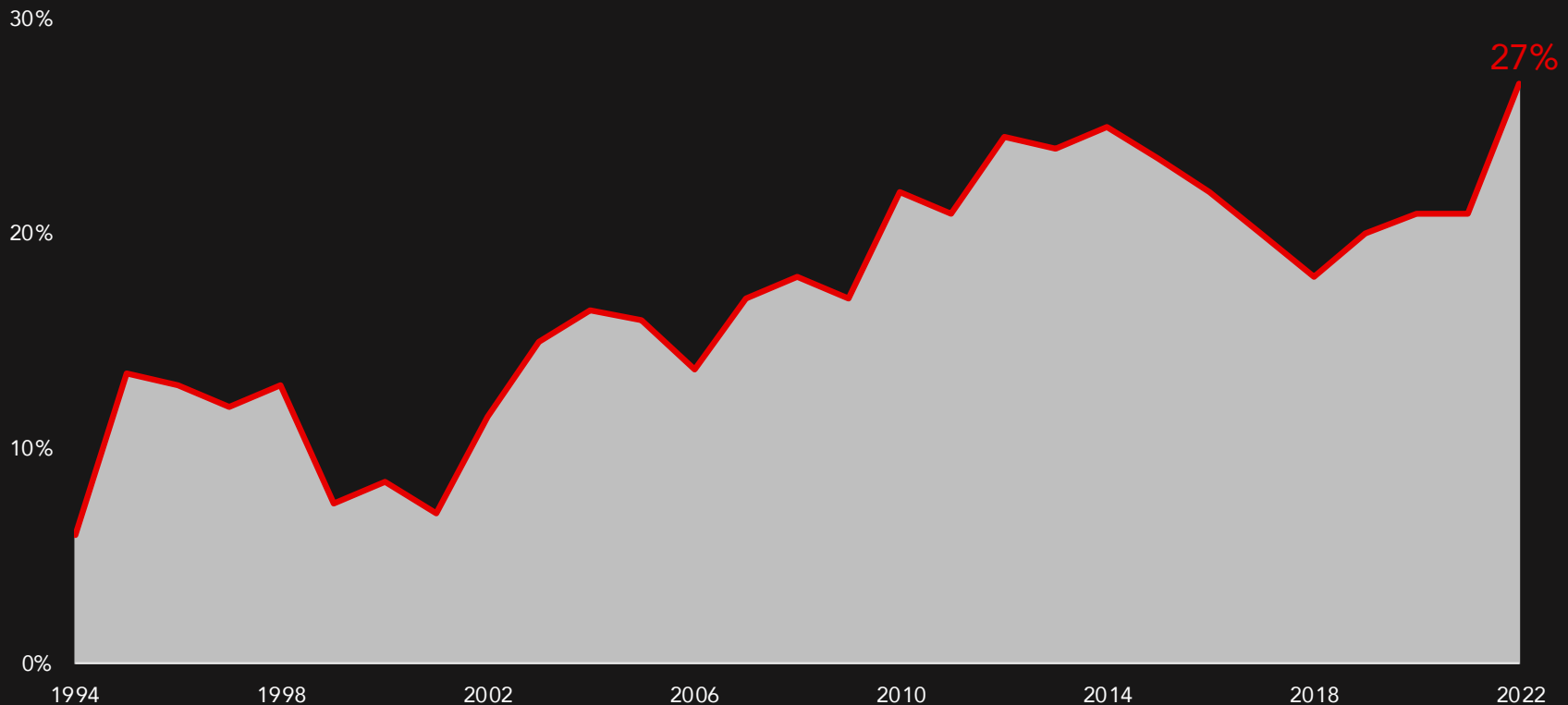


Source: (1-2) Gallup "US Political Ideology Steady; Conservatives, Moderates Tie". Gallup political ideology trend based on annual averages of its multiday national telephone surveys conducted through each year. 2021 results based on interviews with more than 12,000 US adults.

Unfavorable Opinions of Both Political Parties

The share of Americans who express unfavorable opinions of both major parties has grown from just 6% in 1994 to 27% in 2022. Further, the partisan dislike of the “other side” is substantially higher today compared to a decade ago.

% of Americans who have an unfavorable view of the Republican and Democratic parties

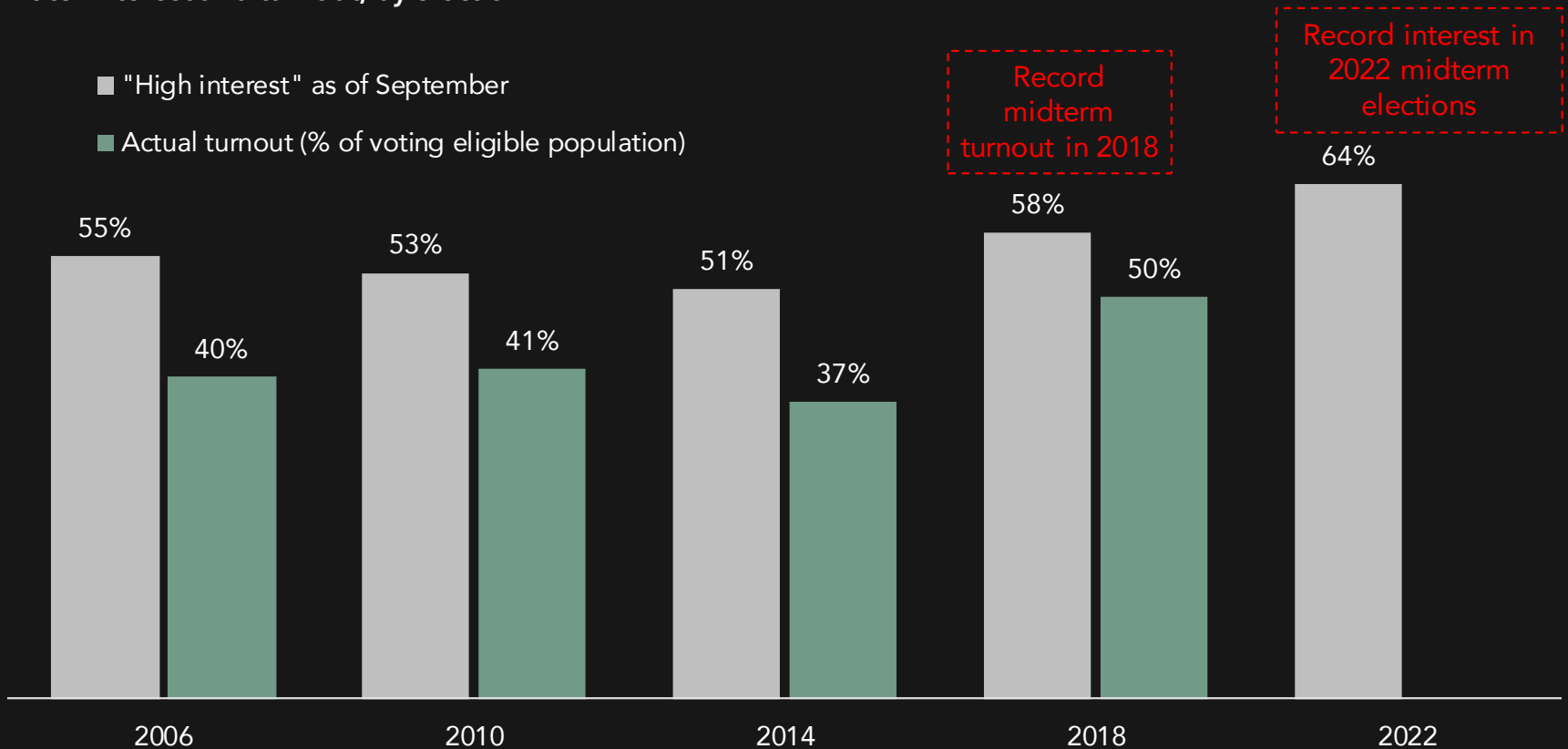


Source: (1) Pew Research Center. Based on those who rated both the Republican and Democratic Parties. Yearly averages of survey data from Pew Research Center American Trends Panel (2020-2022) and Pew Research Center phone surveys of US adults (1994-2019).

Record Midterm Election Voter Turnout Expected

In a recent NBC News poll, a record 64% of voters indicated they have a high interest in the upcoming midterm elections. Historically, there has been a sharp drop off between interest and actual turnout. But even assuming the 8 point drop from the 2018 midterm cycle, turnout in 2022 could be 56%, which is higher than turnout in most Presidential elections. Somewhat counter-intuitively, "wave" elections tend not to happen in election years with high turnout.

Voter interest and turnout, by election



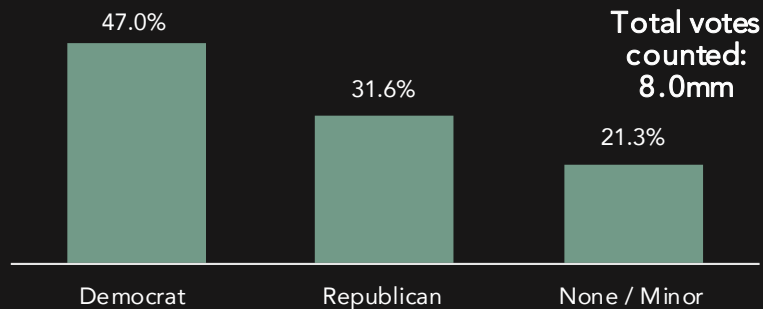
Source: (1) Veda. "Elections: Mining Beyond the Polls" (Henrietta Treyz). NBC News Poll "Enthusiasm for upcoming midterms is at all-time high".

Early Voting Outlook

Historically, Republicans have had stronger in-person voter turnout in midterm elections while Democrats tend to lead in early voting. While early voting remains a small portion of the total electorate, it is on record pace in several key states in 2022.

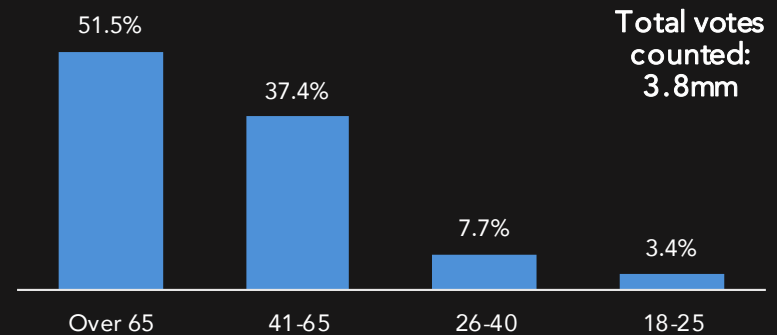
Early voting so far by party registration

Reporting states: AR, AZ, CA, CO, CT, FL, IA, ID, KS, LA, MD, ME, NC, NE, NJ, NM, OK, OR, PA, SD, UT, WV



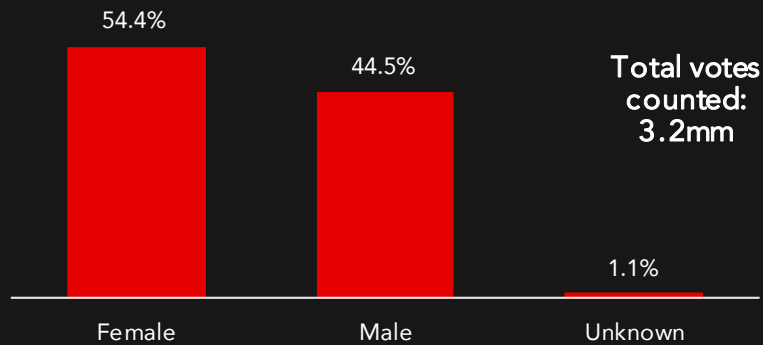
Early voting so far by age

Reporting states: CT, GA, KS, LA, MI, NC, PA



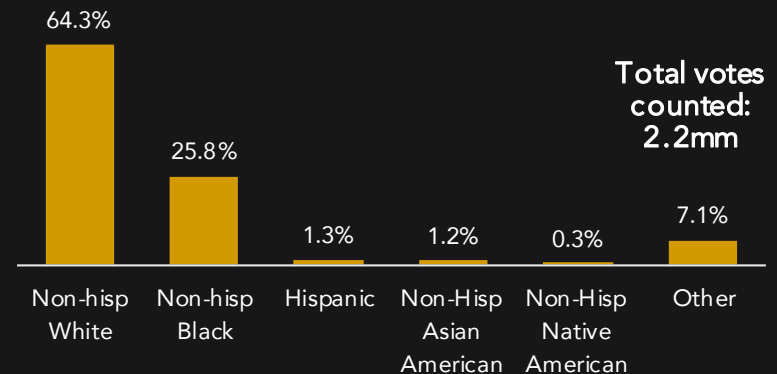
Early voting so far by gender

Reporting states: GA, KS, LA, MI, NC



Early voting so far by race and Hispanic ethnicity

Reporting states: GA, LA, NC, SC



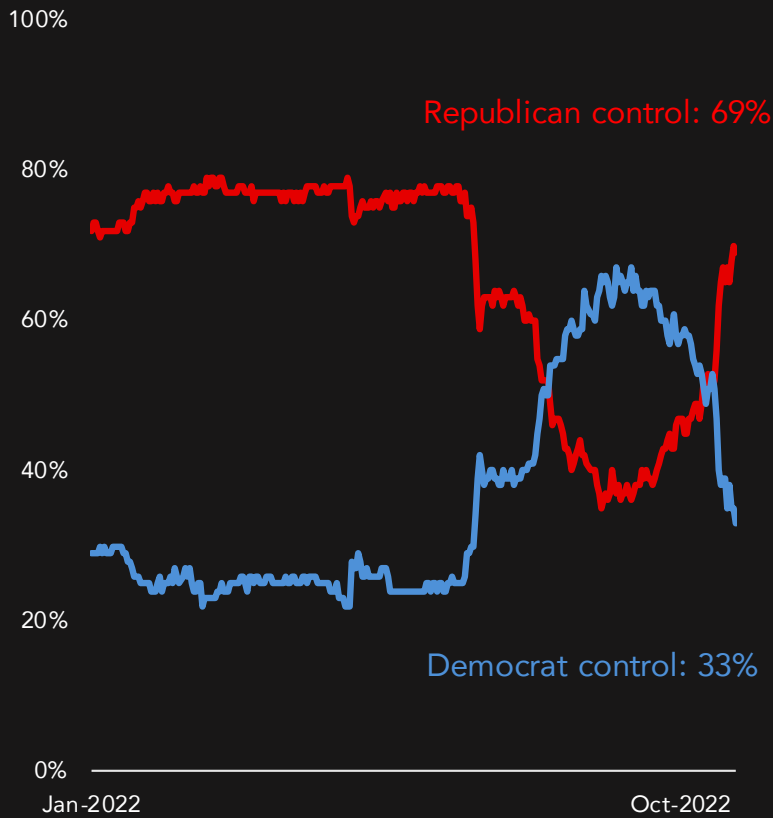
Source: (1-4) United States Elections Project. Data as of October 27, 2022.

"The Betting Books"

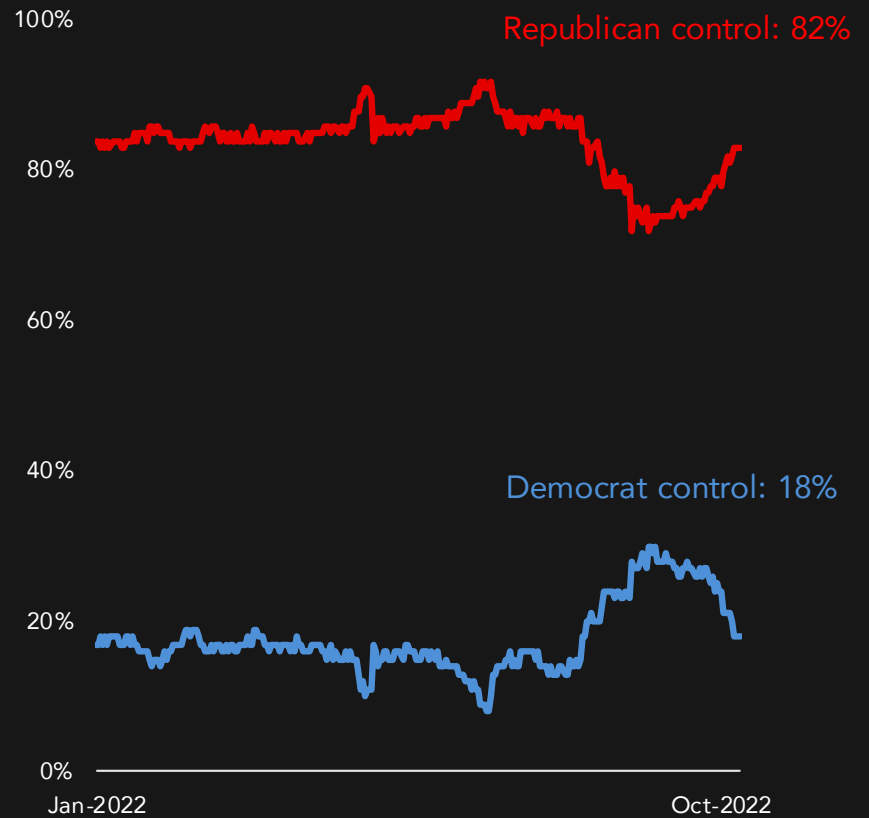
Republicans are almost certain to retake the House of Representatives, while control of the US Senate is "too close to call" and within the margin of polling error in many closely contested states.



Expectations for control of US Senate



Expectations for control of US House of Representatives

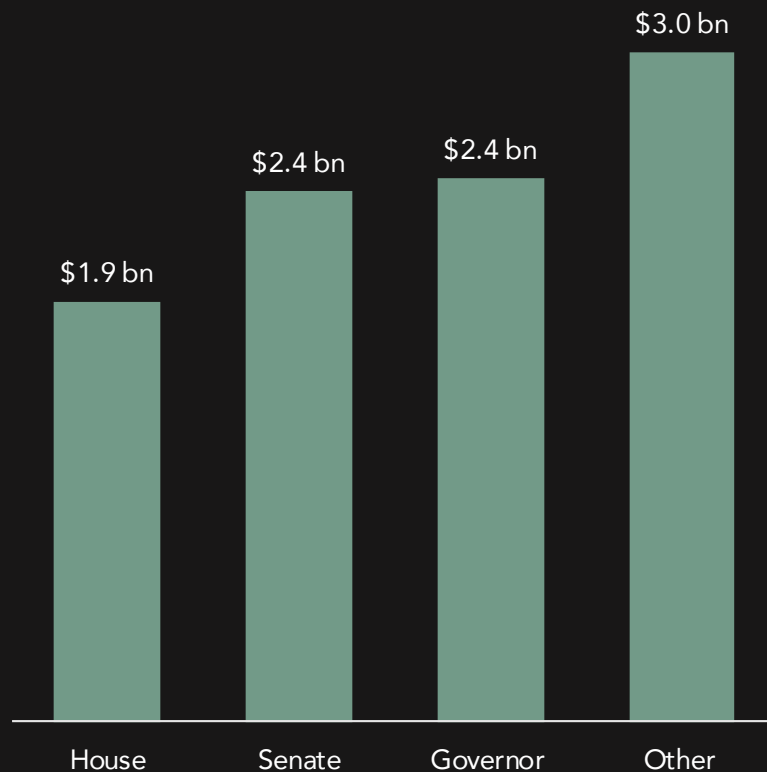


Source: (1-2) Bloomberg. Data as of October 27, 2022. PredictIt.

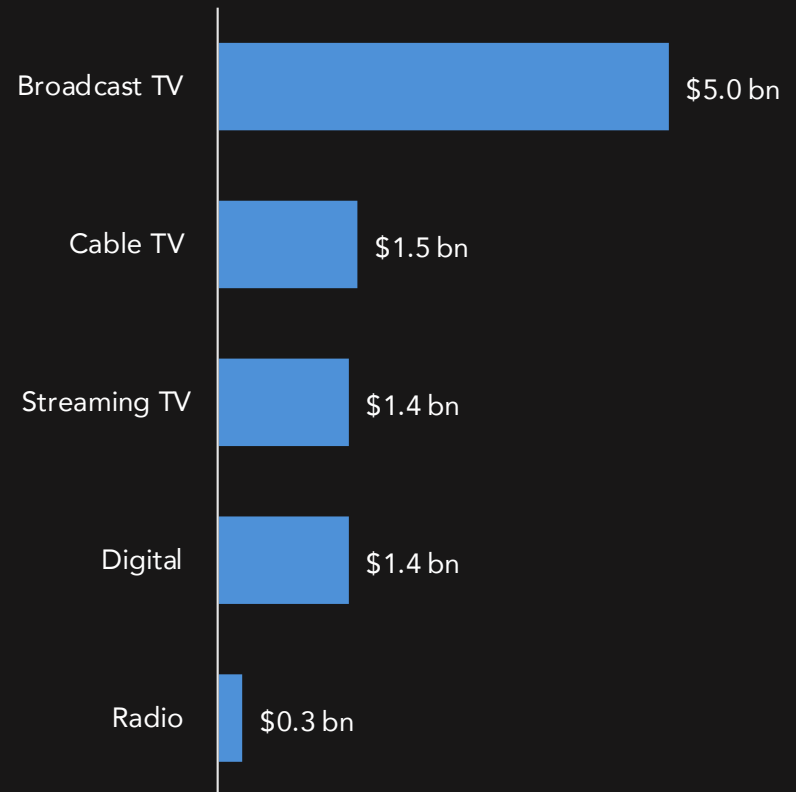
Political Ad Spending > 2x 2018

Political ad spending during the current two-year election cycle is projected to more than double the 2018 midterms, and exceed total spending in the 2020 US Presidential election

Projected political ad spending nationwide for 2021-2022 by race type, USD bn



Projected political ad spending nationwide by category for 2021-2022 election cycle, USD bn



Source: (1-2) WSJ, "Political Ad Spending Soars for Midterms" (August 2022). AdImpact.



3. Key Voter Issues

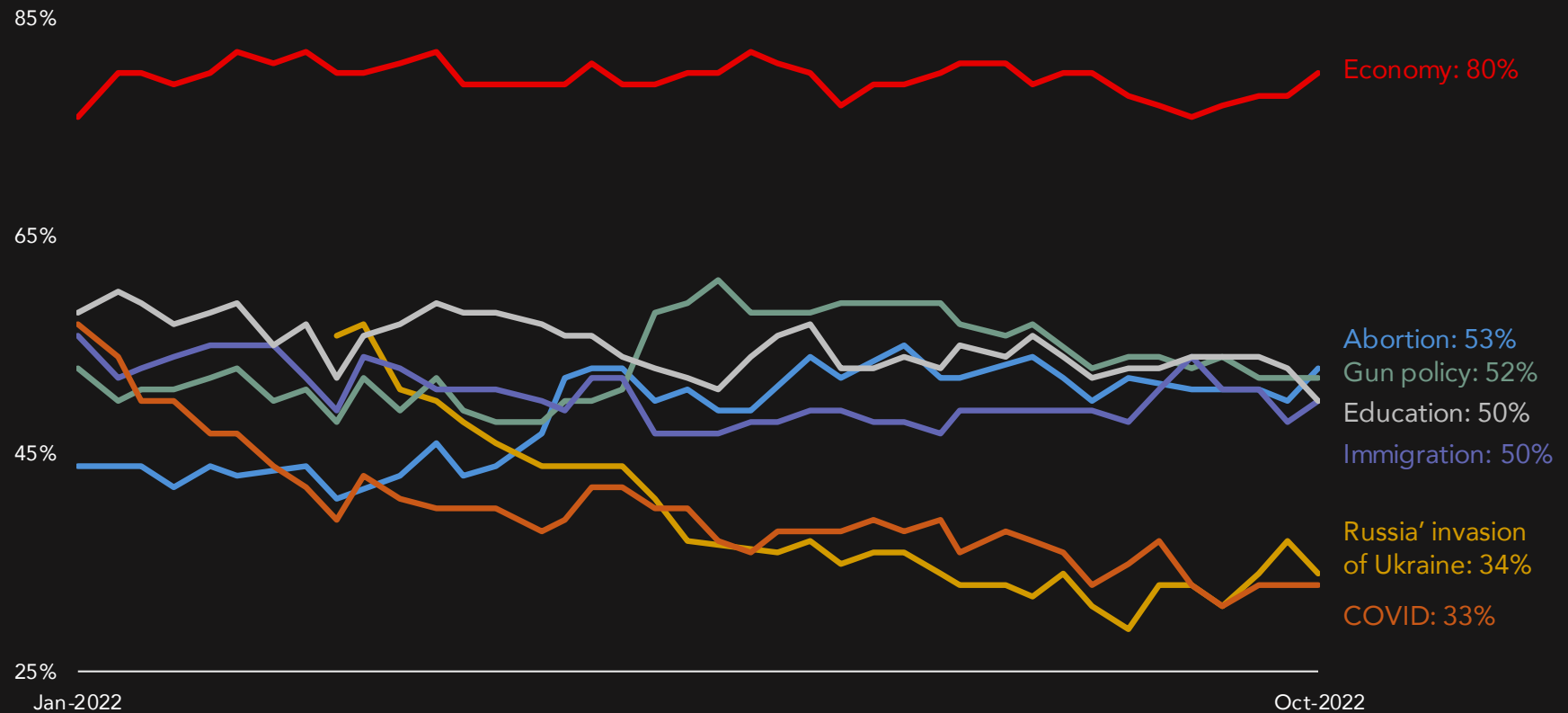
"It's the economy, stupid."

James Carville,
Democratic Party Strategist, 1992

Key Voter Issues in the 2022 Midterms

With record high inflation and the Fed on a hawkish tightening path, American voters see the economy as their biggest concern ahead of the midterm elections

Share of all voters who said the following are “very important” when deciding whom to vote for in the 2022 elections

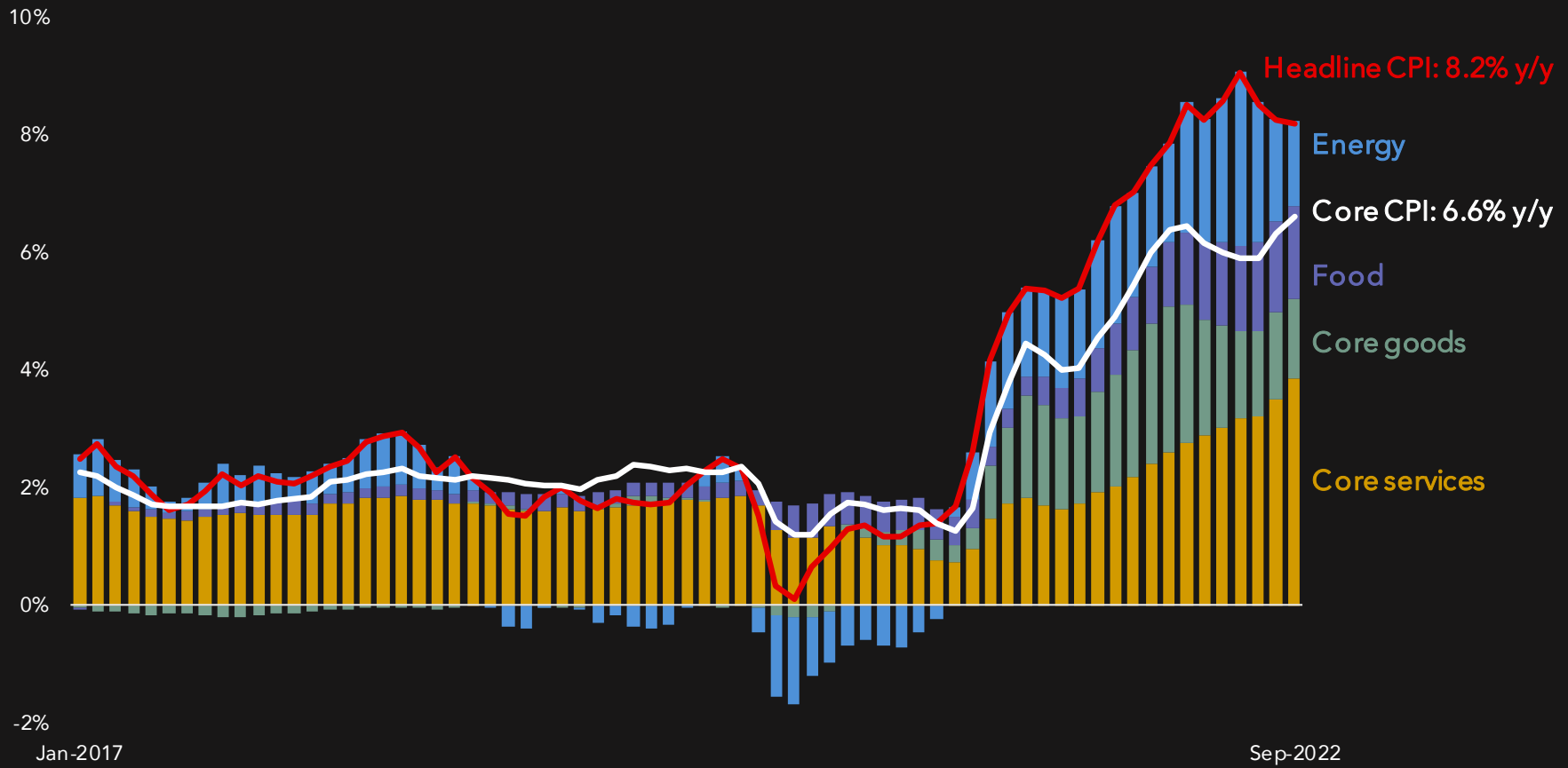


Source: (1) Morning Consult. Survey conducted weekly in 2022, among representative samples of roughly 2,000 registered US voters each, with unweighted margins of error of +/- 2 ppts. Data through week ended October 22, 2022.

US Core Inflation Remains Elevated

In September, headline CPI surprised markets by accelerating 0.4% m/m and eased only slightly to 8.2% on a year over year basis vs. 8.3% in August. Core CPI accelerated to 6.6% y/y in September from 6.3% y/y in August, driven by a broad-based increase in core services.

Breakdown of CPI by components

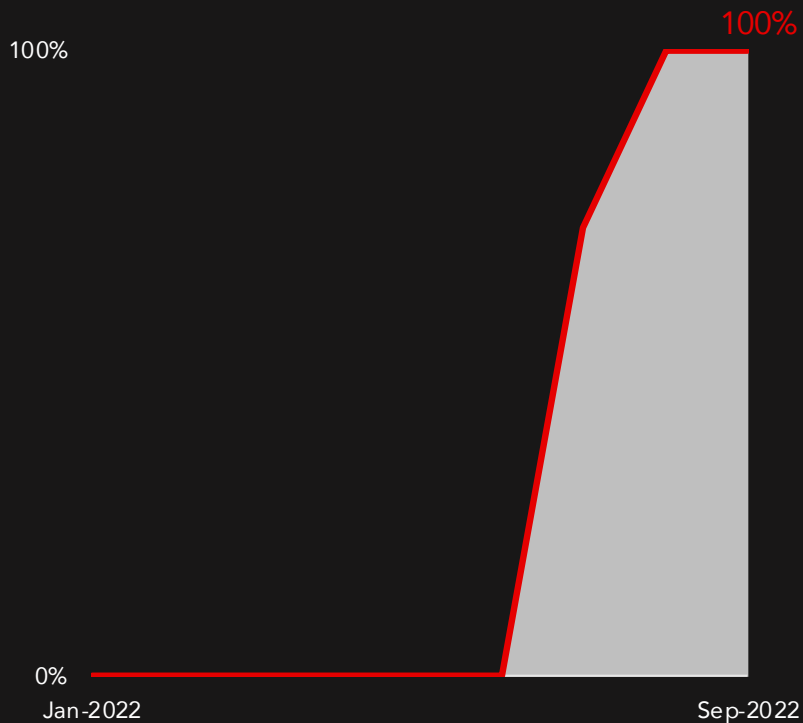


Source: (1) Bloomberg. Data as of October 27, 2022.

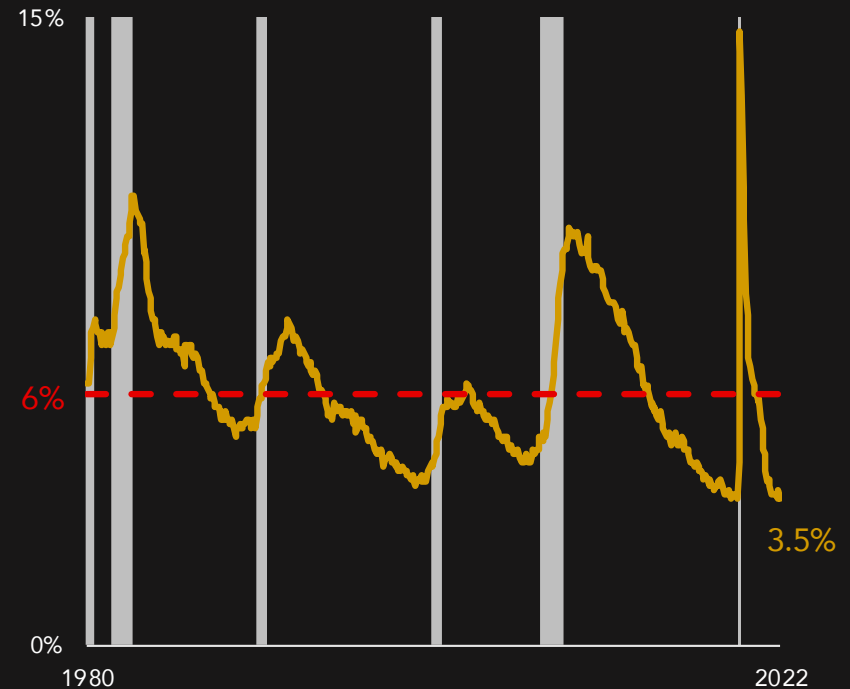
US Recession Risk Rising

The latest Bloomberg economic model is projecting a 100% probability of US recession over the next 12 months. Historically, the US unemployment rate has risen above 6% in every recession since WWII, with an initial move higher of 0.5 pts from the pre recession lows to the “start” of recession. In the current cycle, deterioration in US labor markets and US recession are not expected until after the midterm elections in 2023.

Bloomberg economics probability of US recession in next 12 months



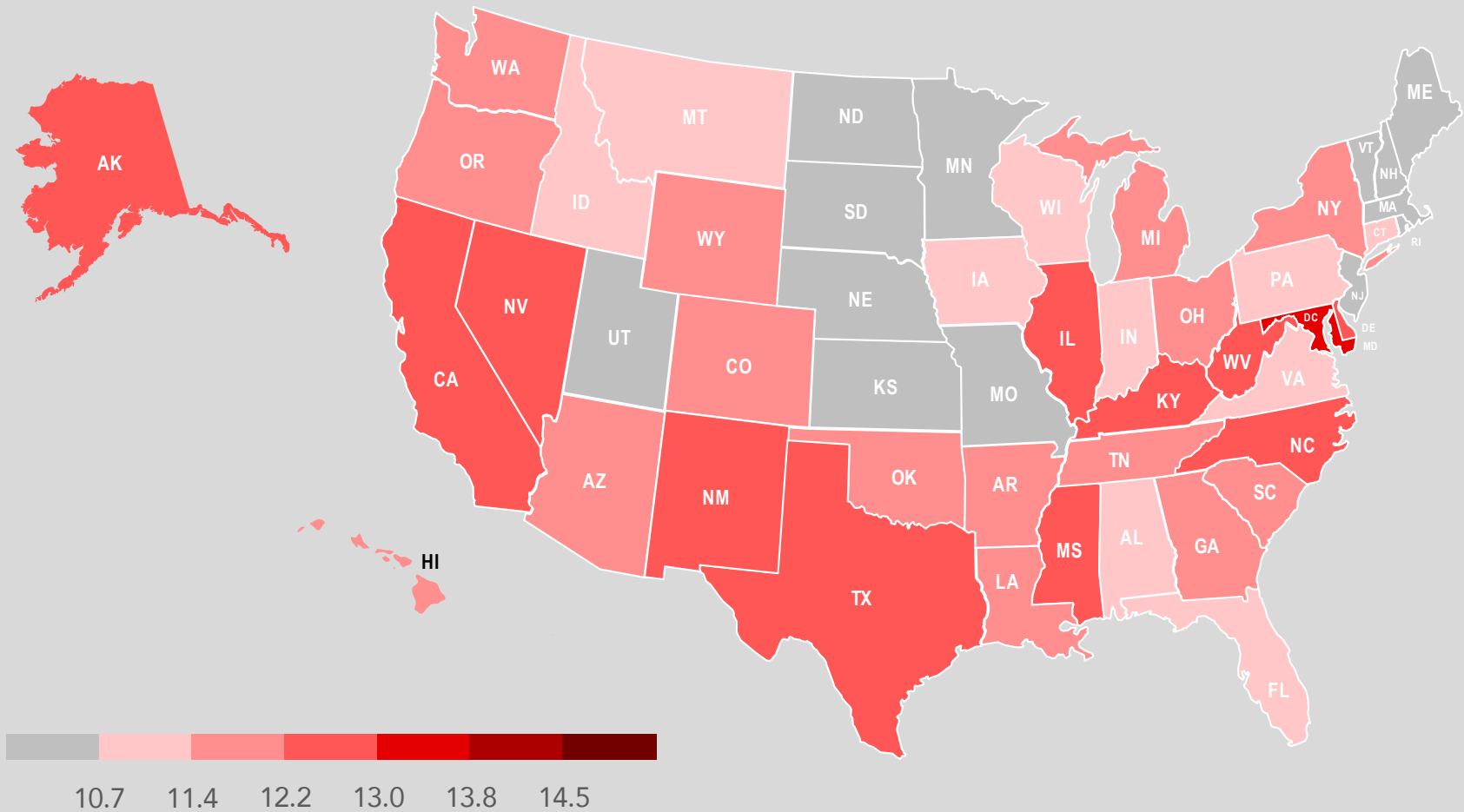
US unemployment rate



Source: (1-2) Bloomberg. Data as of October 27, 2022.

Economic “Misery” High in Most States

US State “Misery Index”: Inflation rate + unemployment rate

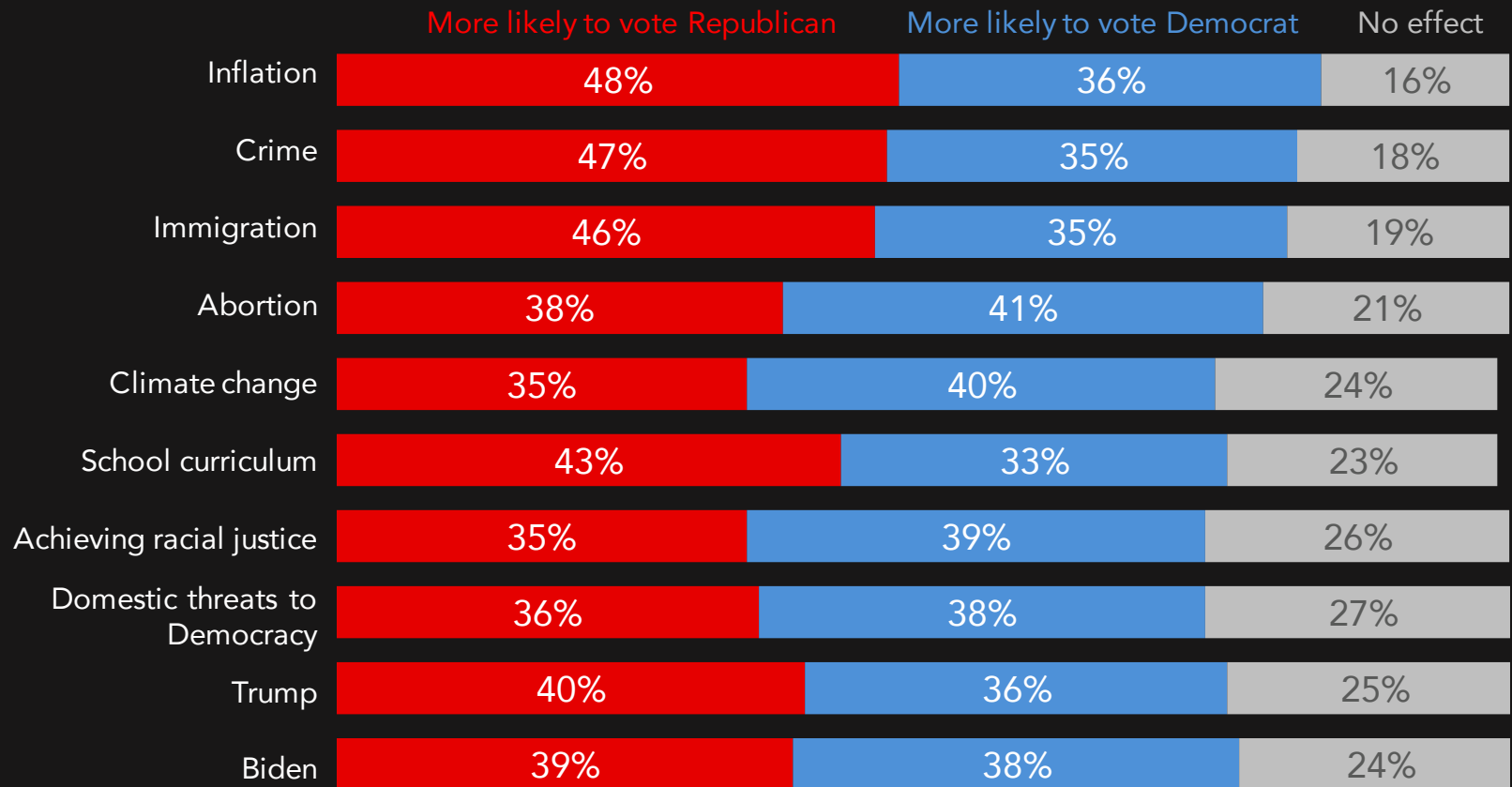


Source: Bureau of Labor Statics. Bloomberg. September data. Inflation component is by region, not state.

Crime Becoming a Larger Voter Issue

In addition to inflation and the economy, crime is one of the top issues for voters in this election cycle, which has been particularly evident in GOP advertising campaigns.

Poll Question: How will each of the following issues affect your vote in the midterms for Congress?

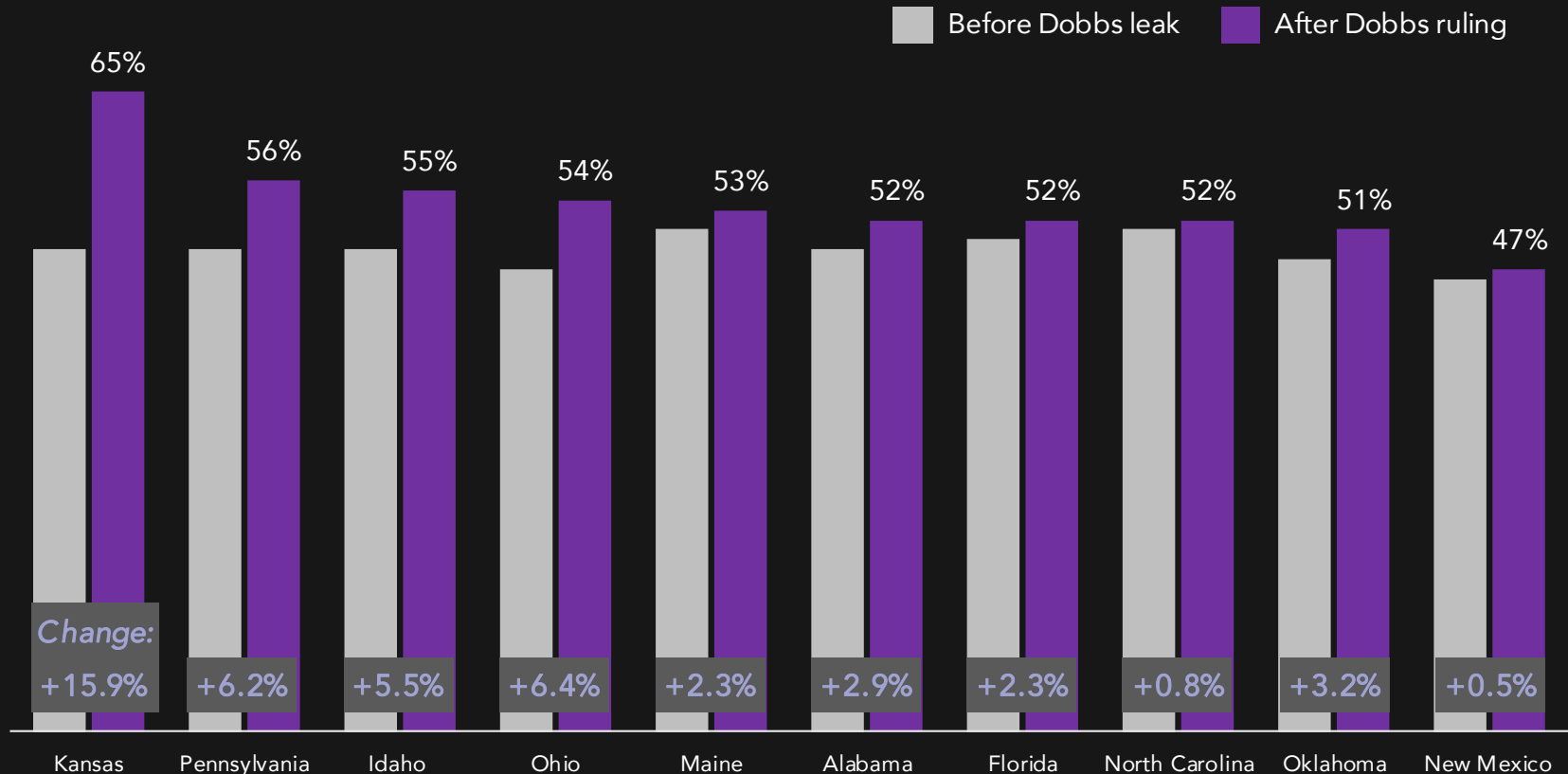


Source: (1) Harvard Caps Harris poll, conducted from October 12 - 13, 2022.

The Dobbs Decision & Abortion Rights

There has been an uptick in voter registration among women since the Supreme Court's *Dobbs* decision on June 24, 2022. Although the rise in registrants makes up a small fraction of the electorate, the increase is consistent with evidence that the court's ruling has motivated voters and could drive higher turnout.

Women as a percentage of new registered voters

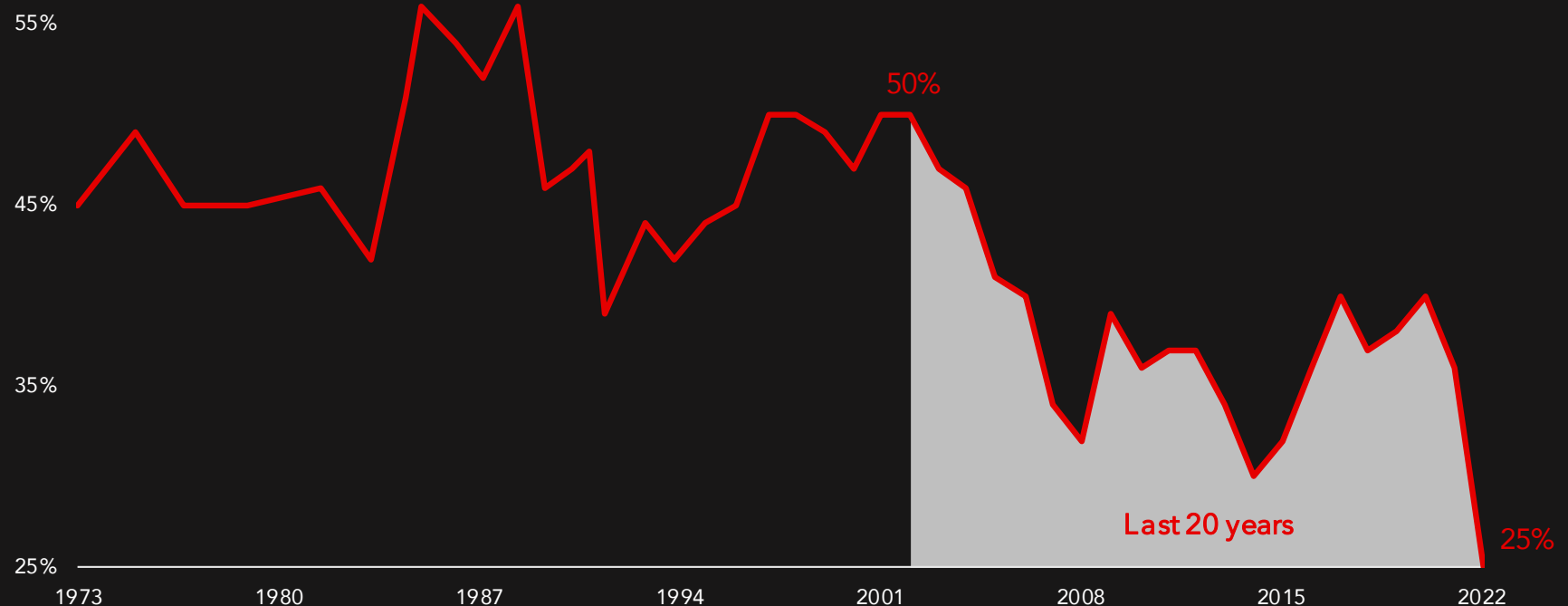


Source: (1) NYT. L2, a nonpartisan voter data provider and individual Secretaries of State. For each state, the Upshot Analyzed all post-Dobbs data available and the three months before the leak. Registrant gender is modeled using names for Main, Ohio, Oklahoma and some Pennsylvania voters.

Supreme Court Becoming a Larger Voter Issue

According to a June Gallup poll, Americans' confidence in the Supreme Court has hit a record low, with only 25% of US respondents saying they have a "great deal" or "quite a lot" of trust in the court. From a partisan perspective, 39% of Republicans reported having faith in the institution (up from 38% the previous year) while only 13% of Democrats reported trusting the institution (down from 30% the year before).

Share of US adults that have a great deal / quite a lot of confidence in the US supreme court



Source: (1) Statista. Gallup. Representative surveys among US adults. Data as of June 2022.

4. The US House of Representatives

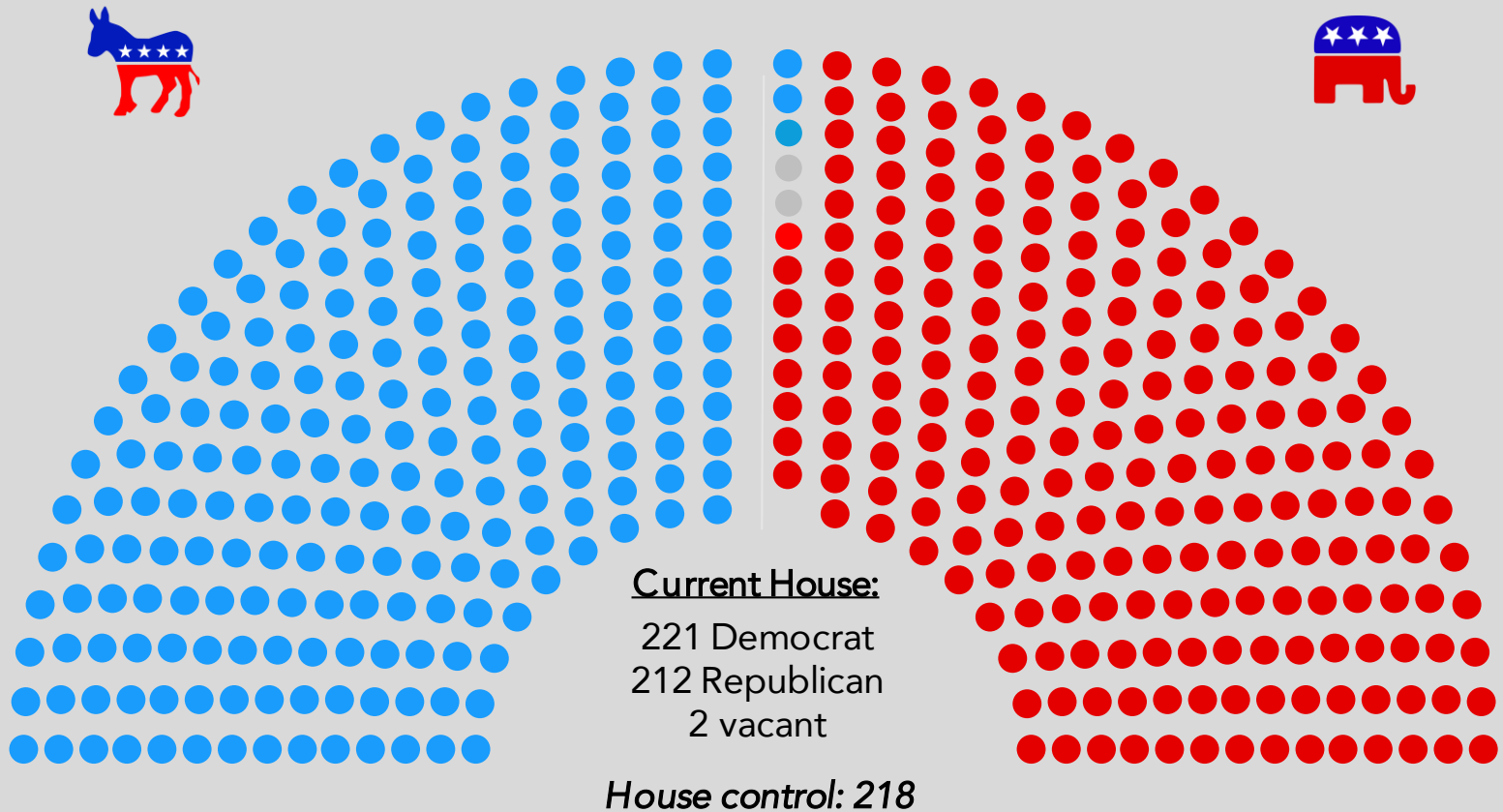


"The only limit to our realization of tomorrow will be our doubts of today. Let us move forward with strong and active faith."

Franklin D. Roosevelt,
32nd President of the United States (1882-1945)

US House of Representatives: Pre-Election Snapshot

As happens every two years, all 435 seats in the US House of Representatives are up for election. In 36 of the last 39 US midterm elections, the President's political party has suffered losses in the House - the three exceptions being FDR (1934), Bill Clinton (1998) and George Bush (2002). With Democrats holding only a five-seat majority in the House, Republicans look poised to win back control over the chamber.

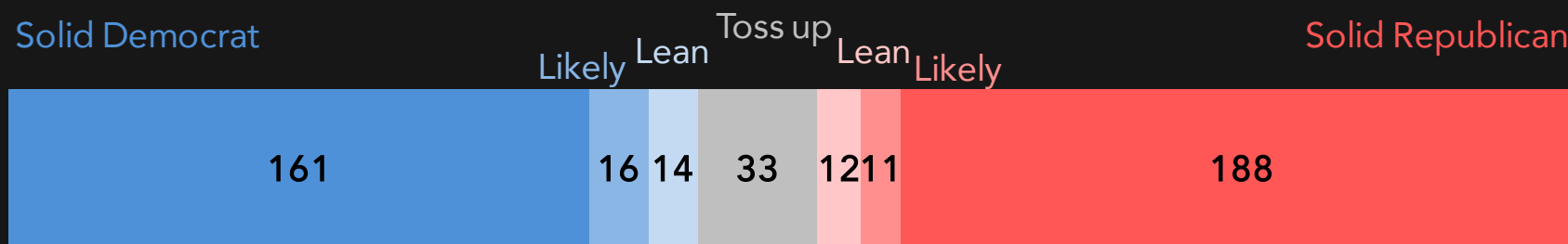


Source: (1) Bloomberg Government.

Key House Races to Watch

An analysis by the Cook Political Report highlights 33 toss-up races for the US House of Representatives with Democrats currently defending 23 toss-up seats while Republicans are defending only 10. Republicans are "almost certain" to take control of the House.

2022 House race ratings



Toss up races held by Democrats

| | |
|---------------|------------------|
| CA-13 Open | NY-17 Maloney |
| CA-49 Levin | NY-19 Open |
| CT-05 Hayes | OH-13 Open |
| IL-17 Open | OR-05 Open |
| IN-01 Mrvan | OR-06 New Seat |
| ME-02 Golden | PA-07 Wild |
| MI-07 Slotkin | PA-08 Cartwright |
| MN-02 Craig | PA-17 Open |
| NH-01 Pappas | RI-02 Open |
| NV-01 Titus | VA-02 Luria |
| NV-03 Lee | VA-07 Sapnberger |
| | WA-08 Schrier |

Toss up races held by Republicans

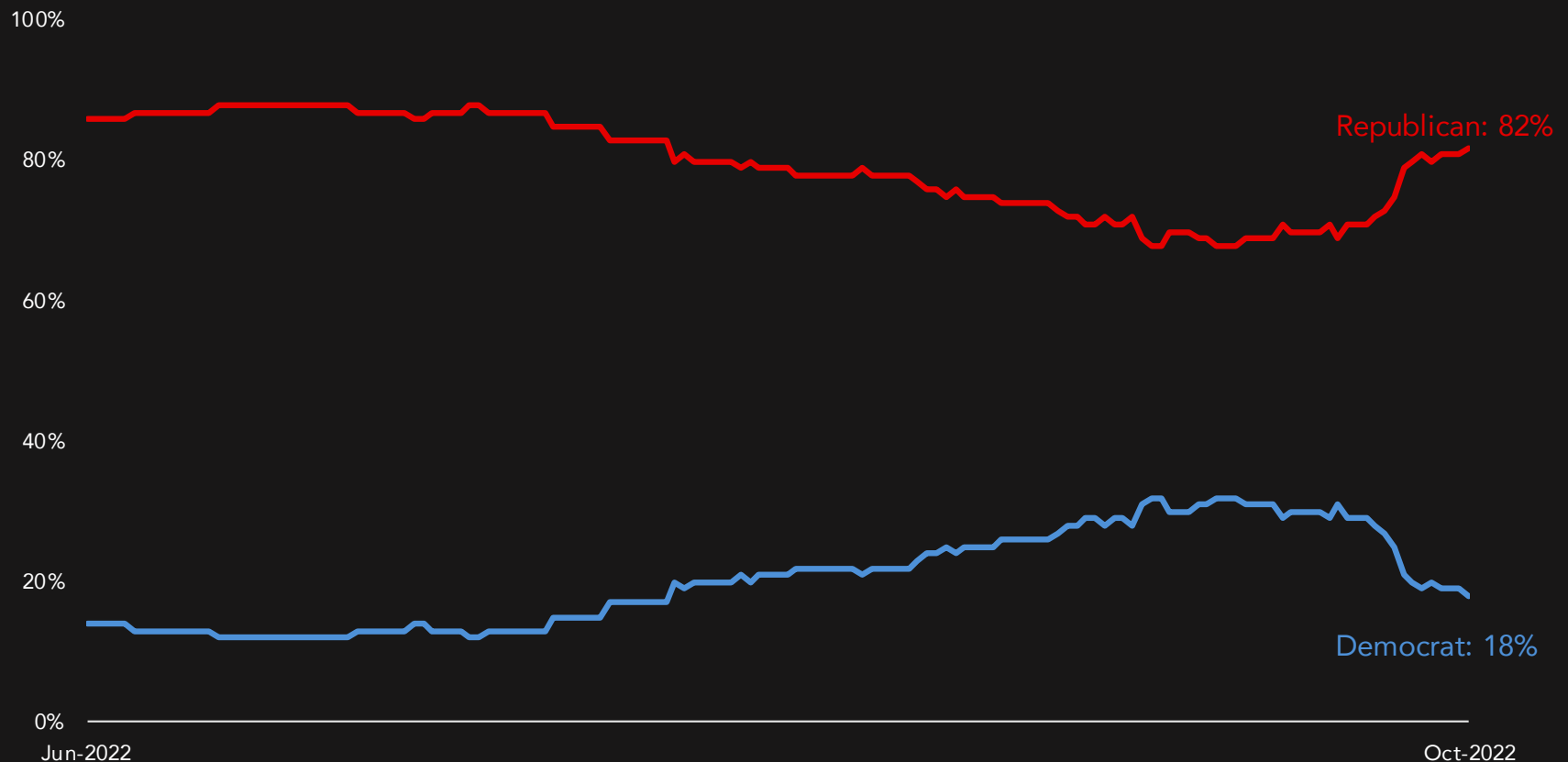
AZ-01 Schweikert
 CA-22 Valadao
 CA-27 Garcia
 CO-08 New Seat
 NC-13 Open
 NE-02 Bacon
 NM-02 Herrell
 NY-22 Open
 OH-01 Chabot
 TX-34 Merged Seat

Source: (1) The Cook Political Report. Data as of October 27, 2022.

Redistricting, Resignations Favor Republicans

While Democrats have more "structural" advantages in the 2022 US Senate elections (defending fewer seats), Republicans have more "structural" advantages in the House. Redistricting has slightly favored Republicans while more key Democrats have resigned in swing states.

Generic polling for US House of Representatives party control following the 2022 midterm election



Source: (1) Project FiveThirtyEight. Data as of October 27, 2022.

A photograph of the United States Capitol building in Washington, D.C., taken at dusk. The building's iconic dome is illuminated from below, casting a warm glow. The sky is a deep, dark blue with some light clouds. In the foreground, there are dark silhouettes of trees and a path. The text "5. The US Senate" is overlaid on the bottom right of the image.

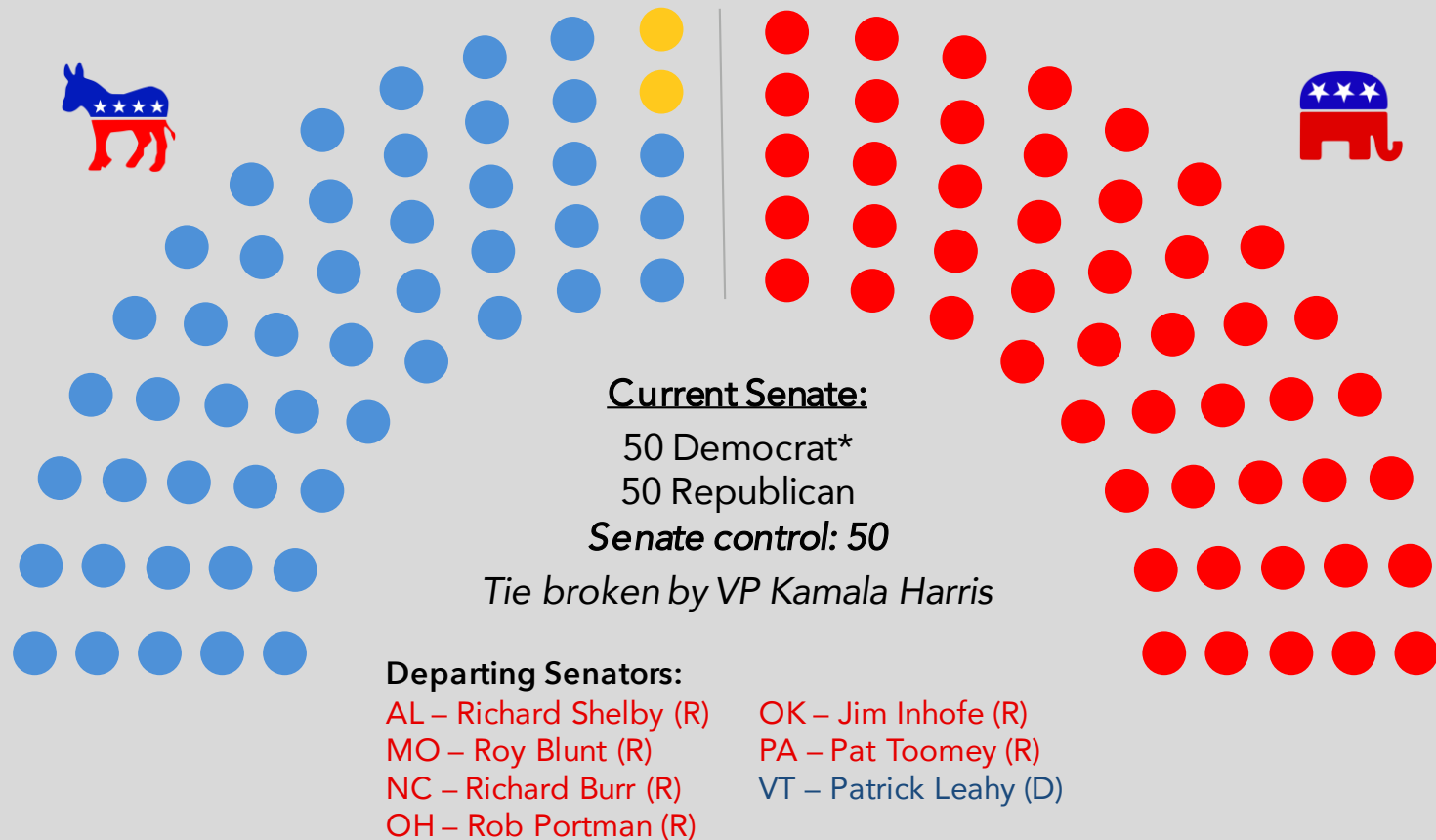
5. The US Senate

**"You may never know what results come of
your actions, but if you do nothing, there
will be no results."**

Mahatma Gandhi,
Indian political ethicist and leader (1869 - 1948)

The US Senate: Pre-Election Snapshot

While Democrats cannot lose a single seat in the midterm elections and maintain control of the Senate, control of the US Senate after the midterms is too close to call (with Democrats having a few “structural” advantages in the election). Of the 35 Senate seats up for election in 2022 (34 regular and 1 special), Republicans are defending 21 while Democrats are defending only 14. Further, six Republican Senators are retiring compared to just one retiring Democrat.

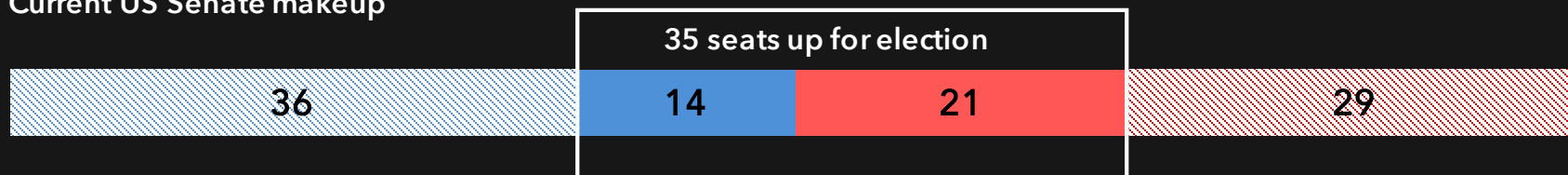


Source: (1) Bloomberg Government. *Yellow indicates two independents who caucus with Democrats.

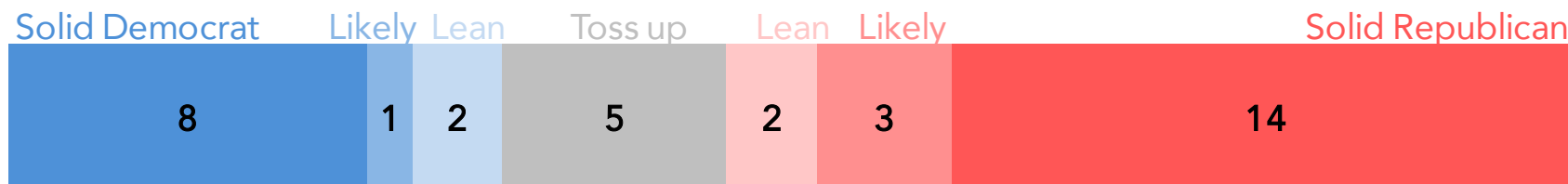
Key Senate Races to Watch

Of the 50 seats in the US Senate, 35 are up for election in 2022. An analysis by the Cook Political Report highlights five toss-up races with Democrats defending three and Republicans defending two. The outcome for control of the US Senate is "too close to call."

Current US Senate makeup



35 seats up for election



Toss up races held by Democrats

AZ – Kelly
GA – Warnock
NV – Cortez Masto

Toss up races held by Republican

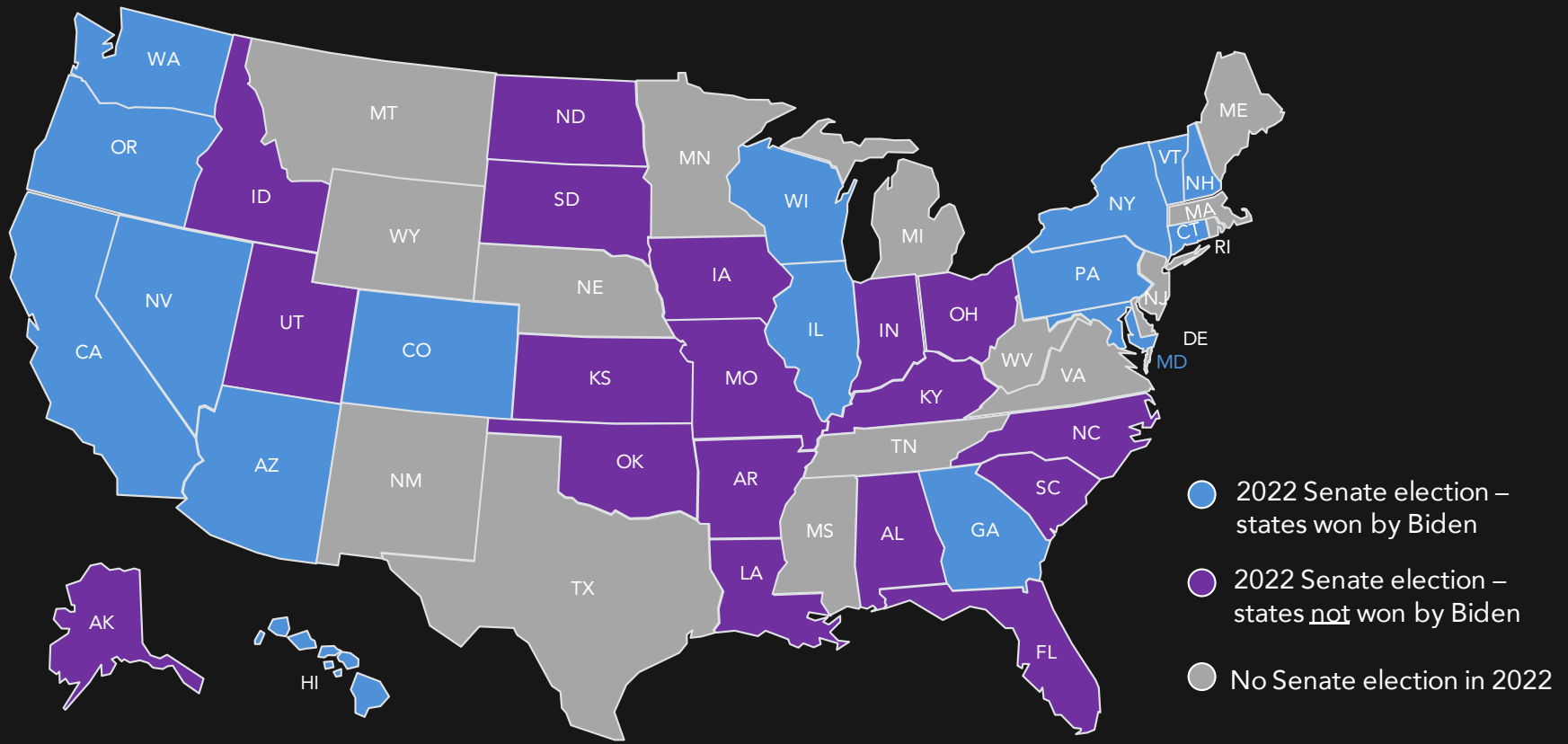
PA – Open
WI – Johnson

Source: (1) The Cook Political Report. Data as of October 27, 2022.

Breakdown of 2022 US Senate Elections

While the House election tends to be more of a “national election”, the Senate races are heavily influenced by regional issues, candidate quality and which Senators happen to be defending their seats in a given election cycle (only 1/3 of Senate seats are up for election). While history suggests the party in power loses an average of 4 seats in the midterm elections, this election may be closer.

US Senate elections in 2022



Source: (1) Real Clear Politics, 270toWin. Both seats in Oklahoma will have elections this year due to a special election.

Democrat Held US Senate Seats

Democrats are defending only 14 of the 35 Senate seats up for election in 2022; President Biden won in every one of those states in 2020. This structural advantage in the US Senate races for Dems in 2022 will reverse in the 2024 election when Democratic Senators will be defending 23 of the 33 seats in play that year (with Republicans only defending 10).

| State | Democrat | Republican | RCP Polling | 2020 state election results |
|-------------------|-----------------------------|-----------------|------------------|-----------------------------|
| 1. Arizona | Sen. Mark Kelly | Blake Masters | Kelly +1.5 | Biden |
| 2. California | Sen. Alex Padilla | Mark Mueser | Padilla +22.0 | Biden |
| 3. Colorado | Sen. Michael Bennet | Joe O'Dea | Bennet +7.5 | Biden |
| 4. Connecticut | Sen. Richard Blumenthal | Leora Levy | Blumenthal +11.0 | Biden |
| 5. Georgia | Sen. Raphael Warnock | Herschel Walker | Warnock +0.5 | Biden |
| 6. Hawaii | Sen. Brian Schatz | Bob McDermott | N/A | Biden |
| 7. Illinois | Sen. Tammy Duckworth | Kathy Salvi | Duckworth +14.7 | Biden |
| 8. Maryland | Sen. Chris Van Hollen | Chris Chaffee | Van Hollen +23 | Biden |
| 9. Nevada | Sen. Catherine Cortez Masto | Adam Laxalt | Laxalt +0.5 | Biden |
| 10. New Hampshire | Sen. Maggie Hassan | Don Bolduc | Hassan +3.4 | Biden |
| 11. New York | Sen. Chuck Schumer | Joe Pinion | Schumer +13.0 | Biden |
| 12. Oregon | Sen. Ron Wyden | Jo Rae Perkins | Wyden +11.0 | Biden |
| 13. Vermont | Peter Welch | Gerald Malloy | Welch +34.0 | Biden |
| 14. Washington | Sen. Patty Murray | Tiffany Smiley | Murray +8.5 | Biden |

Source: (1) Real Clear Politics. 270towin. Incumbent Senator Patrick Leahy (VT) not running for re-election. All states Real Clear Politics Polling where available. California, Illinois, Oregon, Vermont is FiveThirtyEight polling. Polling data as of October 27, 2022.

Republican Held US Senate Seats









Republicans are defending 21 of the 34 Senate seats up for election in 2022; President Biden won in two of those states in 2020.

| State | Democrat | Republican | RCP Polling | 2020 state election results |
|--------------------|----------------------|---------------------|----------------|-----------------------------|
| 15. Alabama | Katie Britt | Will Boyd | N/A | Trump |
| 16. Alaska | Kelly Tshibaka (R)* | Sen. Lisa Murkowski | Murkowski +2.0 | Trump |
| 17. Arkansas | Natalie James | Sen. John Boozman | Boozman +20.0 | Trump |
| 18. Florida | Val Demings | Sen. Marco Rubio | Rubio +7.4 | Trump |
| 19. Idaho | David Roth | Sen. Mark Crapo | N/A | Trump |
| 20. Indiana | Thomas McDermott | Sen. Todd Young | Young +2.0 | Trump |
| 21. Iowa | Michael Franken | Sen. Chuck Grassley | Grassley +7.1 | Trump |
| 22. Kansas | Mark Holland | Sen. Jerry Moran | Moran +12.0 | Trump |
| 23. Kentucky | Charles Booker | Sen. Rand Paul | Paul +16.0 | Trump |
| 24. Louisiana | Gary Chambers | Sen. John Kennedy | Kennedy +37.0 | Trump |
| 25. Missouri | Trudy Valentine | Eric Schmitt | Schmitt +11.0 | Trump |
| 26. North Carolina | Cheri Lynn Beasley | Ted Budd | Budd +4.5 | Trump |
| 27. North Dakota | Katrina Christiansen | Sen. John Hoeven | N/A | Trump |
| 28. Ohio | Tim Ryan | J.D. Vance | Vance +2.0 | Trump |
| 29. Oklahoma | Madison Horn | Sen. James Lankford | Lankford +15.7 | Trump |
| 30. Oklahoma | Kendra Horn | Markwayne Mullin | Mullin +13.0 | Trump |
| 31. Pennsylvania | John Fetterman | Mehmet Oz | Fetterman +1.3 | Biden |
| 32. South Carolina | Krystle Matthews | Sen. Tim Scott | Scott +17.0 | Trump |
| 33. South Dakota | Brian Bengs | Sen. John Thune | Thune +25.0 | Trump |
| 34. Utah | Evan McMullin (G)* | Sen. Mike Lee | Lee +7.8 | Trump |
| 35. Wisconsin | Mandela Barnes | Sen. Ron Johnson | Johnson +3.3 | Biden |

Source: (1) Real Clear Politics. 270towin. Incumbent Senators Richard Burr (NC), Rob Portman (OH), Patrick Toomey (PA), Richard Shelby (AL), Roy Blunt (MO), Jim Inhofe (OK) not running for reelection. *Evan McMullin is Green party. Alaska has moved to rank voting system with all candidates running in nonpartisan blanket top-four primary. Top four candidates advanced to general election, voters use ranked-choice voting. Republican Tshibaka is polling second ahead of Democrat Pat Chesbro and Republican Buzz Kelley. All polling data is Real Clear Politics Polling where available. Arkansas, Indiana, Iowa, Kansas, Kentucky, Louisiana, Oklahoma, South Dakota, Utah is FiveThirtyEight Polling. Data as of October 27, 2022.

Key Senate Races to Watch

Of the 35 US Senate seats up for election in 2022, control of the US Senate may come down to 2-3 races in particular. In our view, the Senate race in PA is likely to have a greater impact on US Senate control than any other single race.

-   Tight race (party holding contested seat)
-   Likely safe incumbent party seat
-  No Senate election
-  Democrats  Republicans
-  3 most important races to watch

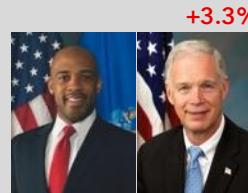
Avg. of latest polls



Sen. Catherine Cortez Masto (D)
vs.
Adam Laxalt (R)
Biden +2.4%



Sen. Mark Kelly (D)
vs.
Blake Masters (R)
Biden +0.3%



Mandela Barnes (D)
vs.
Sen. Ron Johnson (R)
Biden +0.6%



Rep. Tim Ryan (D)
vs.
J.D. Vance (R)
Trump +8.2%



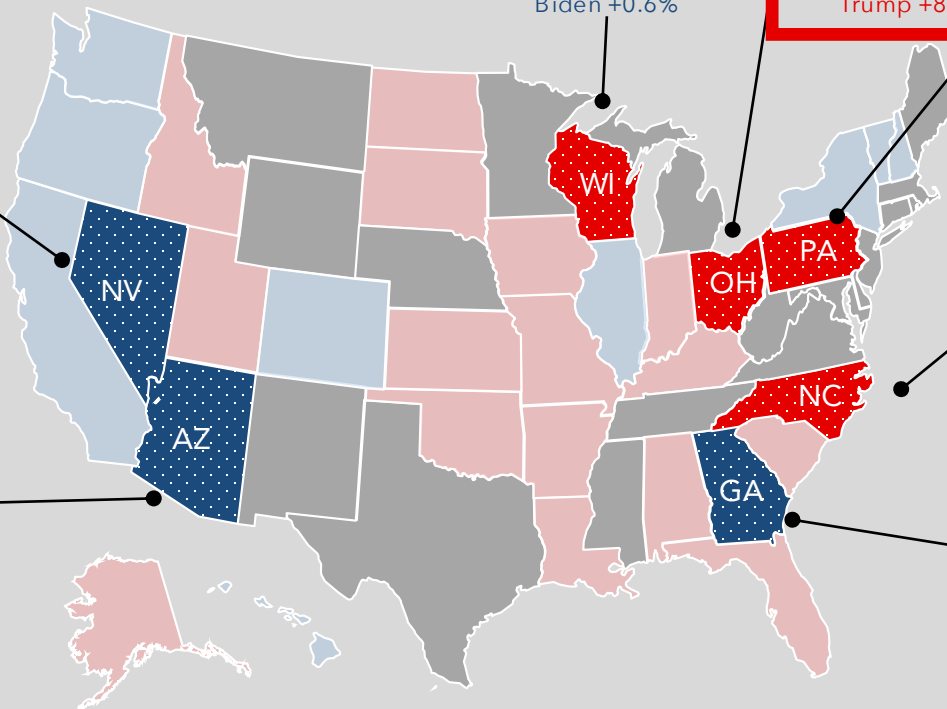
John Fetterman (D)
vs.
Mehmet Oz (R)
Biden +1.2%



Cheri Beasley (D)
vs.
Ted Budd (R)
Trump +1.4%



Sen. Raphael Warnock (D)
vs.
Herschel Walker (R)
Biden +0.3%



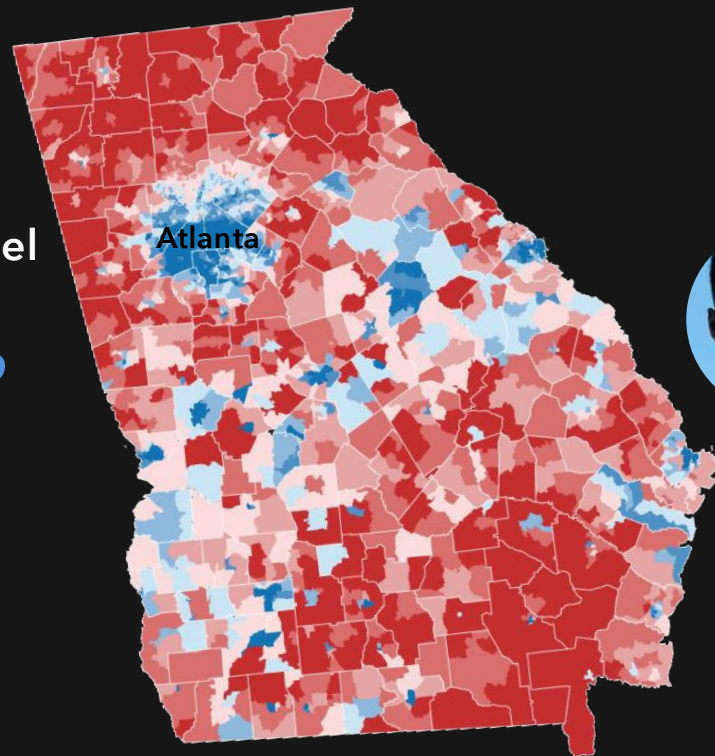
Source: U.S. Senate, RealClearPolitics average of polls as of Oct. 27, Bloomberg research

Control of Senate Possibly Unclear for Days / Weeks



Similar to the 2020 election, we may not know who won control of the US Senate until days, or possibly, weeks after election night. Early voting indicates turnout could easily clear 50% this year (vs. typical midterm turnout around 43%) and an increase in mail-in voting, particularly in competitive races, could delay ballot processing. Notably, the outcome in Georgia may be delayed to a December 6th runoff if neither candidate wins 50% of the vote.



Senator Raphael
Warnock (D)
47.0%



Herschel
Walker (R)
46.5%

-  Districts won by Biden in 2020
-  Districts won by Trump in 2020

Source: Polling is Real Clear Politics average of polls as of October 27, 2022.

6. The Gubernatorial Elections

IN THIS TEMPLE
IN THE HEARTS OF THE PEOPLE
WHOM HE SAVED THE UNION
THE MEMORY OF ABRAHAM LINCOLN
IS ENSHRINED FOREVER



**"Expectation is the root
of all heartache."**

William Shakespeare,
English playwright, poet & actor (1564-1616)

Democrats have certain “structural” advantages in the 36 Gubernatorial elections in 2022. Democrats are defending 16 seats (3 open) in 2022, 15 of which are in states Biden won in 2020. Republicans are defending 20 seats (5 open) in 2022, 14 of which are in states Trump won in 2020.











Current make-up:

-
- Map of the United States showing gubernatorial election status in 2022. The map is color-coded according to the legend:
- States with incumbents running for re-election (Green)
 - Governor ineligible due to term limits (Yellow)
 - Governor declined to seek re-election (Red)
 - States not holding gubernatorial elections in 2022 (Grey)
- States with incumbents running for re-election (Green): AK, HI, AZ, NV, CA, OR, WA, ID, MT, WY, CO, NM, TX, OK, KS, NE, MN, IA, WI, MI, IL, IN, OH, PA, NY, VT, NH, ME, CT, RI, NJ, DE, MD, VA, WV, KY, TN, SC, NC, AL, GA, FL.
- Governor ineligible due to term limits (Yellow): AZ, NE, AR, HI.
- Governor declined to seek re-election (Red): MA.
- States not holding gubernatorial elections in 2022 (Grey): WA, MT, ND, SD, MN, WI, MI, IL, IN, OH, PA, NY, VT, NH, ME, CT, RI, NJ, DE, MD, VA, WV, KY, TN, SC, NC, AL, GA, FL.

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Key Gubernatorial Races to Watch

Of the 36 Gubernatorial races in 2022, five are considered "toss ups" based on the most recent polling data (with Democrats defending four of the five toss ups).

| Current controlling party | State | Republican | Democrat | Latest Polling |
|---|--|------------|-----------------------------|----------------|
|  Republican |  Arizona | Lake | Hobbs | Lake +3.2 |
|  Democrat |  Oregon | Drazen | Kotek | Drazen +1.7 |
|  Democrat |  Wisconsin | Michels | Evers <i>Incumbent</i> | Evers +0.5 |
|  Democrat |  Nevada | Lombardo | Sisolak <i>Incumbent</i> | Lombardo +1.2 |
|  Democrat |  Kansas | Schmidt | Kelly <i>Incumbent</i> | Kelly +2.0 |

Source: (1) TiberCreek. Latest polling is Real Clear Politics aggregate polling as of October 27, 2022.

A wide-angle photograph of a major street in Washington, D.C., likely Pennsylvania Avenue, viewed from a low angle looking down the road. The street is flanked by grand, classical-style buildings with many windows and columns. Several American flags are visible on poles along the sidewalks. The street itself is mostly empty, with a few cars visible in the distance. The sky is overcast. At the bottom of the image, there is a large text overlay.

7. Legislative Implications

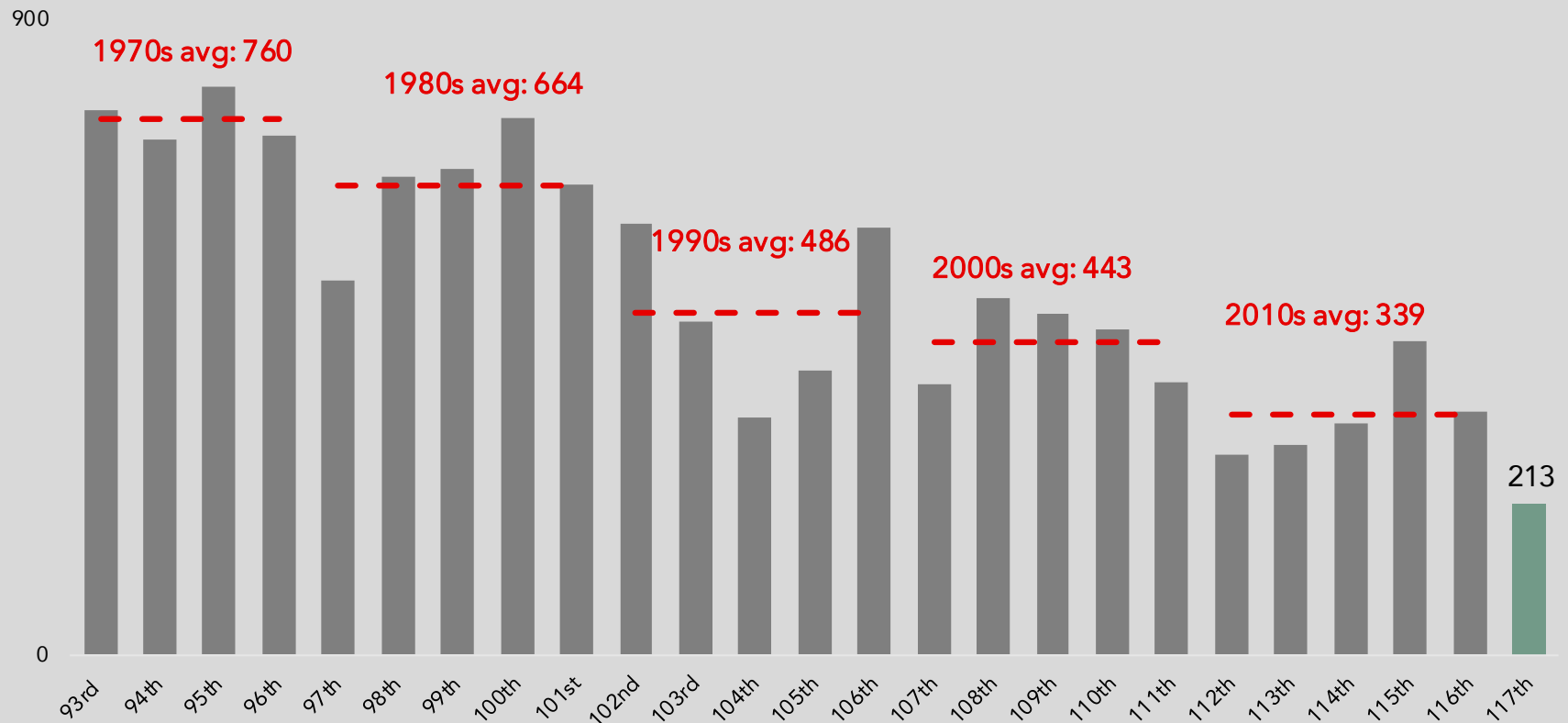
**"At a certain point, you run out of
spending other people's money."**

Margaret Thatcher, First woman & longest serving
UK Prime Minister of the 20th Century (1925 - 2013)

Legislation is Challenging in Today's Washington

Large, complex legislation is very difficult in today's Washington. In addition, the probability of either party gaining a 60 person, filibuster proof, majority in the US Senate is exceptionally low. If Republicans do take control of one or both chambers of Congress, look for less fiscal support and more complexity around regular way legislation (tax extenders, budget, etc.).

Enacted legislation by US Congress

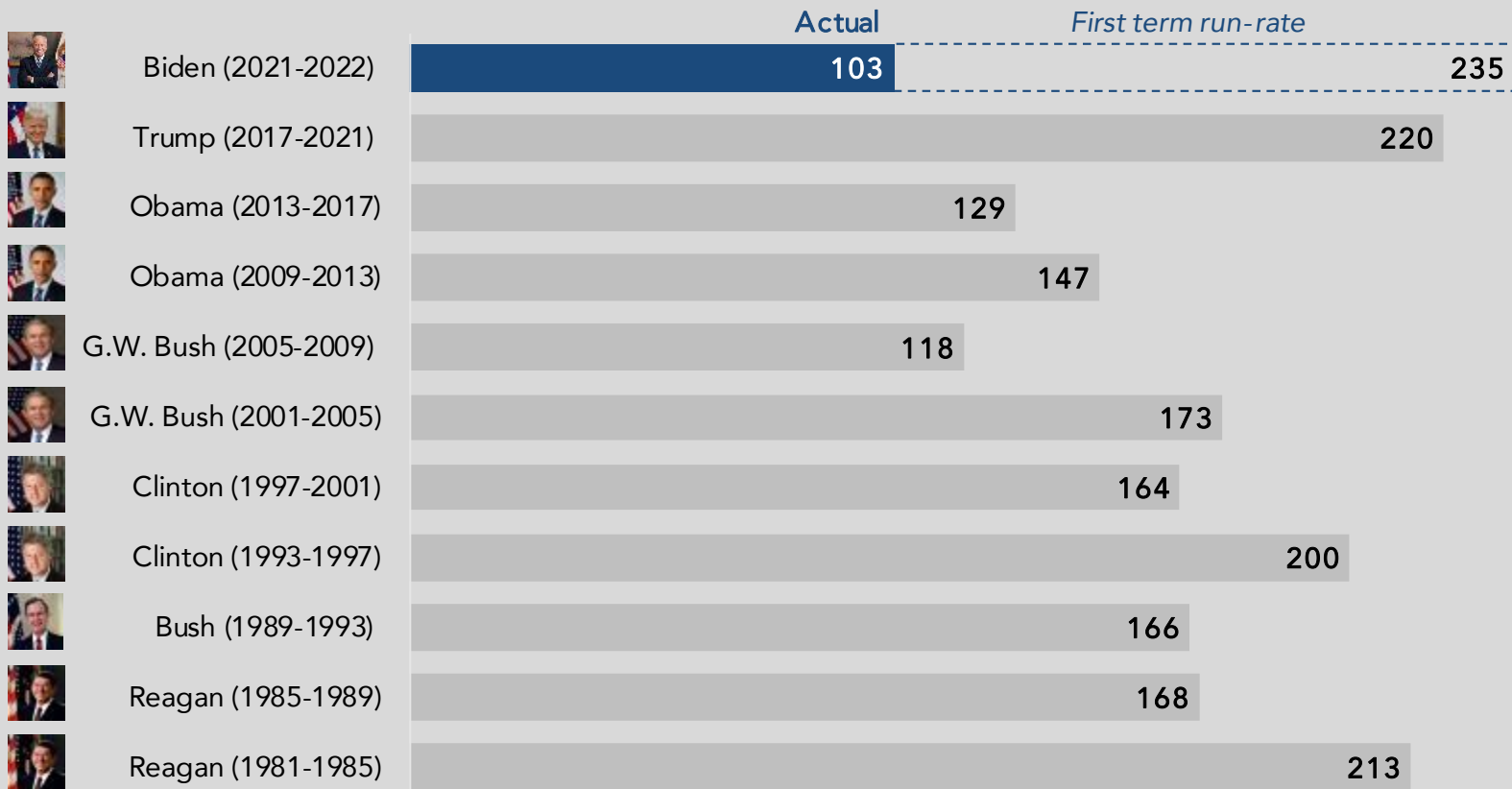


Source: (1) GovTrack Statistical and Historical Comparison. Data accessed October 27, 2022.

President Biden Likely to Turn to EO's

Executive orders (EOs) and regulatory influence have long been important (though inherently temporary) tools of US Presidential authority. Should President Biden face a split or Republican-controlled Congress, he will likely turn to executive action to carry out key agenda items.

Executive orders by President, by term







Source: (1) MUFG Government Affairs Office. UC Santa Barbara American Presidency Project. Data for President Biden EO's through October 20, 2022.

Potential Economic Legislation Post-Midterms

Most polling data and forecasting models expect Republicans to take control of the US House while Senate control remains a "toss-up". In either of the two most likely midterm election scenarios, large legislative packages will be challenged by razor thin majorities and "divided" government.

Policy priorities under each election scenario





| | The Economy | |
|---|---|---|
| |  Republican "Sweep" GOP House / GOP Senate  |  "Split" Congress GOP House / Dem Senate  |
| Gridlock on debt ceiling, gov funding | Likely | Likely |
| Annual US defense spending authorizations | Very Likely | Very Likely |
| Large fiscal stimulus (even in recession scenarios) | Very Unlikely | Very Unlikely |
| More drug price controls / expanded ACA subsidies | Very Unlikely | Unlikely |
| Additional clean energy subsidies | Unlikely | Unlikely |
| Pipeline permitting by YE 2022 | Unlikely | Possible |

Source: MUFJ US Government Affairs Office (Hollinger), Veda Partners (Treyz), PIMCO (Cantrill), Brownstein Hyatt Farber Schreck.

Potential Tax Legislation Post-Midterms

Most polling data and forecasting models expect Republicans to take control of the US House while Senate control remains a "toss-up". In either of the two most likely midterm election scenarios, large legislative packages will be challenged by razor thin majorities and "divided" government.

Policy priorities under each election scenario





| | Tax | |
|---|---|---|
| |  Republican "Sweep" GOP House / GOP Senate  |  "Split" Congress GOP House / Dem Senate  |
| Increase global minimum tax rate to 15% | Very Unlikely | Very Unlikely |
| Increase the corporate tax rate | Very Unlikely | Very Unlikely |
| Raise the SALT deduction cap | Very Unlikely | Very Unlikely |
| Expand Low-Income Housing Tax Credit | Unlikely | Possible |
| Increase top marginal tax rate | Very Unlikely | Very Unlikely |
| Larger & more rapid Tax Extenders | Unlikely | Unlikely |
| Enhanced child tax credits made permanent | Unlikely | Unlikely |

Source: MUFG US Government Affairs Office (Hollinger), Veda Partners (Treyz), PIMCO (Cantrill), Brownstein Hyatt Farber Schreck.

Potential Socio-Political Legislation Post-Midterms

Most polling data and forecasting models expect Republicans to take control of the US House while Senate control remains a "toss-up". In either of the two most likely midterm election scenarios, large legislative packages will be challenged by razor thin majorities and "divided" government.

Policy priorities under each election scenario





| | Socio-Political | |
|---|---|---|
| |  Republican "Sweep" GOP House / GOP Senate  |  "Split" Congress GOP House / Dem Senate  |
| More oversight of Biden administration (and nominees) | Very Likely | Likely |
| More pushback on Trump investigations | Very Likely | Likely |
| Expanded student loan forgiveness | Unlikely | Unlikely |
| More expansive / restrictive abortion legislation | Possible | Unlikely |
| More expansive / restrictive gun control legislation | Unlikely | Unlikely |
| Immigration reform | Unlikely | Unlikely |

Source: MUFG US Government Affairs Office (Hollinger), Veda Partners (Treyz), PIMCO (Cantrill), Brownstein Hyatt Farber Schreck.

Potential Foreign Policy Legislation Post-Midterms

Most polling data and forecasting models expect Republicans to take control of the US House while Senate control remains a "toss-up". In either of the two most likely midterm election scenarios, large legislative packages will be challenged by razor thin majorities and "divided" government.

Policy priorities under each election scenario





| | Foreign Policy | |
|--|---|---|
| |  Republican "Sweep" GOP House / GOP Senate  |  "Split" Congress GOP House / Dem Senate  |
| Continued "support" for Ukraine (financial, arms) | Likely | Very Likely |
| More "scrutiny" on Ukraine spending | Very Likely | Likely |
| "Tough on China" legislation | Very Likely | Very Likely |
| Rollback existing China tariffs | Unlikely | Unlikely |
| Potential "Tough on Saudi / OPEC" legislation (i.e., NOPEC bill) | Possible | Possible |
| Join new / large global trade agreements | Unlikely | Unlikely |

Source: MUFG US Government Affairs Office (Hollinger), Veda Partners (Treyz), PIMCO (Cantrill), Brownstein Hyatt Farber Schreck.

Potential Regulatory Legislation Post-Midterms

Most polling data and forecasting models expect Republicans to take control of the US House while Senate control remains a "toss-up". In either of the two most likely midterm election scenarios, large legislative packages will be challenged by razor thin majorities and "divided" government.

Policy priorities under each election scenario

| | Financial & Market | |
|--|---|---|
| |  Republican "Sweep" GOP House / GOP Senate  |  "Split" Congress GOP House / Dem Senate  |
| Digital asset legislation (crypto, stablecoin, CBDC) | Likely | Possible |
| Stock trading bans for members of Congress | Possible | Possible |
| Big Tech antitrust legislation | Possible | Possible |
| Increased Congressional review of Biden ESG / climate agenda for financial services sector | Likely | Possible |
| Heightened consumer protection regulation | Possible | Possible |

Source: MUFG US Government Affairs Office (Hollinger), Veda Partners (Treyz), PIMCO (Cantrill), Brownstein Hyatt Farber Schreck.

8. Market Implications



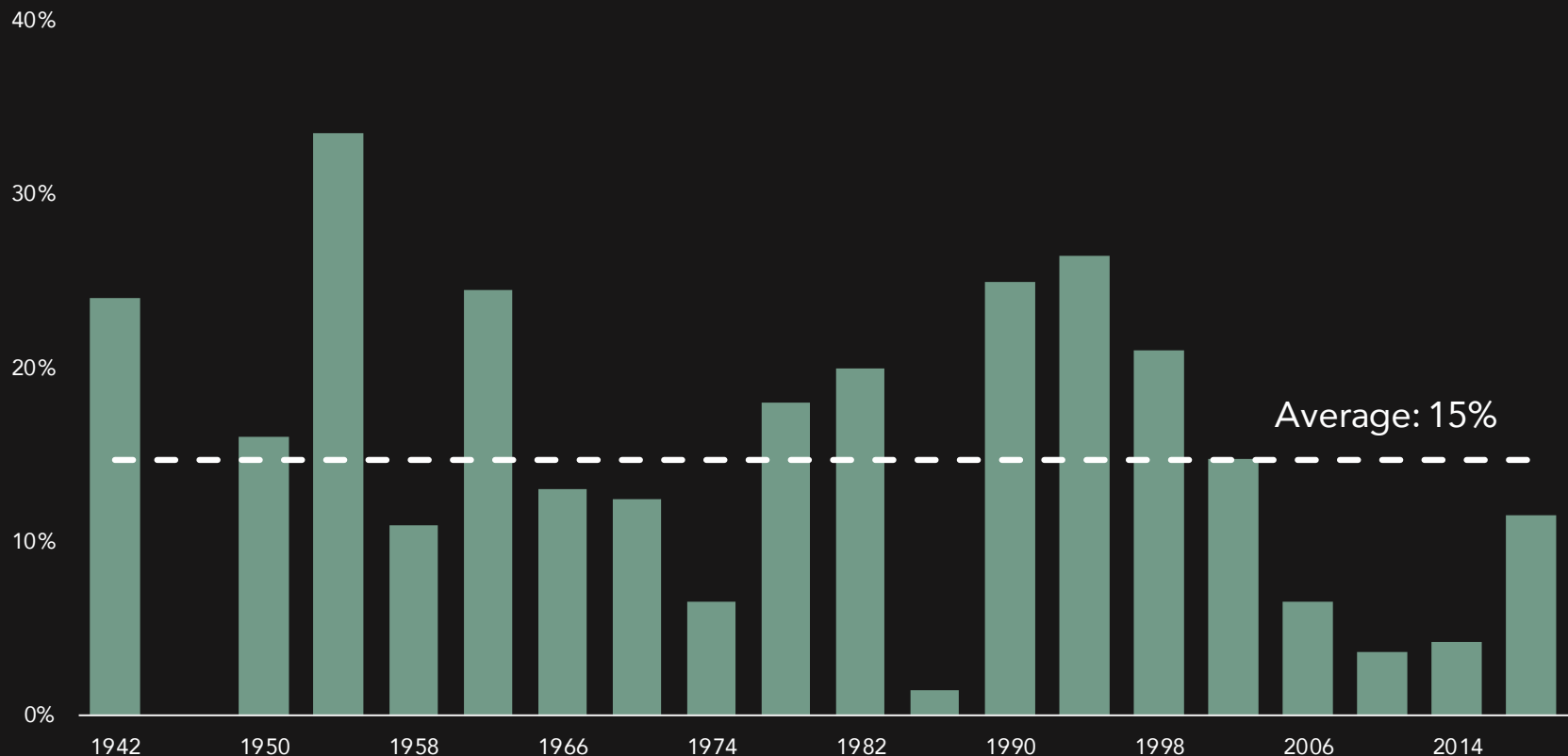
"Bull markets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria."

Sir John Templeton, pioneering investor and
founder of Templeton Growth Fund (1912 - 2008)

Post-Election Equity Market Rallies

US stocks have advanced in the year following every midterm election for the past 80 years. While that is quite possible in the year ahead as well, we would note that the economy and markets are likely to be driven by much larger forces outside of Washington - higher global energy prices, elevated inflation, accelerated Fed tightening and recession risk.

S&P 500 one-year performance after Midterm Elections



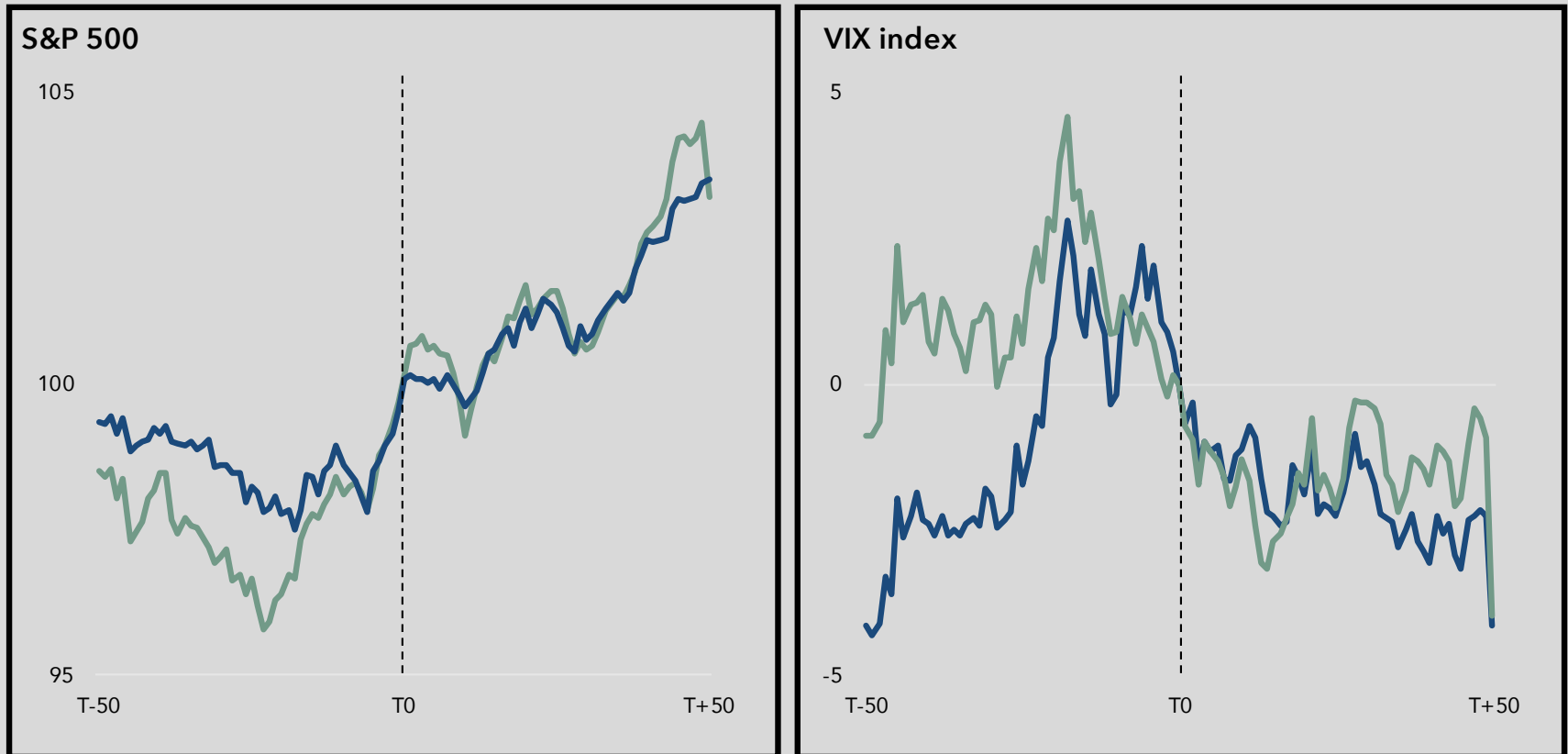
Source: (1) Dow Jones Market Data. WSJ, "After Punishing Year for Stocks, Investors Aren't Betting on Post-Midterm Rally" (October 2, 2022).

Equities Pre & Post Midterm Elections

Historically, markets have tended to underperform during the period of pre-election uncertainty, with the post election rallies on higher certainty often beginning in the days immediately preceding the actual election (regardless of political party gaining or losing control).

Market and economic performance before and after US elections

— All US elections average
— US midterm elections average



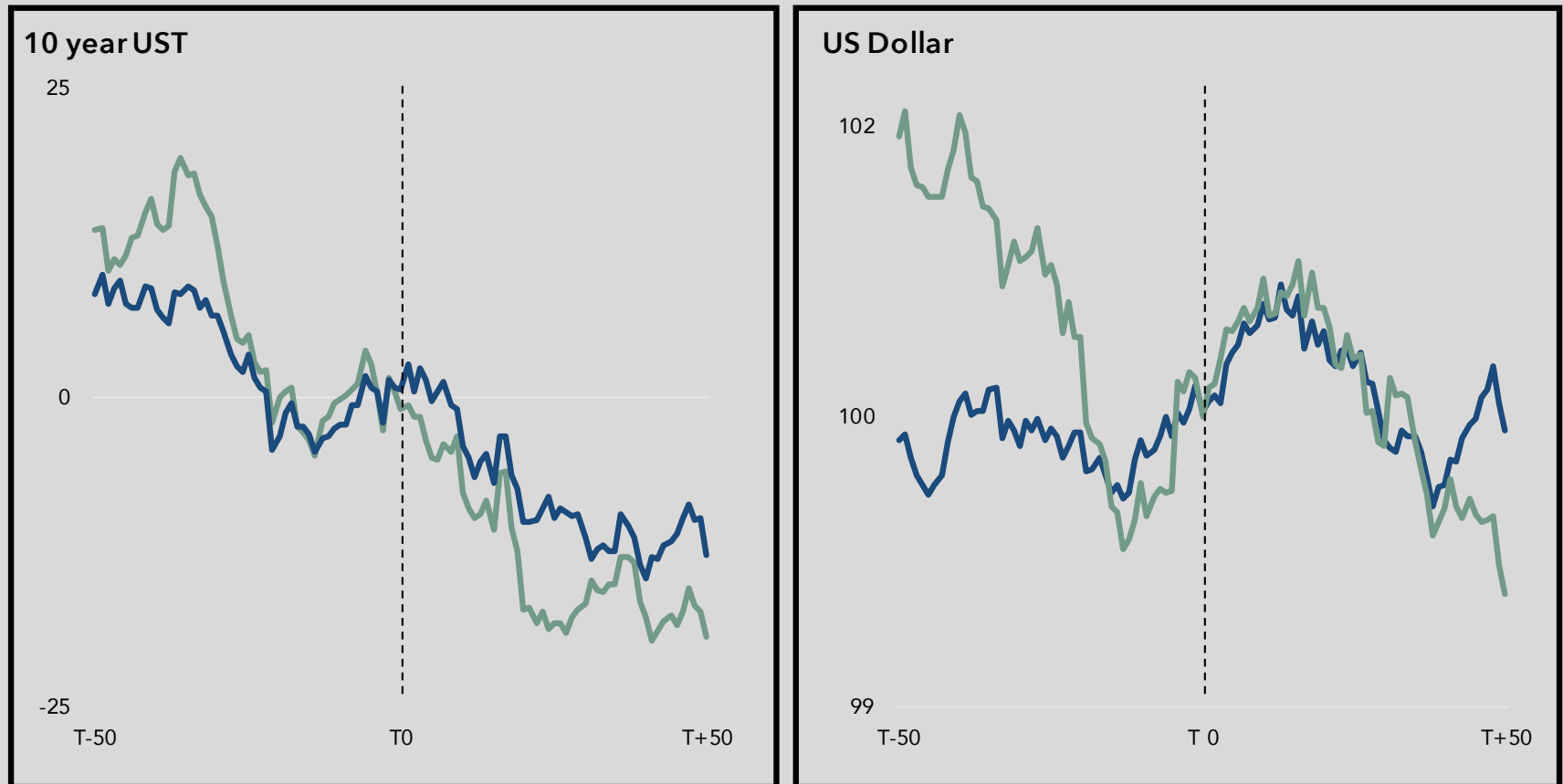
Source: (1) Bloomberg. Data as of October 27, 2022. Election data since 1960 for S&P 500 and since 1990 for VIX. Election day = 100 for S&P 500. Election day = 0 for VIX index.

FX & Rates Pre & Post Midterm Elections

Notably, historical data around US equities pre and post midterm elections offers more consistent patterns than exists in rates and currency markets, where the post election patterns are generally less discernible.

Market and economic performance before and after US elections

— All US elections average
— US midterm elections average

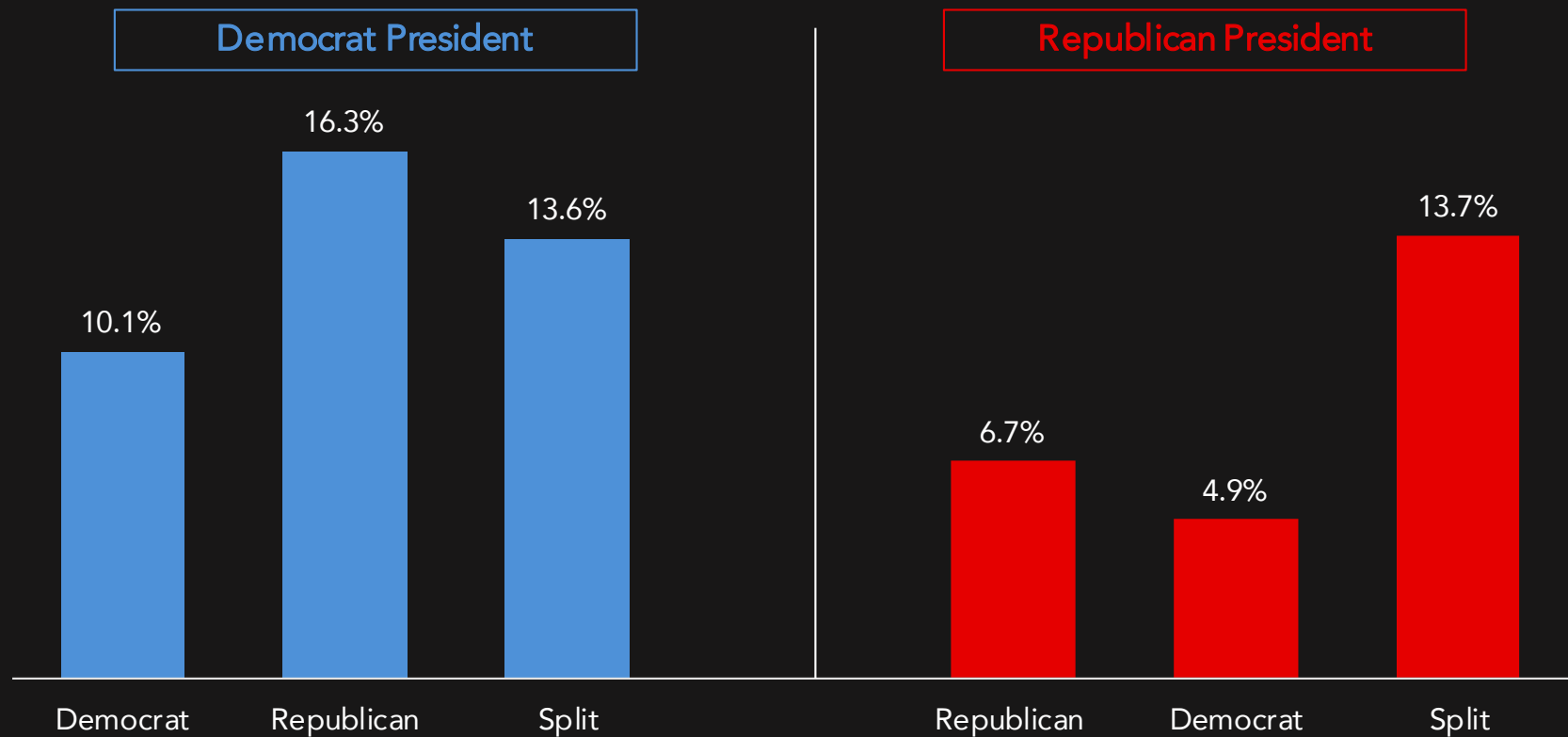


Source: (1) Bloomberg. Data as of October 27, 2022. Election data since 1972 for DXY and since 1964 since 10 year UST. Election day = 100 for DXY. Election day = 0 for 10 year UST.

Stocks Outperform Under Divided Government

Markets tend to outperform under divided government as periods with the party controlling the White House and both chambers of Congress can bring about larger policy changes. However, with razor thin majorities and a challenging market backdrop, market returns may not follow their historical trend.

Average S&P 500 annual returns based on Congress makeup



Source: (1) LPL Research. Bloomberg. Data is from 1950-2021.

About the Authors



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Role

Tom Joyce is a Managing Director and Capital Markets Strategist within MUFG's global capital markets and investment banking business. Based in New York, Tom heads a team that creates customized analytical content for multi-national S&P 500 companies. His team provides in depth analysis on the impact of economic, political, public policy and regulatory dynamics on the US credit, foreign exchange, rates and commodities markets.

Experience

Tom has over 25 years of Investment Banking experience in New York, London, Hong Kong, and San Francisco. Over the last 15 years, Tom created and built the Capital Markets Strategy role, advising corporate C-Suite executives (Boards, CEOs, CFOs, and Treasurers) on the pervasive macro forces driving markets. Tom also presents at dozens of corporate events each year including Board meetings, CEO ExCo sessions, CFO and Treasury off-sites, corporate leadership events and conferences.

Education

Tom's educational background includes a year of study at Oxford University from 1991 - 1992, a Bachelor of Arts in Political Science from Holy Cross College in 1993, and a MBA from Kellogg Business School, Northwestern University in 2000.

Personal

Tom resides in New Canaan, CT with his wife and four sons, where he coaches youth basketball and serves on the Board of Trustees of the New Canaan Library, the Board of the New Canaan Football (Soccer) Club and the Holy Cross College President's Council.

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Role

Hailey Orr is a Director in MUFG's Capital Markets Strategy group within the global capital markets and investment banking business. The team provides market based content for corporate clients to assist in strategic decision making. Focus areas include the impact of economic, political, public policy and regulatory dynamics on the US credit, foreign exchange, rates and commodities markets.

Experience

Hailey has a decade of Wall Street experience, including three years as a Consumer Sector Specialist in Equity Sales and seven years as a Capital Markets Strategist. Hailey is also a member of MUFG's Inclusion & Diversity Council and has devoted years to participating in and developing Wall Street recruiting programs.

Education

Hailey graduated with honors from the University of Michigan's Ross School of Business with a BBA and a minor in International Studies.

Personal

In March 2020, Crain's New York Business Magazine named Hailey one of the "Rising Stars in Banking and Finance".



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Experience

Stephanie has spent over five years as a Capital Markets Strategist. She is an active member of the University of Michigan recruiting team and is also focused on the diversity recruiting effort at MUFG. At her prior firm, Stephanie was a part of the Americas Women's Network Junior Council.

Education

Stephanie graduated with honors from the University of Michigan's Ross School of Business with a BBA.

Personal

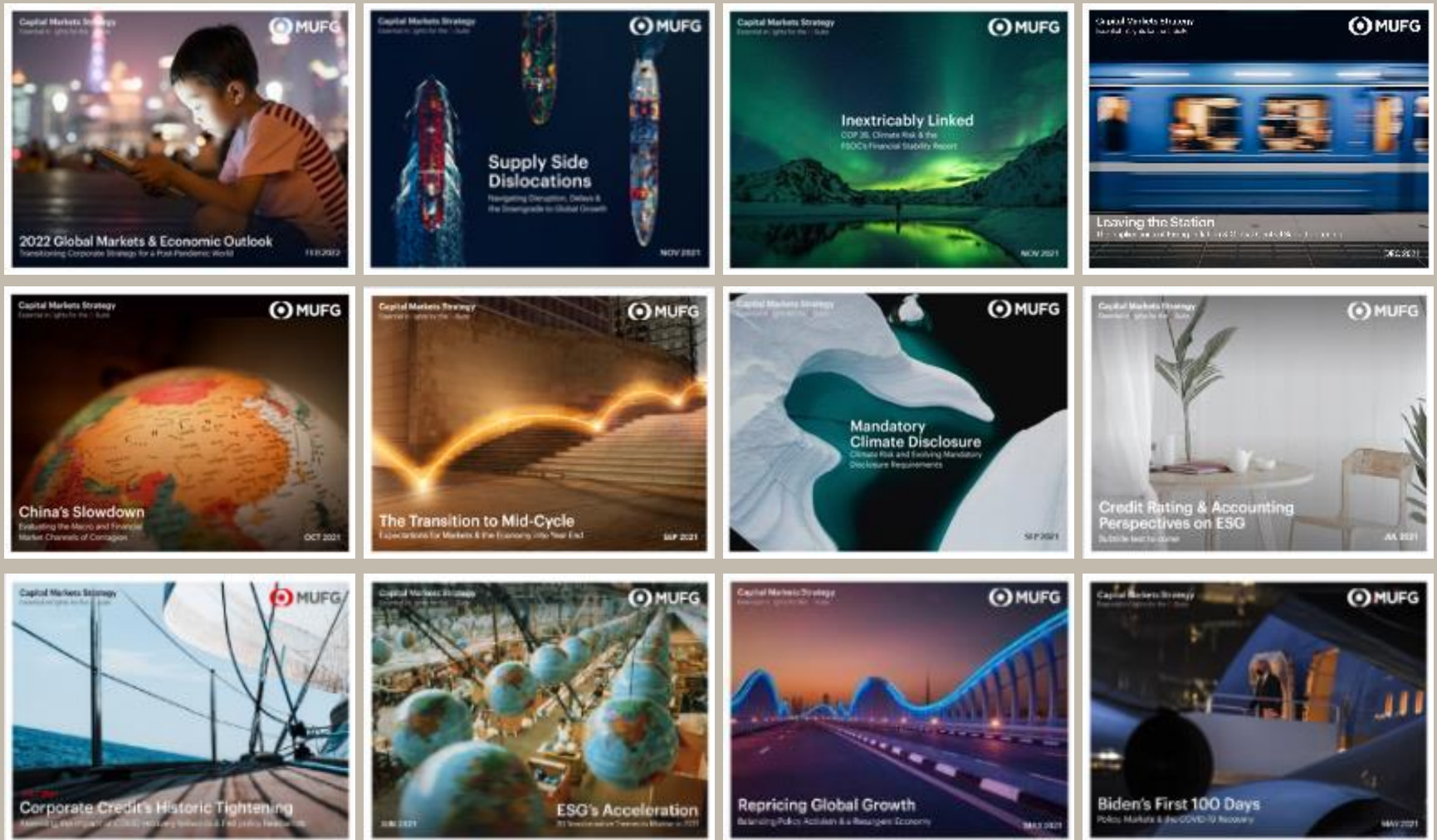
Stephanie is actively involved in NYC's iMentor program, mentoring high school students with their journey to college graduation.

MUFG's Capital Markets Strategy Team

The MUFG Capital Markets Strategy team provides monthly publications and weekly policy notes, presenting to Boards and C-Suite executives, on a broad range of transformative themes driving the FX, rates and credit markets including: the COVID-19 recovery, ESG's acceleration, tax code policy changes, US-China decoupling, corporate strategy, geopolitical risk and central bank monetary policy.



MUFG's Capital Markets Strategy Team



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