

## The Outlook for November

We are now about five months away from the mid-term elections that will decide who controls the Senate and House of Representatives for the next two years.

For the House, we think the Republicans are overwhelming favorites, with odds of *at least* 95% to reach a majority. Why are we so confident? First, the GOP finished the last election cycle with 212 of the House’s 435 seats, so doing even slightly better should get them a majority. Second, the party not in control of the White House – this time, the Republicans – usually does very well in mid-term election cycles, like the GOP in 2010 and the Democrats in 2018.

Third, President Biden is languishing in the polls, with an average approval rating of 40 - 41%. Fourth, the GOP is winning the average “generic ballot” poll (the poll that asks for which party people intend to vote) by two points over the Democrats. A two-point margin is where the Republicans were on Memorial Day weekend in 2010 when they went on to win by seven points, an election that took them to 242 House seats.

We also think the Republicans are the favorites to win the Senate, but not by as much. For the Senate, we think the odds of the GOP taking control are more like 85%. Why the difference? Two key factors: math and candidate quality.

There are 435 House seats, and all of them require a vote. By contrast, with its six-year terms, there are only 34 Senate races this Fall that will go to the ballot box. And among those 34, Republicans must defend 20 of those seats; the Democrats only have to defend 14, which gives Republicans fewer

opportunities to make gains. (The script gets flipped in 2024, when the Democrats will need to defend the most seats.)

Meanwhile, in some states, the Republicans have had some trouble nominating top-flight political talent. And, unlike with House seats, candidate quality matters more in Senate races, where people usually find out more about state-wide candidates.

With this year looking like a classic wave in favor of the party not occupying the White House it’s hard to see the Republicans losing any Senate seat they now hold, with the possible exception of Pennsylvania. Meanwhile, on a race-by-race basis, Republicans look favored to win in Nevada, Arizona, and Georgia, with a reasonable possibility of winning in New Hampshire and the ability to take Colorado if the wave turns into a tsunami. Put it all together and our best guess is the GOP finishes with a net gain of three seats, taking them to 53.

What would these outcomes mean for the next two years? That every piece of legislation reaching the president’s desk will need to have bipartisan support. Don’t take us the wrong way...we are not jumping up and down with joy that Republicans will win. We could write a book about how many mistaken policies Republicans have passed. What we are saying is that if a tax hike doesn’t get passed this year, it’s not happening until at least 2025. A Republican takeover of the House or Senate, or both, would mean at least some temporary gridlock in many areas of public policy, which means no new entitlements. The bottom line is much less growth in government due to new laws coming from Congress.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
5-31 / 8:45 am	Chicago PMI	55.0	<b>57.5</b>	<b>60.3</b>	56.4
6-1 / 9:00 am	ISM Index – May	54.5	<b>55.2</b>		55.4
9:00 am	Construction Spending – Apr	+0.5%	<b>+0.6%</b>		+0.1%
afternoon	Total Car/Truck Sales – May	14.3 Mil	<b>13.6 Mil</b>		14.3 Mil
afternoon	Domestic Car/Truck Sales – May	11.5 Mil	<b>10.6 Mil</b>		11.4 Mil
6-2 / 7:30 am	Initial Claims – May 29	210K	<b>210K</b>		210K
7:30 am	Q1 Non-Farm Productivity	-7.5%	<b>-7.7%</b>		-7.5%
7:30 am	Q1 Unit Labor Costs	+11.6%	<b>+12.7%</b>		+11.6%
9:00 am	Factory Orders - Apr	+0.7%	<b>0.0%</b>		+1.8%
6-3 / 7:30 am	Non-Farm Payrolls – May	325K	<b>320K</b>		428K
7:30 am	Private Payrolls – May	300K	<b>290K</b>		406K
7:30 am	Manufacturing Payrolls – May	40K	<b>25K</b>		55K
7:30 am	Unemployment Rate – May	3.5%	<b>3.6%</b>		3.6%
7:30 am	Average Hourly Earnings – May	+0.4%	<b>+0.4%</b>		+0.3%
7:30 am	Average Weekly Hours – May	34.6	<b>34.6</b>		34.6
9:00 am	ISM Non Mfg Index – May	56.5	<b>57.2</b>		57.1