

## The Election Outlook is a Tax Outlook

We're now less than a year away from a presidential election and control of the White House, Senate, and House are all up for grabs. One of the biggest issues facing the winners is going to be how to handle the federal budget.

As we set out [a couple of months ago](#), the US is currently running the most reckless budget in the history of the country. Never before has the deficit soared so quickly to such a high level when the US is still at peace and not in recession.

No wonder Moody's just announced it was downgrading the outlook for US debt to "negative" from "stable." They claim it's because of political "polarization" on top of the deficit itself, but that seems odd. Moody's makes it sound like we'd be better off if no one on Capitol Hill cared at all about the deficit, because then our institutions wouldn't be polarized! The way we see it, thank goodness there are some politicians focused on the deficit, even if that's what's causing *more* polarization.

For the presidency, we think 2024 is likely to be a rerun of 2020, Biden versus Trump, although retiring Senator Joe Manchin may throw a monkey-wrench into the election if he can find a Republican to run with. At this point, we think Trump would be a slight favorite; but will face constant challenge given how much of the electorate dislikes him. Meanwhile, the House of Representatives is likely (but not definitely) going to go to the party that wins the White House.

The Senate is an easier call, with the GOP in excellent political position to win for fundamental reasons. At present the GOP has 49 seats. But Republicans don't have to defend any seats in blue (Democratic) states and only have to defend one seat

in a purple state, Florida, which is very unlikely to suddenly lurch back toward the Democrats, given the recent popularity of Republican governance in that particular state. In other words, we do not see a route for the Democrats to win any seats now held by the GOP.

However, there are multiple seats where the Democrats are vulnerable. Now that Joe Manchin is retiring, it's extremely likely that the GOP picks up West Virginia with popular Governor Jim Justice having thrown his hat in the ring. Republicans are also favored to knock off an incumbent Democrat in Ohio, plus have a shot in Montana as well as in Arizona, and Nevada.

In turn, the election will have a major influence on what happens to the Trump tax cuts originally enacted in 2017 and which are set to expire at the end of 2025. We think the odds of a GOP sweep are about 30%, which would probably result in a full extension of those tax cuts and the GOP pushing through substantial reforms to Medicaid as well as major budget cuts outside of national defense. If the Democrats sweep – we put those odds at about 20% – look for substantial tax hikes, on individuals and businesses, alike, and not just on the "rich."

That leaves a 50% chance of mixed government, in which case expect modest tax hikes, with a slightly higher top rate for individuals, a slightly higher rate on companies, but with lots of talk and little action on cutting government down to size. And without spending cuts, expect negative outlooks to turn into outright and deserved downgrades in the years ahead.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
11-14 / 7:30 am	CPI – Oct	+0.1%	<b>+0.1%</b>		+0.4%
7:30 am	"Core" CPI – Oct	+0.3%	<b>+0.3%</b>		+0.3%
11-15 / 7:30 am	Retail Sales – Oct	-0.3%	<b>-0.5%</b>		+0.7%
7:30 am	Retail Sales Ex-Auto – Oct	-0.1%	<b>-0.2%</b>		+0.6%
7:30 am	PPI – Oct	+0.1%	<b>+0.1%</b>		+0.5%
7:30 am	"Core" PPI – Oct	+0.3%	<b>+0.2%</b>		+0.3%
7:30 am	Empire State Mfg Survey – Nov	-3.0	<b>-7.6</b>		-4.6
9:00 am	Business Inventories – Sep	+0.4%	<b>+0.4%</b>		+0.4%
11-16 / 7:30 am	Initial Claims – Nov 11	220K	<b>215K</b>		217K
7:30 am	Philly Fed Survey – Nov	-8.0	<b>-8.0</b>		-9.0
7:30 am	Import Prices – Oct	-0.3%	<b>+0.1%</b>		+0.1%
7:30 am	Export Prices – Oct	-0.5%	<b>+0.1%</b>		+0.7%
8:15 am	Industrial Production – Oct	-0.3%	<b>-0.4%</b>		+0.3%
8:15 am	Capacity Utilization – Oct	79.4%	<b>79.4%</b>		79.7%
11-17 / 7:30 am	Housing Starts – Oct	1.350 Mil	<b>1.350 Mil</b>		1.358 Mil