Northern Trust | What a Split Congress Means to Investors

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With the US midterm elections in the rear view and a split Congress the result, many investors wonder whether the outcome will impact the economy or perhaps more importantly, the capital markets. Here's our take. In terms of impacts, let's look at the economy first. From that perspective, the results reinforce our base case that the fiscal stimulus will wane. And it's unlikely we'll get additional meaningful policies.

Infrastructure programs and tax cuts 2.0 appear challenging under a split Congress and in the face of the growing realization of the steep price we may pay for 2018 growth in terms of the increase in the national debt and deficit. Expect the deficit hawks to come out.

For the capital markets, let's take a look at equities. We don't think the outcome will have broad impact. However, there are certain sectors that may actually benefit and others that may face headwinds. For example, health care providers may benefit as the newly Democratic House embraces the expansion of services.

Less likely but still possible is that pharmaceutical companies may come under renewed stress as both Trump and the House focus on controlling prescription drug prices. There are few areas of bipartisan consensus that have the ability to move markets. And we expect legislative gridlock will prevail.

And finally, from a political perspective, it's quite likely that the rhetoric may get turned up in 2019, and the newly Democratic House may use the power of the subpoena to drive additional investigations of President Donald Trump and his administration. While the headline risk is real, it's unlikely that any recommended actions will be approved by the Republican Senate.

For investors, the election results are far less important than the major issues that remain unresolved. Specifically, the trade issue with China remains a major overhang to the market now. And the timing of the resolution continues to be unknown.

And equally important, while we didn't get an interest rate hike from the Fed this month, a December hike is largely priced in at this point. That said, there is a risk that the Fed continues on what we would consider to be an overly aggressive path toward normalization. An overly restrictive monetary policy remains a key risk to the economy and to risk asset markets.

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