

The Midterms are over. Now What?

- Democrats take the House; Republicans gain in the Senate
- Our teams offer insights on potential market reaction

As had been widely predicted, the Democratic Party won back a majority of the House of Representatives in Tuesday's midterm elections, so far gaining at least 26 seats. Meanwhile, the Republican Party will increase its majority in the Senate.

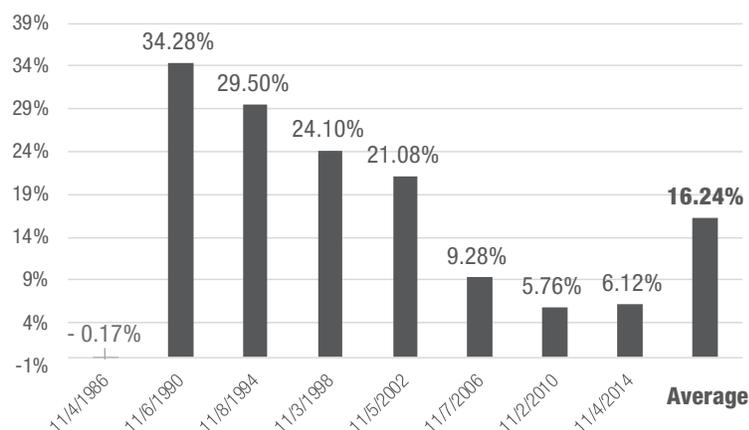
This could mean a host of things for political fortunes and discourse, but what will it mean for the economy? Here are thoughts from some of our investment teams:

EAGLE Equity Income Team

While a short-term, knee-jerk reaction in the market is always possible, we believe the basics underlying the current economic conditions won't shift much because of the midterm outcome. Congress likely will be gridlocked in policy decisions, leading to less uncertainty for the market to price in. The balance in Congress still is likely to mean increased government expenditures for defense and domestic spending, which will lead to a rising deficit and a potential short- to intermediate-term boost to stocks.

While a House controlled by the Democrats might be emboldened to flex more oversight of the executive branch, Trump administration policies that the market has welcomed are unlikely to change given these results. Successful deregulation efforts at the legislative and cabinet agency levels, as well as tax cut legislation passed a year ago, should remain the status quo. For investors allocating money longer term, the election shouldn't change fundamentals of the market in terms of earnings growth, which has been strong. We still think there is plenty of room to run in equity markets, an event that shouldn't be changed by this outcome. In addition, historical patterns generally have been favorable for stocks in the year following a midterm election. Since 1986, the average return for the Dow Jones Total Stock Market Index has been 16.24 percent in the year following midterm elections.

Stock market returns in the year after midterms



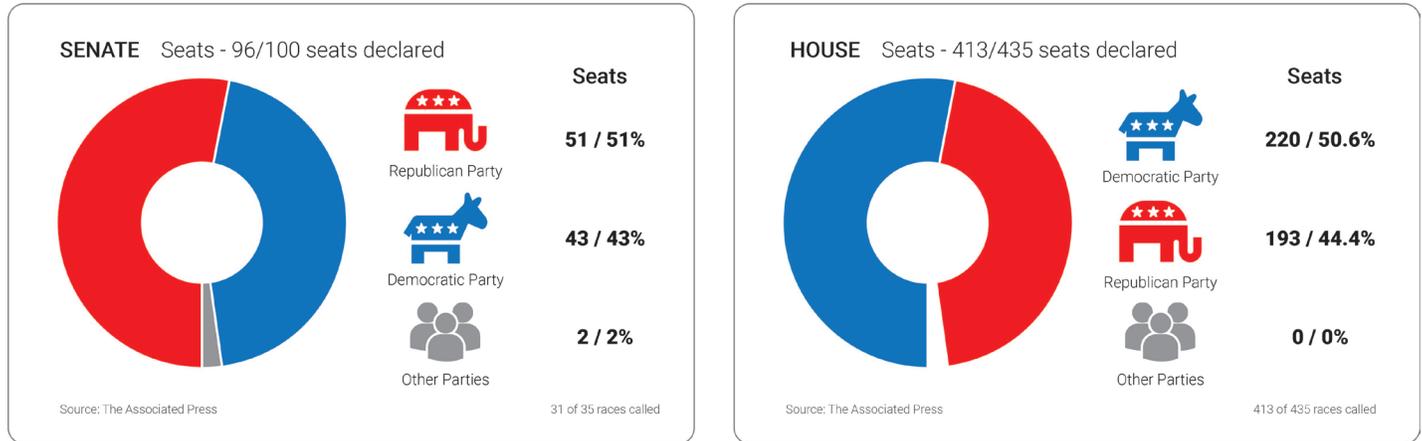
Source: Factset

Past performance does not guarantee future returns.

EAGLE Fixed Income Team

The market appears already to have priced in this outcome of a divided Congress, so we expect little change in the short-term.

Taking the long-term view, however, with the Fed likely to continue to raise interest rates, and without another round of fiscal stimulus or other major event, a slowdown from the three percent pace of GDP growth in the last 12 months seems inevitable.



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