Infomail
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Lower "Agita" levels Ahead?
(The Beginning of a New Conservative Revolution)
The US Mid-Term Elections

"This is supposed to be a country of opportunity for its citizens [but instead] it has become (even when the Republicans are in charge) a government that dispenses goodies to the group that can produce the most votes. This cynical and selfish approach to government is what has turned too many people off to politics and politicians"
American Syndicate Columnist, Author Cal Thomas

There's a big chance that tomorrow's US mid-term Election brings a Republican takeover of Congress, with the GOP regaining control of the Senate while preserving control of the House of Representatives.

The GOP need to regain six seats in the Senate, and the polls on RealClearPolitics.com on the weekend had Republicans picking up +7 seats. Of course, we all know how politics can be. The results will be the truth.

But what would a Republican victory and control of Congress mean? First, they know the next Presidential election is right around the corner. It would put the Republicans in the lead on key budget issues that have created a lot of "agita" (Italian for anxiety, stress, heartburn, etc.) over the past few years. That would include taxes, spending and the debt ceilings.

The GOP have not forgotten how in the last government shutdown, THEY ended up being the bad guys and were vilified in the media. The most likely scenario is they will behave more like "right-centrists" than Tea Party far right. They will have to lay policy seeds in the next two years which show how they will govern and get things done should they be successful in 2016's vote, which more than likely will be against Hillary Clinton.

If the Republican win in the Senate is a slim one, falling short of the 60 votes to prevent filibusters on key bills, it could create some issues. So if they put forth some really radical legislation, the Democrats would have a blocking minority.

However, I think a lot of the media might be underestimating how truly unpopular the current President has become, and there might be a good chance the GOP pick up more seats than most forecasters expect.

Then? It sets up for the beginning of a new Conservative Revolution.

Come mid December, the new crop of lawmakers will need to reauthorize spending to avoid a government shutdown. In either case, Congress will also have to pass a budget for fiscal year 2016, which starts next October and which will take them right to the Presidential election in November 2016.

The 2011 fight over the debt ceiling (which sets a cap on the nation's borrowing limit) brought the country to the edge of default, shook equity markets, and earned the USA it's first credit downgrade in history from Standard & Poors.

It also yielded the deal which became known as The Sequester, which created spending caps and broad budget cuts. The latest compromise suspended the borrowing limit until March 15, 2015. In recent years, some conservative Republicans demanded spending cuts that matched or exceeded any increase in the borrowing limits. But as the majority in Congress (if they are successful on Tuesday), Republicans might not want to take it so far, especially if impossible to come up with enough palatable cuts.

There is a good chance the politics and policies in Washington are about to change in a major way, and that as Martha Stewart would say, "is a good thing."

Market wise, the six months after mid-term elections has historically been a strong one. The S&P 500 has gained an average of 15.3% from November to April in year 3 of a Presidential Term. There's never a guarantee of course, but Wall Street likes certainty and once the elections are over, you do get some certainty and then the incumbents try to stimulate the economy in hopes of getting reelected in 2016.

Stocks typically pop after midterm elections:

PRESIDENTIAL CYCLE: S&P 500 Price Returns by Half

S&P 500® Average % Price Changes and Frequencies of Advance During the Eight Six-Month Periods Within the Presidential Cycle (10/31/44-9/29/14)

Pres.	Nov.-April		May-Oct.	
Cycle	Avg. %	FoA	Avg. %	FoA
Year 1	3.4	72%	3.0	67%
Year 2	4.3	56%	(1.2)	50%
Year 3	15.3	94%	2.1	65%
Year 4	5.3	88%	1.7	76%
All Years	**7.0**	**77%**	**1.4**	**64%**

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Overall, we’ve just experienced our 17th correction of over 5% since 2009. The indicators which typically precede a recession (over leveraged consumers and corporations, higher inflation, higher interest rates, overcapacity, inverted yield curves, etc) do not seem to be there. Short term markets are not always right, so the recent pull back seemed to be more of a technical move and hedge fund margin calls than economically based.

It still remains a good environment for the markets with low inflation and historically low rates, while earnings seem to be gaining velocity.

Stay tuned,

Vito Finucci
Vice President and Director
Investment Advisor

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