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## Consequences of a Tight Election

At the time of this writing, NBC news is projecting a Republican House with 221 members in the caucus, while the Senate control remains unknown. Another runoff for the Georgia Senate seat looks likely. Either way, this was no wave election, but a continuation of a divided electorate.

Financial markets like the resolution of elections, because it reduces potential volatility. Once markets know who won, positions can shift toward sectors that will have an advantage, while financial securities can adapt to potential changes in tax policy.

Republicans will have a very slim majority in the House of Representatives. Defense stocks will likely benefit, as the party will have more leverage in negotiating higher defense spending over the next two years and is the most likely beneficiary. However, gridlock could potentially force continuing budget resolutions that would delay increases in spending.

Such a tight majority does come with issues. A narrow majority would be more dependent on fringe members of the party that would make debt ceiling negotiations riskier. The Debt Ceiling Crisis of 2011 was caused when an impasse between the two parties on budget cuts almost caused the United States to default on its debt. The debt ceiling will have to be voted on within the next year and again we have the potential for market disruption. Equity markets declined 19% during the 2011 crisis and this is a potential headwind.

A tight Republican majority in the House also makes it unlikely that spending will be used to ease the effects of a recession. Depending on what financial measures one looks at, the probability of a recession in 2023 is slightly above 50%. If a recession were to occur, do not look for much support from Congress, as the government has laid out trillions of dollars in deficit spending over the past years

We have and will continue to adjust investment positions to take into account the changing environment and volatility level.

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