



# Key Issues for Congress Unchanged, Despite Election Uncertainty

Investors should focus on fundamentals, not politics.

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## KEY INSIGHTS

- The balance of power in the U.S. Congress is uncertain at this juncture, but the majorities in its two chambers should be tighter than many expected.
- For investors, fiscal policy and the dynamics around extending the debt ceiling are key issues that are likely to be shaped by midterm election results.
- We believe investment decisions should be based on a longer view, not near-term political outcomes.

The morning after the U.S. general election brought a bit more clarity on the possible balance of power in Congress but little in the way of resolution. Many contests were too close to call, while the Senate race in Georgia, as in 2020, is headed for a runoff. However the election shakes out, the majority margins in the Senate and House of Representatives will be tighter than expected.

We are monitoring the vote tallies closely, and once the possible outcome becomes clearer, we will share a more detailed analysis of the potential implications for markets, the economy, and individual industries.

Until then, here is a quick review of the key issues in play for investors, with the caveat that we believe investment decisions should be based on a longer view that focuses on economic and business fundamentals, not near-term political outcomes.

## Fiscal Policy and the Debt Ceiling Are Key Issues

The balance of power in Congress will shape fiscal policy in ways that could have important implications for investors. “Even the narrowest of Republican majorities in the House would likely take tax increases and fiscal stimulus off the table,” notes Michael Pinkerton, a T. Rowe Price associate analyst who covers U.S. government legislation and regulation. Congress’s willingness to support the economy via fiscal spending could be especially important if the U.S. were to sink into a mild or severe recession, observes T. Rowe Price U.S. Economist Blerina Uruci.

Midterm election results would also shape the dynamics of raising the debt ceiling—a necessity for the U.S. Treasury to be able to issue debt to fund the federal government. A Republican majority in the House could make this process difficult by seeking to



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exact spending-related concessions. Brinkmanship on this critical vote could roil equity and fixed income markets in 2023.

### **Developments on Regulatory Front Also Bear Watching**

Regardless of the election outcome, developments on the regulatory front could affect certain industries to varying degrees.

Several federal agencies will be focused on implementing the terms of the CHIPS and Science Act and the Inflation Reduction Act. The details of these regulations could have implications for chipmakers, the electric vehicle industry, and pharmaceutical companies.

Mr. Pinkerton says he is also monitoring new rule-making that could result in additional disclosure requirements for public companies as well as regulations that could affect consumer finance companies and Big Tech.

### **Parting Perspective for Investors**

Narratives highlighting correlations between election outcomes and market performance often circulate in the runup to the midterms and their immediate aftermath, but investors should bear in mind that past performance does not guarantee future results.

Market performance next year could be unpredictable, according to Eric Veiel, T. Rowe Price head of Global Equity and chief investment officer. “The Fed is aggressively raising interest rates and driving monetary tightening into slowing economic data,” notes Mr. Veiel. “This is a rare occurrence through history and one that has contributed to the recent pullback in stocks and other risk assets. Until the markets see clarity on the Fed’s path for interest rates, volatility is likely to last.”

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