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# US midterm elections: They reminded me of the famous French show, “L’école des fans”



L'École des fans was a French TV show which broadcasted for 20 years. A number of children took part in the show, during which they were asked some questions and were subsequently invited to sing one of the featured singer's songs. The other children then gave marks to their peers for their performance. At the end of each show, with all the talent of the animators, everyone was invariably given the same mark, and everyone was a winner.

The results of yesterday's US midterms brought both wins and losses for both sides: Democrats gained control of the House while the Republicans maintained their control of the Senate.

One thing was certainly positive for everyone in that the turnout was significantly high. Current estimates put it at 114 million voters, 31 million above the previous midterms. Another winner

was diversity with more women than ever winning seats in the House of Representatives, two Muslim women joining Congress and the first ever election of an openly gay governor (Colorado).

Some facts are worth highlighting:

- This was one of the most covered/watched mid-term elections ever. Political divide about the current US Administration was visibly at full-play.
- This was also the costliest mid-term election in history with a record number of new candidates spending money to turn out their base and reach out to voters on both sides.
- The results were bang in-line with history (only two mid-terms elections have been won by the current administration during the first presidential mandate)
- Polls (and betting companies) got it right with results mostly in line.
- We can cross one item off of a list of uncertainties now that the midterms are behind us.
- Wall Street loves political gridlock based on historical standards.

Digesting the results will now be the new game in town. A bi-partisan US Congress is normally associated with political gridlock. President Trump is extremely difficult to predict, and does not seem to have mastered the art of cultural compromise. On the other side, the prospect of impeachment is unrealistic.

Having lost control of the House of Representatives, the US administration's prerogative is now solely on foreign policy. As such, an escalation of protectionist rhetoric, especially towards Asia (not only China) is a clear risk.

The economic implications of the results should not be too significant. An infrastructure deal still seems highly possible, but not without compromises, while tax reform should neither be repealed nor extended.

So far, the financial market reaction seems to have focused on three different dynamics:

- Reduced pressure for higher rates in the short-term: a Democrat controlled House makes further fiscal expansion less likely and debt trajectory scrutiny/sustainability more likely.
- Equity markets are marginally stronger driven by a classical risk reversal pattern.
- The US dollar is slightly lower from the perspective of an unchanged monetary policy path from the Fed.

The results overall were not a game changer for financial markets and for now, there is a palpable atmosphere of relief, simply because the midterms are behind us and we can now move forward.

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