

## POLITICAL PULSE

## Our Hot Take on the Mid-Terms

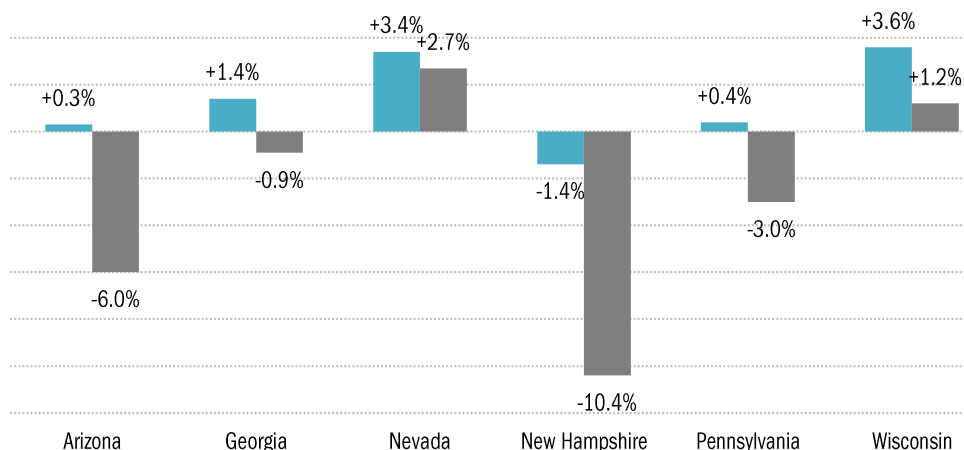
Wednesday, November 9, 2022

**Donald Luskin**

Assuming Laxalt wins Nevada, it's a 50-50 Senate. Again it's all down to Georgia and Trump.

As of this writing (there are still votes to be counted, most critically in Nevada) it looks like the Republicans will take control of the House, and that the Senate will remain tied 50-50. As we predicted, there was no "red wave" (see ["Video: What you're not hearing about the mid-term elections and Trump 2024"](#) October 31, 2022) – about which [Republicans had become triumphalist](#), [Democrats had become despondent](#), and [all the polls, prediction markets and models were dead wrong \(please see the chart below, and on the following page\)](#). It is noteworthy, and inexplicable on the face of it, that for the first time polling overestimated Republicans.

■ Polls in competitive states versus ■ actual results, as of this writing  
 Directionally wrong in three out of six cases, magnitude off by average 4.0%



Source: [RealClear Politics](#), [New York Times](#), TrendMacro calculations

This means little for markets, as even strong Republican majorities would have had no power to push through pro-growth legislation. The result we seem to have now preserves the status quo, in a somewhat improved state in which gridlock will be even deeper, making anti-growth legislation less likely than it has been for the last two years.

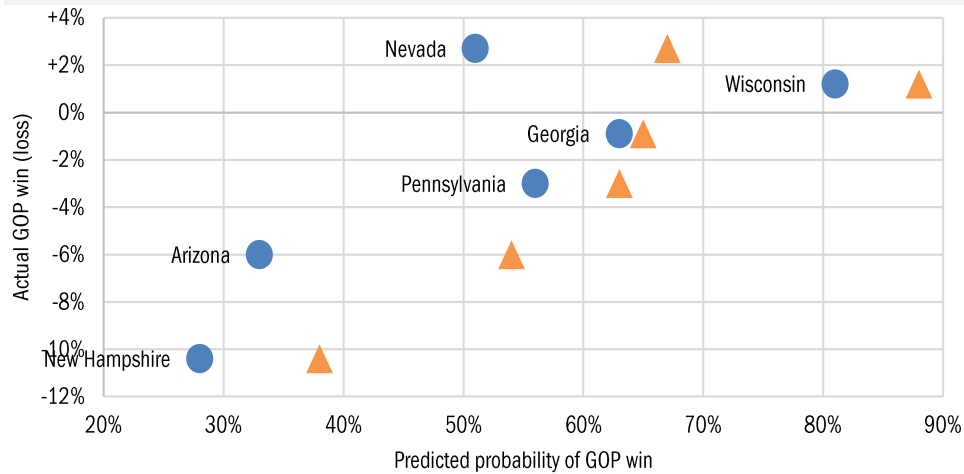
More saliently, Donald J. Trump and his endorsed candidates had a disappointing night, having failed to get victories in most of the states that were decisive for Trump's loss in 2020. He will likely be thinking differently about his 2024 plans than he had just 24 hours ago – we hear he doesn't

### Update to strategic view

**US MACRO:** No red wave. It looks like the GOP will take the House, but that the Senate will remain 50-50, if Laxalt holds his strong lead in Nevada. For the first time in a long time, polls overestimated GOP performance (as did prediction markets and models, which have better track records). Our prediction of one net flip in the Senate may still come true if Georgia goes to a December run-off, and Walker wins. Either way, for markets, gridlock will continue and indeed become more entrenched. No pro-growth legislation would have been possible with a larger GOP win. The Senate result was the simple product of little opportunity; there were few competitive states, and most were defended by incumbents. 2024 will be very different, with the GOP having no competitive states to defend, while the Democrats will have nine. It was a bad day for Trump and his endorsed candidates. The best outcome for markets would be if Trump opts not to run, clearing the way for DeSantis, who would be a strong pro-growth president.

[\[Strategy dashboard\]](#)

Probability of GOP win ● 538 model ▲ PredictIt futures vs actual results, as of this writing  
 Directionally wrong in three out of six cases



Source: [538](#), [PredictIt](#), TrendMacro calculations

like to lose.

- A 50-50 Senate, that is, holding the status quo, results from GOP challenger Adam Laxalt beating incumbent Democrat Catherine Cortez-Masto in Nevada (as we predicted), offset by Democrat John Fetterman beating Republican Mehmet Oz in Pennsylvania to replace retiring Republican incumbent Pat Toomey (as we did not predict).
- Our prediction that Senate control would shift to the GOP at 51-49 may yet be fulfilled, based on the outcome of the Georgia race between incumbent Raphael Warnock and GOP challenger Herschel Walker. As of this writing, with 95% of the vote tabulated, Warnock at 49.4% leads Walker at 48.5%. If neither candidate gets 50%, it goes to a run-off on December 6. For the second election cycle in a row, Senate control hangs on Georgia.
- But remember, it seems as of this writing that the worst-case for Republicans is a 50-50 Senate. If Warnock wins in a run-off, the Democrats just hold that status quo. If Walker wins, control flips to the Republicans.
- For Walker to get 50% and avoid a run-off, as of this writing he would need to get 61% of the remaining votes.
- It's hard to say who would be favored in a run-off, alone on the ballot, without popular incumbent GOP governor Brian Kemp fighting iconic Democrat Stacy Abrams. Kemp won easily, by 8.3% – but given the narrowness of the Senate race, it would seem his coattails are less powerful than those of Abrams.
- It's also hard to say who, if anyone, would get the 2.1% of votes that were cast for Libertarian spoiler Chase Oliver, thanks to whom the race will likely go to a run-off in the first place.
- There were Libertarian and independent spoilers in other competitive races, as well. But only in Georgia was their vote-share greater than the margin between the major party candidates.

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[\[About us\]](#)

Why was the GOP Senate result so tepid? Well, again, it's about exactly what we expected. Why expect more when of the 34 seats being contested, only six are in competitive states?

- We define a “competitive” state as one that is basically “purple,” that is, has a record of close-call elections – or one where the incumbent is of a different party than the strong general tilt of his state. Also, incumbents are usually stronger candidates, so a competitive state is even more so when no incumbent is running.
- This year there were only six competitive states with Senate elections.
- Two of those – Pennsylvania and Wisconsin – were being defended by Republicans. Wisconsin was being defended by an incumbent, Pennsylvania was not.
- Four of those – Arizona, Georgia, New Hampshire and Nevada – were being defended by Democrats. All were being defended by incumbents
- That's a small and difficult map for Republicans – no matter how unpopular President Joseph Biden may be.
- The 2024 Senate map could not be more different, nor more GOP-friendly.
- Of the 10 states currently held by Republicans, not a single one is competitive.
- Of the 23 held by Democrats, nine are competitive – Arizona, Maine, Montana, Nevada, Ohio, Pennsylvania, Virginia, Wisconsin and West Virginia.

Going forward, we're going to be watching Georgia, of course. But over the coming weeks it will be critical for markets to see how yesterday's results influence Trump's decision to run or not.

We believe strongly that if we focus on outcomes that are ideal for economic growth – and set aside all the other ingredients that legitimately influence how we may decide to vote – the growth-optimal outcome would be for Trump to get out of the way and make room for Florida Governor Ron DeSantis (who had a very nice day yesterday). Markets could do a lot worse than have the US economy be more like Florida's, under DeSantis. And unlike Trump, DeSantis has little baggage – he could come to Washington without a backlog of bad will, without the overhang of endless litigation, and with no barriers to recruiting the best and the brightest to his team.

Our new motto for pro-growth policy in the years ahead: Make America Florida Again.

For now, markets like gridlock, and that's what we have after the mid-terms (and it's all we were ever going to get, anyway). Looking forward, it's all about Trump and what he decides to do, like it or not.

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## Bottom line

No red wave. It looks like the GOP will take the House, but that the Senate will remain 50-50, if Laxalt holds his strong lead in Nevada. For the first time in a long time, polls overestimated GOP performance (as did prediction markets and models, which have better track records). Our prediction of one net flip in the Senate may still come true if Georgia goes to a December run-off, and Walker wins. Either way, for markets, gridlock will continue and indeed become more entrenched. No pro-growth legislation would have been possible with a larger GOP win. The Senate result was the simple product of little opportunity; there were few competitive states, and most were defended by incumbents. 2024 will be very different, with the GOP having no competitive states to defend, while the Democrats will have nine. It was a bad day for Trump and his endorsed candidates. The best outcome for markets would be if Trump opts not to run, clearing the way for DeSantis, who would be a strong pro-growth president. ▶