

# Have Political Shifts Changed the Game?

A summer of dramatic shifts may have ripple effects on this autumn's election.

This summer, the US has experienced several significant tectonic shifts in the race for control of the White House and Congress and, in the coming months, we suspect additional surprises may be in store for the electorate. For the past five decades, every winner of the primaries from both major parties has gone on to run in the fall general election. Not so in 2024.

In the wake of President Joe Biden stepping aside in mid-July, Vice President Kamala Harris moved with remarkable speed to consolidate support within the Democratic Party and is now the presumptive nominee heading into the Democratic National Convention (August 19-22). Harris has secured the commitment of pledged delegates and is ensured a first-ballot victory via virtual balloting. The upheaval and despair that the Democrats experienced in the weeks following Biden's catastrophic debate performance forced almost all factions of the party to rapidly coalesce around Harris.

In contrast, the Republican Party, along with former President Donald Trump, came out of their convention unified for the first time in decades and galvanized in the wake of the assassination attempt on July 13. Trump and Sen. Minority Leader Mitch McConnell (R-KY) actually shook hands and spoke for the first time in over three and a half years.

The subsequent sudden and significant change in the presidential election has unsettled the previously well-organized and disciplined Trump campaign team, forcing the Republican nominee to adopt a defensive stance for the first time in months. Trump smoothly navigated the Republican primary and managed to leverage a barrage of negative news over his legal issues into campaign and fundraising fodder. He consistently outperformed Biden in the polls as Biden struggled to gain momentum and enthusiasm among his own supporters.

The situation, however, shifted rapidly after Biden withdrew from the race and Harris slipped into the top position for Democrats. Harris energized the Democratic base and notably narrowed the gap in poll numbers.

## Race for the White House

With Labor Day right around the corner, the fall elections and the race for the White House will come into sharper focus and return to the horse race that it was before the summer started. The race remains a toss-up in the Electoral College as well as the six battleground states. In the event anyone needs a refresher from the 2020 presidential race, here's what hasn't changed: The election will come down to Wisconsin, Michigan, Pennsylvania, Nevada, Arizona, and Georgia—yes, the very same states as 2020 with North Carolina on the edge. Based on the barrage of polls (taken in the middle of the summer), Trump is favored in a few of those states while Harris is favored in the others.

One major factor that has changed since the Democrats emerged from their summer slump is the narrowing of the enthusiasm gap—one of our major indicators when assessing election outcomes. The "blue wall" supporting Biden in the states of Michigan, Pennsylvania, and Wisconsin was collapsing but, we believe Harris' VP pick of Governor Tim Walz of Minnesota is centered on repairing cracks in those states and in the Midwest. Meanwhile, Trump hasn't done much to expand



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## Key Points

- Biden's withdrawal from the race gives Democrats an opportunity to close the wide gap in polling numbers in the race for the White House, the House of Representatives, and the Senate.
- Look for the race to tighten significantly after Labor Day when the electorate becomes more focused.
- Congress broke for recess without much progress on spending bills, meaning a stopgap spending measure will likely be necessary in September to extend funding through the election.

his base since the convention, but his choice of Sen. JD Vance (R-OH) could help in neighboring Pennsylvania and Michigan. With the die now cast with Harris' VP pick finalized, the Trump-Vance vs. Harris-Walz race is set, and we believe the Democrats are the ever-so-slight underdogs going into the Chicago convention.

## Race for the House

While Democrats are breathing a sigh of relief concerning the presidential election, they still have to contend with the congressional race. Coming out of their convention, Republicans were poised to expand not only the Electoral College map but the congressional map as well—jeopardizing any hope of the Democrats taking back the House. Now that the enthusiasm gap has narrowed, we're still looking at approximately 35-40 (out of 435) seats in play with Republicans having to defend more seats in congressional districts where Biden won in 2020. A sizable number of those seats reside in the blue states of California, New York, and New Jersey. We're currently giving a slight edge to the Democrats here.

## Race for the Senate

At this stage of election season, we don't foresee a "wave" election coming, and our prediction for the Senate holds firm. Republicans have a clear advantage in gaining at least one seat with the potential to capture up to three more and, thus, regain control of the Senate. One subtle change in our view is, if Democrats nationally are able to maintain momentum, there's a possibility the Senate ends up 50-50 and, in this case, the newly elected Vice President would determine who controls the chamber.

## Looking Ahead at Tax Policy

As the 2025 tax debate looms large, we've watched key players in tax policy outlining the compromises they're willing to make while maintaining their posture when it boils down to their priorities. The dealmaking started more than six months ago with the unexpected compromise of the Wyden-Smith tax deal hatched during an election year, followed by its overwhelming bipartisan approval (357-70) in the House. Then it went off the rails.

The leading Republican on the Senate Finance Committee, Sen. Mike Crapo (R-ID), openly expressed his disapproval of the deal from the onset and, in turn, convinced most of his Senate Republican cohort to side with him until the bill's demise in the Senate on August 1.

Throughout negotiations on both sides of the Capitol, the focus was on parity between the expansion of the child tax credit and business tax incentives while aiming to offset the \$78 billion price tag. Based on the challenges faced by the failed Wyden-Smith bill in the Senate, a potentially divided government could lead to a prolonged and contentious standoff in 2025 when the 2017 Tax Cuts and Jobs Act expires.

In the event of a Republican sweep this November, we predict they will move quickly in 2025 to start the debate and use the reconciliation process in the Senate to help pave the way to passage.

## Congressional Budget Impasse

Once again, Congress is facing challenges in passing the annual federal budget on time. After the fiscal year (FY) 2024 budget faced numerous delays and the use of several continuing resolutions to avoid a government shutdown, Speaker of the House Mike Johnson (R-LA) announced his intentions to pass the FY 2025 budget before the August recess. Unfortunately, this didn't pan out as disagreements among Republican lawmakers regarding costs and language on reproductive rights led to the cancellation of votes on several funding bills.

Despite five bills passing the Republican-controlled House, they haven't been

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# Taking Stock of Washington

brought up for votes in the Democrat-controlled Senate. While the Senate has advanced a majority of the funding bills through committee, not a single one has reached the Senate floor.

The impasse extends beyond the budget, with several other important bipartisan issues awaiting resolution: securing a border fix, enacting a Farm Bill, establishing the 21st Century Rail Safety Act, and passing the Social Security Fairness Act.

Congress reconvenes on September 8 and, if a federal budget isn't passed by September 30, a continuing resolution will be necessary to prevent a shutdown. The probability of an extension is becoming increasingly likely and will last until after the election—which may bring about a shift in the balance of power in Washington on both ends of Pennsylvania Avenue.

**Talk to your financial professional to help make sure your portfolio is prepared for whatever happens in Washington, D.C.**

## About the Author:

James R. (JT) Taylor serves as Chief Political Strategist and Macro Policy Sector Head at Hedgeye Potomac Research. JT has extensive experience in both government and business in Washington, D.C., with a career spanning the legislative and executive branches as well as the financial-services industry. Prior to joining Potomac Research Group, he ran Pelorus Research, the US public-markets division of the Holdingham Group based in the United Kingdom. He previously led a policy research team as Managing Director at DeMatteo Monness. From 2002-2009, he was Managing Partner of Kemp Partners, a Washington, D.C.-based strategic consulting, business development, and marketing firm he founded with former Housing and Urban Development Secretary Jack Kemp in 2002. At Kemp Partners, he oversaw day-to-day operations and business development while managing client relationships in both the corporate arena and financial-service industries.

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