

## The Race to Election Day

With Election Day approaching, the race has tightened, momentum has shifted, and power dynamics in Washington hang in the balance.

As Election Day nears, we're entering the final phase of the race for the White House, Senate, and House with control of the levers of power in Washington as closely contested as we've ever seen. With no further debates or major presidential forums planned, the candidates are embarking on a mad dash to convince a stubbornly small slice of the electorate in seven swing states to support them.

Current polling suggests the momentum Vice President Kamala Harris had leading into October has stalled while support for former President Donald Trump has inched up; this has narrowed the race nationally and across the seven battleground states. While the Trump camp has many reasons to be confident given recent developments, we maintain that Harris still has a higher ceiling but a shrinking runway to consolidate the Democratic base. With early voting underway in many states, Election 2024 is going to come down to maintaining enthusiasm and driving voter turnout on and around November 5.

As Republican chances for retaking the Senate have improved over the past two months, we could see that chamber, along with the White House and the US House, change party control in the same election cycle, with none in the hands of the same party. In previous wave elections, we've seen all three branches flip from one party to the other on two occasions: in 1932 from Republican to Democrat and in 1952 from Democrat to Republican. Never before have the House and Senate both switched control in different directions in the same year.

While we still anticipate that the party winning the White House will also take the House, we shouldn't underestimate the power of anti-incumbency. Voters are convinced that things are heading in the wrong direction and are ready to oust incumbents across the board.

### Shape of the House and Senate Races

Change elections seem to be the new normal considering how polarized and divided the US has become. Over the course of the year, we've mentioned a large number of House races that will determine control of the currently Republican-held House fall in blue states such as California and New York where there is no substantial presidential campaign taking place. And the most critical races that will decide control of the currently Democratic-held Senate this cycle are mainly in red states—Montana, Ohio, and West Virginia.

Since Labor Day, Republicans have expanded the Senate map and are currently on track to pick up 2-4 seats. With West Virginia all but a foregone conclusion, Montana has moved from toss-up to leaning Republican, and Ohio is a pure toss-up. Michigan and Wisconsin are tightening up with Republicans closing the polling gaps on Democrats in those states.



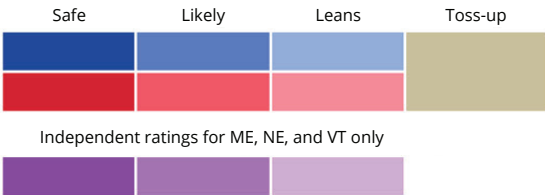
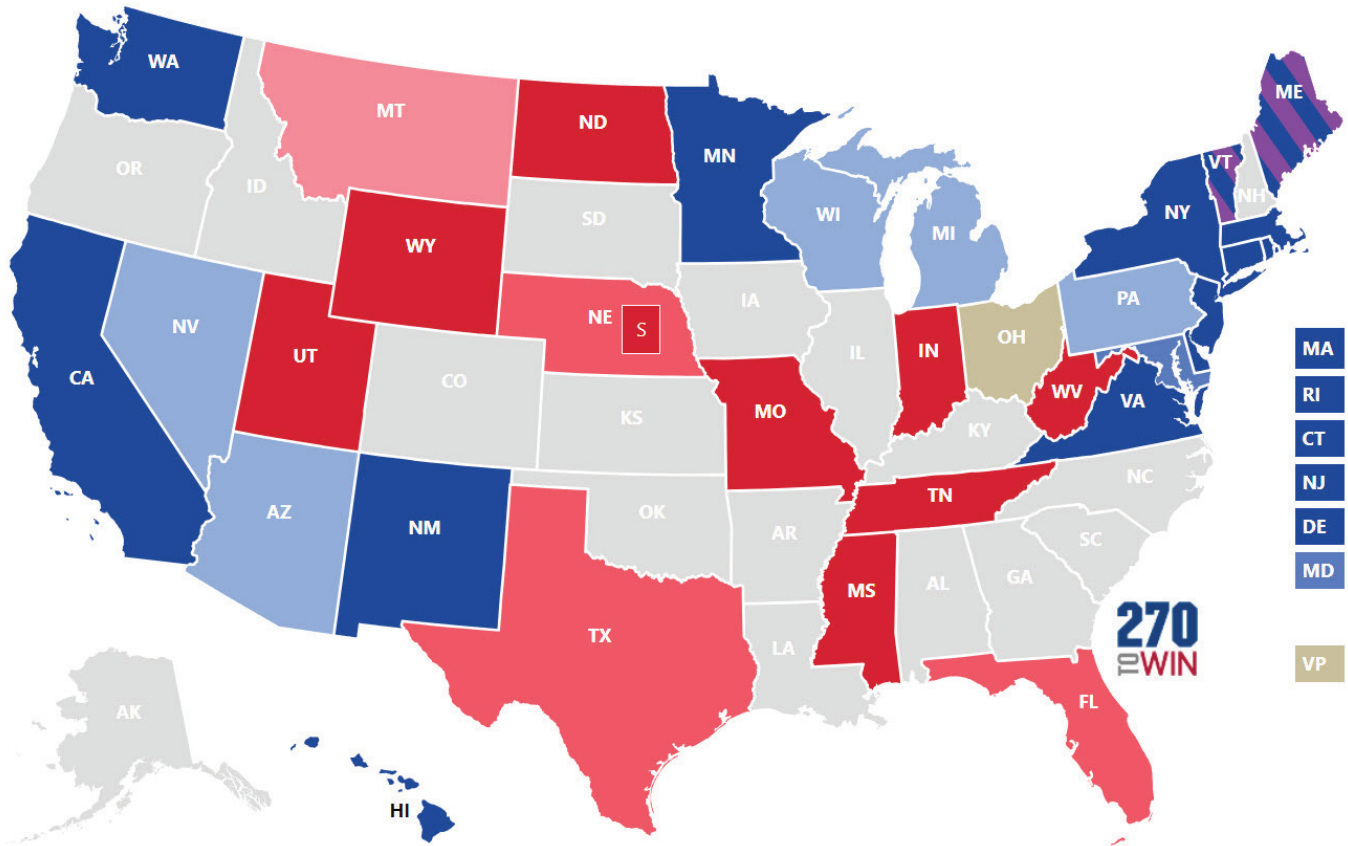
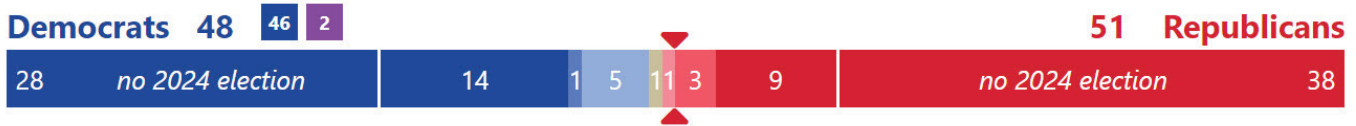
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### Key Points

- Trump benefits from Harris' slowing momentum as her runway to convince undecided voters shrinks every day.
- Current polling predicts another historic swing with the White House, House, and Senate all flipping; the Senate could turn Republican, and the Democrats may have an edge in taking back the House.
- Divided government is the most likely post-election scenario, handicapping any Harris or Trump agenda; major policy issues await action in a hyper-partisan environment.

# Taking Stock of Washington

FIGURE 1  
2024 Senate Election Map

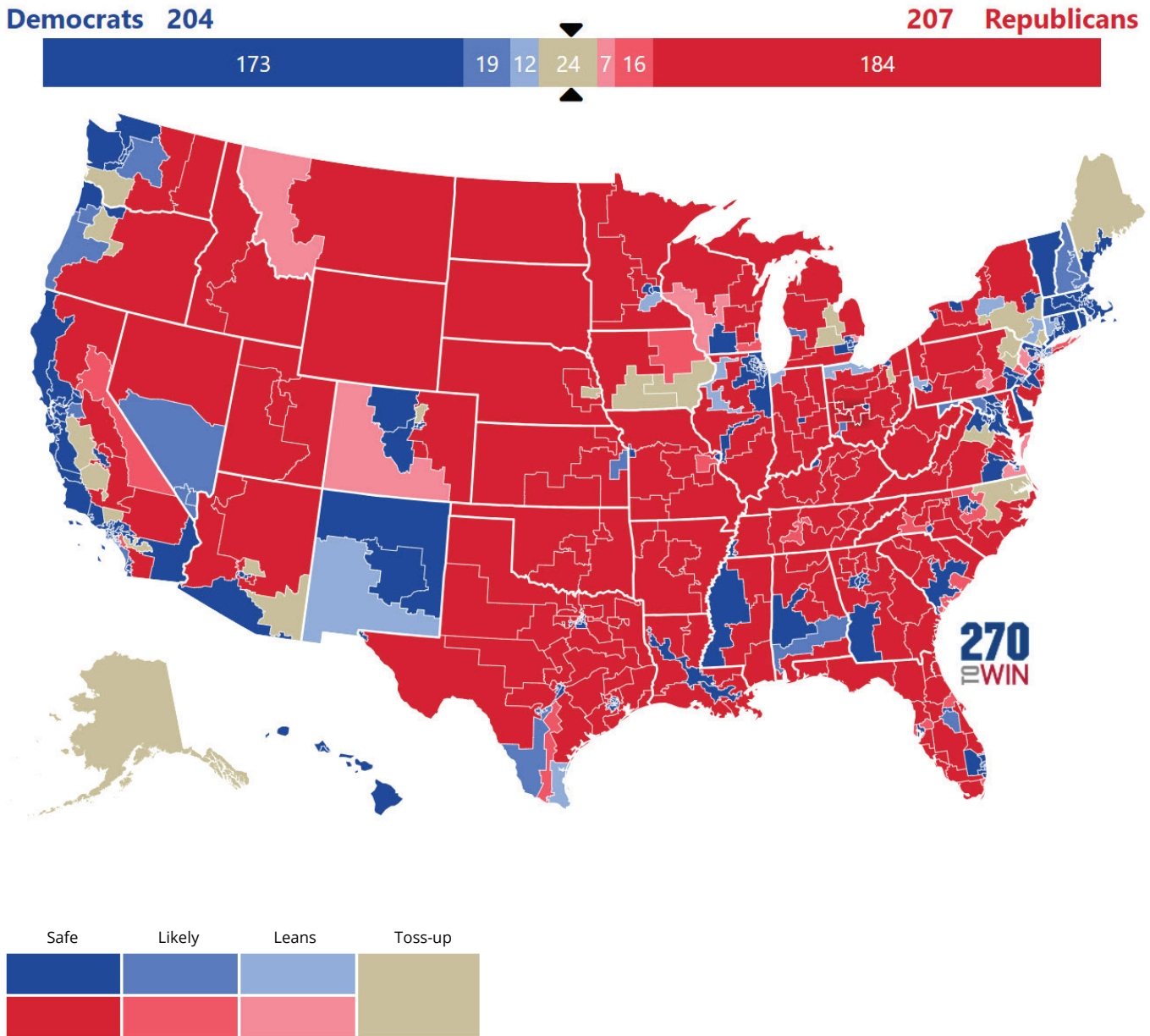


As of 10/12/24. Source: 270toWin.

With the switch to Harris, enthusiasm for the Democratic ticket has given a much-needed boost to down-ballot House races, especially in California and New York. Republicans are trying to stem that tide with appearances from Trump in those blue strongholds as well as an influx of outside money.

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FIGURE 2  
2024 House Election Map



As of 10/12/24. Source: 270toWin.

## Should We Expect a Divided Government?

This recent political phenomenon of the House, the Senate, and the White House all changing party hands is more likely than many people realize—and may last through the next few election and mid-term election cycles. While most voters may not love divided government, particularly when the US faces multiple fiscal and policy challenges, they certainly prefer it to the alternative of seeing a party with which they don't fully sync take full control of Washington.

Our current view is that we're trending toward divided government in 2025-26 that would check the ability of Harris or Trump to fully enact their respective agendas. Big ideas such as renewing the 2017 Tax Cuts and Jobs Act or rewriting

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the tax code will be nearly impossible if the person in the White House is dealing with a House controlled by the other party. Just getting a budget passed and raising the debt ceiling without triggering a government shutdown will be extremely challenging in this environment.

On the other hand, we've seen both the presidential candidates and current members of Congress trending toward common ground (emphasis on trending) on a handful of issues: Deglobalization and incentivizing US manufacturing; increasing domestic-energy production; expanding the Child Care Tax Credit; and taking a hard line on China and Big-Tech regulation. We're not suggesting there's total agreement on these issues but, optimistically, the candidates and many in their respective parties are migrating in the same direction.

What's clear to us at this juncture is how difficult the partisan dynamic will be in Washington once a bitter, divisive, and potentially razor-thin election is over. To better understand the partisan divide, the House map above illustrates just how red or blue the country is. Approximately 17-21 districts are considered "purple" or "toss-ups," and when you add in a handful of the "lean Democrat/lean Republican" districts, we're looking at a total of 42 out of 435 House seats. This means only 10% of the seats in the US House of Representatives aren't royal blue or ruby red!

To that end, we foresee a swing of up to a four-seat majority for the Democrats or a six-seat majority for the Republicans. Either way, we're looking at slim, hard-to-govern majorities with centrists on the endangered list.

Despite the handful of areas in which the two parties agree, major pieces of legislation hang in the balance. In the near term this includes the budget, disaster assistance, farm legislation, and defense policy. And, when looking toward 2025, we expect tax policy and immigration to dominate most of the year—and one critical arena both parties continue to neglect: the US debt and deficit.

**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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