

# The Race to November

With the November elections looming, legislating will quickly fall behind full-on campaigning.

With just over four months until the 2022 midterm elections, Washington is consumed by the aftermath of recent Supreme Court rulings and the potential impact at the grassroots level. Time is running out for President Joe Biden's last shot at moving significant legislation as the Democratic agenda remains stalled on Capitol Hill.

Decisions have yet to be made on the major legislative initiatives we've mentioned in prior missives: the China competition bill, Build Back Better 2.0, cannabis banking, and big-tech measures. Action to move the legislation has to take place before both Republicans and Democrats turn to full-time campaign mode in September.

We're not saying it's impossible for legislative action beyond must-do items, such as funding the government, to take place in September and early October. But, historically, neither party has been able to move their priorities past the opposition party's resistance in the final weeks before votes are cast in November.

Once the summer months come to a close, the environment influencing voter tendencies will be harder to change as voter sentiment takes root, solidifying support for favored Senate and House candidates. Before we look at the landscape for House and Senate races, we first look at three factors shaping the midterms.

## 1. Redistricting and the Collapse of Competitiveness

With the 2020 census and election cycle well behind us, 43 states have completed the process of redistricting and redrawing their maps for the US House of Representatives. Democrats were poised to net gains given their early drawing of maps in several states, but the momentum has shifted and Republicans are now poised to gain three or four seats. Significant gains resulting from new lines in states such as Florida, as well as the courts dismissing Democratic maps in their strongholds of New York and Maryland, leave Republicans in a better position than they were a decade ago.

When state legislatures had the opportunity to draw their maps, both parties took a sledgehammer to competitive districts, especially in Texas. Both sides took every opportunity to shore up their foundations, creating even safer red and blue districts and winnowing the field of truly competitive seats down to approximately 50. With the nation more in need of centrist compromise than confrontation, gerrymandering is driving us in the opposite direction. For the remainder of the decade, with 435 House seats at stake, we could be looking at a scenario in which there are fewer than 35 competitive races every two years.

## 2. Money Matters

We can't talk about elections without at least mentioning the almighty dollar. Republican candidates for House and Senate have closed the money gap over the past 18 months while Democrats haven't seen the expected retrenchment in donations given the economic and political environment—especially from smaller donors.

But a significant shift is taking place within the party Committees and affiliated outside groups. Republicans and their allies have gained significant ground to date and are on pace to up the ante—one Republican-affiliated group has already purchased \$125 million in ad space with more to come. While it's still somewhat early in the cycle, Democrats have time to reverse the trend, and recent Supreme Court decisions could be the jumpstart they need to replenish their war chest.



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### Key Points

- The Democratic agenda on Capitol Hill is stalled with less than a month to legislate before August Recess.
- Redistricting, fundraising, demographics, and history favor Republicans; Supreme Court decisions could mobilize Democrats.
- Republicans are well-positioned to take the House and have an even shot at the Senate; divided government or a Republican takeover would mark the end of Biden's agenda on Capitol Hill.

### 3. Demography Is Not Destiny

Late last year, our colleague Neil Howe referenced polls showing rising support for Republicans among Hispanics, particularly among Hispanic men. In 2012, 27% of Hispanics voted for Mitt Romney; in 2016, 29% for Donald Trump; and in 2020, 32% for Trump. However, the overall Hispanic vote remained solidly Democratic. In 2020, the 68% remainder (not counting third parties) voted for Joe Biden. Now the trend looks even more troubling for Democrats within this traditionally dependable voting bloc.

According to Howe, a new poll shows that, for the first time, Hispanic voters are almost evenly divided between Democrats and Republicans. "When asked which party they would support if the midterm elections were held today, 37% of Hispanic voters said they would support the Republican congressional candidate, while 37% said they would support the Democrat. 22% were undecided." The results are playing out in real time: in Texas, Republicans won a US House special election in June in a traditionally Democratic district (Biden won by 4 points in 2020) with a considerable Latino demographic.

### House—Ripple or Wave?

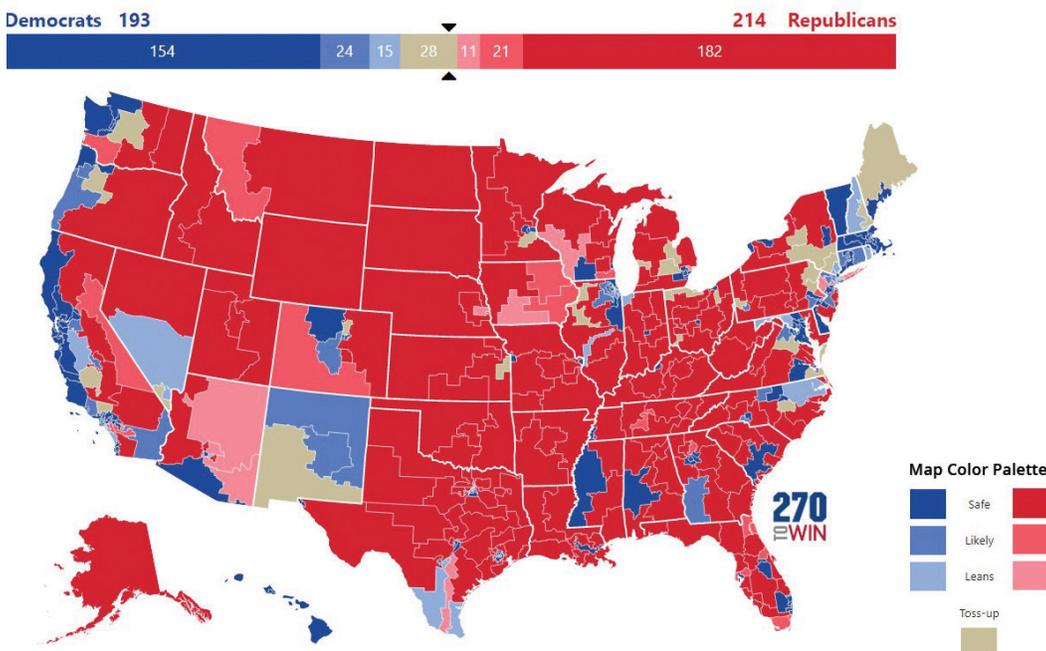
Panic is starting to take hold in Democratic circles given not only historical trends working against the party in power, but also Biden's low approval ratings coupled with stubborn inflation.

To make matters worse, House Democrats have reached a 30-year high mark for retirements. This is creating open seats (without the advantages of incumbency) in the 45-55 truly competitive districts (toss-ups, lean D, or lean R) we mentioned earlier (FIGURE 1). These 45-55 races are where Republicans will relentlessly push the Biden economy message with the anticipation that Independents and some Democrats will move in their direction.

Should 2022 become a wave election, don't expect these competitive races to break down the middle. The wave will likely wipe out many of the challengers and Democratic incumbents in the toss up and light blue seats, giving the Republicans a clear advantage. This is what they are banking on to take over the gavel in the House. The current breakdown in the House is 220 Democrats, 210 Republicans, and five vacancies. Republicans need a net gain of just five seats.

FIGURE 1

### 2022 House Election Map



Map Updated: Jun. 28, 2022 at 21:57 UTC (5:57 PM EDT)

Source: 270 To Win, as of 6/28/22.

## Senate Squeaker?

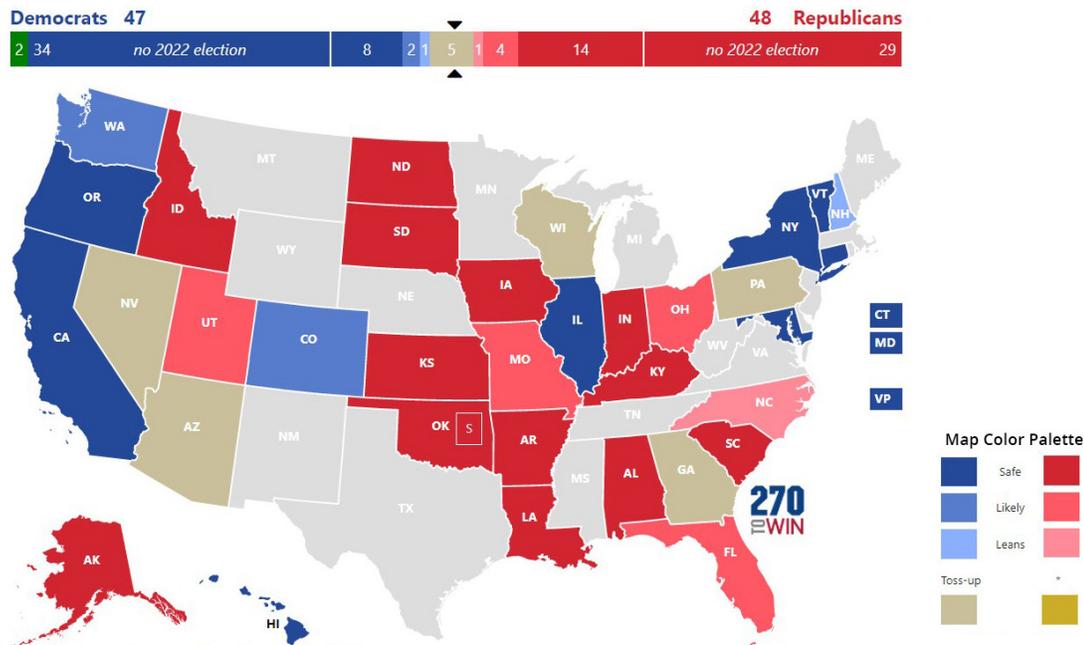
The playing field for control of the current 50-50 Senate is centered on seven states that are toss-ups or lean Republican or Democrat: Pennsylvania (R), Wisconsin (R), Georgia (D), Arizona (D), New Hampshire (D), North Carolina (R), and Nevada (D) (FIGURE 2). No, you're not having flashbacks to the 2020 presidential campaign: These seven states are the center of the 2022 political spectrum and will be again in 2024, and possibly for years to come.

The Senate map (not to be confused with the political environment) currently favors the Democrats. With Biden not at the top of the ticket, Democratic Senate candidates in very tight races are breathing a sigh of relief as going it alone affords them the best chance at re-election—particularly in Georgia and Arizona where newly elected Democratic Sens. Ralph Warnock and Mark Kelly won by close margins in 2020. We're talking a completely different political and economic environment for Senate candidates across the board compared to 2020.

The Senate map could expand if the economy or other political/geopolitical conditions worsen, creating a wave election scenario, and several Democratic incumbents are wasting no time and taking no chances. Sen. Patty Murray (D-WA) has already cut and aired several ads and is far more engaged given the relative safety of her seat. Other blue state Senators—including Sen. Michael Bennet (D-CO)—are following suit in the event the battlefield expands beyond the key seven. With the current 50-50 balance of power, it all comes down to a one-seat change.

FIGURE 2

### 2022 Senate Election Map



Map Updated: Jun. 15, 2022 at 15:39 UTC (11:39 AM EDT)

Source: 270 To Win, as of 6/15/22.

## Consequential Court

Democrats are hoping that the Supreme Court's reversal of *Roe v. Wade* is the catalyst they need to reverse their fortunes—politically and financially. Our view is that on the margins, *Roe* may help energize a deflated base, especially suburban women, and some college-educated men, who polls show have lost enthusiasm for Biden and the Democratic party given recent cost-of-living conditions, the economic outlook, and the lingering effects of the pandemic. At this juncture, we're not seeing evidence that this burst of energy will be enough to reverse the trend toward Republicans, but it may be enough around the margins to break a wave.

# Taking Stock of Washington

With the Supreme Court decision and gun legislation still fresh in the news cycle, we're seeing early signs of an uptick in fundraising and polling for Democrats—but Republicans will resist every attempt to allow the debate to be centered on those issues and will bring it back to inflation and the resulting impact on the cost of living across the board.

And the Supreme Court may not be done this year—it plans to hold arguments early in its next term, including a challenge by Asian students to Harvard's admissions process. In the aftermath of local school board fights over "woke" policies, including the critical race theory curriculum battle, the Court will determine whether race can still be an acceptable factor when making college admissions decisions. The Court's order asks: "Is Harvard violating Title VI by penalizing Asian-American applicants, engaging in racial balancing, overemphasizing race, and rejecting workable race-neutral alternatives?" Arguments could be held just days before the election, and the Biden Administration has taken Harvard's side in this closely watched case with ripple effects.

If current predictions and history hold, Republicans stand a very good chance at taking control of the House and are an even bet to flip control of the Senate. Even if the Democrats hold on to the Senate, we're still looking at divided government and the end of opportunities for the Biden agenda on Capitol Hill.

The focus in 2023–24 would then pivot to a major push at the regulatory agencies as well as slogging through the annual federal budget and appropriations process. Beyond that, we're looking at potential government shutdowns, fiscal drag, showdowns on the debt ceiling, but no tax increases. Did we mention even more rancor on Capitol Hill?

**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 Senior Policy Analyst 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 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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