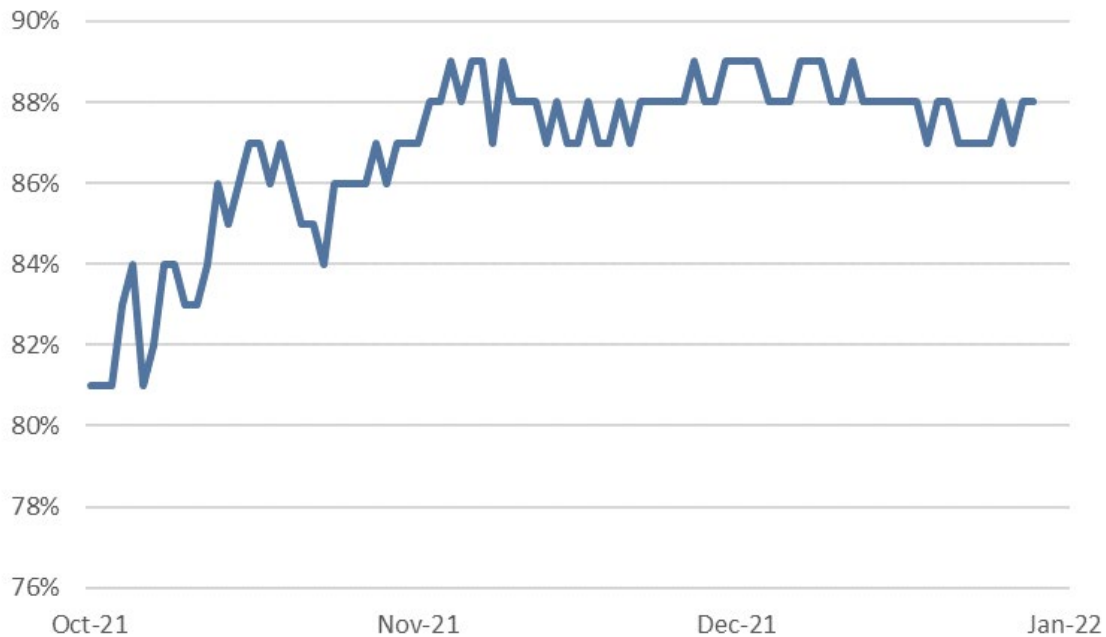


MARKET COMMENTARY

Fig. 1: Likelihood of Republican control of House, Senate, or both after the midterm elections

Source: PredictIt, Mill Creek.

Domestic politics ranked number three on our clients' list of top concerns for 2022.

Domestic political uncertainty was elevated throughout 2021 due to the Georgia Senate runoff results catalyzing a more-significant legislative agenda for President Biden than was originally expected. The Democratic Party succeeded in passing a \$1.9 trillion COVID relief bill and a \$1 trillion bipartisan infrastructure bill, but a big source of uncertainty for investors, the "Build Back Better" tax bill, loomed large throughout the year.

President Biden and Congressional Democrats have said they will continue to prioritize many of the policy initiatives in Build Back Better, but the 2022 version of the bill, to the extent that there is one, will be scaled back from its original design or split into separate bills. Tax increases remain on the table, including additional taxes on capital gains and the 5% and 3% surtaxes for individuals with income exceeding \$10 million and \$25 million, respectively.

We also don't see a lot of uncertainty arising from the midterm elections at this point— with the caveat that they remain 10 months away. Polling data and prediction markets indicate dramatic gains for Republicans and a high probability that they will control either the House, the Senate, or both. Whether these gains hold until the midterms remains to be seen, but political gridlock equals fewer domestic policy risks, and surprises, for markets.

QUICK LINKS

- [Risk Monitor: Supply Chain Disruptions](#)
- [Risk Monitor: Inflation](#)
- [Q1 2022 Outlook](#)
- [Year Ahead 2022: Hurry Up and Wait](#)
- [House View Summary](#)

This week's contributor: Michael Crook, CAIA

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