Mizuho Brief: US

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US Mid-Terms: The "Flip" Curse

US Mid-Terms since 1970s

Notable Risk Events		Mid-Term Elections		Incumbent Party			Post Mid-Terms		
Timing	Event	President	Year	President	Senate	House	President	Senate	House
		Trump	2026	R	R	R		?	?
		Biden	2022	D	D	D		D	R
		Trump	2018	R	R	R		R	D
		Obama	2014	D	D	R		R	R
		Obama	2010	D	D	D		D	R
Mar-03	Iraq War	Bush Jr	2006	R	R	R		D	D
Sep-01	*9-11 Attack*	*Bush Jr*	*2002*	*R*	*R*	*R*		*R*	*R*
Jan-98	Lewinsky	Clinton	1998	D	R	R		R	R
Feb-93	WTC Van bomb	Clinton	1994	D	D	D		R	R
Aug-90	Gulf War	Bush	1990	R	D	D		D	D
		Reagan	1986	R	R	D		D	D
		Reagan	1982	R	R	D		R	D
Nov-79	Iran Hostage Crisis	Carter	1978	D	D	D		D	D
Sep-94	Nixon Pardon	Ford	1974	R	D	D		D	D
Jun-72	Watergate	Nixon	1970	R	D	D		D	D

"Flip Curse"

Reverts to "Anti-incumbency" "9-11" Effect

Similar Republican-controlled Congress with a Republican President

Incumbent Dominance encompassing a "Clean Sweep" of One-Party Control over Presidential Office, Senate & House

Flipped Control

"Beyond the obvious facts … I can deduce nothing else." – **Sherlock Holmes**

- For Trump and Republicans at this Mid-Terms, the **odds are stacked against retaining *both* Senate & House –** *at least one has flipped since 2006*.
- What's more, a **"clean sweep"** (of one-party dominance) **has not been achieved since Bush 2002 and** prior to that, in 1978 (Carter).
- In ***stark contrast,*** **both Senate & House flipped for Bush 2006**.
- At the risk of oversimplification, **"Bush 2002"** may be deemed an anomaly of the **9-11 attack in 2001.**
- *Specifically,* **insofar that it triggered exceptional solidarity** across voters **rallying around the incumbent**.
- Whereas for **"Bush 2006"**, *getting embroiled in the "Iraq War" (and exacerbated by "Katrina")* resulted in the exact opposite.
- Notably, not only from a **relapsing back to, but profoundly exacerbating, "anti-incumbency"**.
- Point being, it's a **high bar for Trump to pull off a "Bush 2002"**.
- *Especially with the war in the "Iran War" evolving into a wider "Middle East crisis" amid spiralling cost-of living crisis in the US.*
- *The upshot is that* **"Bush 2006"** *– entailing a flip in both the House and Senate –* **looks like the bigger risk** that Republicans will have to struggle to avert.

- *Political Implications:* Democrats reclaiming the House/both chambers of the Congress, but without a supermajority to override Executive powers, may merely stymie Congressional motions (including impeachment attempts) amid antagonistic.
- *Fiscal Implications:* Insofar that spending bills may be impeded by face-offs, with incentives for pre-emptive "Executive grab" perceived fiscal risks/credit deterioration will be accentuated.
- *UST Yields:* While there are no comparable hawkish Fed cycles amid surging oil prices from past mid-terms [Figure 1 below], **risks are tilted to elevated yields** – likely ***peaking at the front-end*** but ***prone to more term premium at the long-end***.
- *Equities/Risk:* Admittedly, most analysis suggest that equities tend to be at least buoyed, if not rally, in the months following mid-terms. But **prevailing risks** featuring "*AI uncertainty*" amid rolling conflicts/supply shocks suggest greater risks around outcomes. Especially given the *absence of QE and/or fiscal largesse*, with liquidity being squeezed instead [Figure 2 below], point to **two-way volatility amid uncertainty *not sure-fire bullish bets***.

Figure 1. No comparable Hawkish Cycle or Oil Surge for 2002, 2006 or 2018

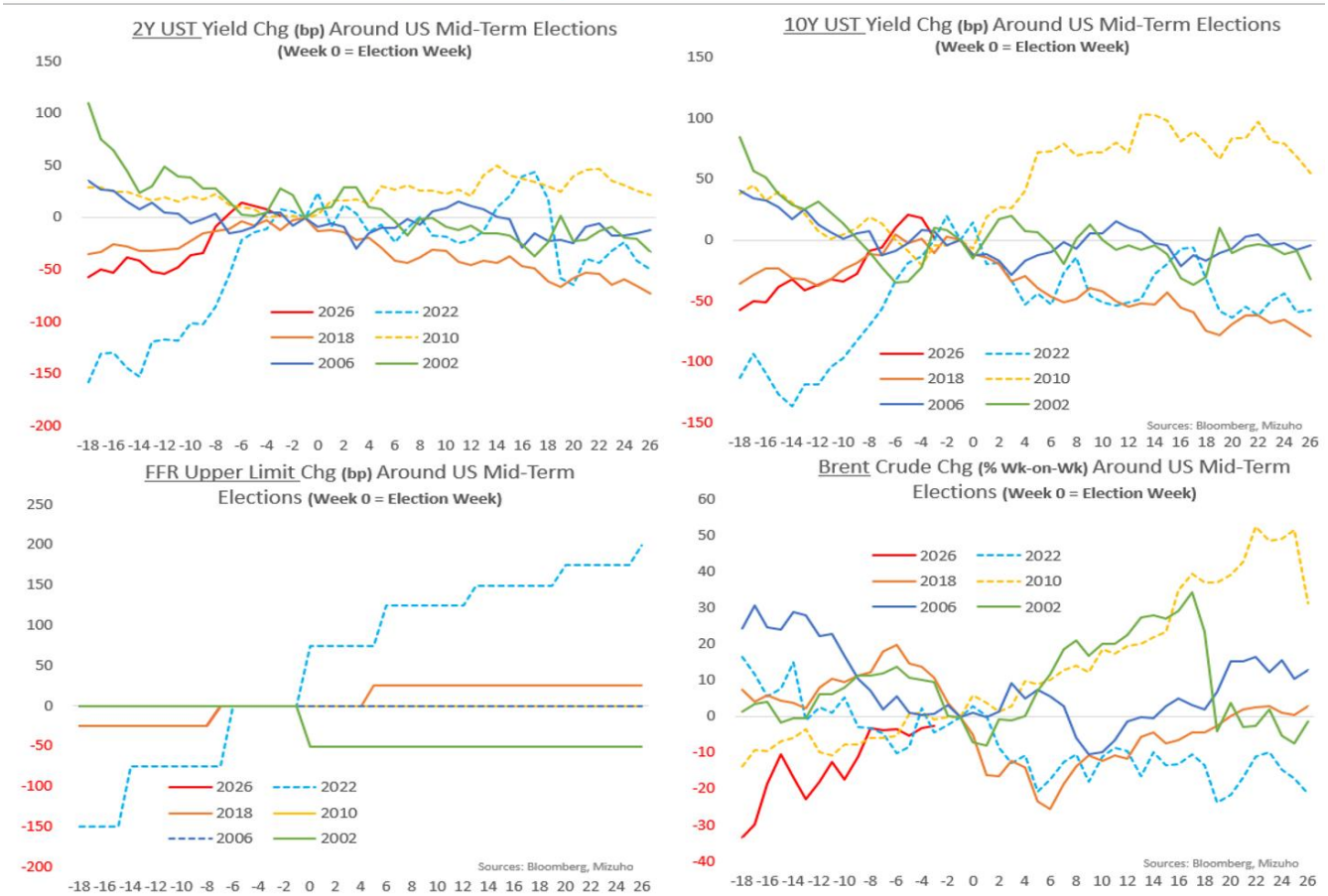
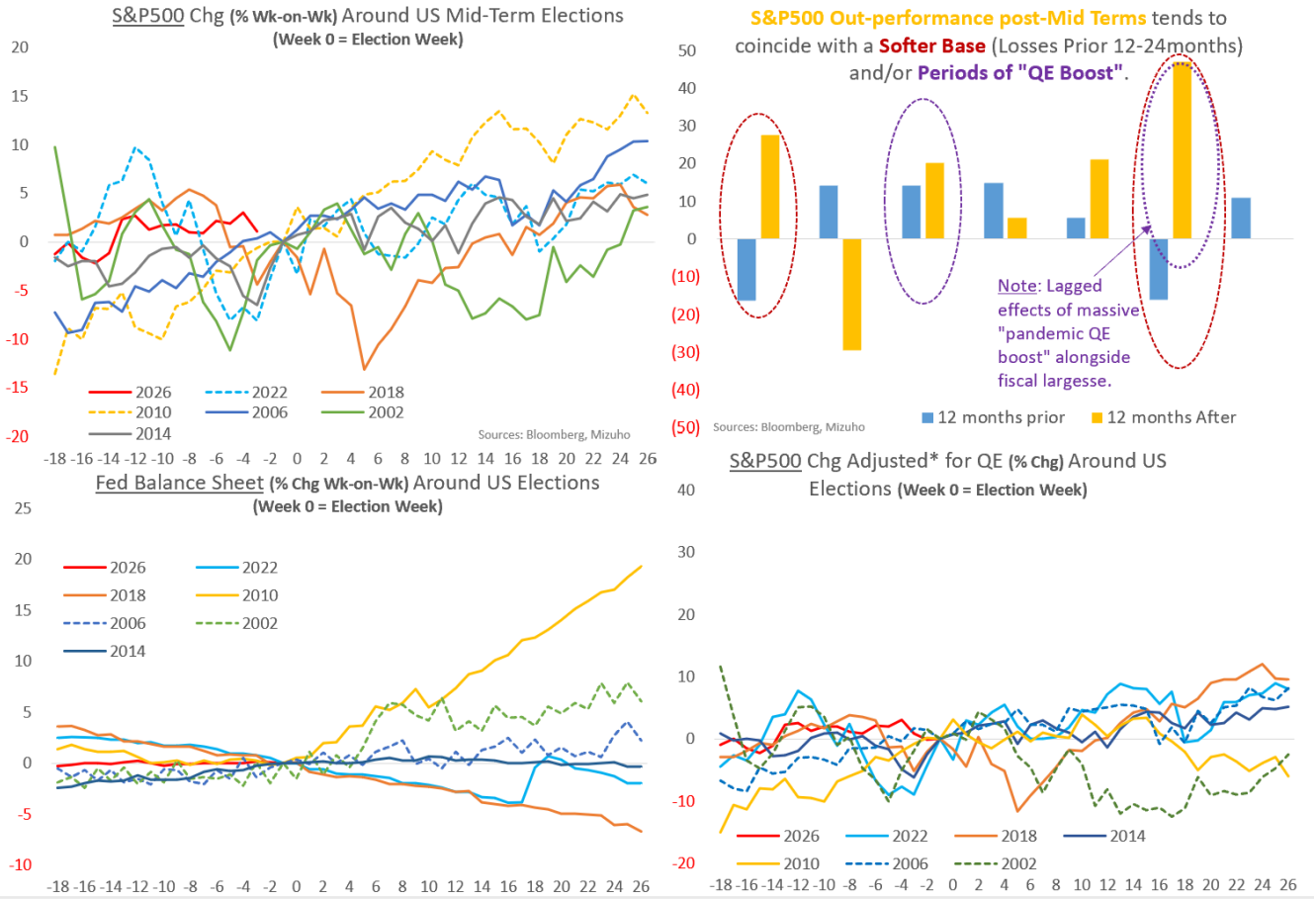


Figure 2: Equities Out-performance after Mid-Terms Exaggerated by QE & Starting Points



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