

## POLITICAL PULSE

## The Trump Trade is On, Not Ossoff

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**Donald Luskin**

The Trump brand proves non-toxic. But four special election wins take useful pressure off.

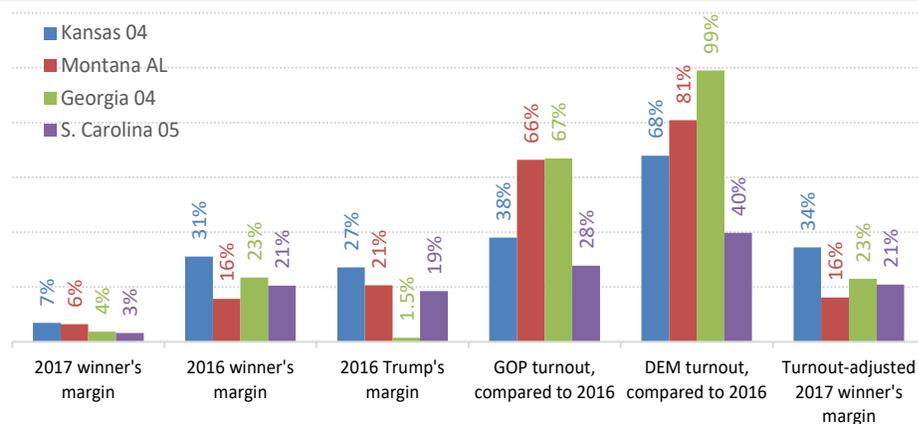
The GOP win in yesterday's special congressional election in [Georgia's 6th District](#) should help cut the thick pessimism we continue to sense among clients, worrying that President Trump's pro-growth agenda can't survive his intensifying reputational problems. Democrats had hoped to deepen such fears by flipping a House seat in GA-06 – a fairly easy target, considering that Trump only carried this purple district by 1.5% in 2016. Openly [boasting of an "upset"](#), and [a "referendum on Trump."](#) Democrats made this [the most expensive congressional election in history](#).

- They failed to hit this easy target. Democrat John Ossoff fell to Republican Karen Handel by a larger-than-Trump and poll-defying 3.7% margin, despite his big funding advantage. Trump was barely mentioned by either candidate in the closing days of the campaign. But Handel is a Republican. Pence campaigned for her and Trump tweeted endorsements. If this was a Trump referendum, it turned out to be an affirmation.
- Also yesterday, the GOP candidate won in [South Carolina's 5th District](#).
- Add those wins to GOP wins in special elections earlier this year in [Kansas's 4th District](#) and [Montana At-Large](#), both of which Democrats had hoped would be upsets.
- It's four for four. Apparently the GOP is doing just fine under

### Update to strategic view

**US MACRO:** With victories in Georgia and South Carolina, it's four for four for the GOP in congressional special elections. The GA-06 contest was the most expensive congressional campaign in history, in which Democrats sought urgently to unseat a GOP incumbent in a district Trump carried by only 1.5%. Republican Handel won by a larger-than-Trump 3.7%, despite a funding disadvantage. This shows GOP representatives and senators need not distance themselves from Trump in the legislative battles to come – reforming Obamacare and cutting taxes. But markets have thrived on Trumpian chaos, which exerts a demand effect on the GOP congress to accomplish something. These elections take some of the pressure off the GOP, but put pressure on red state Democrats to compromise on tax cuts. In the meantime, signature Trump trades – surging forward earnings and narrowing risk-preference indicators – keep moving forward.

### 2017 special congressional elections



Source: Ballotpedia, TrendMacro calculations

[\[Strategy dashboard\]](#)

*Trump's controversial presidency. Trump is proving to not be a toxic brand.*

- Looking ahead to the 2018 elections, we know that mid-terms are usually difficult for the party that controls the White House. And with every Trump tweet or Trump leak, the media over-hypes [prognostications that Democrats will “flip the House”](#). As a matter of sheer arithmetic, these four special elections mean Democrats will have to contest these districts from scratch, rather than defend them as incumbents.
- *But the key strategic lesson from these elections is that it's all a matter of turn-out, which means it's a matter of energizing your voters.*
- Mid-term elections are always low turn-out. In all four special elections, turn-out was down for both parties versus the 2016 general election. But Democrats were more energized, so their turn-out was *less down* than the GOP's turn-out (please see the chart on the previous page). In GA-06, extraordinary spending kept Democratic turn-out at 99% of 2016's, but GOP turnout was only 67%. That's why while Handel won, her 3.7% margin didn't meet the 23.4% of her 2016 predecessor Scott Price.
- In none of the four special elections did the GOP newcomers earn winning margins as wide as the well-loved incumbents who had run in 2016. But adjusted for turn-out, the GOP margins for the first-timers are quite robust (again, please see the chart on the previous page). For example, Handel's 23.4% turn-out-adjusted margin exactly matches Price's 2016 margin. In other words, poor turn-out cost Handel 19.6% of margin that could have been hers.
- *There is no evidence here that GOP candidates need to distance themselves from Trump or from the GOP pro-growth agenda that Trump has espoused. If anything, GOP candidates must energize their base, not by cowering, but by delivering on pro-growth promises. We continue to believe that Trump's highly publicized troubles pose no barrier to – indeed, they exert a demand-effect upon – the accomplishment of tax cuts, Obamacare reform, and other pro-growth initiatives.*

Our conversations with preponderantly pessimistic clients lead us to believe that the smart money is not assuming that those initiatives are ever really going to happen. If that's a proxy for what markets are already discounting, then if in fact nothing happens, the downside consequences won't be very bad – but if in fact something *does* happen, there's a lot of upside to be captured.

- We are encouraged by the resilience of markets in the face of [the emergence of leaks](#) concerning Trump's alleged conversations with James Comey about the investigation of Michael Flynn. We initially thought that Trump was losing control of the narrative, and that this could usher in a long-overdue correction in risk-on assets (see [“Another Trump Correction”](#) May 17, 2017). There was one bad day, and then stocks world-wide went on to new highs.
- *Markets seem to thrive on Trumpian chaos, perhaps precisely because the appearance creates a “do-something” demand effect*

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**Recommended**  
**Reading**

['Somebody's Trying to Kill Me'](#)

Kyle Cheney , Heather Caygle and Elana Schor  
*Politico*  
June 17, 2017

[Steve Scalise, Nancy Pelosi, and a Return to Civility. I'm praying for it.](#)

Larry Kudlow  
*Kudlow's Commentary*  
June 16, 2017

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in favor of pro-growth policy. If the chaos is a “distraction,” as the media so often assures us, then the GOP congress needs a distraction from the distraction – that is, to get something accomplished for GOP voters.

- On the one hand, these special elections show no urgency for GOP representatives or senators to deliberately distance themselves from Trump. On the other hand, this worries us because it takes the pressure off the GOP. On yet another hand – we have three hands, apparently – it puts pressure on Democrats in red states, which will be useful to help the GOP find eight votes for permanent tax cuts (see [“Trump’s Tax Cut Nuclear Option”](#) May 1, 2017). That’s Trump’s view, at least, [according to a tweet this morning](#).

In the meantime, the two key signatures of the “Trump trade” continue as strong as ever. Risk-preference indicators, such as the VIX Index and credit spreads, continue to indicate a high degree of risk tolerance. And forward earnings in the US are vaulting to new all-time highs – while some version of that is happening almost everywhere in the world (see each week’s [“Strategy Summary,”](#) most recently June 19, 2017).

- Yes, the US dollar has made a full round-trip since the election. But at its peak in early January, we argued that it wasn’t a “Trump trade” and that it would reverse (see [“Our Contrarian View on the Dollar”](#) January 5, 2017).
- Yes, long-term Treasury yields have not quite made a complete round-trip since the election, but they’ve given up much of their back-up. But all the give-back has been in the inflation-compensation component, as the unexpectedly sagging oil price has dragged down inflation expectations worldwide (see [“On the June FOMC”](#) June 14, 2017).

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## Bottom line

With victories in Georgia and South Carolina, it’s four for four for the GOP in congressional special elections. The GA-06 contest was the most expensive congressional campaign in history, in which Democrats sought urgently to unseat a GOP incumbent in a district Trump carried by only 1.5%. Republican Handel won by a larger-than-Trump 3.7%, despite a funding disadvantage. This shows GOP representatives and senators need not distance themselves from Trump in the legislative battles to come – reforming Obamacare and cutting taxes. But markets have thrived on Trumpian chaos, which exerts a demand effect on the GOP congress to accomplish something. These elections take some of the pressure off the GOP, but put pressure on red state Democrats to compromise on tax cuts. In the meantime, signature Trump trades – surging forward earnings and narrowing risk-preference indicators – keep moving forward. ▶