Deep Dive

Global Multi-Asset View

US Midterm Elections Preview – Expectations & Positioning

- **The November US Midterm elections are expected to alter the balance of political power in Washington, with mixed implications for the global economy, financial markets, and international relations.** US Midterms rarely move markets, but against the backdrop of continued trade conflict and global tensions, the 2018 US Midterms will be closely watched to the extent that the result either reinforces or refutes White House policies. The new composition of Congress will matter for the passage of further legislation that could extend the current US expansion. US Markets usually sell off ahead of elections and rally once the big day has passed, but investors will also have to contend with potentially extreme volatility if the Congressional power equation shifts as a consequence of the Midterms. **We present a range of economic and market views based upon the main election outcomes, plus how to position both pre- and post- the November 6 event.**

- **Democratic Control of the House, Leading to a Divided Congress, Is the Central Political Outcome** — Most signs point to a GOP Senate and DEM House. Polls, electoral math, and low Presidential approval metrics all largely favor a Democratic "wave" in November that would result in the Democratic party wresting control of the House of Representatives—ending the GOP party mandate. This portends further oversight of the President and resistance to his policies, as well as the risk of impeachment proceedings. However, it also introduces the possibility of an infrastructure deal that bolsters GDP growth, in the event that a long-dormant spirit of bipartisanship materializes ahead of the 2020 Presidential elections.

- **Alternative Midterm Scenarios Should Not Be Discounted** — Markets are currently pricing a divided Congress based on today's polls, but a relatively slight shift between now and November 6th could significantly alter the electoral math. A Democratic wave is a material possibility, modestly increasing the likelihood of an infrastructure deal, but also a possible rollback of Tax Reform 1.0. Although Democrats could not secure the votes for impeachment, even with a majority, tensions with the White House would increase markedly under this scenario. A status quo outcome, with Republicans maintaining majority control over both the House and Senate, suggests scope for passage of Tax Reform 2.0 and entitlement reform, including Obamacare and Medicare. In either case, the victors would likely have thin majorities, limiting legislative capacity and scope for market surprises.

- **President Trump's Response to Midterms Outcome Is Uncertain, Creating Potential for Wildcard Events That Might Vex Markets** — President Trump is likely to continue pursuing deregulation, reordering international trade norms, and challenging global and domestic power structures, given his executive authority over trade and foreign policy matters. However, if Democrats gain advantage, then the President may seek legislative compromises, but potentially also double down on his prerogatives under intense Democratic resistance.

Dana M Peterson AC
+1-212-816-3549
dana.peterson@citi.com

Tina M Fordham AC
tina.fordham@citi.com

Ebrahim Rahbari AC
ebrahim.rahbari@citi.com

Johanna Chua AC
johanna.chua@citi.com

Jeremy Hale AC
jeremy.hale@citi.com

Dirk Willer AC
dirk.willer@citi.com

Jabaz Mathai AC
jabaz.mathai@citi.com

Mary E Kane AC
mary.e.kane@citi.com

Ankur Mehta AC
ankur.mehta@citi.com

Jeffrey Berenbaum AC
jeffrey.s.berenbaum@citi.com

Roger Ashworth AC
roger.ashworth@citi.com

Navann Ty AC
navann.ty@citi.com

Aakash Doshi AC
aakash.doshi@citi.com

Cesar Rojas AC

Jin-Wook Kim AC

Jason Williams AC

With thanks to
Lucy Zhang, Dane Burkholder

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

Figure 1. Summary Expectations

		Economic Implications		Market Implications			
Scenarios	**Likely Policies**	**Domestic**	**Foreign**	**Rates**	**FX**	**Equities**	**Commodities**
Most Likely: **DEM House, GOP Senate**	• Few legislative gains; Tax reform 2.0 lite, potential infrastructure deal. • Recession risks stem from executive branch policies; congress likely to prevent fiscal cliff • Greater oversight of President; increased investigations; rising Impeachment risks	• No material change to the base-case, unless fiscal cliff is averted	• No material change	• No material change	• USD Neutral	• Nonevent in short-run; S&P higher in 12 months	• No material impact
GOP House, GOP Senate	• Tax Reform 2.0 likely; • Infrastructure deal unlikely; • Select changes to social welfare spending	• Larger deficits; • Slightly faster growth, but over LT; • Firmer inflation; higher rates	• Slight upside risks to growth and inflation	• Minor Selloff	• USD Rally	• S&P Selloff	• No material impact
GOP House, DEM Senate	• Select elements of Tax Reform 2.0 likely; • Infrastructure deal likely; • No changes to social welfare spending	• Larger deficits; • Slightly faster growth, but over LT; • Firmer inflation; higher rates	• Slight upside risks to growth and inflation	• Minor Rally	• USD Mild Rally	• Nonevent	• No material impact
DEM House, DEM Senate	• Repeal/Change Tax Reform 1.0; • Infrastructure deal likely, no changes to social welfare spending	• Smaller deficits if Tax Reform 1.0 is repealed, which would reduce near-term growth; • If tax reform repeal is used to fund larger infrastructure bill, then potentially no change to base-case	• Slight downside risk to growth if Tax Reform 1.0 repealed	• Minor Rally	• USD Selloff	• S&P Selloff	• Positive commodities; gold rallies hard on potential equity drawdown and US$ sell-off. Positive metals on greater potential for infrastructure. US oil production growth could also slow 100-200-k b/d.

Source: Citi Research.

Contents

Midterm Elections Overview

Monumental Change or More of the Same?

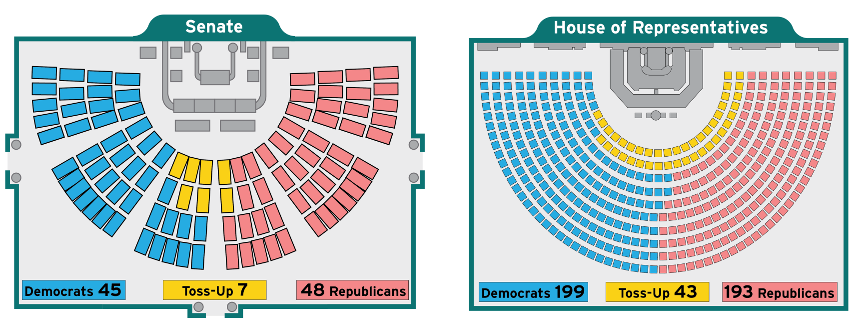
Contributors: Dana M Peterson, Tina M Fordham, Ebrahim Rahbari, Johanna Chua, Tobias Levkovich, Jeremy Hale, Dirk Willer, Jabaz Mathai, Mary E Kane, Ankur Mehta, Navann Ty, Jeff Berenbaum, Roger Ashworth, Aakash Doshi, Cesar Rojas, Jin-Wook Kim, Jason Williams

US Midterm elections typically are mundane affairs, featuring low voter turnout and few market moving implications, but this time probably will be different.[1] Economic outcomes and financial market reactions will depend upon the composition of Congress after November 6, as well as the degree to which President Trump alters his agenda in response to the balance of Congressional power and the message from US voters.

- **Midterm Scenarios – Election scenarios lend credence to a plurality of outcomes, views, and investor options.** The central (most likely) political outcome is a divided Congress, with the Republican Party (Grand Old Party or GOP) retaining a majority in the Senate (the upper chamber), and Democrats wresting control of the currently GOP-held House of Representative (the lower chamber). Other possible scenarios feature single-party control over both chambers of Congress, including a difficult but not impossible path to a Democrat-controlled Congress, but constrained with narrow majorities that limit legislative capacity.

- **Executive Response – President Trump's response to the Midterm outcome remains a key unknown heading into November.** Regardless of the Congressional outcome, President Trump is likely to continue pursuing his key policy aims regarding deregulation, security (at home and abroad), and international trade—all of which are within his Constitutional purview—especially if his voter base approves. However, his willingness to cooperate on moving forward pivotal pieces of legislation, including funding Federal government programs, addressing Sequestration, and avoiding sovereign debt default likely will depend upon the composition of Congress. If Democrats gain political advantage, in addition to the ongoing Mueller investigation into campaign collusion with Russia, President Trump may be further pressured by additional investigations undertaken by Democrats heading key committees in the House. External factors will also affect the President's capacity to exert his legislative will, as other global leaders will undoubtedly take their cues on negotiating tactics and strategic imperatives based in part upon the result of the contest.

Figure 2. Polls and Pundits Suggest Divided Congress, But Alternative Scenarios Are Possible



Source: RealClear Politics and Citi Research.

- **US Economic Implications –The main Midterm election outcome outlook for the US economy suggests limited scope for recession, but also few if any major legislative actions that support growth.** Tax Reform 2.0 is unlikely if

[1] US Midterms are Congressional, state, and local government elections held midway between four-year presidential election cycles.

Dems increase their influence. But if passed it would generate modest incremental growth over the next 10 years, albeit at the cost of larger budget deficits and greater debt. Meanwhile, historical evidence suggests that impeachment proceedings are unlikely to have material effects on the economy. The greater risk from the Midterms is related to the relationship that the President has with Democrats if they regain a majority in the House. President Trump may seek compromise on select policies that appeal to Democrats (i.e. infrastructure, labor programs), but also double down on international trade policies that inhibit growth and raise inflation given anticipated intensification of Democratic oversight of his activities. Moreover, that relationship will factor into the President's cooperation in avoiding federal government shutdowns, sovereign debt default, and/or a 2020 fiscal cliff; as well as maintaining Fed independence, and skirting trade wars.

- **Global Economic Implications** – **Whether President Trump pivots on trade, potentially in response to Democratic majorities appears to be the most significant risk to the global economic backdrop.** However, we regard this as unlikely given that progressive Democrats and Trump-leaning Republicans are largely united in their skepticism about free trade. With this in mind, we expect US-China trade tensions to continue beyond the November Midterms into 2019.

- **International Reaction – World leaders probably will pivot off of Midterm results to gauge the future of US foreign policy.** Global government leaders, from the Chinese leadership, to Iran, Russia, the EU, and North Korea, as well as global corporate leaders, will be attempting to interpret the Midterms as a referendum on Trumpism. Moreover, the likelihood of impeachment, a one-term tenure for President Trump, or re-election, are all plausible outcomes. The outcome of the elections will calibrate for the international community whether to negotiate, fight back or wait for the next occupant of the White House (with 2020 elections coming soon) concerning key policy matters including on trade and security. In this sense, the US Midterms are an important international political signal, with the potential to shape a wide range of policy decisions.

- **Financial Market Implications** – **Markets are likely to only react strongly to realization of tail risks and/or big policy shifts.** The immediate response to the Midterm election outcome may be muted in the absence of a surprise result (i.e. something other than the Central Political scenario). Major legislative action that can be linked to Congressional majorities influencing the White House agenda, including Tax Reform 2.0 or an infrastructure deal, as well as decisions on the 2019 debt ceiling and the 2020 fiscal cliff, are required to elicit strong market reactions. The President's policies on trade, which may be independent of the balance of Congressional power, will continue to buffet markets.

  - **Equities**: An unexpected Blue Tsunami, where the GOP loses control of the House and the Senate, may not be taken well on the Street, as headline risks could surge with Democrats seeing that kind of a tectonic shift as a mandate to oppose the President across many areas. Given large budget deficits, it would seem that any major new stimulus to generate faster GDP is improbable, thereby limiting any need to bump up EPS forecasts.

  - **Rates**: We do not see material market implications in the near term in the base case. We advise investors to be long Treasuries with tailwinds to lower yields arising from further EM underperformance/ outflows, the effects of trade tensions on non-US growth, and slower moving risk factors such as the deteriorating Italian fiscal outlook. Valuations are attractive at 10y yields close to 3.1%.

- **G10 FX**: The consensus expected outcome of DEM gains in the House likely generates further near term USD softness. Eventually, this may well morph into a long term bear market in the USD. Unexpectedly strong GOP performance would generate a sharp USD rally as it is not priced. Given the political uncertainties, and the lack of confidence in outcomes, we prefer mainly to stand aside ahead of the elections. Longer term, as the US growth outperformance of this year fades again through 2019, we are EUR bulls, USD bears but the precise inflexion point is tricky to pin down.

- **EM FX**: A higher recession likelihood or increased Washington dysfunction, would likely be negative for the USD against the rest of the G3. A weak USD with rising risk aversion suggests that EM trades weaker against EUR or JPY, but that the EM weakness may be mitigated against a weakening USD. We would advise to pare back aggressive USD longs as a weaker USD may lead to appreciating pressures spilling over into EMFX into Midterms.

- **Commodities**: Commodities traders overall may look through the US Midterms, in our view. As the odds of a blue wave are starting to increase heading into November, upside gold call spreads can provide 4-5x payouts and look like a cheap tail hedge. To the extent global trade tensions suddenly ease post-Midterms, for factors perhaps independent of the election, we think base metals and grain prices could rally 5-10% rather quickly.

- **Mortgages**: Administrative reforms, such as lowering the GSE loan limit, could restrict agency MBS supply (and ultimately valuation spreads) by driving more.

- **Regulatory Focus – The top regulatory themes post-Midterms are expected to affect the construction, insurance, healthcare, and financial sectors.**

  - HVCRE: Revised rules and language clarification on risk-based capital charges for construction loans

  - Consumer: Exemption of multifamily disclosures required by Consumer Financial Protection Board (CFPB)

  - Tax Reform: Clarification for “pass-through” businesses on the 20% deduction and whether “like-kind” exchanges would not reduce that amount

  - Volcker Rule: Clarification and simplification of language to remove uncertainty over what is permissible on bank balance sheets to improve secondary liquidity

  - Flood Insurance Program: Exemption for owners who purchase private insurance beyond the federal coverage limit.

  - GSE Capital Reserves (post-conservatorship): Modification of proposed capital requirements that may be placed on Fannie and Freddie when they come out of conservatorship

  - Health Care: – Democrats’ ability to challenge GOP healthcare policies could provide some relief to providers which are facing regulatory uncertainty. In pharma, a near-term status quo suggests a benign environment. For opioids, we continue to view an annual contribution towards a large settlement more likely than a one-off settlement Overweight ENDP (Endo) bonds, Overweight BHCCN (Bausch Health) bonds

Dana M Peterson
+1 212-816-3549
dana.peterson@citi.com

Tina M Fordham
+44 20 7986 9860
tina.fordham@citi.com

Political Implications & Risks

US Midterms typically are not a major US market event, let alone a global market event, but this time may be different. Although focused on state-level concerns, Midterms are usually regarded as a referendum on the party of the current president; with that in mind, a stinging rebuke is frequently the outcome, as happened in 2010 Midterms two years after President Obama was elected. Moreover, Midterm elections tend to have much lower voter turnout rates compared to presidential elections, particularly among Democrats. However, given the rise of global vox poluli (see WATCH: Storm in a Teacup?: Global Political Mega-Trends, Signals and Signposts), markets are not living in conventional political times. Political risks were once regarded as low-probability, high-impact tail risks, but we now advise investors to prepare for a range of political outcomes based on plausibility, not probability. Risks include alternative outcomes that might spur meaningful economic, political, and/or market moving events.

With 5 weeks before the vote, US political observers are leaning towards a Midterm election outcome that retains Republican party control over the Senate, but places Democrats with a majority in the House. These assumptions are based upon enthusiasm of voters during state and local primary elections, the President's comparatively low approval ratings despite a strong US economy, electoral math dictated by the number of contested seats, and idiosyncratic factors, including the outsized number of open seats (i.e. having no incumbent candidate) and the vast number of races for which pundits are unable to call (i.e. tossups). Hence, we remind investors of the high degree of variability in Midterm polling, and the enormous difficulty in weighting key variables like voter turnout.

Nonetheless, we highlight that assorted other Midterm election permutations, are just as viable, which could lead to tail risks becoming the base-case or even reality. Indeed, (1) there are still several weeks ahead of election day; (2) Midterm polling tends to have a wide margin of error (MoE), and (3) a few points in either direction could tip the trajectory of which party achieves a majority, given the complexity of Congressional seat rating models. Indeed, the number of open seats and tossup races further complicates the ability of observers to definitely identify a sure election outcome. Importantly, the main near-term concrete effect of the courtroom dramas surrounding the Trump team and the current Supreme Court nomination process may be to mobilize otherwise Midterm-shy Democrats and others opposing the Administration to vote, increasing the already huge challenge of estimating voter turnout and possibility of an election night surprise.

Democratic House Majority Is Not in the Bag

Most current election metrics portend that scenario 2—Democratic majority in the House and Republican majority in the Senate—is the most probable (in the range of 70 percent), but not guaranteed. We describe the scenarios here:

Scenarios for US Midterm Elections

- **Main – 1. to 4.**

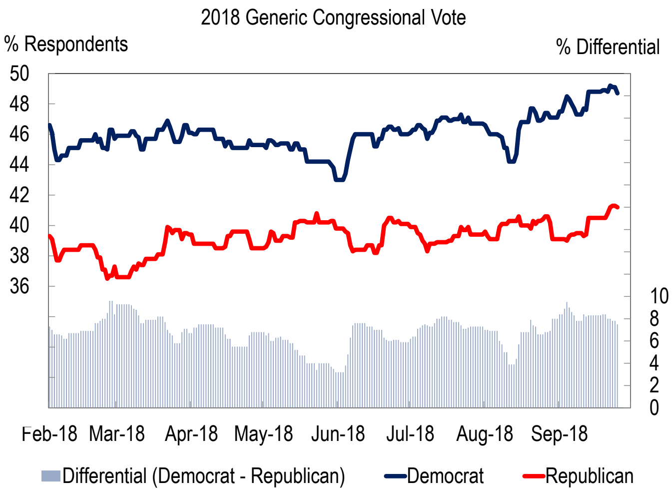
1. House – GOP; Senate – GOP
2. House – Dem; Senate – GOP
3. House – GOP; Senate – Dem
4. House – Dem; Senate - Dem

- **Alternative** – 1a. House and Senate remain in GOP hands, but the Democrats significantly narrow the Republican majority in the House

Probability of Election Outcomes

- **Very High: Dem(H), GOP(S)** – Statistically, the greatest weight should be placed on scenario 2. Democrats must keep 193 seats, but also gain 24 seats in the House. Political pundits note that Democrats have the advantage as the number of vulnerable Democrats in the House (i.e. the number who hold seats that Donald Trump carried in 2016) is 13, compared to the number of vulnerable in the GOP (i.e. the number who hold seats Hillary Clinton carried in 2016) at 25.
  - Congressional generic ballot polls have consistently revealed voter preference for Democratic senators and representatives over the last nine months
  - Political pundits, polls generally place a high probability (>70 Percent) of Democrats retaking control of the House from Republicans

Figure 3. Real Clear Politics Aggregation of Daily Generic Polls Show Potential Voters Say They Plan to Elect Democrats for Congress



Source: RealClear Politics and Citi Research.

Figure 4. Midterm Election Outcome Probabilities

Outlet	Probability of House Majority: Democrats	Republicans	Seats Won: Democrats	Republicans
FiveThirtyEight	80.3	19.7	232	203
The Crosstab	79	21		
Sabato's Crystal Ball	53.6	46.4	221	214
Predict It	71 cents	34 cents		
Ballotpedia.org	Yes			

Outlet	Probability of Senate Majority: Democrats	Republicans	Seats Won: Democrats	Republicans
FiveThirtyEight	31.7	68.3	49	51
Predict It	35 cents	71 cents		

Source: FiveThirtyEight, The Crosstab, Sabato's Crystal Ball, Predict It, Ballotpedia.

- **High: GOP (H,S)** – Scenario 1 is a high probability event, in our view as voter turnout history favors the "red wall" over the "blue wave." It is highly likely that Republicans can retain their party mandate—control over both chambers of Congress and the White House—because voter registration and turnout on Election Day tend to be sparse for Midterms relative to presidential elections. Moreover, Republicans are historically more likely to show at the polls than Democrats. We posit that scenario 1a is also highly likely given the elevated number of tossup races, open seats, and potential for unpredictable events.

Figure 5. What Do Seat Ratings Mean?

Expert Rating	Average Margin of Victory
Tossup	0
"Tilts" toward candidate	4
"Leans" toward candidate	7
"Likely" for candidate	12
"Solid" or "Safe" for candidate	34

Source: fivethirtyeight.com: 2018 House Forecast Methodology and Citi Research.

- **Medium: DEM (H,S)** – Scenario 4 is a medium to high probability event, as it is likely that the momentum Democrats may experience at the polls in the House might spill over into the Senate. Voters tend to vote "down-the-line," which means that they often vote for all candidates in a particular column on the voting ballot. Ballots typically place all candidates from a particular party in one column.

- **Low to Zero: DEM(S), GOP(H)** – Scenario 3 is highly unlikely for several reasons: (1) the Democrats would have to defend 26 seats and then win another 3 or so in the Senate. Moreover, election analysis suggests that the GOP might flip 8 Democratic seats in the Senate, increasing their majority, not reducing it; and (2) the voter momentum is squarely behind Democrats in the House, making it more likely that as voters usually vote "down-the-line," a Democratic House has a greater likelihood of also delivering a Democratic Senate, than the inverse.

Figure 6. Professional Election Predictions Suggest Tough Road to Democratic Majority Senate, Tossups Place Parties at Stalemate in House

Professional Election Predictions 2018

	Democrat					Republican				Democrat + Tossups		Republican + Tossups	
Senate Seat Ratings (51 to Win)	Tracking	Safe	Likely	Lean	Tossup	Lean	Likely	Safe	Tracking	D+T	R	D	R+T
Sabato's Crystal Ball (UVA Center for Politics)	45	38	5	2	6	2	1	46	49	51	49	45	55
Inside Elections*	45	39	3	3	5	2	1	47	50	50	50	45	55
Cook Political Report	44	37	5	2	8	1	2	45	48	52	48	44	56
CNN Key Races	45	37	4	4	6	2	0	47	49	51	49	45	55
RealClear Politics	44	37	3	4	9	0	1	47	47	53	47	44	56
Daily Kos	43	37	4	2	8	1	2	46	49	51	49	43	57

	Democrat					Republican				Democrat + Tossups		Republican + Tossups	
House Seat Ratings (218 to Win)	Tracking	Safe	Likely	Lean	Tossup	Lean	Likely	Safe	Tracking	D+T	R	D	R+T
Sabato's Crystal Ball (UVA Center for Politics)	206	180	11	15	29	20	36	144	200	235	200	206	229
Inside Elections*	203	186	5	12	16	28	26	162	216	219	216	203	232
Cook Political Report	203	182	12	9	30	27	27	148	202	233	202	203	232
CNN Key Races	203	182	9	12	30	17	30	155	202	233	202	203	232
RealClear Politics	199	173	15	18	39	16	13	161	193	238	197	203	232
Daily Kos	200	185	8	7	30	19	33	153	205	230	205	200	235
FiveThirtyEight	216	190	16	10	18	20	48	133	201	234	201	216	219
The Crosstab	219	196	6	17	17	40	21	138	199	236	199	219	216

*Lean = Lean + Tilt

Source: 270towin.com, RealClear Politics, and Citi Research.

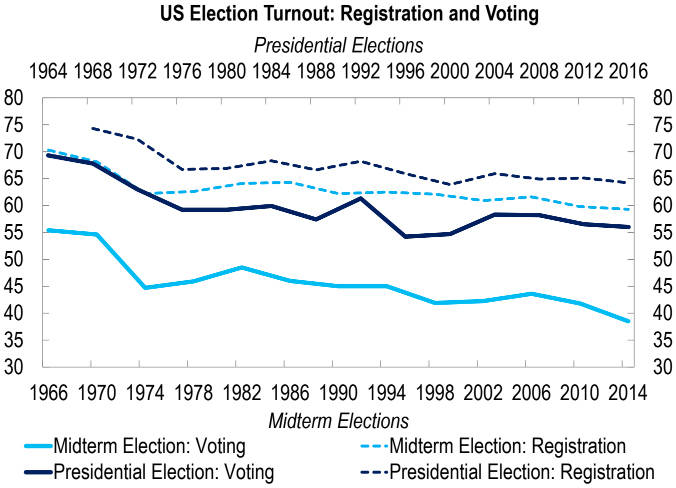
Voter Turnout Risks Loom Large

Despite polling data that favor a Democratic majority in the House, the outcome of the Midterms remains uncertain as the metrics may not account for the erosion of voting habits. Over the last 60 years, a smaller subset of voters than ever has been deciding the outcome of Congressional and Presidential elections. The percentage of people who register to vote in both Presidential and Midterm (Congressional) elections has dropped by 10 percentage points each to just 65 percent and 60 percent, respectively since the late 1960's. Persons who actually vote have also fallen by roughly 15 percentage points for each Presidential elections (to 55 percent) and Midterms (to just under 40 percent). With registrations and voting, turnout in the Midterms underwhelms the Presidential elections.

Low Midterm election registration and voter turnout may favor Republican candidates in tight races. Persons who vote in the US are more likely to be older, more educated, white, and/or Republican. (More women than men actually voted in 2016.) Moreover, self-reported data gathered by the American National Election Studies, Cooperative Congressional Election Study suggest that in general Republicans, who also often skew older and white, tend to have an advantage over Democrats in Midterm elections. Of 10 Midterm elections since 1978, the average GOP turnout advantage has been roughly +3 percentage points. Interestingly, the study found that the Republican Midterm advantage is great with a Democratic president in the White House (+5 or +6 percentage points), but is more muted than when a Republican president is in the Oval Office (+1 percentage point). However, given the large number of persons who identify as registered independent voters, and the roughly even number of those Independent voters that lean Democratic or

Republican, the GOP turnout advantage might prove important in November. US Census Bureau data reveal that ‘blue’ states (tend to vote for Democrats) had lower voter turnout than ‘red’ states (tend to vote for Republicans) in both the 2014 Midterm elections and the 2016 presidential elections.

Figure 7. Turnout Is Typically Low for Midterm Elections



Source: US Census Bureau and Citi Research.

Figure 8. GOP Party Midterm Voting Turnout Advantage Record

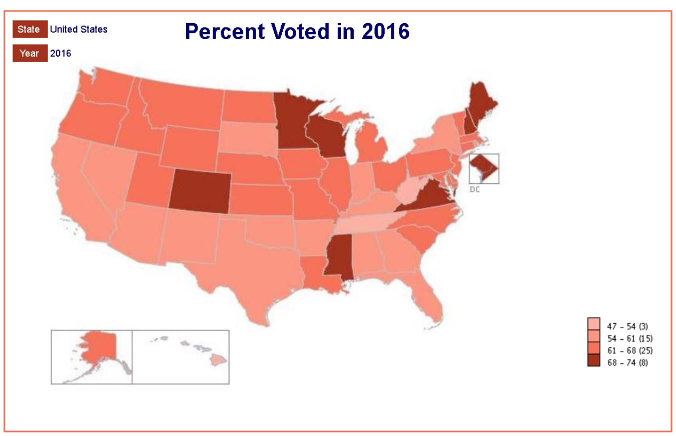
Republican Midterm Turnout Advantage

	Under a Democratic President	Under a Republican President
1978 (Carter)	6	—
1982 (Reagan)	—	1
1986 (Reagan)	—	None
1990 (H.W. Bush)	—	3
1994 (Clinton)	6	—
1998 (Clinton)	3	—
2002 (W. Bush)	—	2
2006 (W. Bush)	—	None
2010 (Obama)	6	—
2014 (Obama)	5	—
Average	**5**	**1**
Median	**6**	**1**

Turnout is self-reported for 1982, 1994, 1998 and 2002. Turnout is from verified voter files for all other years.

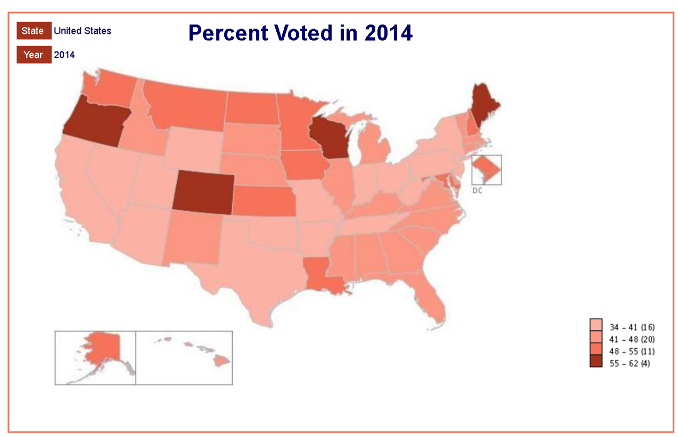
Source: American National Elections Studies, Cooperative Congressional Election Study at Harvard University; and Citi Research.

Figure 9. Blue States (Democratic) Had Lower 2016 Voter Turnout



Source: Census Bureau and Citi Research.

Figure 10. Blue States (Democrats) Less Likely to Vote in Midterms



Source: Census Bureau and Citi Research.

“Blue Wave” Election Risks Also Gaining Momentum

- **Democrats might achieve a wave in the House**: A wave election describes an election cycle in which one party makes outsized electoral gains. Ballotpedia.org defines wave elections as the 20 percent of elections over the 1918 to 2016 period resulting in the greatest seat swings against the sitting president's party. Over the last 40 years, three out of five Presidents have suffered a wave election in the Senate (Reagan (R), GW Bush(R), Obama (D)), and two out of five Presidents suffered a wave election in the House (Clinton (D), Obama (D)).

  – House – In 2018, Republicans would have to lose 48 seats in the House in order for Democrats to win a wave election in that chamber. Republicans are engaged in 30 hotly contested elections, and have 43 open seats compared to

Democrats with 23 open seats. Hence, it appears quite plausible that not only might Democrats cinch control of the House, they may also achieve a wave.

– Senate – In 2018, Republicans would have to lose 7 seats in the Senate in order for Democrats to win a wave election in that chamber. This seems quite unlikely given the unfavorable election math for Democrats who must defend 26 existing seats, let alone pick up another seven Republican seats.

Figure 11. Democratic Wave: Senate – Republicans lose 7 seats

Year	President	Party	Election type	Senate seats change	Senate majority[102]
2018	**Trump**	R	**First midterm**	**-7E**	D (flipped)
1932	Hoover	R	Presidential	-13	D (flipped)
1958	Eisenhower	R	Second midterm	-12	D
1946	Truman	D	First midterm	-10	R (flipped)
1980	Carter	D	Presidential	-9	R (flipped)
2014	Obama	D	Second midterm	-9	R (flipped)
1942	Roosevelt	D	Third midterm	-8	D
2008	George W. Bush	D	Presidential	-8	D
1926	Coolidge	R	First midterm	-7	R
1930	Hoover	R	First midterm	-7	R
1986	Reagan	R	Second midterm	-7	D (flipped)

Source: Ballotpedia.org: Wave Election Analysis, and Citi Research.

Figure 12. Democratic Wave: House – Republicans lose 48 Seats

Year	President	Party	Election type	House seats change	House majority[7]
2018	**Trump**	R	**First midterm**	**-48E**	D (flipped)
1932	Hoover	R	Presidential	-97	D
1922	Harding	R	First midterm	-76	R
1938	Roosevelt	D	Second midterm	-70	D
2010	Obama	D	First midterm	-63	R (flipped)
1920	Wilson	D	Presidential	-59	R
1946	Truman	D	First midterm	-54	R (flipped)
1994	Clinton	D	First midterm	-54	R (flipped)
1930	Hoover	R	First midterm	-53	D (flipped)
1942	Roosevelt	D	Third midterm	-50	D
1966	Johnson	D	First midterm	-48	D
1974	Ford	R	Second midterm	-48	D

Source: Ballotpedia.org: Wave Election Analysis, and Citi Research.

Post-Midterm Election Political Uncertainty Rises/Falls on November 6 Outcome

Ongoing Investigations Might Intensify

Investigations into the President's finances and campaign activities will continue post-Midterms, but likely will increase and intensify if Democrats gain more seats or majorities in Congress. Additional investigations into foreign government interference in the 2016 presidential elections and the extent to which President Trump or his affiliates had knowledge of any such activities will continue to be a massive drag on the policy momentum and cohesion of the Trump Administration. This is likely to be the case leading up to and even beyond the Midterm elections, in our view. The near-constant developments in the news likely will continue to distract the Administration from its policy agenda, and could prompt more erratic and/or inflammatory rhetoric from the President. We characterize news of the indictments of several persons within or linked to the President's inner circle—if excluding the president himself—as another example of a political rather than a market signal. Nonetheless, woes for the Administration could accelerate in the coming weeks and months prompting shifts in polling and turnout in November, increasing the risk of electoral surprises, as well as a constitutional crisis after the Midterms.[2] **Key questions include:**

[2] The last major Constitutional Crisis was probably the Cuban Missile Crisis. A Constitutional Crisis best described as a sort of political "nervous breakdown" where different branches of government sharply disagree over the extent of their respective political powers over a particular matter.

- How Long Might Muller investigations persist?: There is as yet no indication of when the Special Prosecutor's investigations will conclude. Given sensitivity about accusations of political interference in the Midterms as well, it is conceivable that the results of the investigation may be delayed until after the Midterm elections.

- Can a sitting US President be indicted?: Legal precedent suggests that the answer is "no," but constitutional scholars disagree.

  – How might the investigations affect Midterms?: If the allegations of President Trump's involvement intensify, they could start to become an electoral liability for the Republican Party in both the 2018 Midterms and 2020 Congressional and Presidential elections. The President being implicated in a criminal conspiracy might not change the current political calculus, but a smoking gun on Russian collusion, might—if it meets the high bar of being substantiated, given such collaboration would meet the definition of treason.

Figure 13. Presidential Line of Succession

US Presidential Line of Succession

No.	Office	Current officer
	President	Donald Trump
1	Vice President	Mike Pence (R)
2	Speaker of the House of Representatives	Paul Ryan (R)
3	President pro tempore of the Senate	Orrin Hatch (R)
4	Secretary of State	Mike Pompeo (R)
5	Secretary of the Treasury	Steven Mnuchin (R)
6	Secretary of Defense	James Mattis (I)
7	Attorney General	Jeff Sessions (R)
8	Secretary of the Interior	Ryan Zinke (R)
9	Secretary of Agriculture	Sonny Perdue (R)
10	Secretary of Commerce	Wilbur Ross (R)
11	Secretary of Labor	Alex Acosta (R)
12	Secretary of Health and Human Services	Alex Azar (R)
13	Secretary of Housing and Urban Development	Ben Carson (R)
–	Secretary of Transportation	Elaine Chao (R)[a]
14	Secretary of Energy	Rick Perry (R)
15	Secretary of Education	Betsy DeVos (R)
16	Secretary of Veterans Affairs	Robert Wilkie (R)
17	Secretary of Homeland Security	Kirstjen Nielsen (R)

[a] Not a natural-born citizen (acquired US cvitizenship by naturalization and this ineligible for th ePresidency.

Note: (R) Republican, (D) Democrat, (I) Independent

Source: Citi Research

Impeachment Risks May Materialize

Impeachment proceedings risk rise in 2019 if Democrats obtain majorities in one or both chambers of Congress, in our view.[3] We do not speculate about impeachment prospects, but nonetheless highlight factors that contribute to the probability of Congress pursuing this route given the above scenarios. Washington insiders suggest that the likelihood of impeachment proceedings against President Trump is *low*, given the difficulty of unseating a President, and the desire of legislators to spend their energies on the upcoming 2020 elections and achieving some legislative wins ahead of those elections.

Key House Democrats in the 116th Congress leadership who might lead potential impeachment proceedings include Waters, Nadler, and Cummings.

- Rep. Maxine Waters (D-CA), might be the Democratic Chair of the House Financial Services Committee, which might increase Administration oversight

- Rep. Jerrold Nadler (D-NY), might be the Democratic Chair of the House Judiciary Committee, where any impeachment proceeding would begin

- Rep. Elijah Cummings (D-MD), might be the Chair of the House Government Oversight Committee and likely to increase oversight of the Administration

Citi Research posits that impeachment proceedings are a tail risk, having *high* impact, but *low* probability. We contend that in the absence of hard evidence of extremely serious wrongdoing by either the president or the First Family, impeachment proceedings are likely to be regarded as too politically costly by both parties. Moreover, we anticipate that impeachment proceedings efforts by the far left Democratic fringe might be quashed by Democratic leadership for several reasons:

  – (1) it is extremely difficult to oust a president, as a simple majority (218 votes) is required for the House, but a supermajority (67 votes) in the Senate;

[3] **Note**: Impeachment is a political trial, not a criminal trial, where Congress raises accusations that the President committed treason, bribery, or other high crimes and misdemeanors. The House of Representatives moves to impeach, which requires a majority vote among members. The Senate convicts on the impeachment charges, which requires a 2/3 majority. The Senate convenes a "trial" with the House members making the case for and against impeachment, and the Chief Justice of the Supreme Court presides.

- (2) GOP likely will not stand for impeachment in either chamber of Congress;
- (3) impeachment proceedings take up valuable time that might be directed towards enacting legislation; and
- (4) voters typically are opposed to impeachment of the President, as the proceedings tend to be politically disruptive, unseemly, and questioning of their democratic right to vote for the candidate of their choice. Democratic leadership likely are wary of souring on voters ahead of 2020 elections

In each of the four main Midterm election outcome scenarios, impeachment proceedings are still unlikely to lead to a conviction of the President.

- **Scenarios 1 and 1a**: Extremely low probability, as Congressional Republicans are highly unlikely to impeach President Trump, the leader of their party, unless there is indisputable evidence of constitutionally allowed reasons to do so. Even still, Republicans may defer to voters to make the decision in 2020.
- **Scenario 2**: Higher probability, as the Democratic wave that facilitated a Democratic House majority likely would include many politicians who ran on an anti-Trump campaign ticket. Moreover, several Democratic incumbents that have been critical of President Trump and his policies are rising to positions of power in the chamber that might allow deeper investigations into the Executive's actions that might support evidence for impeachment.
- **Scenario 3**: Medium probability as Democrats in the Senate may resist given fear of wasting time on a losing proposition. There may also be a concern among Senate Democrats that impeachment proceedings would play poorly with voters, as it would challenge their decision to choose Mr. Trump in 2016.
- **Scenario 4**: High Probability, as Democrats may feel emboldened to proceed with impeaching the president, given a Congressional mandate from the voting populace in the 2018 Midterms. Still, success in convicting the President of one or more impeachable offenses would be difficult, unless the Democrats possessed significant seat majorities in both chambers and there were a number of Republicans willing to vote for impeachment.

While likely eliciting a strong initial response from markets, a recession due to impeachment proceedings, or even in the remote case that there is a conviction as a result of impeachment proceedings, appears low, in our view. Markets might sell off immediately, but stabilize quickly given US Constitutional provisions for transferring power and the strong economic backdrop anticipated next year. The succession of Presidential power in the US would keep the Executive branch and leadership of all government agencies under Republican control. Key GOP policies that promoted faster real GDP growth in recent years (e.g. tax reform, deregulation) likely would remain in place. Indeed, global trade tensions might lessen if foreign governments view the new regime governed by more career politicians as more stable. Moreover, the Clinton impeachment proceedings experience suggests a low recession risk from impeachment proceedings. Similar to the mid-to-late 1990's, the current US economy is experiencing relatively strong growth, this time bolstered by fiscal stimulus as opposed to two tech bubbles.

Trump Resignation Risks

Related to the investigations and impeachment risks, is the belief among some US political observers that President Trump might resign from his post.

We do not speculate on this matter, but note the following in the event that this scenario is realized should political pressures become more intense:

– (1) President Trump could opt to resign if allegations and pressure become so untenable that the only way to protect members of the inner circle (e.g. close family) is to resign. Still, this scenario might be a quasi-win in the eyes of the base who might view the President as a political martyr who tried to drain the swamp, but corruption, the elite, and establishment political figures were too entrenched.

– (2) President Trump refuses to resign even if scandals worsen and unfavorable evidence mounts, but voters continue to support him.

The most likely political impact of either impeachment, resignation or "removal" risks would be borne by Republicans in the 2020 presidential elections. This is given the historical precedent of the party of a leader accused of major scandal sees punishment at the polls for the next 1-2 election cycles.

Figure 14. Presidential Impeachment Proceedings Are Rare and Have Never Resulted in Guilty Verdict or Removal

Official	Date of Final Senate Action	Result	Removed from Office?
William Blount, Senator	January 11, 1799	expelled, charges dismissed	Expelled
John Pickering, Judge	March 12, 1804	guilty	Removed
Samuel Chase, Justice	March 1, 1805	not guilty	
James H. Peck, Judge	January 31, 1831	not guilty	
West H. Humphreys, Judge	June 26, 1862	guilty	
Andrew Johnson, President	**May 16/26, 1868**	**not guilty**	
Mark H. Delahay, Judge	no action	resigned	
William Belknap, Secretary of War	August 1, 1876	not guilty	
Charles Swayne, Judge	February 27, 1905	not guilty	
Robert Archbald, Judge	January 13, 1913	guilty	Removed
George W. English, Judge	December 13, 1926	resigned, charges dismissed	
Harold Louderback, Judge	May 24, 1933	not guilty	
Halsted Ritter, Judge	April 17, 1936	guilty	Removed
Harry E. Claiborne, Judge	October 9, 1986	guilty	Removed
Alcee Hastings, Judge	October 20, 1989	guilty	Removed
Walter Nixon, Judge	November 3, 1989	guilty	Removed
William J. Clinton, President	**February 12, 1999**	**not guilty**	
Samuel B. Kent, Judge	July 22, 2009	resigned, case dismissed	
G. Thomas Porteous, Jr., Judge	December 8, 2010	guilty	Removed

Note: President Richard Nixon resigned before impeachment proceedings began.

Source: Senate.gov and Citi Research.

Party Leadership Risks

The leaders of the Democratic and Republican parties in the 116th Congress will be important for guiding policy aims that affect the economy and whether investigation and/or impeachment risks intensify, but who will fill those seats is uncertain. Immediately following the November 6 election, legislators will chose party leaders for the House and Senate. If the Senate remains in Republican hands, then Senator Mitch McConnell (R-KY) and Chuck Schumer (D-NY) will remain in their current respective positions of majority and minority leaders. If the Democrats won the Senate, Schumer would very likely become majority leader. In the House, current Minority Party Leader Nancy Pelosi (D-CA) is anticipated to become the Speaker of the House, one of the highest position in that chamber, if the Democrats win a majority. Meanwhile, the frontrunner for the top House seat among Republicans is current Majority Leader Kevin McCarthy (R-CA). While Senate leadership is fairly clear-cut, House leadership is not. Notably, an NBC news survey reported that an accumulation of statements indicate that at least 57 Democratic

House candidates and incumbents would not support Pelosi for Speaker.[4] Meanwhile, McCarthy may fall short of enough votes from his GOP peers to become Speaker.

- **Scenario 1, 1a, 3**: Democrats stung from losses in the Senate and failure to capture the House challenge and vote down Pelosi as minority party leader in scenario 1. This might also be a possibility in scenario 1a where the Democrats also fail to regain control over the House. In the unlikely scenario 3, it is possible that Democrats might sour on Pelosi, as she failed to capitalize on the momentum that allowed the Democrats to win the Senate. Meanwhile, Republicans might also have a contentious battle over who takes command as Speaker. Again, McCarthy is favored, but Majority Whip Steve Scalise (R-LA) is also a strong potential candidate. The risk is that neither McCarthy nor Scalise receive a majority of votes among Republicans, leaving the field wide open for as many as 10 other GOP Speaker of the House hopefuls.[5]
- **Scenario 2**: Pelosi is successful in leading the party to victory in the House, and is rewarded with the Speakership. GOP minority leader remains uncertain.
- **Scenario 4**: It is difficult to determine, as Pelosi might be rewarded by overseeing the Democratic wave that restored majorities in both chambers. Alternatively, and probably less likely, Pelosi is not rewarded with the speakership if the duel Democratic majorities occur because Democrats ran on policies that appealed to the GOP and/or policies that appealed to many populist Democrats. In this case the perception may be that Pelosi's influence was not material to the Democratic victories and others try to supplant her.

[4] "Democrats opposing Pelosi," by NBC News, *NBC News*, 10 Aug 2018

[5] "10 dark horse candidates for Speaker of the House, "by Scott Wong and Melanie Zanona, *The Hill,* 25 July 2018.

Economic Implications – US

Dana M Peterson
1+212-816-3549
dana.peterson@citi.com

Most US Midterm election scenarios suggest further erosion of the fiscal outlook with typically modest gains to US real GDP growth (see US Economics View: More Debt, Little Growth–US Midterm Election Economic Outlook).

Midterms Unlikely to Move Cliff, Trade Dials

The fate of the looming 2020 fiscal cliff is independent of the Midterm elections, in our view, as there probably will be a bipartisan decision to delay it. A spending package that mitigates or reverses Sequestration legislated in the BCA of 2011, would bolster real GDP growth from averaging 1.8 percent to a range of 2-2¼ percent over 2020 and 2021. Inflation might be slightly higher: in a range around 2¼ percent year-on-year as opposed to 2 percent. Even if delayed, the cliff then bites in 2022, slowing growth to 1¼ percent in that year. The Federal government deficit as a share of GDP might swell by 0.4 percentage point in 2020 to 5.0 percent from our current estimate of 4.6 percent. Deficit shares of GDP might also be an average of 0.3 percentage point larger per year thereafter.

Democratic control over one or both chambers of Congress provides limited clarity on the direction of trade disputes, in our view. It is yet unclear if President Trump might view Democratic gains in Congress as a signal to narrow his focus or to double down on reordering global trade, over which the Executive branch possesses fairly expansive authority. Voters, rather than Congress, likely have greater sway over Trump trade policy (see US: 'Red' States Lose in Global Trade Wars: State-by-State Jobs, Trade, Growth, Midterm Elections Implications).

Fed policy is likely to remain data-, not Midterms- or Trump-dependent. The confirmation of new Federal Reserve Board Governors is unlikely to be affected by the Midterm elections, as the GOP is likely to maintain a majority in the Senate. Vetting and approving Fed picks is the sole providence of the Senate, not the House. Fed independence and recession risks from Fed monetary policy decisions will remain a focus of markets regardless of US Midterm election outcomes. The Fed is unlikely to yield to short-term political whims even if calls for greater oversight and transparency increase, and will remain data-dependent regarding the path for interest rates and the pace of balance sheet unwind (see US Economics View: Is Fed Independence a Thing of the Past?).

Figure 15. Citi Base Case Projections

Citi Base Case (Sep 2019)	2018	2019	2020	2021	2022
Real GDP (YoY%)	2.9	2.8	1.8	1.8	1.8
Unemployment Rate (%)	3.8	3.4			
PCE Inflation (YoY%)	2.1	1.8	2.0	2.1	2.0
Core PCE Inflation (YoY%)	1.9	2.1	2.0	2.0	2.0
10-Year Treasury Yield (EOP	2.80	2.85	2.85	2.85	2.85
Fed Funds Rate (EOP)	2.50	3.00	3.00	3.00	3.00
Dollar Index (DXY)	94.7	95.2	86.2	81.8	78.7

Source: Citi Research estimates.

Figure 16. Delaying 2020 Fiscal Cliff May Cause More Harm Than Good

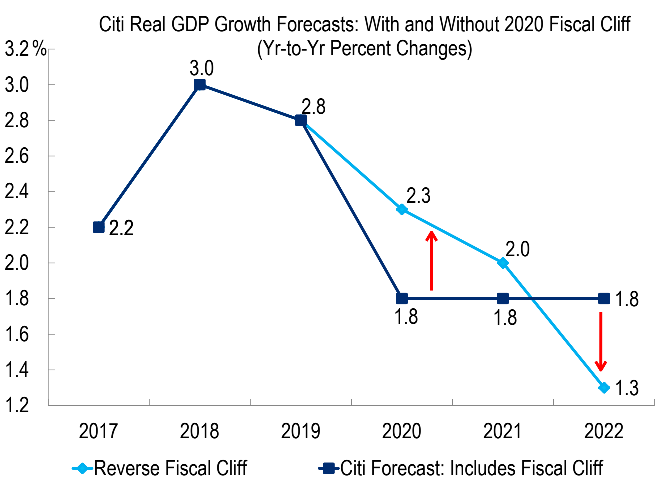
Change relative to model baseline

No Fiscal Cliff	2020	2021	2022
Real GDP (YoY%)	0.5	0.2	-0.5
Unemployment Rate (%)	-0.3	-0.4	-0.3
PCE Inflation (YoY%)	0.0	0.1	0.2
Core PCE Inflation (YoY%)	0.0	0.1	0.2
10Yr-Yield (bp)	23	4	-1
Fed Funds (bp)	58	99	80
Trade Wtd USD (%)	0.1	0.1	0.1

Note: Sequestration returns on 1 October 2019, the start of FY2020

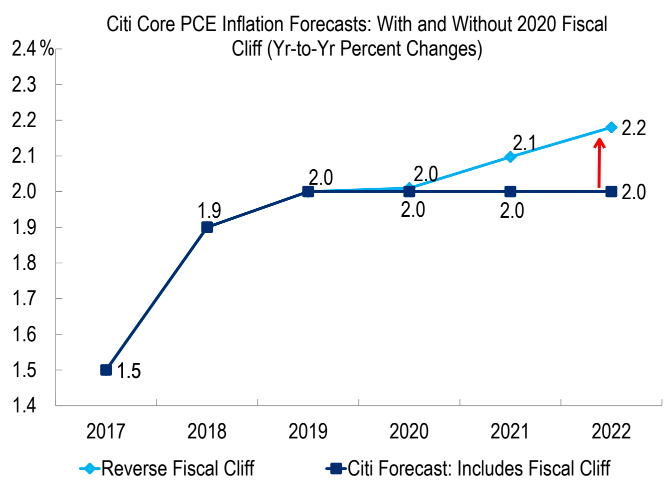
Source: Citi Research estimates.

Figure 17. Fiscal Cliff Delay Likely Regardless of Midterms Outcome



Source: Citi Research estimates.

Figure 18. Temporary Boost Followed by Stagflationary Scenario



Source: Citi Research estimates.

Midterms May Matter for Growth & Debt

The outcome of the Midterms will matter for other fiscal policy initiatives, including additional tax cuts, spending reform, and an infrastructure deal. Still, the central, and currently most likely, scenario of a divided Congress, where the Democrats control the House and Republicans retain a majority in the Senate, suggests the potential for gridlock, and few significant legislative gains. President Trump's willingness to sign bills that affect the economy, without advancing his own legislative agenda in exchange, may also be tested by the composition of Congress.

Tax Reform 2.0 Unlikely

If Congress is divided, then significant additional changes in the tax code are unlikely. We do see some scope for bipartisan agreement on minor tweaks to the current tax code (i.e. Tax Reform 1.0), and the passage of select low-cost elements of Tax Reform 2.0 proposals.[6] However, costlier items including making individual tax cuts permanent seem more remote. The GOP would need to retain control over both chambers of Congress, and use reconciliation—a fast track mechanism— in order to implement major changes in the tax code. We estimate that if assorted tax proposals are implemented, then there could be slightly faster real GDP growth, but materially larger federal budget deficits and debt issuance.

Figure 19. What Is Tax Reform 2.0?

JCT Score (Bil. USD)	Provision
$657.3	**Tax Reform 2.0**
$630.9	H.R. 6760, the Protecting Family and Small Business Tax Cuts Act of 2018,
$ 630.9	Individual Tax Reform Permanent
$21.0	H.R. 6757, the Family Savings Act of 2018
$10.0	Expanding and Preserving Retirement Savings
$0.1	Administrative Improvements
$11.0	USA's, Expand 529s, Select Penalty-Free Retirement disbursements
$5.4	H.R. 6756, the American Innovation Act of 2018
$2.8	Simplification and expansion of deduction for start-up and organizational expenditures
$ 2.6	Preservation of start-up net operating losses and tax credits after ownership changes

Source: Joint Committee on Taxation (JCT), US House of Representatives, and Citi Research.

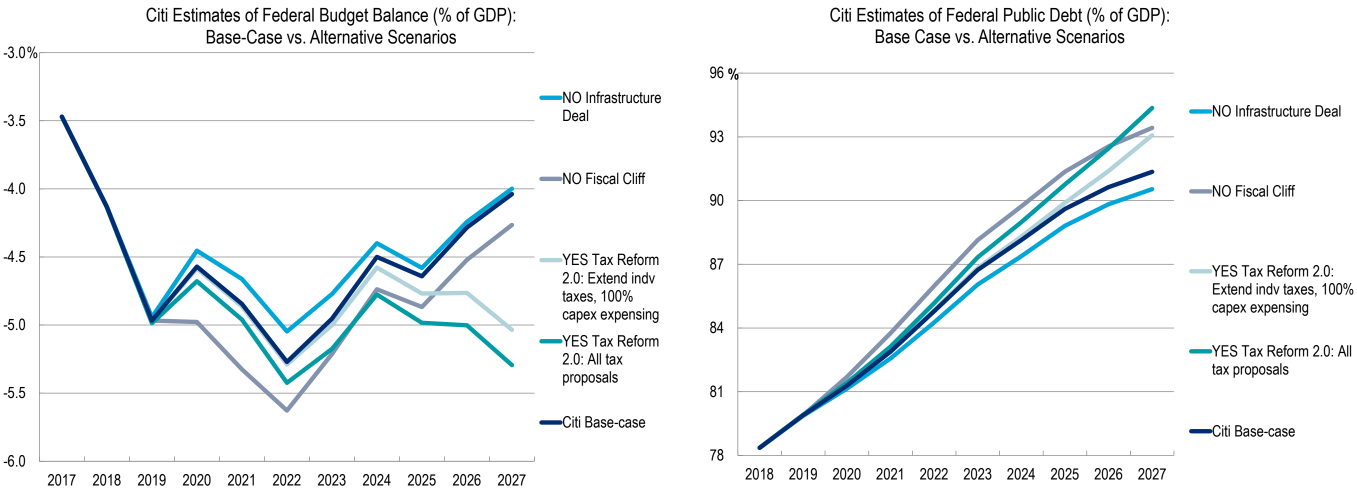
- **Scenarios 1, 1a.** If Republicans retain majorities in both chambers in Congress, then Tax Reform 1.0, passed in December 2017 remains in place, with scope for technical changes to the bill. There is also a higher likelihood of Tax Reform 2.0, for which legislators can use reconciliation to pass, unless the GOP majority is narrow making votes vulnerable to defectors. Tax Reform 2.0 would produce larger annual Federal budget deficits, likely overwhelming savings from welfare reforms. Tax Reform 2.0 seeks to make individual tax cuts permanent, which might bolster growth 8 to 10 years from now, while reducing federal tax receipts over ten years by about $660 billion. If Congress also adopts additional tax proposals, including making permanent 100% capex expensing and tax extenders, as well as repealing Obamacare tax hikes, then revenues might be reduced by $1.2 trillion in 10 years. The deficit as a share of GDP would be in the range of 5 to 5.5 percent—roughly 1 percentage point larger than forecast

- **Scenarios 2-3.** If Democrats capture majorities, then Tax Reform 2.0 as imagined by House Ways and Means Committee Chairman Kevin Brady (R-TX) likely dies. Democrats might agree to passing select elements of Tax Reform 2.0 (e.g. USAs), plus technical fixes to Tax Reform 1.0, but not the broader 2.0 framework. Regarding, permanent individual tax cuts, Democrats probably would demand much in exchange from the GOP. Permanent 100% capex expensing, an item that might also be included in tax initiatives, is a lose-lose proposition as it both enlarges deficits and reduces real GDP growth for several years.

- **Scenario 4.** If Democrats snag majority control over both chambers of Congress, then Tax Reform 1.0 might be reversed in part or completely reconfigured to skew benefits towards low- and middle-income individuals, and small businesses, but away from large firms and wealthy individuals

[6] **Note**: Tax Reform 2.0 is a second tax package that would (1) make individual tax cuts and the pass-through deduction set to expire in 2025 permanent; (2) streamline retirement savings accounts and provide alternative retirement savings vehicles (e.g. Universal Savings Accounts or USAs) that do not have withdrawal penalties and can also be drawn on for non-retirement purposes; and (3) legislation to improve tax treatment for new firms, including accelerate expensing of capital expenditures, with also a possible avenue for making Tax Reform 1.0 100% expensing that will expire in five years, permanent

Figure 20. US Federal Budget Deficits and Public Debt Share of GDP Likely to Be Larger Under Most Midterm Election Outcome Scenarios



Source: Congressional Budget Office and Citi Research Estimates.

Infrastructure Deal Possible

If Congress is divided, then major spending reform is out of the picture, but there is some scope for an infrastructure deal. GOP attempts at major spending reforms, particularly in relation to social welfare programs, would be thwarted by Democrats if Republicans lose their current majority in the House. Meanwhile, a grand infrastructure plan might remain in limbo with GOP majorities in Congress, given disagreement over not only the funding, but also the merits of the package. If the Democrats control the House or even both chambers of Congress, then President Trump may seek to find compromise on an infrastructure bill.[7] Our base case projections already anticipate $200 billion of federal infrastructure spending. However, if there is no infrastructure deal within the next two years, especially if Democrats (and some Republicans) decline to work with the President, then we might see a reduction of real GDP growth of about 0.2 percentage point in 2020.

President Trump's Fiscal Policy Agenda Risks

It will be difficult for President Trump to advance his own legislative agenda if Democrats win the House, still he can flex muscle regarding signing bills.

- Upcoming FY2019 appropriations bills are subject to Trump risk – (1) threat to shut down the government if he does not receive border wall funding: before Midterms regarding minibus bills being passed or already passed by Congress; (2) during lame duck session legislation to finalize FY2019 appropriations bills, especially if he must sign an omnibus bill for FY2019 funding

- Debt ceiling decision – The "soft" Federal government debt ceiling bites in March 2019, but the "hard" ceiling may bite before fiscal yearend (October 2019) given swelling deficits and increased Treasury issuance. Congress must raise, suspend, or repeal the debt ceiling, or trigger sovereign debt default. President

[7] Trump Administration, in February 2017, introduced a plan for a 10-year $1 trillion infrastructure bill. Outgoing House Transportation and Infrastructure Committee Chairman William Shuster (R-PA) released an infrastructure discussion draft. The challenge for Congress is to agree on how to fund the plan: the President desires a 20/80 percent Federal government to State and Local government plus private sector split; Democrats desire bigger Federal government contribution. There is potential for President Trump to bargain with Democrats for concessions on a large infrastructure deal if they take the House: (e.g. trade defunding Obamacare for an infrastructure bill with some border wall funds).

Trump has signed legislation suspending the debt ceiling in the past, but has also vied to attach conditions to the debt ceiling decision, including raising it in exchange for cuts to domestic spending programs or for border wall funds.[8]

- Sequestration – Sequestration (automatic cuts to discretionary federal government programs) returns in FY2020 and FY2021. Again, we posit that there will there be a bipartisan effort to repeal or mitigate the effects of Sequestration to avoid a fiscal cliff. However, President Trump may use the decision as leverage for achieving one of his own policy goals. Indeed, the President stated at the signing of the Bipartisan Budget Act of 2018, which repealed Sequestration for FY2018 and FY2019, that he was loathe to signing a package of such size again.

Figure 21. Gains from Potential Fiscal Policies Yield Little to No Growth, and Often in the Distant Future

Change Relative to Model Baseline

No Infrastructure Deal	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Real GDP (YoY%)	0.0	0.0	-0.2	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Unemployment Rate (%)	0.0	0.0	0.1	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0
PCE Inflation (YoY%)	0.0	0.0	0.0	0.0	-0.1	0.1	0.0	0.0	0.0	0.0	0.0
Core PCE Inflation (YoY%)	0.0	0.0	0.0	0.0	-0.1	0.1	0.0	0.0	0.0	0.0	0.0
10Yr-Yield (bp)	0	0	-4	-7	-9	0	0	0	0	0	0
Fed Funds (bp)	0	-1	-17	-34	-39	0	0	0	0	0	0
Trade Wtd USD (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Individual Tax Provisions Permanent	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Real GDP (YoY%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.5	0.3
Unemployment Rate (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.4	-0.7
PCE Inflation (YoY%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.2
Core PCE Inflation (YoY%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.2
10Yr-Yield (bp)	0	0	0	0	1	1	2	3	8	22	38
Fed Funds (bp)	0	0	1	2	4	6	8	9	32	96	162
Trade Wtd USD (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1

Repeal Obamacare Taxes	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Real GDP (YoY%)	0.0	0.0	0.1	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Unemployment Rate (%)	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2
PCE Inflation (YoY%)	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Core PCE Inflation (YoY%)	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1
10Yr-Yield (bp)	0	0	-2	0	1	2	5	6	8	10	12
Fed Funds (bp)	0	-2	-2	13	17	25	34	38	41	43	44
Trade Wtd USD (%)	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1

Tax Extenders Permanent	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Real GDP (YoY%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unemployment Rate (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PCE Inflation (YoY%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Core PCE Inflation (YoY%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
10Yr-Yield (bp)	0	0	1	1	1	2	2	3	4	4	5
Fed Funds (bp)	0	1	3	5	6	7	8	10	10	11	11
Trade Wtd USD (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

100% Capex Expensing Permanent	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Real GDP (YoY%)	0.0	0.0	0.0	0.0	0.0	0.0	-0.2	-0.1	0.0	0.0	0.1
Unemployment Rate (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.2	0.2	0.1
PCE Inflation (YoY%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1
Core PCE Inflation (YoY%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1
10Yr-Yield (bp)	0	0	0	0	0	0	-3	-8	-11	-13	-14
Fed Funds (bp)	0	0	0	0	0	0	-12	-36	-49	-50	-44
Trade Wtd USD (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1

Source: Citi Research estimates using Macroeconomic Advisors(MA)/IHS Markit MAUS model.

[8] **Note**: Congress has not raised the debt ceiling since 2012.The ceiling has since been suspended repeatedly, usually involving political showdowns that rile markets and disrupt Treasury debt issuance.

Economic Implications – Global

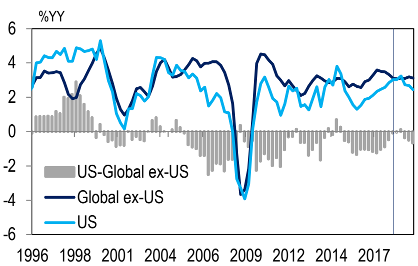
Ebrahim Rahbari
+1-212-816-5280
ebrahim.rahbari@citi.com

Cesar Rojas
+1-212-816-1426
cesar.rojas@citi.com

The upcoming US Midterm elections are the subject of unusually much interest by the rest of the world, but we suspect the global economic and financial implications will probably be relatively modest. The most significant, but probably still modest, implications for the rest of the world may be that continued unified government in the US may boost US financial conditions and the USD somewhat, with mixed implications on the rest of the world, while our colleagues expect US fiscal and trade policies and US growth prospects (and therefore international prospects) to be relatively insensitive to the midterms outcome.

US Fiscal Policy and Growth

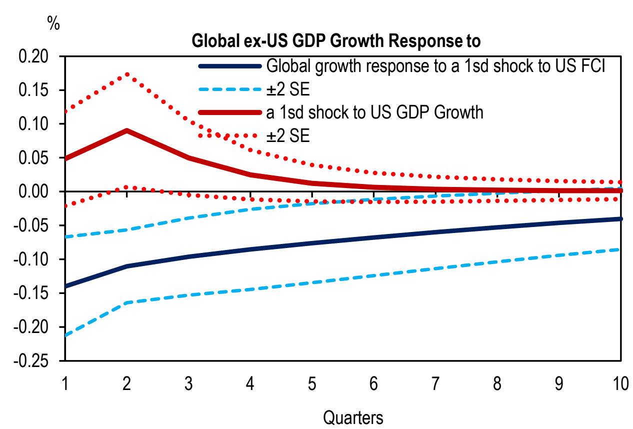
Figure 22. US and Global ex-US – Real GDP Growth (%YY, pp), 1996-2019F



Note: At market exchange rates. Source: National Statistical Offices, IMF and Citi Research

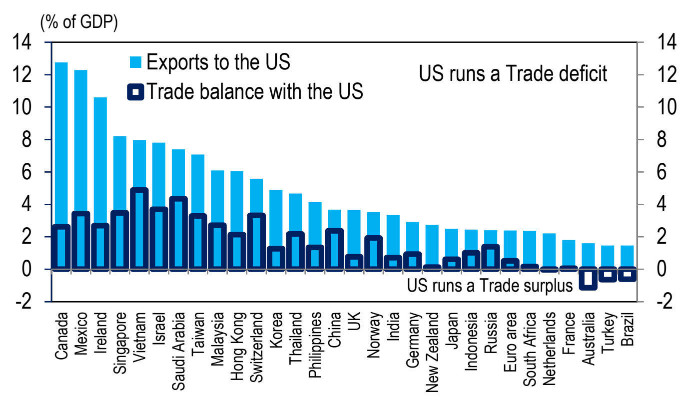
The US contribution to global growth has recently risen as global (ex-US) growth has slowed. While US growth appears to be picking up, boosted by fiscal stimulus and easy financial conditions, growth in the rest of the world features tightening financial conditions, slower capex momentum, a moderate Chinese and Eurozone slowdown and EM pressures. In Q2-18, US growth was 2.8%YY vs 2.1% in Q1-17 while in the RoW growth was 3.3% for both quarters (after peaking at 3.6% in Q3-17). In 2017, the US accounted for 18% of global GDP growth but in Q2-18 the US contribution to global growth was roughly 23%. Simple VAR estimates also highlight that US growth has a major impact on the rest of the world: a 1SD shock to US growth boosts global ex-US growth by 0.2pp over 4 quarters, according to our projections. The largest effects should be expected on economies with large trade exposure to the US, including Mexico, Canada and some of the major Asian and European manufacturing exporters. Since US growth is unlikely to be materially different across the two scenarios, the impact on global commodity prices is also likely to be modest.

Figure 23. Response of Global ex-US GDP Growth (%QQ) to a 1SD Shock to US GDP Growth and US Financial Conditions



Note: Based on a VAR model with quarterly data since 1990. Shocks are identified with Cholesky decomposition, with the US Economic Policy Uncertainty ordered first, followed by US financial conditions, US GPD growth and Global ex-US growth. Source: National Statistical Offices, IMF, Bloomberg and Citi Research

Figure 24. NAFTA countries and small open Asian economies are the most exposed to the US via trade

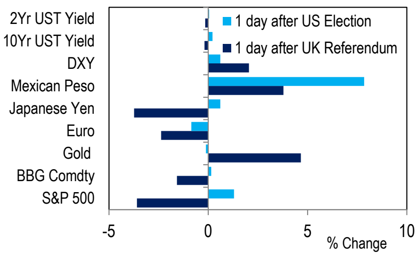


Note: Value-added trade as of 2011. Source: OECD and Citi Research

Our colleagues suggest above that US growth is unlikely to differ materially across the various Midterm election outcomes. However, our colleagues highlight that the likelihood of a Tax Reform 2.0 package is likelier under continued unified Republican-led government, while the probability of an infrastructure stimulus may be slightly higher if the Democrats hold one or even both houses of Congress. (In the latter scenario, higher commodity prices might boost prospects for commodity exporters, which may be reinforced by some potential pushback in the US to earlier efforts at environmental deregulation.

US Trade and International Policy

Figure 25. 1-Day Change after US 2016 Election and UK Brexit Referendum (%)



Source: Bloomberg and Citi Research

The trade policy of this US administration has been unusually confrontational. As noted above, we expect this shift to continue under all outcomes for the Midterm elections. In particular, we expect the US to continue to tighten trade and investment restrictions on China, but to pursue a more flexible approach when it comes to concluding NAFTA 2.0 negotiations or to agree to a deal with the EU.

Our colleagues also expect the US approaches to economic and financial sanctions to be relatively insensitive to the midterms outcome, with a general expectation that the US will continue to use ‘economic statecraft’ extensively. At the margin, our colleagues expect that in the event that the Democrats win one or both Houses of Congress, the administration may indeed pursue sanctions even more extensively, notably on Russia.

The exposure of economies around the world broadly mirrors the exposure to US growth, while potential exposures to additional sanctions are less predictable and follow geopolitical determinants.

The Fed, the Dollar and US Financial Conditions

The global economy is even more sensitive to US financial conditions than to US growth. Our estimate finds that a 1SD shock to (tighten) US financial conditions lowers global ex-US growth by -0.4pp over 4 quarters. Financially fragile economies, in general, and economies that have large USD-denominated debts should be most vulnerable.

The US dollar has a central position in the importance of US financial conditions for the rest of the world. Our colleagues expect the USD to be slightly stronger if the Republicans maintain unified government than under divided government, on some expectation that Tax Reform 2.0 is more likely but distracting political uncertainty and noise less likely. Rising political uncertainty in the US may also marginally weigh on US and global financial conditions in the event of a Democrat-led House of Representatives.

Since US growth and inflation are not expected to be too sensitive, holding the USD constant, Fed policy is also unlikely to be too sensitive to the outcome of the Midterms. One qualifier isthat some remaining appointments to the Fed Board may be more challenging in the unlikely event of a Democrat-led Senate. More relevantly, continued unified government could support the dollar and therefore be somewhat disinflationary over time, but since our colleagues expect the relevant dollar strength to be modest, the implications for the Fed are also likely to be small.

Economic Implications – Emerging Asia

Johanna Chua
+852 2501-2357
johanna.chua@citi.com

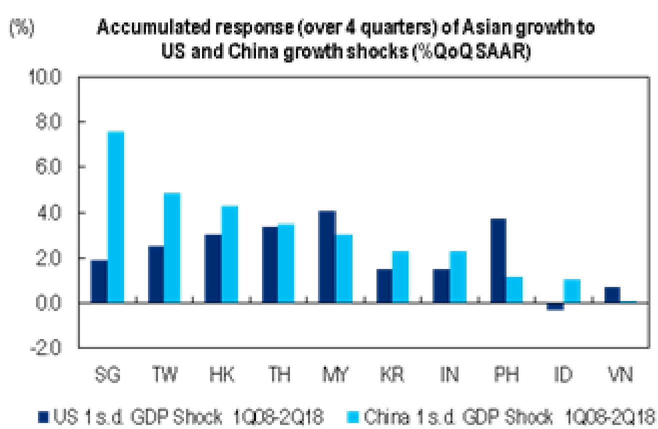
Jin-Wook Kim
+852 2501-2775
jin-wook.kim@citi.com

The two most pressing questions for Asia post US-Midterms are: first, will the aggressive approach of US trade policy against China change; and second, will we see rising political risk premium in the US translate to heightened uncertainty that could drag down investment and the US growth outlook.

On trade policy, our base case suggests that the Midterms don't matter—there is a bipartisan support to going tough on trade with China, though there is hope that the level of Trump's bellicose rhetoric may ratchet down somewhat. After Trump's faster-than-expected implementation of a 10% tariff on $200bn of goods in Chinese imports, we think the market is increasingly preparing for the increase of the tariff to 25% by January 1st. We estimate this extra 15% tariff would drag China growth lower by another 50bps, all else equal, and a 0.5ppts slowdown in China. This would drag global growth by 0.2ppts, though China will try to offset with some policy easing support. Uncertainties around trade and manufacturing could put more growth risk China vs US over the short term, with the latter bolstered by a likely infrastructure deal (though already in our base case). Asia is generally more sensitive to China growth shocks than the US, but the impact is very differentiated—Industrialized economies of Singapore, Taiwan and Korea are more sensitive to China than to the US, and are also more tied to supply chain risk of China's exports adversely impacted by US tariffs. Vietnam, Malaysia and Thailand are buffered by trade diversion and production relocation opportunities away from China, and are also more US growth sensitive. (See *Asia - Spillovers to Tariff War Part 2*)

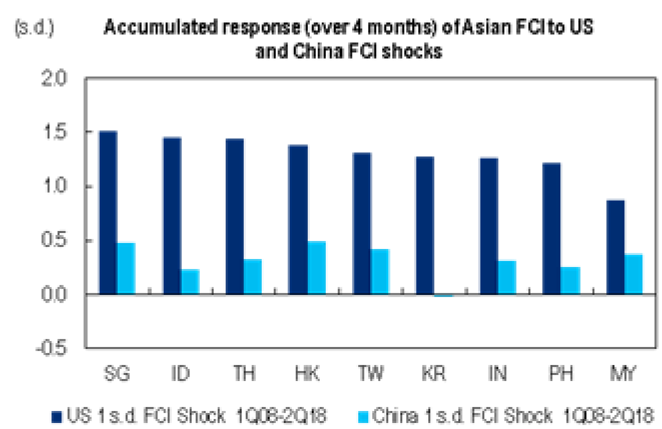
This leads us to the second issue: whether we will see rising political risk premium posing financial market volatility and growth risks to the US. Despite gloomy environment for growth amid trade war and China-related concerns, ASEAN's tech export cycle has recently experienced a bounce. This coincided with our US equity strategist's survey findings of US companies' plans to step up IT capex. Thus, any potential rise in the US's political uncertainty after its Midterm election and sequential negative impact to the US investment cycle would have negative spillover to EM Asia's economic growth. Moreover, we found that EM Asia's Financial Condition Index is much more sensitive to a 1 standard deviation FCI shock in the US than that of the China. Any unexpected tightening in the US' financial conditions after the US' Midterm election is expected to directly hit financial conditions of EM Asia before transmitting negative impact through other channels.

Figure 26. Asia growth's sensitivity to US growth shocks is, on average, almost as important as its sensitivity to China growth shocks



Source: Citi Research.

Figure 27. The sensitivity of Asia's financial conditions indices (FCI) to US FCI shocks is much higher than shocks to China's FCI



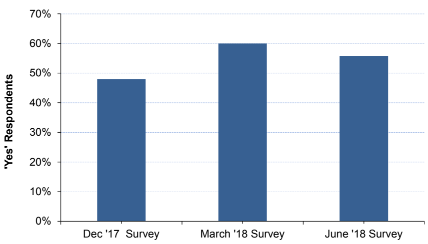
Source: Citi Research

Market Implications – Equities

Tobias Levkovich
+1-212-816-1623
tobias.levkovich@citi.com

- **Key Themes** – Current sentiment is euphoric and intra-stock correlation of the top 50 names by market cap is very low, intimating a lack of macro concern among portfolio managers, who are only looking at idiosyncratic stock risks. Thus, vulnerability already exists should we see some untoward political outcomes. For now, the domestic economic backdrop is robust and is generating the earnings to sustain equities, as are buybacks.
- **Risks** –Trade issues do not go away on the central case view, as both the hard right and progressive left perceive protecting local workers as important.
- **Market Implications** – An unexpected "Blue Tsunami," where the GOP loses control of the House and the Senate, however, may not be taken well on the Street, as headline risks could surge with Democrats seeing that kind of a tectonic shift as a mandate to oppose the President across many areas.
- **Recommendations** – Given large budget deficits, it would seem that any major new stimulus to generate faster GDP is improbable, thereby limiting any need to bump up EPS forecasts.
- **Relevant Research**

Figure 28. Citi US Equity Strategy Client Survey: Will the Democrats Retake the House of Representatives in 2018?



Source: Citi Research – US Equity Strategy.

Figure 29. US Equity Strategy Publications

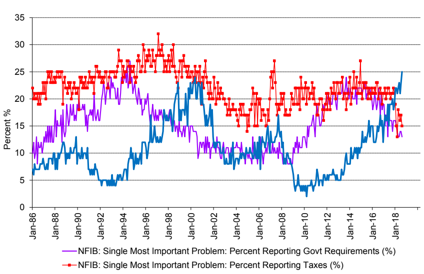
Equity Strategy: Midterm Elections' Equity Market Implications	13 September 2018

Source: Citi Research.

The most probable scenario of a Democratic House and Republican Senate seems baked into expectations based on client surveys. Over the past year, clients have noted that a return to split government is coming, and flipping control of one of the Houses of Congress generally has generated market upside. An unexpected "Blue Tsunami," where the GOP loses control of the House and the Senate, however, may not be taken well on the Street, as headline risks could surge with Democrats seeing that kind of a tectonic shift as a mandate to oppose the President across many areas.

Investors have avoided making hard economic outcome decisions by buying secular growth stocks that also have cyclical properties. Despite lead indicators that augur well for US business activity, fund managers have stayed with growth names and have moved away from various globally exposed sectors due in part to rising rates, weakness in emerging economies, and trade concerns as well as a stronger dollar. This "America First" mindset also has led to small-cap outperformance.

Figure 30. NFIB: Single Most Important Problem: Govt Requirements, Taxes, and Quality of Labor



Source: Haver Analytics and Citi Research – US Equity Strategy.

Trade issues do not go away on the central case view, as both the hard right and progressive left perceive protecting local workers as important. We do not envision the Midterms affecting the trade concerns in a meaningful way, and Democrat gains might provide the White House with additional cover on protectionism.

Given large budget deficits, it would seem that any major new stimulus to generate faster GDP is improbable, thereby limiting any need to bump up EPS forecasts. Indeed, the current bottom-up consensus double-digit gains for earnings growth into 2019 and 2020 appear quite unlikely, and thus, estimate cuts are more plausible, which may restrain further stock price appreciation.

Making political predictions has become more difficult in part due to the unwillingness of citizens to truly share their views with pollsters. The most extreme voices get loads of attention, and the shriller the better for both sides of the media wars. In this context, it sometimes feels as if news reports, social media, and the constant barrage of political double talk have to be taken with sacks of salt. However, we are fairly convinced that change is often rewarded by investors (see Figure 31), but many misguided clients still think that all one needed to outperform was to buy FAANNG stocks when more than 40% of S&P 500 constituents have outperformed the market in each of the past ten quarters.

Nonetheless, clients have opted to buy the big tech leaders as a way to participate in both cyclical activity and secular trends, especially since tech expenditures have become a substantial chunk of capital investment given cyber-security needs, automation, the cloud, mobility requirements, as well as growing interest in virtualization and artificial intelligence. If overall economic growth were to weaken, these areas, as opposed to large industrial companies, are seen as insulated from a slowdown. Furthermore, US corporations such as NVIDIA, Alphabet, and Netflix have become global dominant forces, and they can control their destinies to some degree. Thus, this unique combination of secular and cyclical has provided the confidence boost for the Street to stick with these names. In this context, the Midterms have little impact other than that current complacency would likely run into trouble if a trade confrontation with China escalates given the IT sector's Asian supply chain plus IP friction.

Figure 31. Midterm Election Year Results and S&P 500 Performance

Mid-term Election Year	Presidential Party	S&P 500 1-week return	S&P 500 3-mth return	S&P 500 6-mth return	Senate Control	House Control
11/5/1946	Democrat	-2.47%	3.86%	-3.12%	Rep took over	Rep took over
11/7/1950	Democrat	2.58%	14.67%	16.89%	Dems kept	Rep took over
11/2/1954	Republican	4.28%	15.51%	19.41%	Dems took over	Dems took over
11/4/1958	Republican	2.75%	7.21%	11.81%	Dems kept	Dems kept
11/6/1962	Democrat	1.90%	13.80%	13.80%	Dems kept	Dems kept
11/8/1966	Democrat	1.19%	8.66%	17.16%	Dems kept	Dems kept
11/3/1970	Republican	0.68%	14.74%	22.64%	Dems kept	Dems kept
11/5/1974	Republican	-1.92%	5.11%	19.93%	Dems kept	Dems kept
11/7/1978	Democrat	-1.45%	3.53%	5.51%	Dems kept	Dems kept
11/2/1982	Republican	4.02%	4.17%	17.91%	Rep kept	Dems kept
11/4/1986	Republican	0.36%	13.58%	17.53%	Dems took over	Dems kept
11/6/1990	Republican	1.94%	14.91%	21.97%	Dems kept	Dems kept
11/8/1994	Democrat	-0.13%	3.34%	12.52%	Rep took over	Rep took over
11/3/1998	Democrat	1.57%	14.51%	21.95%	Rep kept	Rep kept
11/5/2002	Republican	-3.54%	-7.84%	1.22%	Rep took over	Rep kept
11/7/2006	Republican	0.75%	4.86%	9.16%	Dems took over	Dems took over
11/2/2010	Democrat	1.66%	9.25%	14.05%	Dem kept	Rep took over
11/4/2014	Democrat	1.37%	1.46%	5.09%	Rep took over	Rep kept
Average Return		**0.86%**	**8.07%**	**13.63%**		
Median Return		**1.28%**	**7.94%**	**15.47%**		
Average Return during years of Senate and/or House control changes		**0.65%**	**6.79%**	**10.30%**		

Source: http://history.house.gov/, https://www.senate.gov/history/partydiv.htm, FactSet and Citi Research – US Equity Strategy.

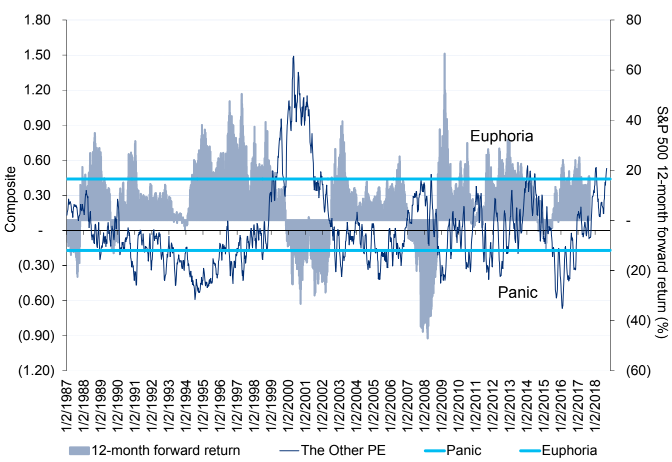
Investors should pay close attention to shifts in business sentiment. The most probable scenario of a Democratic House does mean change in committee leadership as well as change in how legislation is brought up for votes. While no law emanates exclusively from one chamber of Congress, we could envision efforts to roll back some of the tax cuts, for example, or attempts to reinstate some regulatory oversight, leading to clashes with President Trump. Intriguingly, the biggest concerns of small business men and women have shifted away from taxes and regulation (to labor shortages), while newfound optimism has ensued as a result of pro-business policy. Thus, one needs to be a bit concerned if the corporate sector is unnerved by suggested uncertainty about the future when it comes to making new investment decisions.

Broad market valuation might be buffeted by "headline" risk post-Midterms. Notably, a more domestic labor orientation unites the far left and the hard right in supporting the White House's trade instincts, so it does little to alter that current zeitgeist, and some legislation could move forward on this front, such as affirming a potential NAFTA agreement. We are less sanguine about getting an infrastructure bill done, and we suspect that headline risks will emerge in areas like the environment, banking and privacy issues, which could restrain different industries including energy, chemicals, utilities, autos and technology. Any inflationary aspects of trade policies could affect broad market valuation, which is sensitive to CPI levels and inflation expectations, have a significant impact on cyclicals versus defensives performance.

While less likely outcomes in our view, retention of GOP majorities or a Democratic sweep might generate fiscal policy uncertainty anxiety among investors. We suspect that Republican retention of Congress would potentially invigorate efforts by President Trump on tax reform 2.0 (as he perceives the "win" as affirmation of his policies), but we doubt that the votes will be there, as such a victory would be quite marginal. We could also see a step-up in rhetoric as more anger bubbles up. A less likely Democrat win of both the House and the Senate could set up some vetoes if legislation is passed, especially on the budget using reconciliation. Investors generally dislike uncertainty, and these two improbable scenarios would generate some anxiety for markets, in our opinion.

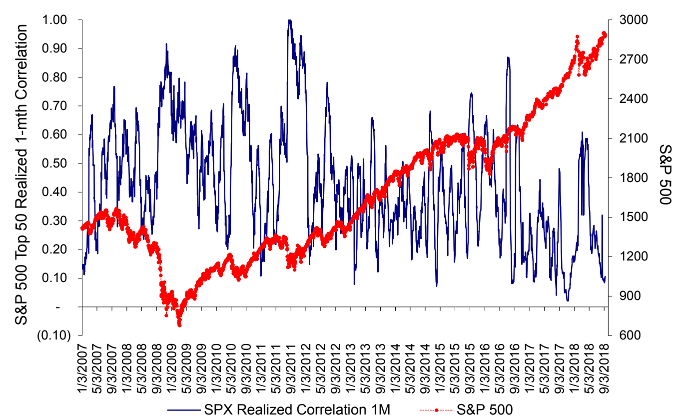
Strong economic activity may outweigh investors' Midterm election concerns. Keep in mind that current sentiment is euphoric and intra-stock correlation of the top 50 names by market cap is very low, intimating a lack of macro concern among portfolio managers, who are only looking at idiosyncratic stock risks. Thus, vulnerability already exists should we see some untoward political outcomes. For now, the domestic economic backdrop is robust and is generating the earnings to sustain equities, as are buybacks.

Figure 32. The Panic/Euphoria Model



Source: Haver Analytics, Pinnacle Data, and Citi Research – US Equity Strategy.

Figure 33. S&P 500 Top 50 Realized 1-mth Correlation vs S&P 500



Source: FactSet, Bloomberg and Citi Research – US Equity Strategy.

Market Implications – Rates

Jabaz Mathai
+1-212-723-1839
Jabaz.mathai@citi.com

Jason Williams
+1-212-723-1837
jason1.williams@citi.com

- **Key Themes** – In our base case, we do not expect much impact on the Treasury market from the Midterm elections. Since 1990, Treasuries have rallied four out of seven times into the midterm elections from 45 days prior, which doesn't suggest any tradeable trends.
- **Risks** – Bullish risks that revolve around a split Congress are potential impeachment proceedings and a lack of cooperation around the debt ceiling. On the other hand, a Republican sweep of Congress could portend further decreases in federal revenues, translating into higher deficits and higher yields. It may give Trump more confidence in his approach to trade, but he's likely to persist with the hawkish trade agenda even in a divided Congress.
- **Market Implications** – We do not see material market implications in the near term in the base case.
- **Recommendations** – We advise investors to be long Treasuries with tailwinds to lower yields arising from further EM underperformance/ outflows, the effects of trade tensions on non-US growth, and slower moving risk factors such as the deteriorating Italian fiscal outlook. Valuations are attractive at 10y yields close to 3.1%; see FI Rates Presentations: Here comes the fall: What to watch in US rates for more details.
- **Relevant Research**

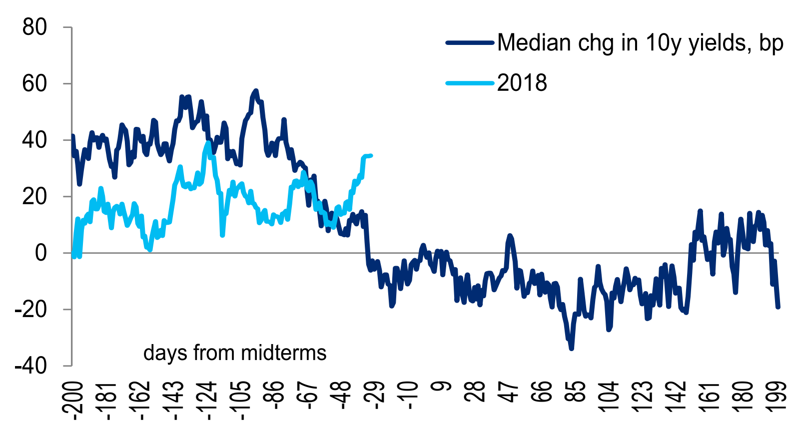
Figure 34. G10 Rates Strategy Publications

FI Rates Presentations: Here comes the fall: What to watch in US rates	14 September 2018
US Rates Weekly: Specs, Politics, and Powell	24 August 2018

Source: Citi Research.

We suspect an increase in political uncertainty, combined with rising risk aversion, drives 10y yields lower as we approach US Midterm elections (Figure 35). Two issues that can have an impact on risk sentiment, and thereby on Treasuries, are (1) the potential for an early termination of the Trump presidency; and (2) the potential for a change in control of Congress, with the two issues certainly being linked

Figure 35. Treasuries have rallied 4 out of 7 times in midterm elections since 1990.



Source: Citi Research, Bloomberg; Note: The median change uses Midterms starting from 1990.

Investors may respond strongly to political uncertainty post-Midterms from a divided Congress. The most dangerous moments with a split White House and Congress would be around budget and debt ceiling deadlines (the Bipartisan Budget Act that was passed in February this year suspended the debt ceiling until March 1, 2019—with extra-ordinary measures by the Treasury, the so-called X date gets pushed out to late 2019). President Trump has in the past threatened to shut down the government, for example over border wall funding. The Republican House had historically leaned on the President to forgo these demands in the past, but a Democratic House might have less leverage with the President. However, as demonstrated in September last year, when the President made a surprising deal with Democrats to suspend the debt ceiling, it is quite possible that the relationship between the President and a Democrat House could be transactional in nature, with the President "trading" the debt ceiling for some Democrat priorities. Ultimately, what this means is that Congressional deadlines such as the March 2019 debt ceiling deadline will need to be priced for higher rates volatility.

Markets are more likely to respond after passage of fiscal policies, not before. Meanwhile a Republican sweep of Congress could portend further revenue reduction, with tax reform 2.0. However, we do not expect Treasuries to selloff immediately should Republicans sweep Congress. As we saw last year, the actual passage of the first round of tax cuts took over a year after the 2016 US elections. While Treasuries sold off at first after Trump's election the market eventually rallied and waited until after the tax reform bill passed in December 2017 to fully price in the increase in supply. We would expect a similar pattern this time around with the market needing to see a near passage of a new tax reform bill before another supply driven selloff. A Republican sweep of Congress, if it were to happen, would be taken by President Trump as validation of his policies, including trade policy. It is possible that trade tensions could continue to persist, on intransigence by all parties involved. This would be bearish for global growth, which is a positive for Treasuries and would offset some of the upside yield risk from future tax cuts.

Market Implications – G10 FX

Jeremy Hale
+44-20-7986-9465
jeremy.hale@citi.com

- **Key Themes** – Recent USD weakness, in the face of sharply higher implied Fed rates and higher bond yields, suggests Midterm uncertainties are already being priced into FX in the context of long USD positioning. Nonetheless, the Citi base case of Democratic. control of the House likely brings forward market expectations for the inflexion point where US fiscal stimulus fades, and tighter monetary conditions kick in. This is also probably where the short term USD strength since April more sustainably reverses and higher fiscal and current account deficits necessitate a weaker currency to attract foreign financing

- **Risks** – Polls are notoriously unreliable and the market consensus is for Democratic. gains in the Elections. A GOP surprise to the upside could see expectations of more of the same: fiscal stimulus, tax reform 2.0 and business friendly de-regulation. This likely leads to higher yields, stronger US stocks and a further USD rally.

- **Market Implications** – The consensus expected outcome of DEM gains in the House likely generates further near term USD softness. Eventually, this may well morph into a long term bear market in the USD. Unexpectedly strong GOP performance would generate a sharp USD rally as it is not priced.

- **Recommendations** – Given the political uncertainties, and the lack of confidence in outcomes, we prefer mainly to stand aside ahead of the elections. Longer term, as the US growth outperformance of this year fades again through 2019, we are EUR bulls, USD bears, but the precise inflexion point is tricky to pin down.

- **Relevant Research**

Figure 36. Global Asset Allocation and Macro Strategy Publications

Foreign Exchange Forecasts: Mid Terms Loom – September 2018	14 September 2018
Global Macro Strategy: Weekly Views and Trade Ideas – Risks to the Consensus	13 September 2018

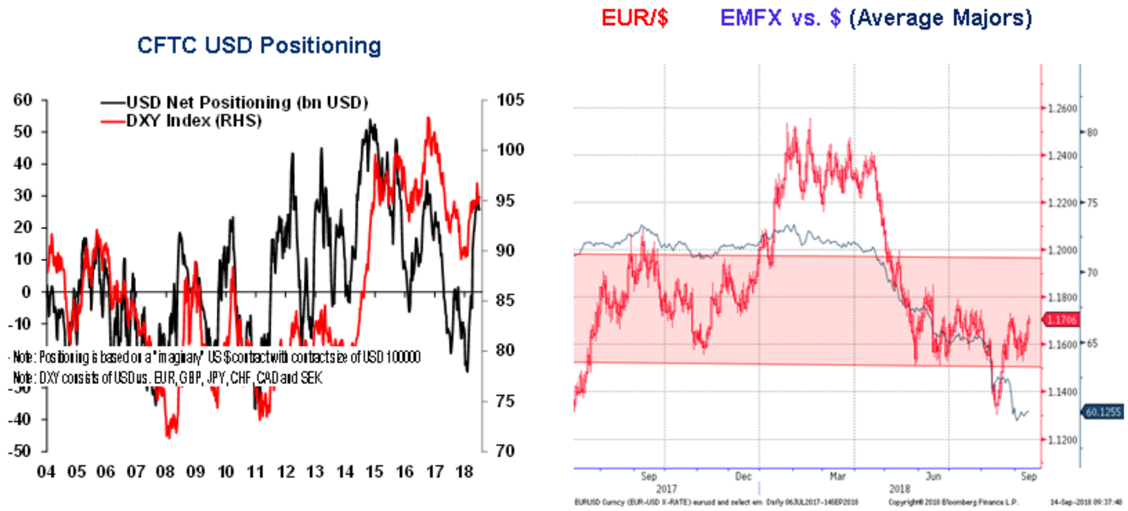
Source: Citi Research.

Key G10 FX Drivers

Positioning: Short USD positions earlier in the year have swung to long USD now, making the $ potentially vulnerable to a further drift lower if, as expect Dem gains in the House restrict the Trump agenda (Figure 37**Error! Reference source not found.**, LHS).

EMFX and CNH: The long held view that EUR movements drive EMFX has effectively reversed this year with CNH weakness in response to US trade policy tending to drive EMFX and then EUR movements to some degree (Figure 38, RHS). TRY weakness also created EUR volatility. Recent relative stability in CNH recently may not last if the Administration continues to ramp up tariffs. Is this more likely if Midterms bring Democratic gains and related restrictions on the broader Trump legislative programme? If so, then the USD could gain.

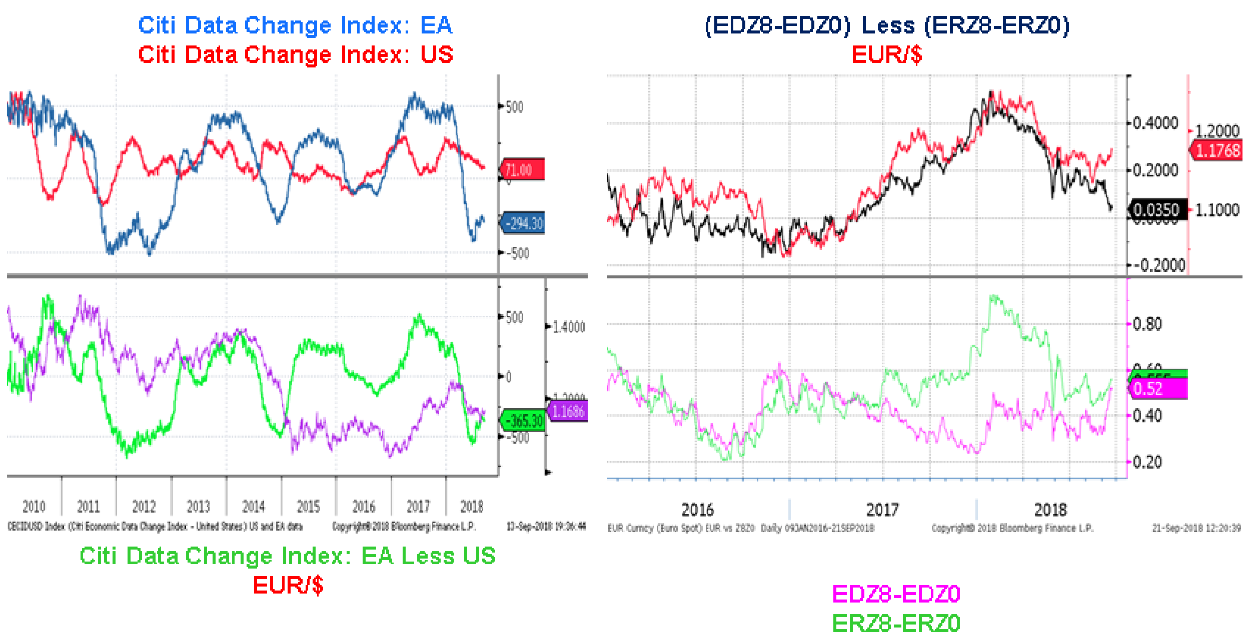
Figure 37. Positioning May Limit USD Gains. But EMFX Weakness Could Be Prolonged



Source: Citi Research

Fed vs. ECB: Implied rate changes in 2019 and 2020 have been moving up more in the US than the EA, sharply recently. Such movements were initially ignored by EUR/USD or DXY from early March to mid-April but the USD subsequently caught up rallying sharply. Until these relative policy rate expectations stabilise, it's difficult to be overly bearish the USD (Figure 39). How will Midterms affect Fed expectations from here?

Figure 38. Growth and Rate Expectations Still Favour the USD

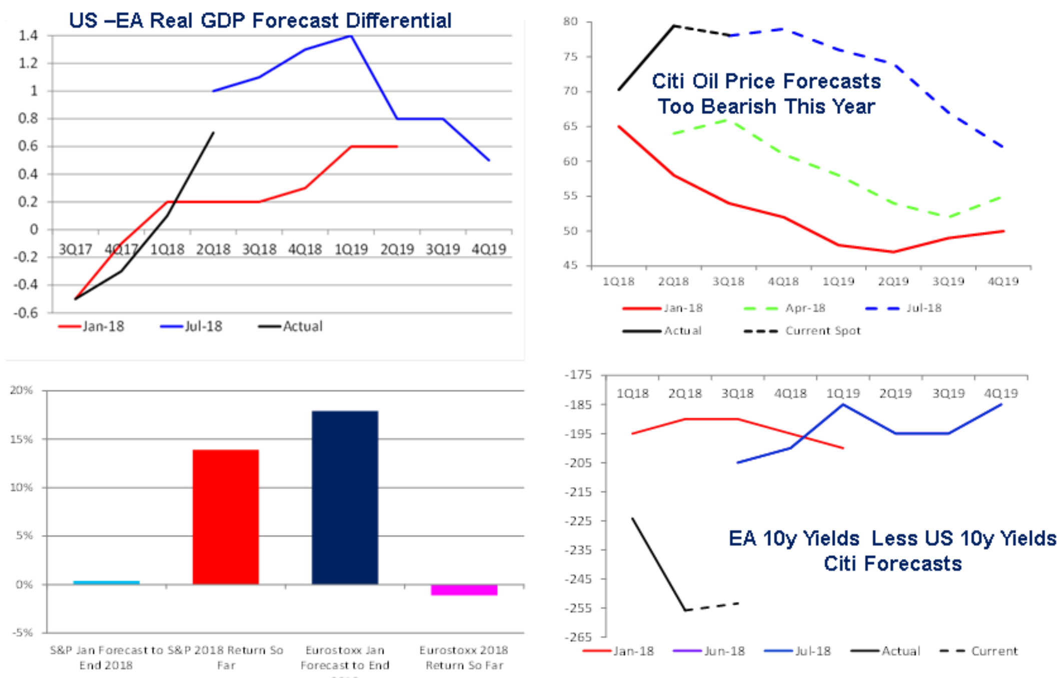


Source: Citi Research.

Growth Differentials: Relative to forecasts made at the beginning of 2018, our current US growth forecasts are materially higher and EA projections materially lower. This was a driver of USD strength earlier this year via respective asset market performance with stronger than expected oil prices also important (Figure 39). But from here a critical question relates to the inflexion point in US growth outperformance. Citi forecasts put this around 2019Q1 but market perceptions on the scale and timing of this are likely very linked to the Midterms where Dem gains will tend to bring forward or exacerbate market expectations of this switchback.

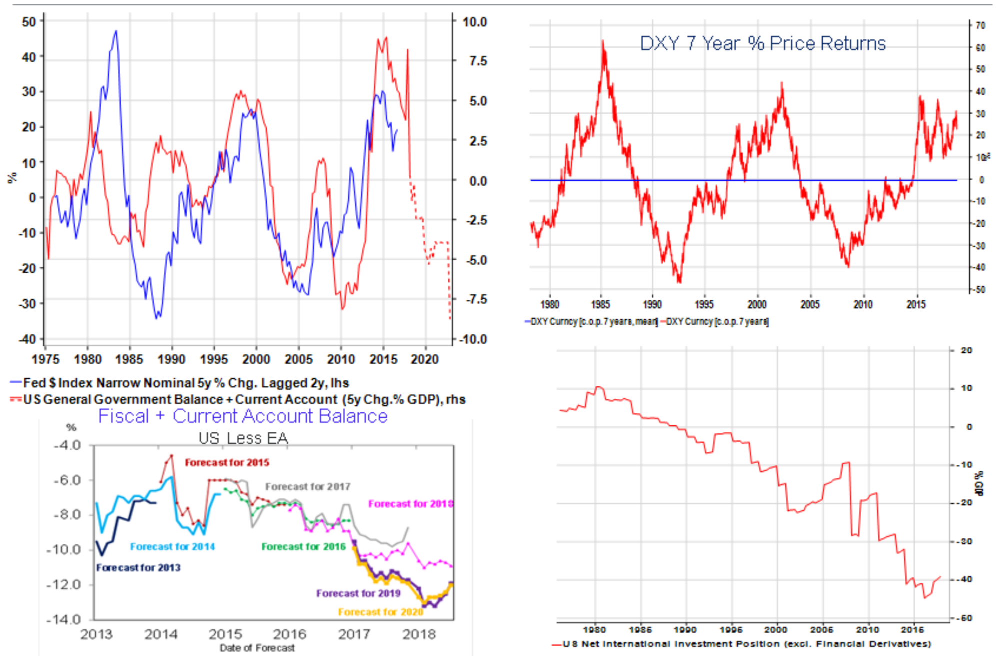
Long Term Fundamentals: Easy fiscal policy with tight money is a classic short term recipe for FX strength via higher real yields and a growth boost. As the stimulus later fades, higher deficits on both government and current accounts tend to lead to a lower equilibrium exchange rate due to the deterioration in the international net asset position of the country following this policy mix. Over the long term, say two years and out, we believe the current US policy mix to be USD negative in line with established historical patterns (Figure 40).

Figure 39. Shocks Galore for EUR/USD



Source: Citi Research.

Figure 40. Medium Term USD Headwinds



Source: Citi Research.

Market Implications – EM FX

Dirk Willer
+1-212-723-1016
dirk.willer@citi.com

- **Key Themes** – The market is likely going to price in some election related risks ahead of the Midterms, which is likely broadly EM negative. But the negative impact on EM is likely going to be cushioned by a weaker broad USD.

- **Risks** – Events following the Midterms, including US recession, impeachment, debt ceiling debacle, and the 2020 fiscal cliff would likely lead to rising risk aversion, which typically leads to underperformance of EM assets. Continued or increased US-global trade frictions in a world where Democratic majorities challenge Trump policy would also lead to underperformance of EM assets.

- **Market Implications** – A higher recession likelihood or increased Washington dysfunction, would likely be negative for the USD against the rest of the G3. A weak USD with rising risk aversion suggests that EM trades weaker against EUR or JPY, but that the EM weakness may be mitigated against a weakening USD.

- **Recommendations** –We would advise to pare back aggressive USD longs as a weaker USD may lead to appreciating pressures spilling over into EMFX into Midterms.

- **Relevant Research**

Figure 41. EM/FX Strategy Publications

Emerging Markets Strategy Weekly: Could US Politics Result in a Weaker USD?	23 August 2018

Source: Citi Research.

Would the Midterms be a driver for EM?

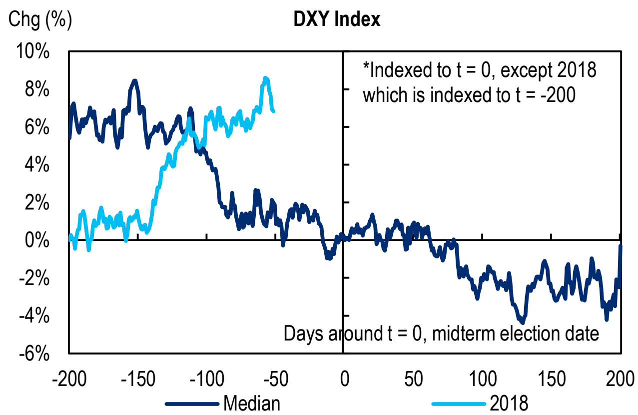
US Midterm election effects on EM are bifurcated. When it comes to the impact of a potential take-over of the House by the Democrats, we need to distinguish between two different types of effects. First, there are potential implications that are fairly broad and global macro in nature, where EM is largely a by-stander, even if a heavily impacted one. And second, there are impacts that could be very EM specific.

Fears of Democrats taking over the House could lead to higher risk aversion. With respect to outcomes that would impact EM as part of a broader global macro story we would list the potential rise of recession risk in the US due to a lower likelihood of fiscal stimulus to offset the fiscal cliff of 2020. We would add the perceived increase in the likelihood of impeachment proceedings. Not raising the debt ceiling in a timely manner or failing to fund the government is also in this category. All of these events would likely lead to rising risk aversion, which typically leads to underperformance of EM assets.

More EM specific trade frictions may become an even more negative force. With respect to potential outcomes that are EM specific, trade is clearly the most important. A second potential outcome in this category is the increased use of sanctions in an aggressive manner. As outlined by our colleagues above, the risk here stems from the fear that President Trump would have to focus on trade and maybe the use of sanctions if the legislative process will not allow him much room for maneuver after a Democratic take-over. This would also lead to underperformance of EM assets.

But EM weakness may be mitigated by a weaker USD against the rest of G3. A higher recession likelihood, or increased Washington dysfunction would likely be negative for the USD against the rest of the G3, though. And, as can be seen in Figure 42, there is a "normal" pattern of USD weakness into the Midterms. Given that the current Midterms are arguably more important than usual, we would think that the normal seasonal pattern could be more important than usual. Furthermore, the S&P index typically has a pullback prior to the Midterms, as uncertainty rises. A weak USD with rising risk aversion suggests that EM trades weaker against EUR or JPY, but that the EM weakness may be mitigated against a weakening USD.

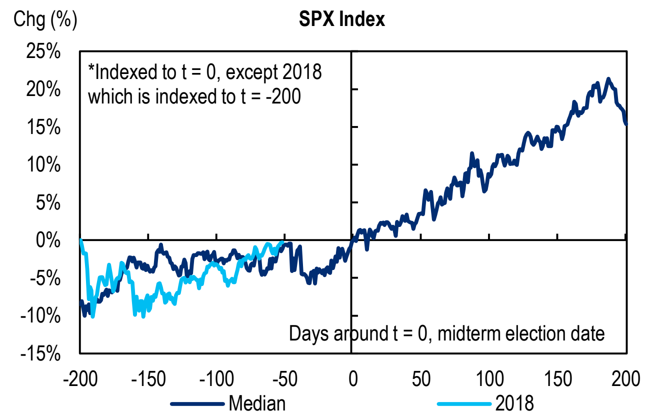
Figure 42. USD usually weaker into Midterms



Period: all Midterms including and after 1982

Source: Citi Research and Bloomberg

Figure 43. But risk aversion also typically rising



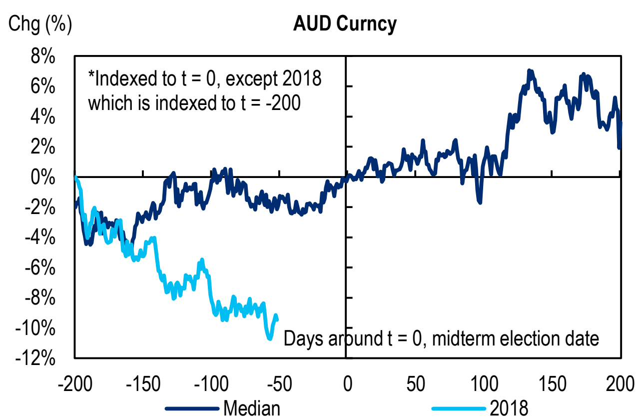
Period: all Midterms including and after 1982

Source: Citi Research and Bloomberg

AUD points to limited EMFX weakness against the USD. With too few data points for EMFX itself, we also look at AUD as a close proxy. And indeed, the USD weakness is less pronounced than for the DXY (see Figure 44). This confirms our view of less EMFX weakness than rising risk aversion may suggest.

EM credit tends to weaken into Midterms, Lastly, and with a smaller sample size, we also investigate the behavior of EM credit. As can be seen in Figure 45, credit spreads are typically widening until a few weeks before the Midterms. This would also suggest that EMFX may not benefit much from a weaker USD, given higher risk aversion.

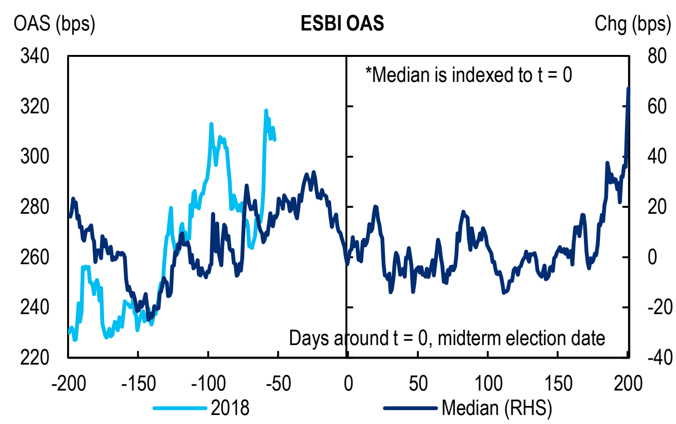
Figure 44. AUD strengthens by less than DXY weakness suggests



Period: all Midterms including and after 1982

Source: Citi Research and Bloomberg

Figure 45. EM credit spreads usually rising into it.



Period: all Midterms including and after 2002

Source: Citi Research and Bloomberg

Market Implications – Commodities

Aakash Doshi
+1 212 723 3872
Aakash.Doshi@citi.com

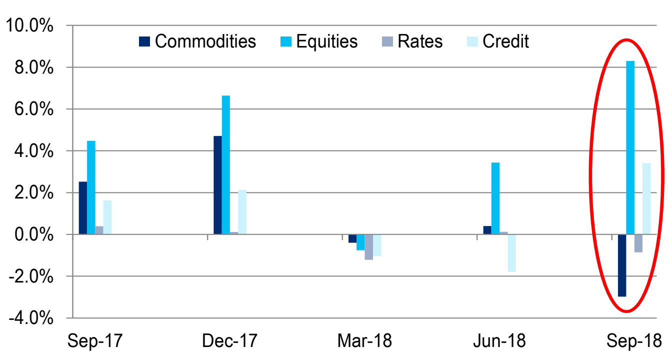
- **Key Themes** – The outcome of the Midterm elections is unlikely to significantly impact commodities pricing dynamics in the short-run as there probably will not be a material shift in US foreign policy or the implementation of US trade barriers, both primarily led by the executive branch. We expect the Iran sanctions regime to hold, irrespective of any Congressional shake-up – with additional supply risks in Venezuela, Nigeria and Iraq potentially pushing global crude oil prices to $90-100/bbl by end-2018 in a bullish fat-tail risk scenario. Meanwhile, the ratcheting up of the US-Sino trade spat is moving largely independent of Congress, with many GOP senators across the farm-belt already the most vociferous opponents of current White House trade policy (e.g. Sasse, Grassley, etc.). Trade tariffs have been a clear headwind for base metals, gold and agriculture sectors, which have sizable exposure to the China side of the demand ledger (e.g. copper, gold, soybeans), only partially offset by local stimulus measures.

- **Risks** – Democrats winning both the House and Senate might be the most interesting scenario as it would provide a stronger check on the executive branch and force the White House to the negotiating table on a host of issues. Certain commodities like gold may react more strongly to co-movements in other asset markets in this scenario. For example, if a “Blue Tsunami” leads to a sharp drawdown across equities and a weaker US$, bullion prices should rally 3-5%, especially given record short precious metals fund positioning. While the odds of additional public infrastructure spend could be positive for base metals sentiment, a blue wave may also reduce US oil production growth 100-200-k b/d in 2019 and slow the buildout of hydrocarbon energy pipelines and terminals.

- **Market Implications** – Commodities traders overall may look through the US Midterms, in our view. The US-China trade spat and weakening EMs can keep pulling metals and ags prices lower, yet supply/demand balances are generally tightening versus recent years, especially for crude oil, and global growth may yet have sufficient momentum to propel prices higher. Despite buoyant equities and credit returns, trade frictions have been a clear ‘risk-off’ for commodities. Industrial commodities in particular could be due for a negative demand shock, unlikely to be offset by US/China stimulus, if trade tensions continue to worsen.

- **Recommendations** – As the odds of a blue wave are starting to increase heading into November, upside gold call spreads can provide 4-5x payouts and look like a cheap tail hedge. To the extent global trade tensions suddenly ease post-Midterms, for factors perhaps independent of the election, we think base metals and grain prices could rally 5-10% rather quickly.

Figure 46. Quarterly returns of US$ asset classes (not vol adjusted)



Source: Bloomberg, Citi Research

Figure 47. Sensitivity of commodities demand growth to world GDP

Tariff	Imports	2019 GDP Growth	Global Demand Growth (% y/y)[5]		
			Corn[4]	Copper[4]	Oil[4]
0%	$0bn[1]	3.3%	3.2%	3.8%	1.8%
25%	$50bn[2]	-0.08	-0.04	-0.07	-0.04
10%	$200bn[3]	-0.20	-0.09	-0.17	-0.11
25%	$200bn[3]	-0.39	-0.18	-0.34	-0.22

1. If all tariffs cease.
2. If this tariff persists through to 2019.
3. In addition to the 25% on $50bn already in place.
4. Shaded values are change from the base case (0%).
5. Extrapolated from '91 - '18 linear regression.

R^2: Corn: .0562, Copper: .4838, Oil: .5601

Source: BP, USDA, WoodMac, WB, Citi Research

Market Implications – Mortgages

Roger Ashworth
+1-212-723-3183
roger.ashworth@citi.com

Ankur Mehta
+1-212-723-1833
Ankur.mehta@citi.com

- **Key Themes** – Housing finance reform has been noticeably absent over the past decade and remains one of the largest items still remaining from the financial crisis. Fannie and Freddie remain in conservatorship, and we feel there is a general bipartisan view that private capital needs to have a larger presence in housing finance. Broader issues, however, have occupied the legislative calendar. It seems there is momentum to tackle this issue, although the timeline remains uncertain.

- **Risks** – The latest proposal from early September appears to be centrist enough for passage, but the risk of further blockage is possible if the House swings to a Democrat majority. A secondary risk is we will have a new head of the FHFA starting next year. The new appointee could start to initiate administrative reforms such as lowering the conforming loan limit if a legislative logjam becomes apparent.

- **Market Implications** – Administrative reforms, such as lowering the GSE loan limit, could restrict agency MBS supply (and ultimately valuation spreads) by driving more loans to other private channels.

- **Relevant Research**

Figure 48. US Mortgage Credit Publications

Latest Proposal from Congressman Hensarling (R-TX)	7 September 2018
The Core Original Proposals	10 February 2017
Recent FHFA Proposal	18 January 2018
The Latest Corker/Warner Proposal	2 February 2018
White House Proposal	22 June 2018

Source: Citi Research.

Some Common Themes to US Housing Finance Plans

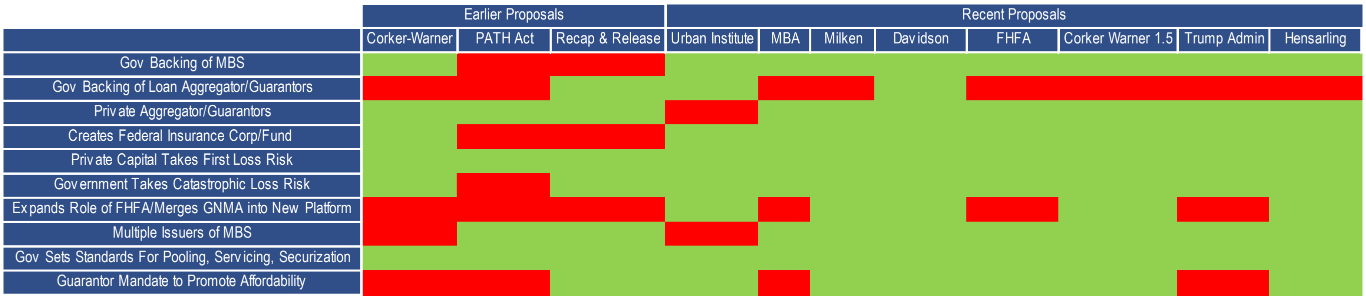
There have been many proposals to renovate Fannie Mae, Freddie Mac, and the overall housing finance system. Many initial plans from a decade ago were fairly different and ranged from removing any government involvement in conforming loans to fully-government-backed corporations and utilities. **Over time, however, several key themes have become apparent.**

First, a government guarantee of agency conforming MBS seems to have become standard with lawmakers and market participants. It appears everyone has come to the conclusion that an explicit government guarantee would support the continued liquidity of the TBA market, one of the critical components to our system. Some programs have this conforming MBS market managed by GNMA, others by a new entity or several entities / guarantors.

Second, the private market should absorb non-catastrophic losses. The GSE credit risk transfer programs prove that the private market can absorb early loss on mortgages. This would leave the government with only catastrophic loss coverage, usually for some form of fee which also pays for an insurance fund.

Finally, and to a more varied degree, there seems to generally be language that supports housing affordability. The suggestions were quite varied, but there seems to be a consensus that ensures smaller community lenders have equal access to the new system.

Figure 49. High Level Comparison of GSE Reform Proposals



Note: Green cells denote that the plan contains the reklevant aspect. Red cell do not contain the relevant aspect. Source: Citi Research.

Navann Ty
+44 207 986 4417
navann.ty@citi.com

Market Implications – HY Healthcare

- **Key Themes** – Healthcare is a key concern for voters. In a Dems House scenario, we expect Democrats to challenge GOP healthcare policies, while a full ACA repeal remains unlikely in most scenarios. In Pharma, we think drug pricing is less a dividing issue. Opioids are a bipartisan topic and we think the outcome of Midterm elections is unlikely to impact the ongoing Multi-District Litigation.
- **Risks** – A full ACA repeal is unlikely given bipartisan support would be needed. In Pharma, an EU-style referencing pricing would pose a higher risk to the industry in the longer term.
- **Market Implications** – Democrats' ability to challenge GOP healthcare policies could provide some relief to providers which are facing regulatory uncertainty. In pharma, a near-term status quo suggests a benign environment. For opioids, we continue to view an annual contribution towards a large settlement more likely than a one-off settlement.
- **Recommendations** – Overweight ENDP (Endo) bonds, Overweight BHCCN (Bausch Health) bonds
- **Relevant Research**

Figure 50. US HY Healthcare Publications

Endo International PLC (ENDP) - Bonds down since last week; remain Overweight	23 August 2018
Endo International PLC (ENDP) - Paid to wait, Overweight	30 July 2018
Bausch to maintain market exclusivity for XIFAXAN 550 mg until 2028	12 September 2018
Bausch Health - Equity issuance still on the table	7 August 2018
Bausch Health Companies Inc (BHCCN) - Another beat, Reiterate Overweight	

Source: Citi Research.

Dems House to challenge GOP health policies

Democrats have been campaigning for "Medicare for All" or "Medicare for more", a single-payer health care system, expansion of government health coverage, and/or protecting pre-existing health conditions. If Democrats take the House, then they may challenge current and future GOP/Trump healthcare policies (including repeal & replace the ACA or at least certain major provisions, cap Medicare & Medicaid spending, deregulation, use of block grants, market-and consumer-driven solutions). This would provide some relief to providers, which are facing uncertainty on the regulatory front and on marketplace enrollment and coverage.

Full ACA repeal still unlikely

In both scenarios (i) the GOP keeps both chambers, or (ii) Democrats regain both chambers, thin majorities are probable. This means only strongly bipartisan measures can be passed and bipartisan support would be needed for a full repeal and replace of the ACA through the Senate. We believe a significant overhaul of the healthcare system via unwinding the Affordable Care Act (ACA) is therefore unlikely. Republicans lacked votes, bipartisan support and an alternative plan, while overall support for the ACA has risen recently. Also, Republicans' repeal efforts proved unpopular, unlike pre-existing health conditions, a core provision of the ACA, and Medicaid expansion in some states.

Drug prices less dividing, might take longer

Lowering drug prices is a common priority for Republicans and Democrats, we believe. Although the Trump administration made several announcements since the May blueprint, the impact on the industry will likely be from 2021. Also, the Administration's aim to lower out-of-pocket spend may well be more benign for the pharma industry longer term than the Democrats' alternative. However, if Democrats take the House, there may be a protracted status quo, as Democrats might challenge Trump healthcare policies on drug pricing.

American Patients First, not yet

The blueprint "American Patients First" was released by the Trump Administration in May, aiming to lower drug prices and to reduce out-of-pocket costs. It generally fell short of more aggressive moves feared by the pharma industry, in our view, and lowering out of pocket spend drives away the possibility of a Democrat EU-style referencing pricing. Our equity analyst estimates that Medicare part D will likely only be impacted in 2021 at earliest and commercial likely in 2024 or beyond.

Jul-Aug announcements incl. Medicare D, ads, step therapy, rebates

- The CMS announced additional flexibilities in the Medicare Part D program: from 2020, health plans will be able to negotiate formulary coverage based on specific indications vs. drug-specific currently.
- A proposed rule is under review to require drug price transparency, which is related to Trump's measure to include list prices in direct-to-consumer ads.
- The Trump administration is extending "step therapy" to Medicare Advantage plans for physician-administered and other Part B drugs beginning Jan 1, 2019.
- The Dept of Health & Human Services is proposing a new rule on drug rebates, which would impact Pharmacy Benefit Managers.

Opioids: a bipartisan issue

The opioid crisis became an important issue in the Midterm's political ads, according to the WSJ & Kantar Media/CMAG. Both parties have engaged in the opioids issue, of note: Republican campaign ads have mentioned it more, especially in states more affected by opioids such as Ohio and Pennsylvania; ad campaigns mentioning opioids have been more prevalent in states with contested seats, including Ohio, Pennsylvania, Florida, Wisconsin, West Virginia.

Midterm elections unlikely to impact ongoing MDL

Nevertheless, we view the opioid epidemic as a bipartisan topic as demonstrated by the Senate passing bipartisan opioid legislation on Sep 17. Republicans may be perceived harsher on the issue, with Trump being more vocal and asking Sessions during a recent Cabinet meeting to file a separate federal lawsuit speaking. In our view however, a separate federal lawsuit would only add to the 1,300+ cases filed by states, counties, other governmental persons/entities and private plaintiffs. Over 1,100 of these cases are currently consolidated into a multidistrict litigation (MDL 2804) in the Northern District of Ohio. We view an annual contribution towards a large settlement more likely than a one-off settlement. We think the judge would not necessarily take into account the solvability of companies, but on the other hand, is not likely to request an out-of-reach figure and more likely than not phase payments.

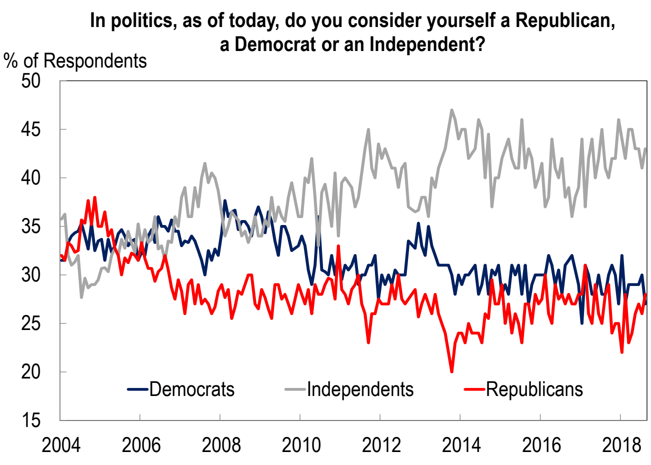
Midterm Election Basics Q&A

1 How is this election different from prior Midterms?

The 2018 election will serve either as a confirmation of or referendum on President Trump's policies, as opposed to commentaries on Congressional performance.

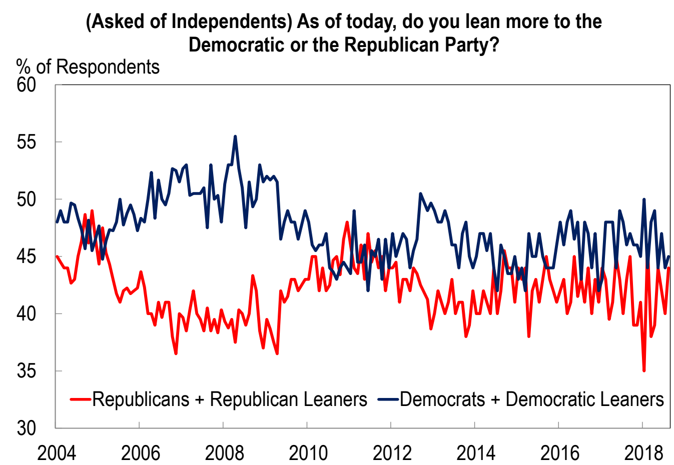
- **What's not new?** The party of the incumbent president usually suffers losses, and even one or both chambers of Congress as a consequence of his first Midterm. The president's party typically loses 25 seats in the House. This is because the Midterm election outcome is often viewed as a referendum on the president's performance, as well as Congress' performance.
- **How is 2018 different?** However, the 2018 Midterms are particularly unique as voting preferences are anticipated to be guided almost solely by the performance of President Trump and his policies, not Congress'. The Congressional GOP message on the US strong economy and the passage of comprehensive tax reform likely will be drowned out by voter sentiment about the President. The 'soft middle' may determine the balance of power in Congress if the 'blue wave' of support for Democratic candidates overtakes the 'red wall' of GOP candidates
  - 'Red Wall': Voters who chose President Trump in 2016, and approve of his performance to-date are likely to vote for Republicans in Congress and locally
  - 'Blue Wave': Voters who disapprove of President Trump's performance are likely to vote for Democrats for Congress and in state/local elections
  - 'Soft Middle': There is a large segment of undecided, political-party-fluid voters. These voters who comprise the 'soft middle' are many located in suburban areas, where Hillary Clinton prevailed over Donald Trump in the 2016 Presidential elections. It is likely that the 'blue' Democratic 'wave' can topple the 'red' GOP 'wall' [in the House] if Democrats capture the suburbs

Figure 51. More People Characterize Themselves as Independents



Source: Gallup and Citi Research.

Figure 52. Independent Voter's Party Leanings Are in a Dead Heat



Source: Gallup and Citi Research.

2 What are the Key Themes for the Midterms, and Beyond?

- **Social** – immigration, gun safety, race relations, women, Supreme Court
- **Economic** – growth, jobs, tax reform, international trade (NAFTA, tariffs)
- **Policy:**

- Foreign: NATO (EU/Turkey), China/Koreas, Russia/Iran/MENA, OPEC/oil
- Domestic: regulation, Tax reform 2.0, infrastructure, healthcare, welfare reform

- **Political Uncertainty** – impeachment proceedings, resignation due to scandals, party leadership, Democratic resistance to Trump policies (e.g. Obama vs. GOP)
- **Fed** – outstanding vacancies must be filled, independence (important for number of interest rate hikes)

3 Why are the Midterm outcomes important?

- **Heightened Domestic Political Risks** – If Congressional Democrats gain any advantage (i.e. majorities, more seats) there likely will be more oversight, resistance to the President's policies, and higher impeachment proceedings risk
- **Potential Legislative Stalemate** – Legislative achievements are likely to be light, policy likely to come to a standstill over 2019 to 2020 period. Scenarios:
  - If Democrats take the House, they will challenge GOP/Trump policies
  - The GOP keeps both chambers, or Democrats regain both chambers – but thin majorities are probable in either scenario
    - Thin majorities mean only strongly bipartisan measures can be passed as majority parties will be reliant on some members of the minority party to pass legislation (i.e. regular legislation requires 60 votes in the Senate)
    - Thin majorities also mean it is more challenging for legislators to use reconciliation to fast track legislation
- **Fiscal Supports** – Key fiscal policy decisions (e.g. tax reform 2.0, infrastructure, debt ceiling fate, Sequestration) will be affected by balance of power in Congress
- **Trade** – Trade policy (NAFTA ratification, auto tariffs, China relationship) may become more or less focused/targeted depending upon election results
- **Foreign Policy** – Global leaders will undoubtedly take their cues on negotiating tactics and strategic imperatives based in part upon the result of the contest
- **President Trump's reaction** – Will the President double down or make deals?
  - GOP maintains power over Senate *and* House – President Trump continues his current policy tilt – trade disputes, deregulation, demanding US/Mexico border wall funds, challenging global and domestic political power structures
  - Democrats win the House (or even also Senate) – President Trump continues with deregulation, but will face more oversight and resistance, slowing down progress on achieving the Administration's policy aims. There might be scope for President Trump and Democrats to strike an infrastructure deal. Democrats might support some of the President's trade policies if strong labor and environmental protections are emphasized, otherwise expect resistance

4 What platforms are the two major parties running on?

- **Republicans**: The strong US economy, tax reform

- **Democrats**: Healthcare, labor, dissatisfaction with President Trump. Many Democrats are also running on issues specific to their district and not on a broader, coordinated agenda

5 What are the top priorities for voters?

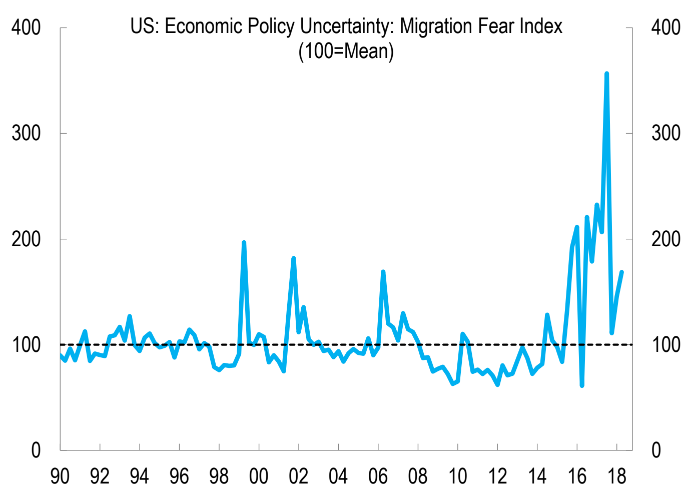
- **Voters More Focused on Social, Not Economic Issues** – A recent Gallup poll reveals that US voters are most vexed over non-economic (i.e. social) concerns than economic. As of August 2018, social issues comprised 80 percent of responses among Americans, when asked what they believed was the most important problem facing the country today, compared to 17 percent who said economic concerns topped their list. Dissatisfaction with government (21%), and immigration (16%) were the leading social concerns. Concern about the economy (5%) and job (4%) led economic issues, but for small shares of voters.
  - Top 5 Social Concerns – Dissatisfaction with the government/poor leadership, immigration, race relations, disunity/lack of respect, and health care
  - Top 5 Economic Concerns – Economy in general, unemployment/jobs, gap between rich and poor, taxes, federal budget deficit
- **Immigration Football** – Given elevated voter concerns about migrants and immigration policy, the President may continue to use the border wall with Mexico, homeland security, DACA, and other policies as political leverage to secure corporation from Congress on key legislative matters.

Figure 53. Social Issues Top List of Voter Concerns, Not Economic

What do you think is the most important problem facing the country today?	August 2018
Dissatisfaction with government/Poor leadership	21%
Immigration	16%
Race relations/Racism	7%
Unifying the Country	6%
Economy in general	5%
Lack of respect for each other	5%
Healthcare	5%
Unemployment/Jobs	4%
Ethics/moral/religious/family decline	4%
Poverty/Hunger/Hhomelessness	3%
Gap between rich and poor	2%
Taxes	2%
Education	2%
Guns	2%
International issues	2%
Environment	2%
Media	2%
Crime/Violence	2%
Drugs	2%
Federal budget deficit	1%

Source: Gallup and Citi Research.

Figure 54. Immigration Likely to Remain a Legislative/Political Football



"Measuring Economic Policy Uncertainty" by Scott R. Baker, Nicholas Bloom and Steven J. Davis at www.PolicyUncertainty.com. These data can be used freely with attribution to the authors, the paper, and the website.

Source: PolicyUncertainty.com and Citi Research.

6 Which candidates are the most vulnerable by party?

- **Senate** – 35 of 100 seats are up for reelection. **Democrats** are most at risk as incumbents must defend 26 seats, while Republicans must only defend 9 seats. Moreover, Democrats may lose seats in states President Trump won in 2016.
  - Nine of 26 Democratic incumbents are representing states that Trump won in 2016 (Nelson (FL), Donnelly (IN), McCaskill (MO),Tester (MT), Heitkamp (ND),

Brown(OH), Casey (PA), Baldwin (WI), Manchin (WV). Also, among those nine Democrats, eight may flip to the Republican party (i.e. all but Casey (PA)).

Figure 55. US Voter Concerns

What do you think is the most important problem facing the country today?

	2018 Aug	2018 Jul	2018 Jun	2018 May	2018 Apr	2018 Mar	2018 Feb
	%	%	%	%	%	%	%
ECONOMIC PROBLEMS (NET)	**17**	**14**	**15**	**20**	**20**	**14**	**20**
Economy in general	5	4	4	5	5	4	6
Unemployment/Jobs	4	2	3	3	4	2	4
Gap between rich and poor	2	1	2	2	2	1	1
Taxes	2	1	1	1	1	1	2
Federal budget deficit/Federal debt	1	2	1	3	3	2	3
Corporate corruption	1	*	*	1	1	2	1
Wage issues	1	1	1	1	1	*	1
Foreign trade/Trade deficit	1	1	1	1	2	1	--
Lack of money	1	*	*	2	*	1	1
High cost of living/Inflation	1	*	*	1	1	*	1
Fuel/Oil prices	--	1	1	*	--	*	*
NON-ECONOMIC PROBLEMS (NET)	**80**	**81**	**81**	**77**	**76**	**83**	**77**
Dissatisfaction with government/Poor leadership	21	19	19	20	23	22	22
Immigration/Illegal aliens	16	22	14	10	11	9	15
Race relations/Racism	7	7	7	7	7	7	8
Unifying the country	6	6	4	5	5	5	6
Lack of respect for each other	5	6	4	5	2	3	3
Healthcare	5	3	4	4	4	4	7
Ethics/moral/religious/family decline	4	3	4	5	3	4	4
Poverty/Hunger/Homelessness	3	2	3	1	1	2	3
Education	2	2	2	3	3	3	3
Guns/Gun control	2	2	4	3	6	13	*
International issues, problems	2	1	2	3	3	2	1
Environment/Pollution	2	2	2	2	1	3	3
The media	2	1	2	1	1	1	1
Crime/Violence	2	1	2	2	2	3	2
Drugs	2	1	1	2	1	1	1
Judicial system/Courts/Laws	1	2	1	2	1	2	1
Elections/Election reform	1	1	1	1	1	*	*
Situation with North Korea	1	1	1	1	1	2	1
National security	1	1	2	2	4	3	2
Wars/War (nonspecific)/Fear of war	1	1	1	2	1	2	1
Terrorism	1	1	1	1	*	1	1
Situation with Russia	1	*	*	*	1	1	1
Abortion	1	1	*	*	1	*	1
Welfare	1	1	1	1	1	1	1
Children's behavior/Way they are raised	*	1	1	*	1	1	*
School shootings	*	1	1	1	2	*	--
Foreign policy/Foreign aid/Focus overseas	*	1	*	1	--	1	*
Care for the elderly/Medicare	*	*	1	*	*	*	1
Natural disaster response	*	--	--	--	--	--	--
Energy/Lack of energy sources	*	--	--	*	*	*	*
Advancement of Computers/Technology	*	*	*	*	*	*	--
Social Security	*	*	*	*	*	*	*
Lack of military defense	*	--	*	1	*	1	1
War/conflict between Middle East nations	*	*	*	*	*	*	--
Situation in Iraq/ISIS	--	--	*	1	*	*	*
Situation in Syria	--	--	--	1	--	--	--
Other non-economic	5	7	5	7	8	8	6
No opinion	4	3	5	3	5	4	4

Source: Gallup and Citi Research.

– Three of the nine Republican seats in contention are considered to be vulnerable to flipping to the Democratic party (Open seat in AZ, Heller (NV), Corker (TN)), with only one candidate in a state that Clinton won in 2016 (NV).

Figure 56. Contested Senate Seats: 8 Democratic seats may flip to the GOP, and 2 (or 3) GOP seats may flip to the Democrats

Senate	Solid Democrat	Likely Democrat	Lean Democrat	Toss Up	Lean Republican	Likely Republican	Solid Republican
Democrats	CA - Feinstein	MI - Stabenow	MT - Tester	FL - Nelson			
			WV - Manchin				
26 Seats	CT - Murphy	MN - Smith		IN - Donnelly			
	DE - Carper	NJ - Menéndez		MO - McCaskill			
	HI - Hirono	OH - Brown		ND - Heitkamp			
	MA - Warren	WI - Baldwin					
	MD - Cardin						
	ME - King(I)						
	MN - Klobuchar						
	NM - Heinrich						
	NY - Gillibrand						
	PA - Casey						
	RI - Whitehouse						
	VA - Kaine						
	VT - Sanders(I)						
	WA - Cantwell						
Senate	Solid Democrat	Likely Democrat	Lean Democrat	Toss Up	Lean Republican	Likely Republican	Solid Republican
						MS - Hyde-Smith	
Republican				AZ - Open			MS - Wicker
9 Seats				NV - Heller	TX - Cruz		NE - Fischer
					TN - Corker		UT - Romney
							WY - Barrasso

Note: Green boxes denote races where seats might flip to the opposing party. Source: 270towin.com, ballotpedia.org, cookpolitical.com, nymag.com, and Citi Research.

Figure 57. Open Seats: Races With No Incumbent Candidate

	House			Senate		
Midterm Election Date	Total	R	D	Total	R	D
November 6, 2018	66	43	23	3	3	0
November 4, 2014	48	29	19	7	3	4
November 2, 2010	41	21	20	13	8	5
November 7, 2006	32	21	10	5	1	3
November 5, 2002	49	34	15	7	5	1
November 3, 1998	33	16	17	5	2	3
November 8, 1994	51	19	32	7	3	4
November 6, 1990	30	18	12	3	3	0
November 4, 1986	43	22	21	6	3	3
November 2, 1982	58	24	34	3	2	0

Source: Wikipedia.com and Citi Research estimates.

- **House** – All 435 seats are up for reelection. **Republicans** are most at risk of a poor election showing due to the number of current GOP-held seats that are either open or in Democratic-leaning districts that might flip to the Democrats.

  – Open Seats: There are 66 open House seats in contention this election season. An open seat is defined as a seat that does not have an incumbent running. A forty-year-peak of 43 open seats are in districts formerly held by Republicans, while 23 were formerly occupied by Democrats. An outsized number of open seats are also considered to be toss-up races. This is particularly true for formerly Republican-held open seats.

  – Toss Ups: Among competitive House races, 30 to 43 are considered to be toss-ups by political pundits. This means that observers are unable to determine if voters will chose a Democrat or a Republican for the seat. Most toss-up races are for seats currently or formerly (if open) held by Republicans at 29 to 41, compared to 1 or 2 held by Democrats, according to pundits.

  – Flipping: More Republican incumbents or open seats formerly held by Republicans in competitive races are at risk of flipping to the Democrats. In other words, pundits currently posit that Democrats might flip 10 GOP seats, compared to just one Democratic seat the GOP might flip. This is determined in part by the number of seats that are considered vulnerable given whether the incumbent candidate (or former representative, if the seat is open) belonged to the party of the 2016 presidential candidate who won the district.

    - 13: the number of Democratic House members who hold seats that Donald Trump carried in 2016 elections

    - 25: the number of Republican House members who hold seats that Hillary Clinton carried in 2016 elections.

Figure 58. Contested House Seats: Republicans are at greater risk of losing seats to Democrats, both in 'Red' and 'Blue' districts in November

	District	Incumbent	Sabato's Crystal Ball (29 Aug)	270towin (2 Sep)	The Cook Political Report (24 Aug)	RealClear Politics (1 Sep)	Flip to Dems	Flip to GOP
1	Alaska's AL	Don Young	Likely GOP	Likely GOP	Likely GOP			
2	Arkansas's 2nd	French Hill	Lean GOP	Lean GOP	Lean GOP	Lean GOP		
3	Arizona's 1st	Tom O'Halleran	Likely Democrat	Likely Democrat	Likely Democrat	Lean Democrat		
4	Arizona's 2nd	Martha McSally (OPEN)	Lean Democrat	Lean Democrat	Lean Democrat	Lean Democrat	YES	
5	Arizona's 6th	David Schweikert	Likely GOP	Likely GOP	Likely GOP			
6	Arizona's 9th	Kyrsten Sinema (OPEN)	Likely Democrat	Likely Democrat		Likely Democrat		
7	California's 4th	Tom McClintock	Likely GOP	Likely GOP	Likely GOP	Likely GOP		
8	California's 7th	Ami Bera	Likely Democrat	Likely Democrat	Likely Democrat	Lean Democrat		
9	California's 10th	Jeff Denham	Toss Up	Toss Up	Toss Up	Toss Up		
10	California's 21st	David Valadao	Likely GOP	Likely GOP	Likely GOP	Lean GOP		
11	California's 22nd	Devin Nunes	Likely GOP	Likely GOP		Likely GOP		
12	California's 24th	Salud Carbajal	Likely Democrat	Likely Democrat		Likely Democrat		
13	California's 25th	Stephen Knight	Toss Up	Toss Up	Toss Up	Toss Up		
14	California's 39th	Edward Royce (OPEN)	Toss Up	Toss Up	Toss Up	Toss Up		
15	California's 45th	Mimi Walters	Toss Up	Toss Up	Toss Up	Toss Up		
16	California's 48th	Dana Rohrabacher	Toss Up	Toss Up	Toss Up	Toss Up		
17	California's 49th	Darrell Issa (OPEN)	Lean Democrat	Lean Democrat	Lean Democrat	Lean Democrat	YES	
18	California's 50th	Duncan Hunter	Lean GOP	Lean GOP	Lean GOP	Toss Up		
19	Colorado's 3rd	Scott Tipton	Likely GOP	Likely GOP	Likely GOP			
20	Colorado's 6th	Mike Coffman	Toss Up	Toss Up	Toss Up	Toss Up		
21	Connecticut's 5th	Elizabeth Esty (OPEN)	Likely Democrat	Likely Democrat				
22	Florida's 6th	Ron DeSantis (OPEN)	Likely GOP	Likely GOP	Likely GOP			
23	Florida's 7th	Stephanie Murphy	Likely Democrat	Likely Democrat	Likely Democrat	Lean Democrat		
24	Florida's 15th	Dennis Ross (OPEN)	Likely GOP	Likely GOP	Lean GOP			
25	Florida's 16th	Vern Buchanan	Lean GOP	Lean GOP	Lean GOP	Lean GOP		
26	Florida's 18th	Brian Mast	Likely GOP	Likely GOP	Lean GOP	Likely GOP		
27	Florida's 25th	Mario Diaz-Balart	Likely GOP	Likely GOP	Likely GOP	Likely GOP		
28	Florida's 26th	Carlos Curbelo	Toss Up	Toss Up		Toss Up		
29	Florida's 27th	Ileana Ros-Lehtinen (OPEN)	Lean Democrat	Lean Democrat	Lean Democrat	Lean Democrat	YES	
30	Georgia's 6th	Karen Handel	Likely GOP	Likely GOP	Lean GOP	Lean GOP		
31	Georgia's 7th	Rob Woodall	Likely GOP	Likely GOP	Likely GOP	Likely GOP		
32	Illinois' 6th	Peter Roskam	Toss Up	Toss Up	Toss Up	Toss Up		
33	Illinois' 12th	Mike Bost	Toss Up	Toss Up	Toss Up	Toss Up		
34	Illinois 13th	Rodney Davis	Lean GOP	Lean GOP	Lean GOP	Likely GOP		
35	Illinois 14th	Randy Hultgren	Lean GOP	Likely GOP	Lean GOP	Lean GOP		
36	Indiana's 2nd	Jackie Walorski	Likely GOP	Likely GOP	Likely GOP			
37	Indiana's 9th	Trey Hollingsworth	Likely GOP	Likely GOP				
38	Iowa's 1st	Rod Blum	Toss Up	Toss Up	Toss Up	Toss Up		
39	Iowa's 3rd	David Young	Toss Up	Toss Up	Toss Up	Toss Up		
40	Iowa's 4th	Steve King	Likely GOP	Likely GOP	Likely GOP			
41	Kansas' 2nd	Lynn Jenkins (OPEN)	Toss Up	Toss Up	Toss Up	Toss Up		
42	Kansas' 3rd	Kevin Yoder	Toss Up	Toss Up	Toss Up	Toss Up		
43	Kentucky's 6th	Andy Barr	Toss Up	Toss Up	Toss Up	Toss Up		
44	Maine's 2nd	Bruce Poliquin	Toss Up	Toss Up	Toss Up	Lean GOP		
45	Michigan's 1st	Jack Bergman	Likely GOP	Likely GOP	Likely GOP			
46	Michigan's 6th	Fred Upton	Likely GOP	Likely GOP	Likely GOP	Lean GOP		
47	Michigan's 7th	Tim walberg	Likely GOP	Likely GOP	Likely GOP	Lean GOP		
48	Michigan's 8th	Mike Bishop	Toss Up	Toss Up	Toss Up	Lean GOP		
49	Michigan's 11th	David Trott (OPEN)	Lean Democrat	Toss Up	Toss Up	Toss Up		
50	Minnesota's 1st	Tim Walz (OPEN)	Toss Up	Toss Up	Toss Up	Toss Up		
51	Minnesota's 2nd	Jason Lewis	Toss Up	Toss Up	Toss Up	Toss Up		
52	Minnesota's 3rd	Erik Paulsen	Toss Up	Toss Up	Toss Up	Toss Up		
53	Minnesota's 7th	Collin Peterson	Likely Democrat	Likely Democrat	Likely Democrat	Lean Democrat		
54	Minnesota's 8th	Rick Nolan (OPEN)	Toss Up	Toss Up	Toss Up	Toss Up		
55	Missouri's 2nd	Ann Wagner	Likely GOP	Likely GOP	Likely GOP			
56	Montana's AL	Greg Gianforte	Lean GOP	Lean GOP	Lean GOP	Toss Up		
57	Nebraska's 2nd	Don Bacon	Lean GOP	Lean GOP	Lean GOP	Lean GOP		
58	Nevada's 3rd	Jacky Rosen (OPEN)	Lean Democrat	Lean Democrat	Lean Democrat	Lean Democrat		
59	Nevada's 4th	Ruben Kihuen (OPEN)	Lean Democrat	Likely Democrat	Likely Democrat	Lean Democrat		
60	New Hampshire's 1st	Carol Shea-Porter (OPEN)	Lean Democrat	Lean Democrat	Lean Democrat	Lean Democrat		
61	New Jersey's 2nd	Frank LoBiondo (OPEN)	Likely Democrat	Likely Democrat	Likely Democrat	Likely Democrat	YES	
62	New Jersey's 3rd	Tom MacArthur	Toss Up	Toss Up	Toss Up	Toss Up		
63	New Jersey's 5th	Josh Gttheimer	Likely Democrat	Likely Democrat	Likely Democrat	Lean Democrat		
64	New Jersey's 7th	Leonard Lance	Toss Up	Toss Up	Toss Up	Toss Up		
65	New Jersey's 11th	Rodney Frelinghuysen (OPEN)	Lean Democrat	Lean Democrat	Lean Democrat	Toss Up	YES	
66	New Mexico's 2nd	Steve Pearce (OPEN)	Lean GOP	Lean GOP	Lean GOP	Toss Up		
67	New York's 1st	Lee Zeldin	Lean GOP	Likely GOP	Likely GOP	Lean GOP		
68	New York's 11th	Dan Donovan	Lean GOP	Likely GOP	Likely GOP	Lean GOP		
69	New York's 18th	Sean P. Maloney	Likely Democrat	Likely Democrat		Likely Democrat		
70	New York's 19th	John Faso	Toss Up	Toss Up	Toss Up	Toss Up		
71	New York's 22nd	Claudia Tenney	Toss Up	Toss Up	Toss Up	Toss Up		
72	New York's 23rd	Tomm Reed	Likely GOP	Likely GOP				
73	New York's 24th	John Katko	Likely GOP	Likely GOP	Likely GOP	Likely GOP		
74	New York's 27th	Chris Collins	Likely GOP	Likely GOP	Likely GOP	Lean GOP		
75	North Carolina's 2nd	George Holding	Likely GOP	Likely GOP	Lean GOP			
76	North Carolina's 8th	Richard Hudson	Likely GOP	Likely GOP	Likely GOP	Likely GOP		
77	North Carolina's 9th	Robert Pittenger (OPEN)	Lean Democrat	Toss Up	Toss Up	Toss Up		
78	North Carolina's 13th	Ted Budd	Lean GOP	Lean GOP	Lean GOP	Lean GOP		
79	Ohio's 1st	Steve Chabot	Toss Up	Toss Up	Toss Up	Toss Up		
80	Ohio's 7th	Bob Gibbs	Likely GOP	Likely GOP				
81	Ohio's 10th	Michael Turner	Likely GOP	Likely GOP	Likely GOP			
82	Ohio's 12th (special)	Vacant (OPEN)	Lean GOP	Toss Up	Lean GOP	Toss Up		
83	Ohio's 14th	David Joyce	Lean GOP	Likely GOP	Likely GOP	Likely GOP		
84	Ohio's 15th	Steve Stivers	Likely GOP	Likely GOP				
85	Oklahoma's 5th	Steve Russell	Likely GOP	Likely GOP				
86	Pennsylvania's 1st	Brian Fitzpatrick	Toss Up	Toss Up	Lean GOP	Toss Up		
87	Pennsylvania's 5th	Vacant (OPEN)	Likely Democrat		Likely Democrat	Likely Democrat	YES	
88	Pennsylvania's 6th	Ryan Costello	Likely Democrat	Likely Democrat	Likely Democrat	Likely Democrat	YES	
89	Pennsylvania's 7th	Vacant (OPEN)	Lean Democrat	Lean Democrat	Lean Democrat	Toss Up	YES	
90	Pennsylvania's 8th	Matthew Cartwright	Likely Democrat	Likely Democrat	Likely Democrat	Likely Democrat		
91	Pennsylvania's 10th	Scott Perry	Likely GOP	Likely GOP	Lean GOP	Lean GOP		
92	Pennsylvania's 14th	(OPEN)	Likely GOP		Likely GOP			YES
93	Pennsylvania's 16th	Mike Kelly	Likely GOP	Likely GOP	Lean GOP	Likely GOP		
94	Pennsylvania's 17th	Conor Lamb / Keith Rothfus	Lean Democrat	Lean Democrat	Lean Democrat	Toss Up	YES	
95	South Carolina's 1st	Mark Sandord (OPEN)	Likely GOP	Likely GOP	Lean GOP			
96	Texas's 2nd	Ted Poe (OPEN)	Likely GOP	Likely GOP	Likely GOP			
97	Texas' 7th	John Culberson	Toss Up	Toss Up	Toss Up	Toss Up		
98	Texas' 21st	Lamar Smith (OPEN)	Likely GOP	Likely GOP	Likely GOP	Likely GOP		
99	Texas' 22nd	Pete Olsen	Likely GOP	Likely GOP				
100	Texas' 23rd	Will Hurd	Toss Up	Toss Up	Lean GOP	Toss Up		
101	Texas' 31st	John Carter	Likely GOP	Likely GOP	Likely GOP			
102	Texas' 32nd	Pete Sessions	Lean GOP	Toss Up	Toss Up	Toss Up		
103	Utah's 4th	Mia Love	Lean GOP	Lean GOP	Lean GOP	Toss Up		
104	Virginia's 2nd	Scott Taylor	Toss Up	Lean GOP	Lean GOP	Lean GOP		
105	Virginia's 5th	Thomas Garrett (OPEN)	Lean GOP	Lean GOP	Lean GOP	Toss Up		
106	Virginia's 7th	David Brat	Toss Up	Toss Up	Toss Up	Toss Up		
107	Virginia's 10th	Barbara Comstock	Lean Democrat	Lean Democrat	Lean Democrat	Lean Democrat	YES	
108	Washington's 3rd	Jaime Herrera Beutler	Lean GOP	Lean GOP	Lean GOP	Lean GOP		
109	Washington's 5th	Cathy McMorris Rodgers	Lean GOP	Lean GOP	Lean GOP	Toss Up		
110	Washington's 8th	Dave Reichert (OPEN)	Lean Democrat	Toss Up	Toss Up	Toss Up		
111	West Virginia's 3rd	Evan Jenkins (OPEN)	Toss Up	Lean GOP	Lean GOP	Toss Up		
112	Wisconsin's 1st	Paul Ryan (OPEN)	Lean GOP	Lean GOP	Lean GOP	Toss Up		
113	Wisconsin's 6th	Glenn Grothman	Likely GOP	Likely GOP	Likely GOP			

Note: Toss Up: Political pundits are unable to call the outcome. Open: seats being vacated by incumbents, usually due to retirements. 'Red' districts: districts Donald Trump won in the 2016 presidential election. 'Blue' districts: districts Hillary Clinton won in 2016. 'Red' dots: Republican candidates. 'Blue' dots: Democratic candidates.

Source: UVA Center for Politics, ballotpedia, cookpolitical.com, 270towin.com, realclearpolitics.com, and Citi Research.

7 What are the most likely Midterm election night outcomes?

- **Most Likely**: Dems House, GOP Senate is the most likely given signals from measures of enthusiasm from primary poling results, generic Congressional ballot polling, the number of open seats, and Presidential approval ratings.
  - Generic Congressional Polling (28 September, average over multiple surveys)
    - 48.7 percent of say they would vote for Democrats at the November Midterm elections vs. 41.2 who say they would vote for Republicans.
  - Over the last 40 years, presidents with approval ratings ahead of the Midterms below 50 percent often see their party lose one or both chambers of Congress.
    - President Trump's approval stands at 43.8 percent, below the peak of 45 percent achieved in December 2017, despite the strong performance of the US economy, low unemployment, and firming wage growth.

- Since the Great Financial Crisis (GFC), Presidential mandates—when a single party controls both chambers of Congress (House, Senate) and the Presidency—do not appear to bolster voter sentiment about Congress, providing limited signaling over the election benefits of the Trump mandate

- **Also Likely**: GOP House, GOP Senate; or Dem House, Dem Senate are possible, but parties in both scenarios likely would have very thin majorities that would hamper major legislation from being passed, according to political pundits

- **Least Likely**: GOP House, Dem Senate not likely—election math and momentum favor Democrats to win the House, not the Senate

Figure 59. Past Presidential Approval Ratings at Midterms

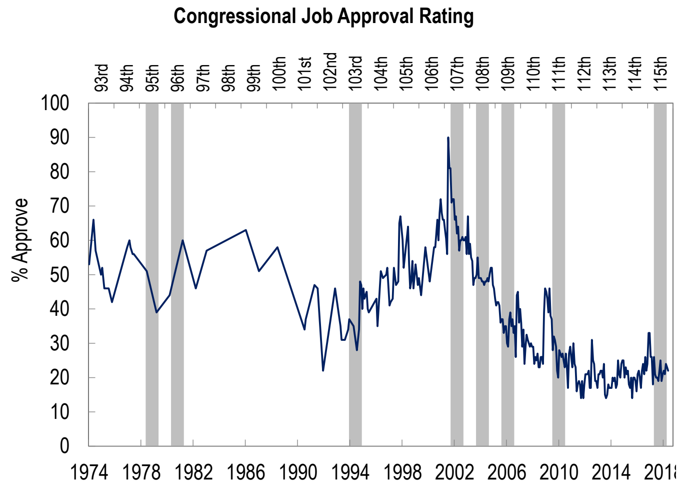
September 1 to Mid-Term Election Average Job Approval Ratings (% of Respondents Approving)

Average from Sep 1 to Mid-Term Election		52				
President	**Term**	**Rating**	**Mid-Term Election Date**	**Range**	**House**	**Senate**
Donald Trump* (R)	1	43			R	R
Barack Obama (D)	2	42	November 4, 2014	40-43	R	R (was D)
Barack Obama (D)	1	45	November 2, 2010	44-46	R (was D)	D
George W Bush (R)	2	39	November 7, 2006	37-44	D (was R)	D** (was R)
George W Bush (R)	1	66	November 5, 2002	62-70	R	R (was plurality)
Bill Clinton (D)	2	64	November 3, 1998	63-66	R	R
Bill Clinton (D)	1	43	November 8, 1994	39-48	R (was D)	R (was D)
George H.W. Bush (R)	1	62	November 6, 1990	52-76	D	D
Ronald Reagan (R)	2	63	November 4, 1986	62-64	D	D (was R)
Ronald Reagan (R)	1	42	November 2, 1982	41-42	D	R

Note: Approval rating for President Trump as of September 18, 2018. **No party held a majority of seats in the Senate following the 2006 mid-term elections. However, the Democrats were able to control the chamber because the two independents caucused with them. Plurality means that neither party held the majority.

Source: RealClearPolitics.com and Citi Research.

Figure 60. Past Congressional Approval Ratings With Mandates



Note: Shaded regions denote mandates: one party controls both chambers of Congress and the Presidency. Source: Gallup, senate.gov, and Citi Research.

8 Who might hold key leadership positions after the elections

- **House: Democrats** – Nancy Pelosi (D-CA) front runner for Speaker; others who might vie for party leadership include James Clyburn (D-SC), Steny Hoyer (D-MD). Potentially candidates emerge outside of the current leadership structure.

- **House: Republicans** – Kevin McCarthy (R-CA) front runner for Speaker; others who might vie for leadership include Steve Scalise (R-LA), James Jordan (R-OH)

- **Senate**: Charles Schumer (D-NY) and McConnell (R-KY)

Figure 61. Key Leadership Positions in 116th Congress: Potential Candidates

House	Position	GOP	DEM
Leadership	Speaker	Open: Paul Ryan (R-WI)	
	Leader	Kevin McCarthy (R-CA)	Nancy Pelosi (D-PA)
	Whip	Steve Scalise (R-LA)	Steny Hoyer (D-MD)
	Conference (R)/Asst. Leader (D)	Cathy McMorris Rodgers (R-	James Clyburn (D-SC)
	Policy Committee (R)/ Caucus	Open: Luke Messer (R-IN)	Open: Joseph Crowley (D-NY)
Committee	Appropriations	Open: Rodney Frelinghuysen (R-NJ)	Nita Lowey (D-NY)
	Armed Services	Mac Thornberry (R-TX)	Adam Smith (D-WA)
	Budget	Steve Womack (R-AR)	John Yarmuth (D-KY)
	Energy & Commerce	Greg Walden (R-OR)	Frank Pallone (D-NJ)
	Ethics	Susan W Brooks (R-IN)	Ted Deutch (D-FL)
	Financial Services	Open: Jeb Hensarling (R-TX)	Maxine Waters (D-CA)
	Foreign Affairs	Open: Ed Royce (R-CA)	Eliot Engel (D-NY)
	Homeland Security	Michael McCaul (R-TX)	Bennie Thompson (D-MS)
	Intelligence	Devin Nunes (R-CA)	Adam Schiff (D-CA)
	Joint Economic Committee	Erik Paulsen (R-MN)	Martin Heinrich (D-NM)
	Judiciary	Open: Bob Goodlatte (R-VA)	Jerry Nadler (D-NY)
	Oversight & Government Reform	Open: Trey Gowdy (R-SC)	Elijah Cummings (D-MD)
	Rules	Pete Session (R-TX)	Jim McGovern (D-MA)
	Transportation & Infrastructure	Open: Bill Shuster (R-PA)	Peter DeFazio (D-OR)
	Ways & Means	Kevin Brady (R-TX)	Richard Neal (MA)

Note: **Open** means current member is retiring, running for another office, lost primary

Source: House.gov/Committees, 270toWin, *Politico*, and Citi Research.

Calendar of Key Political Events to Watch

Pre-Midterm Elections (Sep to Nov 6)

- **Funding government for FY2019**
  - CR: Congress/President must avoid a Federal government shutdown on September 30—the end of the 2018 fiscal year—likely by passing some combination of agreed to annual discretionary spending bills (3 to 7 bills total) and a continuing resolution (CR) for the rest of the government programs. The spending CR might last until December 7, 2018.
  - Shutdown Risks: Given proximity to the Midterm elections, we assign a low probability that President Trump would use border wall funding, or other items, as leverage to prevent passage of the CR that might trigger a shutdown.
- **Key Appointments**
  - Supreme Court: Trump Administration SCOTUS nominee Kavanagh Senate hearings and a confirmation vote. Hearings began on September 4.
  - Fed: Trump Administration Federal Reserve Board Bowman, Goodfriend, Liang Senate hearings and/or confirmation votes.

Lame-Duck Session (Nov 7 to Dec 31)

- **Funding government for FY2019**
  - Potential Omnibus – Congress must complete, and the President must sign final appropriations legislation to be presented after the Midterms to avoid another shutdown when the September CR expires, likely in December. The individual pieces of legislation may be combined into a large omnibus bill.
  - Passage Risk – President Trump may use his desire for border wall funding, or stricter immigration laws as leverage for signing a large omnibus bill. The President warned with the signing of the Bipartisan Budget Act of 2018 that he might not sign another discretionary spending bill of such magnitude again.
- **Leadership Elections**
  - Congressional leadership elections for the 116th Congress
  - Most focus will be on House leadership positions for the GOP and Dems

Early 2019

- **US Sovereign Debt Ceiling**
  - “Soft” debt ceiling bites in March.
  - The “hard” ceiling would bite later in 2019. The timing depends upon monthly Federal budget deficits, and Treasury cash balance and funding needs. Ahead of the “hard” debt ceiling, Congress must decide to raise, suspend until a later date, or eliminate the public debt limit. No action leads to default.

2019-2020

- **Congressional Republican Party Agenda** – Tax reform 1.0 technical fixes (min), Tax reform 2.0 (max); welfare reform (e.g. Obamacare, income security)

- **Congressional Democratic Party Agenda** – Infrastructure; immigration; healthcare (Obamacare); education; (Fed) minimum wage hikes, worker training
- **Trump Agenda** – Deregulation, border security (wall), immigration, trade
- **Sequestration**
  - Returns 1 October 2019. Congress/President must choose to (1) allow (fiscal cliff); (2) mitigate effect of fiscal cliff; (3) repeal sequestration.
  - Note: **Sequestration** is the automatic reduction of Federal defense and nondefense discretionary spending caps and cuts in spending requested above the caps, as mandated by Budget Control Act (BCA) of 2011. Sequestration was legislated to be effective over the 2012 to 2021 period. Since passage, Congress has routinely repealed or mitigated the effects of Sequestration. The Bipartisan Budget Act of 2018 repealed Sequestration for fiscal years 2018 and 2019, but Sequestration returns in 2020 and 2021.
- **2020 Presidential and Congressional Elections**
  - The Presidential campaign season starts in early spring of 2019.
  - President Trump, the incumbent, holding all else equal, would be the candidate for the Republican party
  - The field for the Democratic party candidate currently remains crowded

Appendix A-1

Analyst Certification

The research analysts primarily responsible for the preparation and content of this research report are either (i) designated by "AC" in the author block or (ii) listed in bold alongside content which is attributable to that analyst. If multiple AC analysts are designated in the author block, each analyst is certifying with respect to the entire research report other than (a) content attributable to another AC certifying analyst listed in bold alongside the content and (b) views expressed solely with respect to a specific issuer which are attributable to another AC certifying analyst identified in the price charts or rating history tables for that issuer shown below. Each of these analysts certify, with respect to the sections of the report for which they are responsible: (1) that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc. and its affiliates; and (2) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

Within the past 12 months, Citigroup Global Markets Inc. or its affiliates has acted as manager or co-manager of an offering of securities of United States.

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of United States.

Citigroup Global Markets Inc. or its affiliates has received compensation for investment banking services provided within the past 12 months from United States.

Citigroup Global Markets Inc. or an affiliate received compensation for products and services other than investment banking services from United States in the past 12 months.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as investment banking client(s): United States.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as clients, and the services provided were non-investment-banking, securities-related: United States.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as clients, and the services provided were non-investment-banking, non-securities-related: United States.

Citigroup Global Markets Inc. and/or its affiliates has a significant financial interest in relation to United States. (For an explanation of the determination of significant financial interest, please refer to the policy for managing conflicts of interest which can be found at www.citiVelocity.com.)

Disclosure for investors in the Republic of Turkey: Under Capital Markets Law of Turkey (Law No: 6362), the investment information, comments and recommendations stated here, are not within the scope of investment advisory activity. Investment advisory service is provided in accordance with a contract of engagement on investment advisory concluded between brokerage houses, portfolio management companies, non-deposit banks and clients. Comments and recommendations stated here rely on the individual opinions of the ones providing these comments and recommendations. These opinions may not fit to your financial status, risk and return preferences. For this reason, to make an investment decision by relying solely to this information stated here may not bring about outcomes that fit your expectations. Furthermore, Citi Research is a division of Citigroup Global Markets Inc. (the "Firm"), which does and seeks to do business with companies and/or trades on securities covered in this research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report, however investors should also note that the Firm has in place organisational and administrative arrangements to manage potential conflicts of interest of this nature.

Analysts' compensation is determined by Citi Research management and Citigroup's senior management and is based upon activities and services intended to benefit the investor clients of Citigroup Global Markets Inc. and its affiliates (the "Firm"). Compensation is not linked to specific transactions or recommendations. Like all Firm employees, analysts receive compensation that is impacted by overall Firm profitability which includes investment banking, sales and trading, and principal trading revenues. One factor in equity research analyst compensation is arranging corporate access events between institutional clients and the management teams of covered companies. Typically, company management is more likely to participate when the analyst has a positive view of the company.

For securities recommended in the Product in which the Firm is not a market maker, the Firm is a liquidity provider in the issuers' financial instruments and may act as principal in connection with such transactions. The Firm is a regular issuer of traded financial instruments linked to securities that may have been recommended in the Product. The Firm regularly trades in the securities of the issuer(s) discussed in the Product. The Firm may engage in securities transactions in a manner inconsistent with the Product and, with respect to securities covered by the Product, will buy or sell from customers on a principal basis.

For important disclosures (including copies of historical disclosures) regarding the companies that are the subject of this Citi Research product ("the Product"), please contact Citi Research, 388 Greenwich Street, 28th Floor, New York, NY, 10013, Attention: Legal/Compliance [E6WYB6412478]. In addition, the same important disclosures, with the exception of the Valuation and Risk assessments and historical disclosures, are contained on the Firm's disclosure website at https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures. Valuation and Risk assessments can be found in the text of the most recent research note/report regarding the subject company. Pursuant to the Market Abuse Regulation a history of all Citi Research recommendations published during the preceding 12-month period can be accessed via Citi Velocity (https://www.citivelocity.com/cv2) or your standard distribution portal. Historical disclosures (for up to the past three years) will be provided upon request.

NON-US RESEARCH ANALYST DISCLOSURES

Non-US research analysts who have prepared this report (i.e., all research analysts listed below other than those identified as employed by Citigroup Global Markets Inc.) are not registered/qualified as research analysts with FINRA. Such research analysts may not be associated persons of the member organization and therefore may not be subject to the FINRA Rule 2241 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account. The legal entities employing the authors of this report are listed below:

Citigroup Global Markets Inc	Dana M Peterson; Ebrahim Rahbari; Dirk Willer; Jabaz Mathai; Mary E Kane; Ankur Mehta; Jeffrey Berenbaum; Roger Ashworth; Aakash Doshi; Cesar Rojas; Jason Williams
Citigroup Global Markets Ltd	Tina M Fordham; Jeremy Hale; Navann Ty
Citigroup Global Markets Asia	Johanna Chua; Jin-Wook Kim

OTHER DISCLOSURES

Any price(s) of instruments mentioned in recommendations are as of the prior day's market close on the primary market for the instrument, unless otherwise stated.

The completion and first dissemination of any recommendations made within this research report are as of the Eastern date-time displayed at the top of the Product. If the Product references views of other analysts then please refer to the price chart or rating history table for the date/time of completion and first dissemination with respect to that view.

European regulations require that where a recommendation differs from any of the author's previous recommendations concerning the same financial instrument or issuer that has been published during the preceding 12-month period that the change(s) and the date of that previous recommendation are indicated. Please refer to the trade history in the published research or contact the research analyst.

European regulations require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. The policy applicable to Citi Research's Products can be found at https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures.

The proportion of all Citi Research research recommendations that were the equivalent to "Buy","Hold","Sell" at the end of each quarter over the prior 12 months (with the % of these that had received investment firm services from Citi in the prior 12 months shown in brackets) is as follows: Q2 2018 Buy 33% (70%), Hold 43% (64%), Sell 23% (57%), RV 0.6% (89%); Q1 2018 Buy 32% (71%), Hold 44% (63%), Sell 24% (56%), RV 0.4% (98%); Q4 2017 Buy 32% (70%), Hold 44% (65%), Sell 24% (57%), RV NA (NA); Q3 2017 Buy 32% (70%), Hold 44% (64%), Sell 24% (58%), RV NA (NA). For the purposes of disclosing recommendations other than for equity or high yield recommendations (whose definitions can be found in their corresponding disclosure sections), "Buy" means a positive directional trade idea; "Sell" means a negative directional trade idea; and "Relative Value" means any trade idea which does not have a clear direction to the investment strategy.

European regulations require a 5 year price history when past performance of a security is referenced. CitiVelocity's Charting Tool (https://www.citivelocity.com/cv2/#go/CHARTING_3_Equities) provides the facility to create customisable price charts including a five year option. This tool can be found in the Data & Analytics section under any of the asset class menus in CitiVelocity (https://www.citivelocity.com/). For further information contact CitiVelocity support (https://www.citivelocity.com/cv2/go/CLIENT_SUPPORT). The source for all referenced prices, unless otherwise stated, is DataCentral, which sources price information from Thomson Reuters. Past performance is not a guarantee or reliable indicator of future results. Forecasts are not a guarantee or reliable indicator of future performance.

Investors should always consider the investment objectives, risks, and charges and expenses of an ETF carefully before investing. The applicable prospectus and key investor information document (as applicable) for an ETF should contain this and other information about such ETF. It is important to read carefully any such prospectus before investing. Clients may obtain prospectuses and key investor information documents for ETFs from the applicable distributor or authorized participant, the exchange upon which an ETF is listed and/or from the applicable website of the applicable ETF issuer. The value of the investments and any accruing income may fall or rise. Any past performance, prediction or forecast is not indicative of future or likely performance. Any information on ETFs contained herein is provided strictly for illustrative purposes and should not be deemed an offer to sell or a solicitation of an offer to purchase units of any ETF either explicitly or implicitly. The opinions expressed are those of the authors and do not necessarily reflect the views of ETF issuers, any of their agents or their affiliates.

Citigroup Global Markets India Private Limited and/or its affiliates may have, from time to time, actual or beneficial ownership of 1% or more in the debt securities of the subject issuer.

Citi Research generally disseminates its research to the Firm's global institutional and retail clients via both proprietary (e.g., Citi Velocity and Citi Personal Wealth Management) and non-proprietary electronic distribution platforms. Certain research may be disseminated only via the Firm's proprietary distribution platforms; however such research will not contain changes to earnings forecasts, target price, investment or risk rating or investment thesis or be otherwise inconsistent with the author's previously published research. Certain research is made available only to institutional investors to satisfy regulatory requirements. Individual Citi Research analysts may also opt to circulate published research to one or more clients by email; such email distribution is discretionary and is done only after the research has been disseminated. The level and types of services provided by Citi Research analysts to clients may vary depending on various factors such as the client's individual preferences as to the frequency and manner of receiving communications from analysts, the client's risk profile and investment focus and perspective (e.g. market-wide, sector specific, long term, short-term etc.), the size and scope of the overall client relationship with the Firm and legal and regulatory constraints.

Pursuant to Comissão de Valores Mobiliários Rule 598 and ASIC Regulatory Guide 264, Citi is required to disclose whether a Citi related company or business has a commercial relationship with the subject company. Considering that Citi operates multiple businesses in more than 100 countries around the world, it is likely that Citi has a commercial relationship with the subject company.

Securities recommended, offered, or sold by the Firm: (i) are not insured by the Federal Deposit Insurance Corporation; (ii) are not deposits or other obligations of any insured depository institution (including Citibank); and (iii) are subject to investment risks, including the possible loss of the principal amount invested. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in the Product must take into account existing public information on such security or any registered prospectus. Although information has been obtained from and is based upon sources that the Firm believes to be reliable, we do not guarantee its accuracy and it may be incomplete and condensed. Note, however, that the Firm has taken all reasonable steps to determine the accuracy and completeness of the disclosures made in the Important Disclosures section of the Product. The Firm's research department has received assistance from the subject company(ies) referred to in this Product including, but not limited to, discussions with management of the subject company(ies) or visiting company sites. Firm policy prohibits research analysts from sending draft research to subject companies. However, it should be presumed that the author of the Product has had discussions with the subject company to ensure factual accuracy prior to publication. All opinions, projections and estimates constitute the judgment of the author as of the date of the Product and these, plus any other information contained in the Product, are subject to change without notice. Prices and availability of financial instruments also are subject to change without notice. Notwithstanding other departments within the Firm advising the companies discussed in this Product, information obtained in such role is not used in the preparation of the Product. Although Citi Research does not set a predetermined frequency for publication, if the Product is a fundamental equity or credit research report, it is the intention of Citi Research to provide research coverage of the covered issuers, including in response to news affecting the issuer. For non-fundamental research reports, Citi Research may not provide regular updates to the views, recommendations and facts included in the reports. Notwithstanding that Citi Research maintains coverage on, makes recommendations concerning or discusses issuers, Citi Research may be periodically restricted from referencing certain issuers due to legal or policy reasons. Where a component of a published trade idea is subject to a restriction, the trade idea will be removed from any list of open trade ideas included in the Product. Upon the lifting of the restriction, the trade idea will either be re-instated in the open trade ideas list if the analyst continues to support it or it will be officially closed. Citi Research may provide different research products and services to different classes of customers (for example, based upon long-term or short-term investment horizons) that may lead to differing conclusions or recommendations that could impact the price of a security contrary to the recommendations in the alternative research product, provided that each is consistent with the rating system for each respective product.

Investing in non-U.S. securities, including ADRs, may entail certain risks. The securities of non-U.S. issuers may not be registered with, nor be subject to the reporting requirements of the U.S. Securities and Exchange Commission. There may be limited information available on foreign securities. Foreign companies are generally not subject to uniform audit and reporting standards, practices and requirements comparable to those in the U.S. Securities of some foreign companies may be less liquid and their prices more volatile than securities of comparable U.S. companies. In addition, exchange rate movements may have an adverse effect on the value of an investment in a foreign stock and its corresponding dividend payment for U.S. investors. Net dividends to ADR investors are estimated, using withholding tax rates conventions, deemed accurate, but investors are urged to consult their tax advisor for exact dividend computations. Investors who have received the Product from the Firm may be prohibited in certain states or other jurisdictions from purchasing securities mentioned in the Product from the Firm. Please ask your Financial Consultant for additional details. Citigroup Global Markets Inc. takes responsibility for the Product in the United States. Any orders by US investors resulting from the information contained in the Product may be placed only through Citigroup Global Markets Inc.

Important Disclosures for Bell Potter Customers: Bell Potter is making this Product available to its clients pursuant to an agreement with Citigroup Global Markets Australia Pty Limited. Neither Citigroup Global Markets Australia Pty Limited nor any of its affiliates has made any determination as to the suitability of the information provided herein and clients should consult with their Bell Potter financial advisor before making any investment decision.

The Citigroup legal entity that takes responsibility for the production of the Product is the legal entity which the first named author is employed by. The Product is made available in **Australia** through Citigroup Global Markets Australia Pty Limited. (ABN 64 003 114 832 and AFSL No. 240992), participant of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. Citigroup Global Markets Australia Pty Limited is not an Authorised Deposit-Taking Institution under the Banking Act 1959, nor is it regulated by the Australian Prudential Regulation Authority. The Product is made available in Australia to Private Banking wholesale clients through Citigroup Pty Limited (ABN 88 004 325 080 and AFSL 238098). Citigroup Pty Limited provides all financial product advice to Australian Private Banking wholesale clients through bankers and relationship managers. If there is any doubt about the suitability of investments held in Citigroup Private Bank accounts, investors should contact the Citigroup Private Bank in Australia. Citigroup companies may compensate affiliates and their representatives for providing products and services to clients. The Product is made available in **Brazil** by Citigroup Global Markets Brasil - CCTVM SA, which is regulated by CVM - Comissão de Valores Mobiliários ("CVM"), BACEN - Brazilian Central Bank, APIMEC - Associação dos Analistas e Profissionais de Investimento do Mercado de Capitais and ANBIMA – Associação Brasileira das Entidades dos Mercados Financeiro e de Capitais. Av. Paulista, 1111 - 14º andar(parte) - CEP: 01311920 - São Paulo - SP. If the Product is being made available in certain provinces of **Canada** by Citigroup Global Markets (Canada) Inc. ("CGM Canada"), CGM Canada has approved the Product. Citigroup Place, 123 Front Street West, Suite 1100, Toronto, Ontario M5J 2M3. This product is available in **Chile** through Banchile Corredores de Bolsa S.A., an indirect subsidiary of Citigroup Inc., which is regulated by the Superintendencia de Valores y Seguros. Agustinas 975, piso 2, Santiago, Chile. The Product is made available in **Germany** by Citigroup Global Markets Deutschland AG ("CGMD"), which is regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin). CGMD, Reuterweg 16, 60323 Frankfurt am Main. Research which relates to "securities" (as defined in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)) is issued in **Hong Kong** by, or on behalf of, Citigroup Global Markets Asia Limited which takes full responsibility for its content. Citigroup Global Markets Asia Ltd. is regulated by Hong Kong Securities and Futures Commission. If the Research is made available through Citibank, N.A., Hong Kong Branch, for its clients in Citi Private Bank, it is made available by Citibank N.A., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. Citibank N.A. is regulated by the Hong Kong Monetary Authority. Please contact your Private Banker in Citibank N.A., Hong Kong, Branch if you have any queries on or any matters arising from or in connection with this document. The Product is made available in **India** by Citigroup Global Markets India Private Limited (CGM), which is regulated by the Securities and Exchange Board of India (SEBI), as a Research Analyst (SEBI Registration No. INH000000438). CGM is also actively involved in the business of merchant banking and stock brokerage in India, and is registered with SEBI in this regard. CGM's registered office is at 1202, 12th Floor, FIFC, G Block, Bandra Kurla Complex, Bandra East, Mumbai – 400098. CGM's Corporate Identity Number is U99999MH2000PTC126657, and its contact details are: Tel:+9102261759999 Fax:+9102261759961. The Product is made available in **Indonesia** through PT Citigroup Securities Indonesia. 5/F, Citibank Tower, Bapindo Plaza, Jl. Jend. Sudirman Kav. 54-55, Jakarta 12190. Neither this Product nor any copy hereof may be distributed in Indonesia or to any Indonesian citizens wherever they are domiciled or to Indonesian residents except in compliance with applicable capital market laws and regulations. This Product is not an offer of securities in Indonesia. The securities referred to in this Product have not been registered with the Capital Market and Financial Institutions Supervisory Agency (BAPEPAM-LK) pursuant to relevant capital market laws and regulations, and may not be offered or sold within the territory of the Republic of Indonesia or to Indonesian citizens through a public offering or in circumstances which constitute an offer within the meaning of the Indonesian capital market laws and regulations. The Product is made available in **Israel** through Citibank NA, regulated by the Bank of Israel and the Israeli Securities Authority. Citibank, N.A, Platinum Building, 21 Ha'arba'ah St, Tel Aviv, Israel. The Product is made available in **Italy** by Citigroup Global Markets Limited, which is authorised by the PRA and regulated by the FCA and the PRA. Via dei Mercanti, 12, Milan, 20121, Italy. The Product is made available in **Japan** by Citigroup Global Markets