

Middlefield Prospect of US ‘gridlock’ good for investors

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By **Gavin Lumsden** / 14 Nov, 2022



Middlefield Canadian Income (MCT) fund manager Dean Orrico only invests just over 4% of the £157m investment trust in the US, but like many investors has taken a keen interest in the country’s mid-term elections.

With the predicted Republican ‘red wave’ having failed to materialise, the Democrats under President Joe Biden have retained control of the Senate with a wafer-thin but improved majority of one of 50 seats to 49.

However, although several seats in the House of Representatives have yet to declare in a number of tight races, the Republicans look likely to win a majority in the lower chamber, with CBS News projecting the ‘GOP’ will clinch the necessary 218 seats.

That would produce a hung result that would deprive either party a claim of a victory, said Orrico.

‘There are several scenarios that can unfold but regardless of the eventual outcomes, no one faction of either party (Trump loyalists for the Republicans or the far-left progressives for the Democrats) will likely have enough power to advance their respective agendas, said the fund manager (pictured below) in comments emailed to Citywire last week.



That’s a prospect that cheers the manager of the 4%-yielder who believes the absence of a dominant party should result in lower taxes and spending, which could be less inflationary and lead to fewer interest rate rises from the Federal Reserve.

Orrico said stock markets generally preferred 'gridlock' or divided governments that can push through fewer legislative or regulatory changes.

'More specifically, equities experience above average gains of 13% to 14% in years that have a Democratic president and a split or Republican Congress. Not surprisingly, regulated industries such as energy, communications services and industrials tend to benefit the most in these environments,' he said.

Financials and real estate are Orrico's two biggest sector bets with 25% of the portfolio in each with utilities and energy both allocated around 15%.

Of course, it's not all about the results with energy prices, inflation, interest rates and the risk of recession all affecting market prospects, said Orrico.

Wall Street slipped this afternoon after US Federal Reserve governor Christopher Waller, a voting member of its rate-setting committee, yesterday said markets should pay attention to the 'end point' of rate increases not the pace of each move, indicating the end point was 'a ways off'.

This followed last week's softer than expected US inflation reading which propelled the S&P 500 and tech-heavy Nasdaq higher on hopes that rates would not peak as high.

Middlefield shares have risen 9% in the past year, a better performance than the 13% average drop in the mostly US-focused trusts in the North America sector. Longer term they have lagged the growth US bull market of the past five years with a total return of 63.9% versus the sector average of 77.5%.