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## Auto Makers Have Much Riding on Midterm Elections

By Vito Racanelli, Oct. 30, 2018 (excerpt)

The U.S. midterm elections are just a few days away, and the stakes are high for the American auto manufacturing industry.

In general, investors believe that the poor performance of these stocks this year already discounts to a large extent the Democrats capturing control of the House.

The Democrats, for example, would be expected to support the more stringent Obama-era corporate average fuel economy standards currently in place. Most surveys suggest the Republicans will keep control of the Senate. Should the Republicans keep control of the House, too, a relief rally in auto stocks is possible.

The polls come as the group's stocks are near their lows for the past 52 weeks. The Standard & Poor's 500 automobile manufacturing index, for example, is down about 21% year to date. ...

... Many auto investors are also keeping an eye on the fuel economy standards, known as CAFE. Last August, the Department of Transportation and Environmental Protection Agency made a joint proposal to reform the CAFE standards established by the Obama administration: about 47 miles per gallon for auto makers' corporate fleets by 2025.

The problem is that the industry is behind the curve. That's steep target for the industry, when CAFE is currently at "about the low 30s mpg," notes David Kudla, chief investment strategist at Mainstay Capital Management.

The Trump administration's new rule proposes to maintain the existing fuel economy standard, which rises to 37 mpg by 2020, and then to freeze it at that level. Additionally, the administration wants "to create one national standard," to prevent California from imposing stronger standards on its own.

The Obama standards are a big challenge for the industry, which makes pots of money from less efficient but higher margin SUVs, for example.

If the Democrats take the House and Senate, for example, the old standards might remain in place, he notes. That would be an "engineering challenge" for auto makers, he says.