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Q&A: The Pandemic and Politics

Assessing the 2020 race in light of COVID-19, economic weakness and civil unrest.

Even before the coronavirus outbreak, 2020 was shaping up as a heated year for U.S. politics, with a sharply contested presidential race and deeply divided electorate. Now, the landscape is even more complex, given ongoing health concerns, economic weakness and unrest tied to social justice. In this *Insights*, Neuberger Berman's Joseph V. Amato talks with political scientist Sam Potolicchio, PhD, about factors that could influence the 2020 election and the political landscape going forward.

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In recent months, the vast majority of my client conversations have focused on the spread of the coronavirus and its impact on the markets and economy. So much appears to hinge on the policy response, the success of reopening and the path to treatment and vaccine. As investors, we have given careful study to the ways that different scenarios from bullish to bearish may play out. (See page 8 and our Asset Allocation Committee report.[1]) However, the upcoming election at times seems relegated to the back burner. Regardless of whom one favors, it's clear that the outcomes for presidential and Congressional races could have major ramifications for the path forward. To provide some perspective on the dynamics of current politics, influenced by the recent economic, health and social traumas, we reached out to Dr. Sam Potolicchio, a distinguished scholar, lecturer and advisor on political science who teaches at Georgetown University. Speaking via Zoom from his Moscow apartment in late May, Sam provided his views on the "horserace," evolving policy debate and hidden factors that could influence the outcome in a remarkable year.

JOSEPH V. AMATO

[1] *Asset Allocation Committee Outlook* 3Q 2020.

JOE: Sam, thanks for joining us. Broadly speaking, how do you think the current health and economic crisis has affected the presidential race?

SAM: Thanks for having me. From just a simple political handicapping perspective, the pandemic and civil rights protests have moved this race from a slight advantage for a Trump reelection to a clear advantage for a Biden victory. We have also seen a massive change when it comes to policy implications.

A common question today is whether Joe Biden is just moving to the left to rally the Democrats together. I actually think that, because of the coronavirus, Biden is going to end up making Obama look like a Republican—not necessarily because of strategy, but because of the implications for government spending. Biden had a really long career in the U.S. Senate—from the early '70s up until he was chosen as vice president. And he has always loved to be right in the middle of the Democratic Party. So, over his 36 years in the Senate, 44% of Democratic senators were more liberal than he was, and 44% were less liberal.[2] If the Democratic Party has a New Deal mentality, he will likely stay in the middle of the party that has shifted far to the left.

Another implication of the current climate is media focus. In 2016, the big three networks each covered policy issues for barely 32 minutes each.[3] The rest of the time was spent on personality assessments, negative news and horserace coverage. This time, because the pandemic is so dominant, I think policy questions will get more airtime than the last three or four presidential elections. What are we doing with allocation of resources? What are we going to do about health care? How do we compare to other countries?

Finally, the pandemic is showing a U.S. federal system that is functioning as the political scientists would have predicted. Across the country there have been varied levels of success at the state and local levels. Why? Because of decentralization. We have 542 elected officials at the national level, 19,550 at the state level, and over a half million locally, many of whom are making independent decisions about controlling the pandemic. In this system, state and local politicians tend to have higher approval ratings, and people trust them more than the national officials.

JOE: The polls show how hardened each side of the political divide has become. Between now and the November election, what actions could have a meaningful impact to sway those perspectives?

SAM: The big challenge in American politics right now is polarization. And you're pointing to the fact that people tend to root for one team or the other. If you watch Fox News right now, your approval rating of Donald Trump on the coronavirus is around 70%. If you watch CNN, it's 7%.[4]

So, how much movement can we actually have? We're going to have a non-traditional campaign, obviously. And I think that this favors both Donald Trump and Biden in different ways—let me explain.

It favors Donald Trump because Joe Biden has often been seen in his basement in Delaware while the president has been making decisions and holding press conferences in the Rose Garden. But we will also have a virtual campaign, and Trump has 16 times the number of Twitter followers than Biden has. His team also appears to be more skilled at micro-targeting voters—to fire up supporters and discourage others from voting. On the other hand, the virtual election helps Biden preserve his energy for debate season and also lessens the incidence of "Biden-ism" gaffes on the trail. Also with his visibility down, its less likely that negative partisanship (voting against a candidate instead of for a candidate) will draw out additional Trump voters.

I should mention that Trump has a 28% lead when it comes to voter enthusiasm among his supporters, which is an enormous gap. Only 17% of Trump voters say that they could be persuaded not to vote for Trump, but that number for Biden is 43%.[5] This gives Trump a big advantage, and he also has an extra nearly $200 million cash on hand to get out his message, which is that he is a decisive "wartime" leader who made the right calls and can help drive economic recovery. In contrast, Biden is going to emphasize his leadership in the aftermath of 2008, his decency, humility and coming back from adversity.

[2] Source: Voteview.
[3] Source: Tyndall Report.
[4] Source: Yougov.
[5] Source: Conley, Julia, 'Poor Omen': Just 24% of Biden's Supporters 'Very Enthusiastic', Common Dreams, March 30, 2020.

JOE: Can past elections tell us how this one might turn out?

SAM: In some ways, history favors Joe Biden. We have not had an incumbent president since Calvin Coolidge in 1924 win an election when there had been a recession two years before Election Day. And we also have not had an incumbent win reelection when there was negative unemployment momentum, as has recently been the case.

Recessions Have Historically Crushed Incumbents

NO RECESSION IN 2 YEARS BEFORE ELECTION		
RECESSION?	**President (Year)**	**REELECTION?**
NO	Obama (2012)	YES
NO	Bush 43 (2004)	YES
NO	Clinton (1996)	YES
NO	Reagan (1984)	YES
NO	Nixon (1972)	YES
NO	LBJ (1964)	YES
NO	Ike (1956)	YES
NO	Truman (1948)	YES
NO	FDR (1944)	YES
NO	FDR (1940)	YES
NO	FDR (1936)	YES
NO	Wilson (1916)	YES

RECESSION IN 2 YEARS BEFORE ELECTION		
RECESSION?	**President (Year)**	**REELECTION?**
YES	Bush 41 (1992)	NO
YES	Carter (1980)	NO
YES	Ford (1976)	NO
YES	Hoover (1932)	NO
YES	Coolidge (1924)	YES
YES	Taft (1912)	NO

Source: Mehlamcastagnetti.com.

However, Biden's experience may be a negative. In the 10 presidential elections since Vietnam and Watergate, the person who had more Washington experience lost nine out of 10 times.[6] Biden has 44 years of Washington experience; Trump will have only four. We also have not had a president who took more than 14 years after their first major election to become president, and it's been 48 years since Biden was elected to the Senate as a 29-year-old.

Keep in mind that, despite some slippage, Trump is maintaining his political base of support. He's about seven down compared to where Obama and Bush 43 were at this time in the first term, but he's five points ahead of where Bush 41 was, and seven points above Carter.[7]

[6] Source: Mehlamcastagnetti.com.
[7] Source: Fivethirtyeight, as of June 26, 2020.

JOE: Historically people have talked a lot about vice presidential picks, but they never seem to be that big of a swing factor for elections. For Biden, is this time going to be different?

SAM: I believe it will, but less for geographic ticket-balancing reasons than due to the narrative around Joe Biden. If he is in a debate with Donald Trump, and has a particularly lackluster night, or starts slipping as the campaign heats up, there's going to be a conversation, as there was in the Democratic primary, that he is past his prime. So, having a strong, credible successor will be important.

As you suggested, however, the VP choice has almost never made an electoral difference. At maximum, you're looking at one to two percentage points in a state with more than two electoral votes. If Biden is thinking he wants a vice presidential candidate to help him win a certain state, then the choice might be Gretchen Whitmer, who was just reelected as governor of Michigan and has a sky-high approval rating. The betting markets currently have California Senator Kamala Harris with a significant lead, at about 48 cents on the dollar. Former U.S. National Security Advisor Susan Rice is second at 17 cents, and third, at 13 cents, is Val Deming, a relatively unknown member of Congress from Florida and a former police chief—which in light of recent developments might be an advantage.[8]

Only a couple months ago, Amy Klobuchar was tied with Kamala Harris in betting markets; however, she was never favored by activist groups, and the controversy in Minneapolis effectively killed her chances before her withdrawal, given that she had failed to prosecute one of the police officers despite previous complaints.
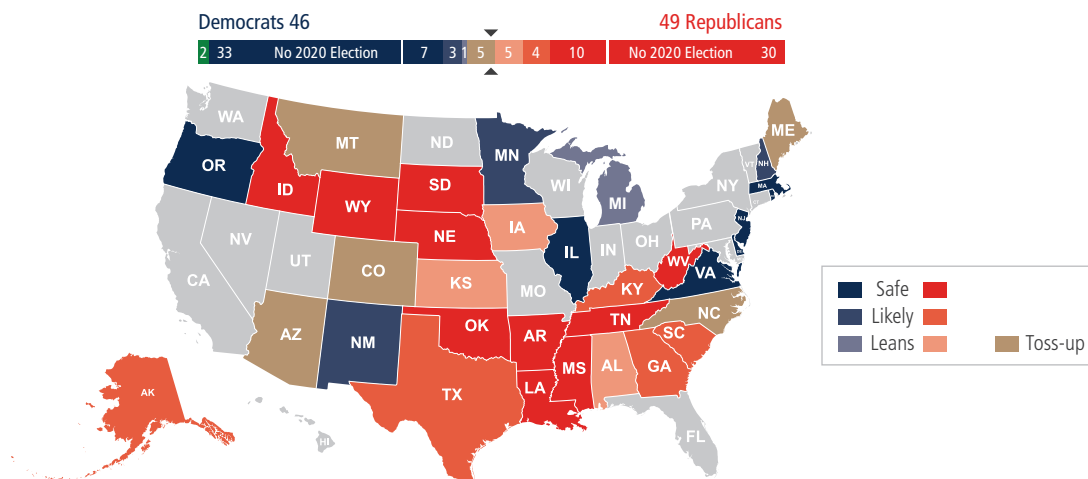
So, if I had to put all of my money on anyone, it would be Kamala Harris—because Joe Biden needs to make a significant outreach to a demographic group that helped him win the Democratic primary, and also because Harris comes from California, where Gavin Newsom, the Democratic governor, will get to pick her replacement.

JOE: The race for control of the Senate appears to be tight. How would you handicap the results at this point?

SAM: In my view, the Senate is a toss-up at this point. Currently Republicans hold a 53-47 majority, with the Democrats defending 12 seats and the Republicans 23 this year. That might be scary if you're rooting for the Republicans to keep the Senate. But there are really only six races right now that are seen as potentially changing hands. One of them, Alabama, would go back to the Republican Party with a loss by Doug Jones, who only won his election because of weakness and scandal affecting his opponent. The other five states that could flip include Arizona, Colorado, North Carolina, Montana and Maine, and the Republicans need to win two of them to maintain control.

The Senate Race Could Be Tight

Consensus Outlook

Democrats 46									49 Republicans	
2	33	No 2020 Election	7	3	1	5	5	4	10	No 2020 Election	30

Legend: Safe, Likely, Leans, Toss-up

Source: 270toWin. Data as of July 10, 2020. Consensus view combines outlooks of Sabato's Crystal Ball, The Cook Political Report and Inside Elections.

[8] Source: Predictit, as of June 16, 2020.

JOE: Let's move on to policy and its impact on politics. The response to the economic situation and health crisis has been quite remarkable, both in its scope and speed. But there have been disagreements about its emphasis and who should benefit. How could that play out in the election?

SAM: Trump has a big advantage in that his supporters will argue that he got the big foundational questions right—including pushing hard on China. They say this threat came from outside, and that Biden and others have been soft on China and essentially allowed the pandemic to happen.

Also, voter ignorance is pretty extensive and people may be more effectively swayed by broad perceived trends like the idea of a path toward recovery, rather than specific numbers. So, if we are in for a U or "Nike swoosh" as your base case suggests, that's a huge advantage for Trump that is already accounted for in handicapping the race, even if his approval rating on the coronavirus is negative right now.

Looking at the polling, Trump's started off at 50/50 on handling the crisis, and now about 55% of those polled disapprove. However, before the mass protests started, his overall approval rating since day one of the pandemic had increased by about two percentage points—and this for a president with one of the most static approval ratings in history.[9] For much of the pandemic he was closer to his high than to his low and (here is something Democratic campaign operatives won't want to hear) he is stronger today than he was when he defeated Hillary Clinton in 2016. If you look at his favorability rating (the gap between favorable and unfavorable polling) in November 2016, it was negative 21 percentage points. His favorability right now is negative 16 percentage points—or five points better. And this is competing against someone who I would argue is actually a weaker candidate than Clinton. So, if Trump is stronger now than he was in 2016, and he's running against a weaker candidate, then you have to say he's in a much better position.[10] What remains to be seen is the degree to which his response to civil rights protests will further dent his approval rating.

JOE: When the virus first hit, and was followed by an economic shutdown, it seemed likely to be a huge advantage for Biden and a burden for Trump. But when you come out in front of the White House, and you're dropping $3 trillion on the problem, while Biden is quarantined in his basement, it's a big contrast. If Trump didn't stumble so often, I think he might be in a better position. How would you assess the political impact?

SAM: It's an extraordinary situation. Woodrow Wilson, who was president in 1918, did not make a single speech mentioning the Spanish flu, which killed millions of people. This time out, the president was, for a period, holding daily briefings.

One of the problems that we have when we confront one of these difficult exogenous events is the Mike Tyson effect: "Everybody has a plan until they get punched in the mouth." However, in this case, we should have expected it. I mean, *Time* magazine has had six covers predicting that a pandemic would occur. Still, the response by the government, both the executive and legislative branches, has been muscular and surprisingly fast—in an era of polarization where that was not necessarily expected to occur.

My prediction is that Trump's response, whether or not decisive, will be perceived by his supporters to be decisive. And I think it's going to fire them up to vote at higher rates than you would expect, especially if they think he's being treated with a double standard by the media.

JOE: We have a fiscal deficit of about 25%, which is just extraordinary. At some point somebody has got to pay for all this, but it seems to me that few in Congress care about deficits. How do you think that's going to play out over the next five to 10 years in terms of the political landscape?

SAM: The deficit is an issue we're going to have to face eventually. As a result, I think you're going to see a surge in two types of candidates getting into politics: First, a younger generation will argue that "our generation has to pay the bill, so we need to get our house in order." This will happen on both sides of the aisle. Also, expert voices are getting more respect. Dr. Anthony Fauci has been rated highly by both Democrats and Republicans—which is a very rare feat. So, I think you're going to see more policy makers get into this sphere.

In addition, I believe you may see less polarization, and a greater consensus on digitization, given the acceleration of advances like telemedicine during the pandemic. I believe there will be major gains in efficiency, automation and robotics that will contribute to a "new dawn" of creativity and innovation.

[9] Source: Fivethirtyeight.
[10] Source: RealClear Politics.

AS PEOPLE, WE HAVE CERTAIN COGNITIVE BLIND SPOTS THAT WE NEED TO OVERCOME IN ORDER TO THINK CLEARLY. AND I BELIEVE THE BEST WAY TO DO THAT IS TO SURROUND OURSELVES WITH PEOPLE WHO DISAGREE WITH US.

Finally, I think you will see the return of actual policy discussions in Congress and less focus on personality. The media will cover the issues more, and officials will be forced to answer more questions about how they'll solve these knotty problems. Get ready for a political renaissance and a wave of talent to enter public service.

JOE: That's an optimistic perspective, and great to hear. Because I worry that democracy is under siege—that few seem to want to tackle the major challenges we face, whether it's climate change, fiscal imbalances or decaying infrastructure. There is no long-term thinking going on, but hopefully the current situation will change that. How do you think democracy has come through this crisis?

SAM: Look, I'm congenitally optimistic. But one thing that I am deeply critical of is our democratic (small d) performance, and our treatment of political opponents as enemies. As people, we have certain cognitive blind spots that we need to overcome in order to think clearly. And I believe the best way to do that is to surround ourselves with people who disagree with us. Currently, we're living in echo chambers and self-selecting the news we want to hear. I'd like to see the privileging of disagreement, discomfort and intellectual abrasion. I'd like to have some pugilism in our democracy, but with respect and appreciation that your opponent can be the person that you go out and get a beer with.

JOE: Are there any other political dynamics you'd like to point out?

SAM: I see two big, underrated variables affecting who could win this election. First, I think the victor will be the candidate who wins the voters who dislike both Trump and Biden. The reason Trump won in 2016—aside from the support of the white working class, the Obama coalition not showing up for Hillary Clinton, and the fact that Clinton didn't spend enough time in Michigan—is that the 18% of voters who disliked both Trump and Clinton voted for Trump by 47% to 30%, and that gap was even bigger in Michigan, Pennsylvania and Wisconsin, which essentially swung the election. Right now, Biden has that lead. He is up 60% to 10% in one recent poll, and 46% to 14% in another poll of voters who dislike both.[11]

Will that gap close? This is a reason Biden is greatly favored by just sitting on the sidelines. It's not just that he won't make a gaffe, but that we know who he is. He was elected to the senate at 29; he's going to be approaching 80 by the time of the election. It's very difficult for him to make people feel more warm and fuzzy after a half century in politics, but few things he can say will make people who are lukewarm start to dislike him.

Also, I think Trump made a big error in bringing up "Obama-gate." Because an underrated variable will be nostalgia around the Obama presidency. He has a high approval rating,[12] so that's not necessarily a battle the current president wants to have. There's an element of temperament in this. Many of those who support Trump wouldn't mind having a leader who is "cool as the other side of the pillow." That didn't help Obama in the economic crisis, when people thought he was too cerebral, but in a health crisis people seem to miss it.

[11] Source: Skelley, Jeffrey, "Trump Is Losing Among Voters Who Don't Like Him or Biden," FiveThirtyEight, May 28, 2020.
[12] Source: Jones, Jeffrey M., "Obama's First Retrospective Job Approval Rating Is 63%," Gallup, February 15, 2018.

JOE: One issue that has gotten attention is remote or mail-in voting. How might that factor into the election?

SAM: Mail-in voting is generally thought to give the Democrats the advantage, but many people don't realize that we already have five states with exclusively mail-in balloting: Colorado, Hawaii, Oregon, Utah and Washington. And then we have 29 states that allow mail-in, and another 16 where you can mail in your ballot with an excuse.

It is true that Democrats initiate the mail-in process more than Republicans do, and that counties that do mail-in balloting tend to be more Democratic. But a great study from Stanford University found that Florida Republicans voted by mail more successfully than Democrats in past presidential elections (85% to 80%) even though Democrats had asked for more mail-in ballots. In the midterms, Republicans were successful 80% of the time versus Democrats' 75%. So, the marginal advantage of Democrats in requesting mail-in ballots is offset by the advantage of Republicans in successfully voting.[13]

However, what if we go to only mail-in ballots due to a second outbreak? In that case (and some may dismiss this idea), the advantage will likely be with the Republican Party because of its greater success in actually casting votes.

JOE: What about a remote, nonphysical convention? Could that have an impact?

SAM: People may disagree, but I think it is actually better not to have a physical convention. With a traditional convention, everybody that shows up is already swayed one way or the other. You might get a marginal uptick in enthusiasm. But these events are so boring, cosmetic and sanitized that if you went for a non-traditional format there could be more attention from the public. There could be more discussion and more controversy, which I think would lead to more voter enthusiasm. If I were the party brass right now, I would be hoping for the chance to do a virtual convention, which affords them more flexibility.

JOE: I can't end the conversation without asking you one last question, which is: You've got a dollar in your pocket. Who are you going to wager on, Trump or Biden?

SAM: If you had asked me this question before the George Floyd's death, if I had to bet a dollar and couldn't divide it up, I would have put it on Trump. The historical indicators split evenly. Biden has too much experience, too much Washington marination; but Trump has the challenges of recession and unemployment. If you are tied on these indicators, then you have to lean toward the power of the incumbency and the president's "bully pulpit." In my political lifetime we have had only a single one-term president, and those were extraordinary circumstances with a third-party candidacy garnering 19% of the vote and an economic cycle working directly against the president. But my dollar is now on Biden, although I am placing that wager grudgingly and with muted confidence.

It was already a tight election, but when you have esteemed Republican military icons who formerly worked in the administration saying that Trump has "drifted away" from the Constitution and isn't even trying to unify the American people, it's a barometer that support for a non-traditional political figure during crisis is waning. Persuadable voters who moved from Obama to Trump are probably more likely, post-protests, to abandon their experiment with a disruptive political insurgent like President Trump.

I'm being provocative here, but there could be a moment where he actually pulls out of this election. And if he pulls out or loses to Biden, could we see him run again in 2024? No Republican on the national scene today could defeat Trump, so you could see another term for Trump even with a loss, but not because he refuses to leave or claims voter fraud, as some have predicted, but more because he can't stand to lose and may see the writing on the wall if this criticism from military brass persists. And if it's not going to be Donald again in 2024, perhaps it could be a former Georgetown classmate of mine, Ivanka Trump. The Trump brand will remain politically potent within the Republican Party if they still desire elected office. Joe, this a "word salad" way of saying that, at this stage, I might just be better off investing in the markets rather than betting on the future of American politics.

JOE: Sam, on that interesting note, thank you so much, particularly since you are many different time zones away, in a different part of the world. We really appreciate your dialing in and sharing your thoughts.

SAM: My pleasure, Joe.

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[13] Source: Thompson, Daniel M., Wu, Jennifer, Yoder, Jesse, Hall, Andrew B., "The Neutral Partisan Effects of Vote-by-Mail," Stanford University working paper, April 15, 2020.

The Playbook and Politics

In any discussion of the current political climate, it's important to recognize the potential significance of economic recovery and market performance. At this writing, the U.S. has just experienced one of its fastest economic declines in history, with a 5% reduction of GDP in the first quarter and significantly worse numbers expected for Q2. Unemployment, although down from its recent highs, remains above 11%, while widespread protests tied to policing have reflected increased social turmoil. In the midst of these events, stock markets have experienced a sharp recovery from March lows tied to stimulus, improvements in data and hopes tied to reopening.

Our Asset Allocation Committee recently outlined three potential scenarios for economic recovery, from bearish to bullish, with our base cash anticipating a U- or "Nike swoosh"-shaped, gradual economic recovery, starting later this year and extending into 2021.[14] Corporate earnings, also damaged in the lockdown, would likely follow a similar trajectory. In this context, we continue to favor focus on quality, for example in large-cap U.S. stocks and investment grade credit, while looking for select opportunity in more risky areas such as small caps and high yield debt.

Despite recent market strength, however, there remains a high level of uncertainty. The path of the virus along with the success of treatment and vaccine development and distribution could affect the environment, steering the economy and markets to our more bullish—or bearish—scenarios.

Estimated Path of U.S. GDP Growth
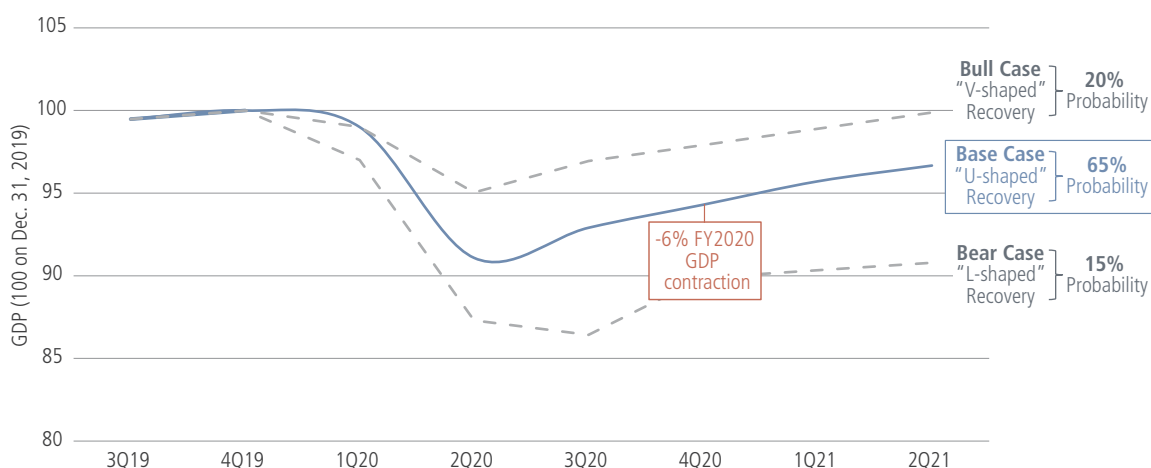
GDP quarterly growth presented annualized. Information is as of the date indicated and subject to change without notice. Nothing herein constitutes a prediction or projection of future events or future market behavior. For illustrative and discussion purposes only. Any views or opinions expressed may not reflect those of the firm as a whole. Third-party economic, market or security estimates or forecasts discussed herein may or may not be realized and no opinion or representation is being given regarding such estimates or forecasts. Information is as of the date indicated and subject to change without notice. Due to a variety of factors, actual events or market behavior may differ significantly from any views expressed. Information is obtained from sources deemed reliable, but there is no representation or warranty as to its accuracy, completeness or reliability. **Past performance is not indicative of future results.**

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[14] *Asset Allocation Committee Outlook* 3Q 2020.

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