Possibilities & Probabilities

A Dozen Questions for the Next Thirteen Months
SUMMARY

Possibilities & Probabilities

1. The Presidential Election
2. The Parties
3. The Campaign
4. Senate Elections
5. House Elections
6. Trust & Crises

7. The Economy
8. The 118th Congress
9. AI Regulation
10. U.S.-China Relations
11. Culture Wars & ESG
12. Recommendations for Leaders
#1: The Presidential Election

Will 2024 be a rematch?
THERE ARE ALTERNATIVES & EXIT RAMPS

Both parties have viable alternatives

**DEMOCRATS**

- Health incident
- Family crisis
- Establishment bails

**REPUBLICANS**

- Opposition consolidates
- Found Guilty
- Health incident

Theoretical scenarios under which Biden / Trump could exit
EXPECT BIDEN vs TRUMP, ROUND TWO

Biden has no real opposition. Trump is crushing his.
#2: The Parties

Why the least anticipated sequel since...
MAYBE BOTH PARTIES ARE TRYING TO LOSE?

39%* Very Unpopular Nominee

39%* Very Questionable Future

39%* Highlight Weakest Issues

CHICAGO
DNC 2024
Brings focus on Crime; Parents vs Teachers Unions; Refugee crisis

ABORTION**
Pro-Choice: 69%
Pro-Life: 31%

** “Should be legal in first 3 months” (*Gallup*)

39%*

* “Favorability” (*WSJ poll*, Aug. 24-30, 2023)
Dems are led by party elites. GOP follows the party’s base.

<table>
<thead>
<tr>
<th>Elites</th>
<th>Dem elites fear outcome of a contested primary, prefer sticking with proven team.</th>
<th>GOP elites fear Trump weakness with moderates will once again snatch defeat from the jaws of victory.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base</td>
<td>Dem base sees Biden too old, too Washington &amp; too willing to compromise on progressive goals.</td>
<td>GOP base sees Trump leading a needed holy war vs a corrupt establishment.</td>
</tr>
</tbody>
</table>
#3: The Campaign (Tone & Tenor)

Might this year’s election inspire, rally & heal a divided nation?
APPEALS TO HOPE & OPTIMISM HAVE WORKED BEFORE

It’s Morning Again in America

- Ronald Reagan, 1984
EXPECT THE MOST NEGATIVE CAMPAIGN IN AMERICAN HISTORY

Referend-Whom?

Trump wins a referendum on Biden.
Biden wins a referendum on Trump.

55% % Unfavorable 55%

Source: 538 polling avgs, Sept. 22, 2023
Our politics are optimized for outrage.

You get what you optimize for:

- **Optimized for Craving**: OBESITY
- **Optimized for Engagement**: FOMO
- **Optimized for Compulsion**: ADDICTION
- **Optimized for Partisan Advantage**: Hyper-Partisanship
- **Optimized for Viewing**: Highly spun entertainment
- **Optimized for Giving**: Apocalyptic messaging

Optimizing for craving leads to obesity. Optimizing for engagement leads to FOMO. Optimizing for compulsion leads to addiction. Optimizing for partisan advantage leads to hyper-partisanship. Optimizing for viewing leads to highly spun entertainment. Optimizing for giving leads to apocalyptic messaging.
#4: 2024 Senate Elections

Can the Democrats hold the Senate?
DEMS KNOW HOW TO SURVIVE TOUGH SENATE CYCLES

Dems Run Tested & Trusted Incumbents

GOP Nominates Weak Candidates
GOP IS LIKELY TO WIN THE SENATE

Dems Defending Tough States

Senate ‘24 Battleground States & the 2020 Presidential Election

Democrats Defending
- WV (Trump +39%)
- MT (Trump +16%)
- OH (Trump +8%)
- AZ* (Biden +0.3%)
- WI (Biden +0.6%)
- PA (Biden +1.2%)
- NV (Biden +2.4%)
- MI (Biden +2.8%)

Republicans Defending
- FL (Trump +3.4%)
- TX (Trump +5.6%)

Ticket-Splitting Is (Mostly) Dead

Frequency of Voters Picking Senate/POTUS from Diff Parties

* Dem vote may split in AZ between Dem & Independent Sinema
#5: 2024 House Elections

Can the GOP hold the House?
Majority party held House in every Presidential year since 1952

<table>
<thead>
<tr>
<th>Year</th>
<th>Control Before</th>
<th>Control After</th>
<th>Outcome</th>
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<tbody>
<tr>
<td>2020</td>
<td>Democrat</td>
<td>Democrat</td>
<td>HOLD</td>
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<tr>
<td>2016</td>
<td>Republican</td>
<td>Republican</td>
<td>HOLD</td>
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<td>2012</td>
<td>Republican</td>
<td>Republican</td>
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<td>2008</td>
<td>Democrat</td>
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<td>2004</td>
<td>Republican</td>
<td>Republican</td>
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<tr>
<td>2000</td>
<td>Republican</td>
<td>Republican</td>
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<td>1996</td>
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<td>1992</td>
<td>Democrat</td>
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<td>1956</td>
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<td>HOLD</td>
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<tr>
<td>1952</td>
<td>Democrat</td>
<td>Republican</td>
<td>FLIP</td>
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<tr>
<td>1948</td>
<td>Republican</td>
<td>Democrat</td>
<td>FLIP</td>
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</tbody>
</table>
CURRENT HOUSE OUTLOOK: TOO CLOSE TO CALL

Advantage Dems

Best Pick-up Opportunities

R's in Biden 2020 seats: 18
D's in Trump 2020 seats: 5

Advantage GOP

Probability

AL, LA, FL, NY

K-12

Political Correctness
#6: TRUST & CRISES

Will 2024 accelerate healing or division?
ZERO TRUST ELECTION: A LOT COULD GO WRONG

Don’t Believe What You See

Recounts / Lawsuits likely

Risks of Violence, Interference

No Trusted Referees
2024 WILL TEST OUR DEMOCRACY’S RESILIENCE… AGAIN

It will be very close, again

Half the nation may reject the outcome

33%
Clinton voters said Trump not legitimate
(ABC/WaPo 11/11/16)

65%
Trump voters said Biden not legitimate
(AP/NORC 2/1/21)
#7: The Economy

Is “Bidenomics” a winning hand?
“BIDENOMICS”: IF THIS AIN’T A SOFT LANDING, WHAT IS?

Inflation Falling

<table>
<thead>
<tr>
<th>Month</th>
<th>US Inflation Rate</th>
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<tbody>
<tr>
<td>Aug. 22</td>
<td>8.26%</td>
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<tr>
<td>Sept. 22</td>
<td>8.20%</td>
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<tr>
<td>Oct. 22</td>
<td>7.75%</td>
</tr>
<tr>
<td>Nov. 22</td>
<td>7.11%</td>
</tr>
<tr>
<td>Dec. 22</td>
<td>6.45%</td>
</tr>
<tr>
<td>Jan. 23</td>
<td>6.41%</td>
</tr>
<tr>
<td>Feb. 23</td>
<td>6.04%</td>
</tr>
<tr>
<td>Mar. 23</td>
<td>4.99%</td>
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<tr>
<td>Apr. 23</td>
<td>4.93%</td>
</tr>
<tr>
<td>May. 23</td>
<td>4.05%</td>
</tr>
<tr>
<td>Jun. 23</td>
<td>2.97%</td>
</tr>
<tr>
<td>Jul. 23</td>
<td>3.18%</td>
</tr>
<tr>
<td>Aug. 23</td>
<td>3.67%</td>
</tr>
</tbody>
</table>

Sources: Inflation; Jobs (BLS); Factories (BEA);

Markets Rising

- S&P 500, past 12 months: +17%
- NASDAQ, past 12 months: +21.6%

Robust Job Growth

- +13.4M jobs since inauguration
- (4.3M above pre-pandemic)

Record Factory-Building

Investment in US Manufacturing Hits Record High

Spending on structures such as factories has surged this year

Source: Bureau of Economic Analysis
Note: Seasonally adjusted
VOTERS UNHAPPY WITH ECONOMIC TRENDS, INFLATION

Mortgage rates up 160% since 1/21, highest in 20+ years

Prices since Biden Inauguration

+62% Gas
+20% Food
+17% Rent

National debt up 18.5%, over $5.2T, since 1/21

Sources: Gas, Food, Rent, Mortgages (FRED); Debt; Poll (WaPo/ABC)
#8: The 118th Congress

What might get done?
BIPARTISAN PRODUCTIVITY COULD PERSIST

Accomplishments of the 117th Congress Give Hope

<table>
<thead>
<tr>
<th>HOUSE VOTE</th>
<th>SELECTED LEGISLATION IN 117th CONGRESS</th>
<th>SENATE VOTE</th>
</tr>
</thead>
<tbody>
<tr>
<td>221-201</td>
<td>INFRASTRUCTURE: II&amp;JA</td>
<td>69-30</td>
</tr>
<tr>
<td>243-193</td>
<td>GUNS: BSCA</td>
<td>65-33</td>
</tr>
<tr>
<td>363-70</td>
<td>DEFENSE: FY ‘22 NDAA</td>
<td>88-11</td>
</tr>
<tr>
<td>342-92</td>
<td>POSTAL REFORM: PSRA</td>
<td>79-19</td>
</tr>
<tr>
<td>225-201</td>
<td>DEMOCRACY: Electoral Count Reform</td>
<td>68-29</td>
</tr>
<tr>
<td>243-187</td>
<td>CHINA: Chips &amp; Science Act</td>
<td>64-33</td>
</tr>
<tr>
<td>258-169</td>
<td>FREEDOM: Respect for Marriage Act</td>
<td>61-36</td>
</tr>
</tbody>
</table>
**118th CONGRESS WILL DO WHAT IT MUST**

**Must Do**

- FY24 Appropriations
- Farm Bill
- National Flood Insurance Program
- PAHPA
- SECTION 702

**Likely**

- NDAA
- Temporary Assistance for Needy Families (TANF)
- Oversight Ahead
- Cybersecurity

**Might Do**

- Artificial Intelligence
- Global Trade
- Permits
- Impeachment

*We know how this ends: While there may be a government shutdown, government will get funded via bipartisan legislation.*
#9: ARTIFICIAL INTELLIGENCE

Are AI regulations coming?
INTEREST IN REGULATING AI KEEPS RISING

U.S. States

U.S. Congress

Globally

- Since 2016, countries have passed 123 AI-related bills, most in recent years.
- In 2022 legislative bodies in 127 countries passed 37 laws that included words “artificial intelligence.”

Sources: States (Bryan Cave); Global (Stanford)
# AI Regulation Likely Mirrors Internet Regulation

## Internet Regulation Has Been Slow, Regional & Inconsistent

<table>
<thead>
<tr>
<th>GOAL</th>
<th>PROTECT</th>
<th>EMPOWER</th>
<th>CONTROL</th>
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<tbody>
<tr>
<td><strong>APPROACH</strong></td>
<td>Heavy Regulation (eg GDPR, DMA)</td>
<td>Light Regulation (left to states, voluntary or industry self-regulation)</td>
<td>State Dictates (eg Great Firewall)</td>
</tr>
<tr>
<td><strong>ECONOMIC IMPACT</strong></td>
<td>Older Industries Protected (fewer startups)</td>
<td>Disruptors Dominate (consumers / competitors less protected)</td>
<td>Nat’l Champions Dominate (limited global reach, innovators threaten Party)</td>
</tr>
<tr>
<td><strong>SOCIETAL IMPACT</strong></td>
<td>Less Tech Diffusion (less innovation, less change, less disruption)</td>
<td>New Voices Elevated (both hope &amp; hate)</td>
<td>Less Freedom (social credit scores; surveillance state)</td>
</tr>
</tbody>
</table>
#10: U.S.-CHINA

What happens next?
RISING CHINA CHALLENGES COULD CHANGE CURRENT TRAJECTORY

How will China respond to significant economic & geopolitical headwinds?

**CHINA’s CHALLENGES, 2023**

- Burst property bubble
- High youth unemployment
- Slowing economic growth
- Sanctions restricting tech access
- Declining foreign investment
- Leadership disruption (arrests)
- Demographic decline (aging)
- Rising debt, especially provinces
- Growing containment risk

**Dial Back**

- Economic reforms to reinvigorate growth
- Political reforms to enable entrepreneurs
- Rapprochement with West via reduced military posturing & greater collaboration (*climate, AI, Ukraine*)

*This path is VERY unlikely under Pres. Xi*

**Double Down**

- Accelerate sanction-proofing tech, finance, energy, food
- Tighter alliances with U.S. enemies & global South
- Retaliate against Western firms & supply chains
- Undermine Western allies, elections & social cohesion
DECOUPLING, DE-RISKING & DETERIORATION PROCEED APACE

Battlefields of the New Cold War

- Supply Chains
- Market Access
- Technology Rules
- Investment Limits
- Military Alliances

Weapons & Tactics

- Trade Wars (including sanctions)
- Information Warfare
- Currency Wars
- Proxy Wars
#11: Culture Wars & ESG

Are we past “peak woke”?
CULTURE WARRIORS HAVE REASON TO BE MORE CAUTIOUS

Democrats
(Political risks with independents)

Businesses
(Brand risks with consumers)

Republicans
(Backlash to the Backlash)

GOP primary voters prefer candidates who:

24%: focus on defeating radical "woke" ideology
65%: focus on restoring law & order in streets & border
38%: fight corporations that promote "woke" left ideology
52%: keep government out of deciding what corporations can support

Source: NYT poll, 7/23-27
CULTURE WARS WILL CONTINUE, EXPAND IN THE STATES

39 State Govt Trifectas
(One Party Control, Most in 40 Years)

Abortion on the Ballot
(2023-2024, So Far)

Patchwork quilt will grow: Red States vs Blue States

ECONOMICS
Taxes
Unionization
Minimum wage

CIVIL RIGHTS
Guns
LGBTQ
Elections
Immigration
Education & DEI

TECH POLICY
Privacy
Censorship/Bias
Gig Work
Classification

HEALTH CARE
Abortion
Vax Mandates
Paid Sick Leave
Medicare Exchanges

CLIMATE/ENERGY
Permitting
EVs vs Gas cars
ESG investing

Source: Trifectas (Ballotpedia, 01/10/2023); Abortion (Ballotpedia)
#12: Recommendations for Leaders

How to navigate division & disruption?
Playbooks that worked for the past two decades may not succeed in the future

NEW ECONOMICS: New rules emerging for a new era, less free market, more government-led

NEW GEOPOLITICS: New alliances, new priorities & new ‘commanding heights’ in a newly-multipolar world

NEW POPULISM: Political risks historically-high, Big Business is politically homeless
ENGAGE BOTH SIDES: CHANGE IS THE NEW NORMAL

No “Alignment” Longer than Two Years in Past Decade

<table>
<thead>
<tr>
<th>POTUS</th>
<th>SENATE</th>
<th>HOUSE</th>
<th>Change Election 2 years later?</th>
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Average Duration of Control

<table>
<thead>
<tr>
<th></th>
<th>House</th>
<th>Senate</th>
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<tbody>
<tr>
<td>20th Century</td>
<td>11.1 yrs</td>
<td>9.0 yrs</td>
</tr>
<tr>
<td>21st Century</td>
<td>5.5 yrs</td>
<td>4.5 yrs</td>
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</table>

Source: author’s calculations
MIND THE MACRO TRENDS: THEY’RE BIGGER THAN ELECTION CYCLES

Energy Transition coming

New World Order emerging

Disruptive innovation accelerating

Nation aging, diversifying