

# ElectionWatch

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Chief Investment Office GWM  
Investment Research

Looking ahead to the 2020 US elections



Your online  
home for 2020

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to find our continuous coverage  
of the US elections.



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## Off to the races

It seems that everything just begins earlier and earlier these days. Even as the champagne corks are still popping in the locker rooms of championship teams, sports commentators are already handicapping next season's frontrunners. We no sooner master the airline apps on our mobile devices than carriers release new versions with ever-more-confusing paths to our frequent flyer miles. And no longer content to allow the drama of a TV miniseries to unfold weekly, we now binge watch an entire season in a weekend. The world we live in today is just so much faster and less patient than in the past.






And so it is with politics.

Even before the results of contested US congressional mid-term elections had been validated, political pundits already had begun to speculate over the composition of the US Congress in 2020—not to mention the identity of the next occupant of

the White House. This of course is just one more example of modern-day impatience. But it also speaks to a level of urgency energized by electoral outcomes, the stakes of which have seldom seemed higher. Buffeted by political polarization and constrained by large public-sector debt burdens, elected officials have struggled to tackle a host of critical concerns. And the world is eager to see where we go from here.

### Primary season comes first

Our *ElectionWatch* coverage begins—as all things must—at the beginning. The first Democratic debates take place on 26-27 June in Miami, and our next edition of *ElectionWatch* will be published just before that event. This Democratic primary season promises to be both lengthy and grueling, since the absence of a clear frontrunner has emboldened a huge slate of candidates to throw their hats into the ring.

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The setup is reminiscent of the 2016 Republican primary season, with 20 major candidates already in the running. The field covers a wide spectrum of political philosophies and a broad range of backgrounds, including elected officials, former office holders, and even a few private citizens. Most have entered the race with an expectation that they could actually win (after all, at this point four years ago few predicted that Donald Trump would ultimately end up in the White House). Some are simply laying the ground work for a future run at higher office by gaining name recognition, building their national brand, and establishing a fund-raising network. But still others have entered the primary in order to promote their own ideological agendas.

Regardless of intent, each candidate's issue focus will have some impact in driving the broader policy debate and will likely affect the dynamics of the vote in the general election itself. It's therefore important that we continue to follow this process because the content of stump speeches during a primary campaign may eventually become the policy priorities of a new administration and/or legislative agenda for a new Congress.

### Asking the experts

As is always the case with our *ElectionWatch* series, we will also work closely with our colleagues in the UBS US Office of Public Policy, led by John Savercool. This team will help us lay out the different scenarios that represent the most plausible electoral combinations for the White House, the Senate, and the House of Representatives.

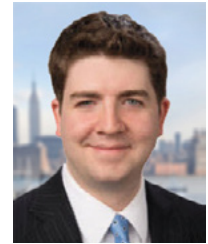
When we are closer to the finish line, John and his team will be critical partners in our efforts to assess and recalibrate the probabilities for each potential electoral outcome.

### Setting a broader context






Lastly, these periodic updates will also include deeper-dive articles on subjects that relate less to current issues but instead provide valuable historical context that may prove useful when analyzing this election. For example, in this edition, we look at past re-election campaigns to determine whether incumbent presidents have an edge over challengers. In future reports, we will discuss topics such as the historical record of third-party candidates, the impact of population migration on election outcomes, the role of registered independent voters, and the history and future of the Electoral College.







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-  Security
-  Commerce
-  Environment
-  Society
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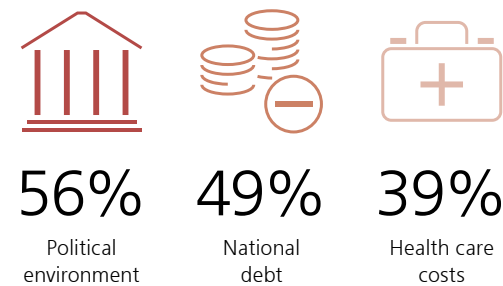
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# Focusing on the issues

In the 2Q UBS Investor Sentiment survey, high net worth investors highlighted politics, the national debt, and rising health care costs as the issues that they believe will have the most impact on their financial futures (Fig. 1).

Fig. 1

## Top investor concerns

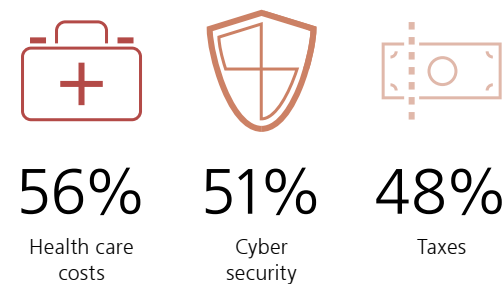


Source: UBS, as of 2Q 2019

Business owners echoed concerns over health care costs and counted cyber security and taxes among their top concerns (Fig. 2).

Fig. 2

## Top business concerns



Source: UBS, as of 2Q 2019

Looking globally, some US policies ranked on the list of investors' worries—especially in Asia and Europe—where key concerns included the Trump administration's trade policies as well as US firms' data privacy policies (Fig. 3).

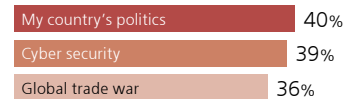
Fig. 3

## Top concerns by region

### Asia



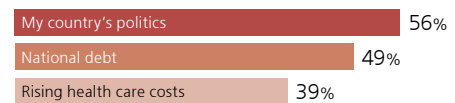
### Europe (except Switzerland)



### Switzerland



### US














### Latin America



Source: UBS, as of 2Q 2019

Unsurprisingly, many of these are the very topics that are likely either to dominate 2020 election conversations or represent potential byproducts of the outcome: rising government debt, episodic trade conflicts, growing cyber security threats, escalating health care costs, uncertainty over tax policy, mounting geopolitical risks, and a dysfunctional political environment.

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## Focusing on investor impact

In the heat of election season, it's often easy to get distracted by political rhetoric (as opposed to governing reality) and by issues that are politically important but have limited impact on markets and investors' financial plans. Moreover, there are additional issues that may not garner a lot of political attention but are more impactful for investors.

To get an early start on the electoral cycle, while acknowledging that there are still a lot of unknowns, we have broken the top issues into seven broad categories we feel will be relevant through and beyond election night:

**Health care**—the Affordable Care Act, Medicare for All, and the issues of rising insurance premiums and uninsured Americans

**Security**—defense spending and foreign policy issues ranging from terrorism, the Middle East, North Korea, and international treaties such as NATO

**Commerce**—taxes, regulation, minimum wage, and trade policy

**Environment**—climate change, regulation, and renewable energy policies

**Society**—civil rights, immigration, student loans, home ownership, and judgeships (including the Supreme Court)

**Infrastructure**—a potential stimulus package (and how to pay for it), and the border wall with Mexico

**Public policy**—budget deficits, entitlement reform, and the national debt

Many issues will have broader ramifications, pose questions that cut across multiple categories, and have important consequences for markets and financial planning. For example:

- *Will the US implement a large-scale infrastructure program?* This would have implications for the budget deficit (Public policy) as well as business opportunities (Commerce), and help to boost some equity sectors more than others.
- *Will the US expand health care coverage?* National efforts to reduce health care costs and expand coverage (Health care) will invariably affect corporate profitability (Commerce), and will also have implications for retirement planning and could result in changes to income and capital gains tax rates.

We will tackle these issues and more, one after the other, over the next 18 months of *Election-Watch* reports. We will focus, first and foremost, on issues that matter most to investors' wealth, even (or especially) if they're being given little attention by candidates and the media. For example, while regulatory reform is unlikely to ignite the passions of the electorate, it is a crucial issue for business owners, so we will devote more attention to this area. On the other hand, immigration is almost certain to loom large as an issue in this election, but the impact upon investors is less straightforward so we will likely spend less time on this issue.

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# The incumbency advantage

In the 32 elections where incumbent presidents ran as a candidate, 22 resulted in re-election—a 69% win rate. Naturally, older examples like Martin Van Buren are less relevant in the 21st century. A constitutional amendment, ratified by the states in 1951, limits the number of times an individual can be elected to the presidency.

Even so, this observation does hold up when only looking at more recent data. Since 1948, there have been 11 presidential elections with incumbent candidates; an incumbent was re-elected in 8 of these elections (72% win rate). The exceptions were Presidents Gerald Ford (1976), Jimmy Carter (1980), and George H.W. Bush (1992).

The historical data comes with a small caveat: There is evidence that unelected incumbents do not enjoy the incumbency advantage. Looking at data from Senate races since 1956, appointed senators had a roughly 51% probability of re-election, vs. about 84% for elected

incumbents.<sup>1</sup> Excluding President Ford (he took over after Nixon’s 1974 resignation, and lost to Carter in 1976) increases the post-1948 incumbency win rate to 80%.

There are a number of theories to explain the incumbency advantage. First and foremost, there’s “survivorship bias,” because incumbents are more likely to run for re-election if they’re confident they can win. For example, Lyndon Johnson opted not to seek re-election in 1968, largely because poll results indicated he would lose due to widespread opposition to his Vietnam War policy. There’s also a literal survivorship bias, because five presidents died during their first term. In addition, because incumbents have name recognition and an existing fundraising machine, they rarely face a stiff primary challenge. This means they get to escape the often-bruising (and costly) experience that the primary process entails, so they can spend their campaign war chest more prudently by focusing on the general election from “Day 1.”

Fig. 4

## Incumbent presidents have had a notable advantage over challengers

Result of elections with an incumbent president running in the general election

Election Year	Incumbent President	Incumbent Re-elected	Challenger Elected	Election Year	Incumbent President	Incumbent Re-elected	Challenger Elected
1792	Washington	✓		1932	Hoover		F.D.R.
1800	Adams		Jefferson	1936	F.D.R.	✓	
1804	Jefferson	✓		1940	F.D.R.	✓	
1812	Madison	✓		1944	F.D.R.	✓	
1820	Monroe	✓		1948	Truman	✓	
1828	Quincy Adams		Jackson	1956	Eisenhower	✓	
1832	Jackson	✓		1964	L.B.J.	✓	
1840	Van Buren		W.H. Harrison	1972	Nixon	✓	
1864	Lincoln	✓		1976	Ford		Carter
1872	Grant	✓		1980	Carter		Reagan
1888	Cleveland		B. Harrison	1984	Reagan	✓	
1892	B. Harrison		Cleveland	1992	G.H.W. Bush		Clinton
1900	McKinley	✓		1996	Clinton	✓	
1904	T. Roosevelt	✓		2004	G.W. Bush	✓	
1912	Taft		Wilson	2012	Obama	✓	
1916	Wilson	✓					
1924	Coolidge	✓					
<b>Total</b>						<b>22</b>	<b>10</b>
<b>Since 1948</b>						<b>8</b>	<b>3</b>

<sup>1</sup>Steen, Jennifer A., and Jonathan GS Koppell, *The Electoral (Mis)Fortunes of Appointed Senators and the Source of Incumbency Advantage*, Yale School of Management: 1-32.

Source: UBS



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# Asked and answered

A conversation with John Savercool, Head of the UBS US Office of Public Policy



## Tune in today






Listen to the *Washington Weekly* podcast with John Savercool and team for updates on the US political environment. Check it out at [ubs.com/electionwatch](https://ubs.com/electionwatch).

**Q:** Let's talk about the Democratic nominees. What are the qualities, experiences and policy views that will likely be required to get the nomination? Which candidates do you think match this mold?

With 20 announced candidates, and a few more possible to join, the field is very diverse. For Democratic voters, there is very likely someone in the field who is close to a dream candidate. Above all, Democratic voters want a candidate who can defeat President Trump. It's also clear they prefer a candidate who is new and different and reflects the demographic makeup of those active in the Democratic primary election. Despite the attraction to the new wave of candidates, former Vice President Joe Biden and Senator Bernie Sanders (I-VT) are currently leading most polls and will likely be competitive throughout the race. Biden is perceived by many in the party to be the best to be able to beat Trump, while Sanders seems to better represent the policy priorities of active Democratic voters. We also see newcomers, such as Senators Kamala Harris (D-CA) and Elizabeth Warren (D-MA), as well as South Bend Mayor Pete Buttigieg, making good early impressions to many Democratic voters. If Biden and Sanders continue to lead, we expect them to look favorably upon many of their competitors as solid vice president options (especially Harris and Senator Amy Klobuchar). The televised debates, which begin in late June, will begin to winnow the field of candidates.

**Q:** What is at stake in the 2020 election?

Control of the White House, Senate, and the House of Representatives are all on the line in 2020. With 12 Democratic and 22 Republican Senate seats up for re-election, the Senate could flip to Democratic control. The Senate's fate to a large degree is tied to the presidential election. If President Trump is defeated handily, Democrats will likely take control of the Senate. If the presidential election is close or if President Trump is re-elected, Republicans will likely hold the Senate. Much will happen over the next 18 months before Election Day, but at this time our bet would be that Republicans will hold on to the Senate, while Democrats will retain the House.

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**Q:** As a follow-up: If we had applied this vetting approach with the huge slate of GOP nominees in 2016, what would the results have been? If not Trump, what can we learn from Trump's success and which attributes should we look for in a "wild card" candidate in this election?

It is now clear that in 2016 frustrated voters wanted an untraditional candidate who would rock the boat and upset the status quo. Trump fit that bill; Clinton did not. Democrats seem to be looking for someone with the same outsider status, which gives opportunities to Sanders (despite his being in Washington for nearly 30 years), Warren, Harris, Buttigieg, and anyone who can demonstrate a strong commitment to change. With this in mind, it seems to us that Biden is at risk of eventually running out of steam. Trump's communications' blunt style was appealing to many Republican voters in 2016, and we suspect Democratic voters will ultimately choose a candidate with a similarly combative style. With a dysfunctional Washington and a polarized electorate, voters will seek out these types of candidates. While a more "normal" environment will eventually evolve, it won't happen by 2020.

**Q:** On the Republican Party side, do you expect a robust primary challenge to President Trump's re-nomination?

As of today, only former Massachusetts Governor William Weld is mounting a primary challenge to President Trump. He will not be a competitive candidate. Others are considering challenges, including Maryland Governor Larry Hogan, but we don't think anything serious on the Republican side will materialize. Some Republican voters are apprehensive about Trump's style in office, but they recognize a race against him is futile.

**Q:** In the 2016 election, the states of Pennsylvania, Wisconsin, and Michigan were pivotal in President Trump's victory. In previous presidential elections Florida and Ohio have been the key states to follow. What states should we be watching in 2020?

Currently, the top states to watch are Arizona, Florida, Michigan, Pennsylvania, and Wisconsin. Together these states carry 86 electoral votes and will be important to a candidate reaching the necessary 270 electoral votes to win the White House. If states like Georgia, Iowa, and North Carolina are in play on election night, the Democratic candidate will be having a good night. If Minnesota, New Hampshire, and Nevada are in play, Trump will be having a good night. We will continuously remind you in the months to come that national polls are interesting and useful in some respects, but polls from these 11 states listed above are where we will be focusing.

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# Timeline of key events

## 2019

26-27 June	First Democratic debates (Miami)	TBD September	Fourth Democratic debates
30-31 July	Second Democratic debates (Detroit)	TBD October	Fifth Democratic debates
TBD August	Third Democratic debates	TBD November/ December	Sixth Democratic debates

## 2020

TBD January/ February	Seventh, eighth, ninth, and tenth Democratic debates	17 March	Arizona, Florida, and Illinois primaries [Democratic & Republican]
3 February	Iowa caucuses [Democratic & Republican]	TBD April	Twelfth and final debates
4 February	New York primary [Republican] – scheduled for procedural reasons, date likely to be amended	4 April	Alaska and Hawaii primaries [Democratic]
11 February	New Hampshire primaries [Democratic & Republican]	7 April	Wisconsin primaries [Democratic & Republican]
22 February	Nevada caucus [Democratic]	28 April	Connecticut, Delaware, Maryland, Pennsylvania, and Rhode Island primaries [Democratic & Republican]
29 February	South Carolina primary [Democratic]	5 May	Indiana primaries [Democratic & Republican]
TBD March	Eleventh Democratic debates	12 May	West Virginia primary [Democratic]; Nebraska primary [Republican]
TBD March	Wyoming caucus (March, TBD) [Democratic]; Colorado caucus (March 3, 10, or 17 – TBD) [Republican]	19 May	Kentucky and Oregon primaries [Democratic & Republican]
3 March	Super Tuesday (Alabama, Arkansas, California, Colorado, Massachusetts, Minnesota, North Carolina, Oklahoma, Tennessee, Texas, Utah, Vermont, and Virginia primaries [Democratic and Republican]; Democrats Abroad preference vote through March 10)	2 June	Montana, New Jersey, New Mexico, and South Dakota primaries [Democratic & Republican]
7 March	Louisiana primaries [Democratic & Republican]	7 June	Puerto Rico primary [Democratic]
8 March	Maine caucus (likely amended to a Tuesday-in-March primary if primary legislation passes) [Democratic]; Puerto Rico primary [Republican]	16 June	District of Columbia primary [Democratic]
10 March	Idaho primary [Democratic]; Hawaii caucus [Republican]; Michigan, Mississippi, Missouri, Ohio, and Washington primaries [Republican & Democratic]; North Dakota firehouse caucus/primary [Democratic]	13-16 July	2020 Democratic National Convention (Milwaukee, Wisconsin)
		24-27 August	2020 Republican National Convention (Charlotte, North Carolina)
		18 September	Early voting begins in Minnesota
		3 November	Election Day

## 2021

5 January	Electoral votes formally counted before a joint session of Congress; the President of the Senate formally announces the electoral result	20 January	Inauguration Day
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Source: UBS



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