NIRI Virtual Chapter

Program Wrap-Up

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At NIRI Virtual Chapter, we don't have our own in-house political opinions…if you're looking for political viewpoints or a good argument, you'll need to find those someplace else. What we do is help prepare the IR community for the policy outcomes that are driven by elections, and their impact on securities markets and our companies in particular. With the 2020 election as a variable that the investment community needs to consider already, we thought it best to bring in an expert in predicting these outcomes in order to help you prepare effectively. In a session jointly sponsored by law firm *Fredrikson & Byron*, the *NIRI Twin Cities Chapter*, and the *NIRI Virtual Chapter*, Charles Gabriel of political forecasting firm *Capital Alpha Partners* shared his firm's "house view" of election prospects as of the third week of February 2020. With Heather Davis from NIRI Virtual as moderator, our goal was to cut past the opinions and instead handicap the potential impact on each of our companies and our roles of the various possible election outcomes.

Here's some of what we learned:

-**As of today, the Presidential election is a near toss-up…** Capital Alpha puts the President's odds of re-election at about 55%, taking into account all of the probabilities involving different general election opponents; that said, Gabriel noted these odds are fluid and have shifted over time. And, there are plenty of "wild cards" that may hit the table between now and November, including geopolitical events and the risk of a broadening coronavirus footprint. There are even scenarios where *no candidate wins a majority of electoral votes* – simply taking the 2016 map, then adding Pennsylvania and Michigan, plus one elector in Maine, into the blue column, leads to a 269-269 tie, leaving the election in the hands of the House of Representatives, which could be deadlocked itself. While it's tough to make any decisions early on, consider executive branch functions (particularly regulation in the securities markets) as "up for grabs" as of now.

-**…and this year's path to the Democratic presidential nomination may shift drastically between now and early March.** With the California primary occurring earlier in the year as part of a Super Tuesday that comprises a full 38% of all convention delegates, we'll have seen 61% of delegates pledged by March 17. If no candidate has a clear majority by late March or early April, we'll likely see pressure on the lagging candidates to drop out of the race, as the potential for the first brokered convention in over 50 years has few winners within the party.

-**The Senate map remains more likely to remain red, the House likely to stay blue…but…**Capital Alpha projects a 60% chance of a Republican Senate and a 75% chance of a Democratic House for next

Congress. While Republicans have more Senate seats to defend in 2020, those seats are more often in "deep red" areas with strong likelihood of re-election. That said, with just a 3-seat majority (not including the vice-presidential tiebreaker), just a few events in close Senate races could decide the majority. (IROs will note that one of the closely contested races in the State of Georgia features former Intercontinental Exchange IRO Kelly Loeffler, seeking to maintain her recently-appointed seat).

-**Stated policy preferences from presidential candidates do produce "blue stocks" and "red stocks" …** Most Democratic candidates have supported some type of expansion of public health insurance, restrictions on fracking and offshore drilling, and several have supported financial transactions taxes similar to those in several European markets. Hence, "red stocks" include those in pharma and managed care, energy, and many financials. "Blue stocks" that could benefit from more aggressive policies to rein in climate change include regulated utilities (many of whom are moving toward renewable power generation), cleantech, auto parts manufacturers, and domestic steel manufacturers.

…with the greatest business impacts falling on "red wave" or "blue wave" results. Pundits on both sides have openly spoken about limiting the Senate filibuster rules going forward – a "wave" resulting in House/Senate/White House from the same party could lead to a lot more policy proposals actually becoming law. (Capital Alpha puts the odds of "waves" at about 15-20% in either direction). If you sit in any of these sectors where legislation, not just executive action, will make a material difference, now's the time to prepare for questions on these topics with your government affairs team.

-One capital markets wild card is the potential for more regulation of credit rating agencies. Ratings firms mostly escaped regulation during the drafting of Dodd-Frank legislation in 2010, partially due to additional rules from the prior Sarbanes-Oxley regulation era taking effect. That said, the more liberal Democratic candidates have already stated preferences for adding additional regulation to credit rating agencies, with Senator Warren having previously been chair of the TARP program during the financial crisis and having a birds'-eye view into their operations. While there's already some additional competition in the ratings markets, expect any new Democratic president to push for a review of the "issuer-pays" rating concept and additional checks on ratings; if you're planning out your capital allocation or face a maturity wall any time in the next few years, keep this possibility in mind.

-You'll want to pencil in this year's election calendar into your communications program. The Democratic convention in July runs up against the beginning of bank 2Q earnings season, while presidential debates scheduled in October may overlap with 3Q earnings season. Preparing management for questions on policy at earnings time is already part of the IR job, but you may want to be careful with scheduling releases, roadshows, or in particular conducting capital raises into a possibly volatile environment.