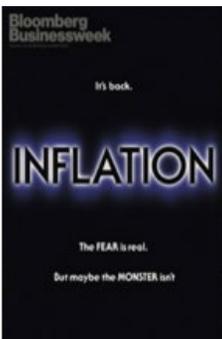


# Living in Limbo



*Anticipating the Top 2022 Risks in Politics & Policy*

## LIVING IN LIMBO... TOP 2022 RISKS

- ❖ **Uncertainty, volatility & disruption are the new normal.**
- ❖ **2022 will neither be the best of times nor worst of times:**
  - COVID won't magically go away nor kill us all.
  - The economy won't return 1970's stagflation nor the 1990's boom.
  - U.S.-China tension neither ends in WWII nor in Chimerica 2.0.
- ❖ **Reality will prove more nuanced & complicated. Leaders need to reassess approaches to risk analysis & preparation:**
  - Understand macro trends driving technology, geopolitics & culture.
  - Adapt strategies to survive / benefit from accelerating change.
  - Engage stakeholders proactively to maximize intelligence & alliances.

## Anticipating 2022 Risks in Politics & Policy

### EXISTENTIAL RISKS

1. Extreme Expectations Obscure Common Ground
2. COVID: The Fourth Wave
3. Infrastructure: Cyber Insecurity
4. Insurers: Extreme Weather Events
5. Multilateralism: Wars, Refugees, Economic Nationalism

### ECONOMIC RISKS

6. Manufacturers (short-term): Shortages
7. Consumers: Inflation
8. Manufacturers (long-term): Supply Chain Headwinds Rising
9. Markets: Irrational Exuberance
10. Networks: Space, the Fragile Frontier



### POLITICAL RISKS

11. Biden: Perceived “Softness”
12. Democrats: Wave Election Likely
13. Senate GOP: Primary Failures
14. House GOP: An “Off-Year, Off-Year”
15. Voters: One Zillion Election Ads Coming
16. Moderates: Swing Seats Disappearing
17. Incumbents: Restless Electorate

### BUSINESS RISKS

18. Business: Bureaucracy Rising
19. Multinationals: U.S.-China Decoupling
20. CEOs: Political Homelessness
21. Brands: Employee Activism
- \*\* Recommendations for Leaders

# EXISTENTIAL RISKS

# #1 RISK: EXTREME EXPECTATIONS OBSCURE COMMON GROUND

**We Can't Solve Real Problems If We Can't Agree on What's Real...**  
Hyper-partisans see what they want to be true vs what is.

	<i>Maximum Chaos</i>		<i>Return to Normalcy</i>
<b>COVID</b>	The Andromeda Strain	→	← Magically Goes Away
<b>ECONOMY</b>	1970's Stagflation	→	← 1990's Boom
<b>US-CHINA</b>	World War III	→	← Chimerica 2.0
<b>POLITICS</b>	New Rules After Every Election	→	← Durable Majorities Bringing Certainty
<b>BRANDS</b>	Consumed by Culture Wars	→	← Everyone Always Satisfied
<b>MARKETS</b>	1929	→	← 1999

YOU ARE  
**HERE**

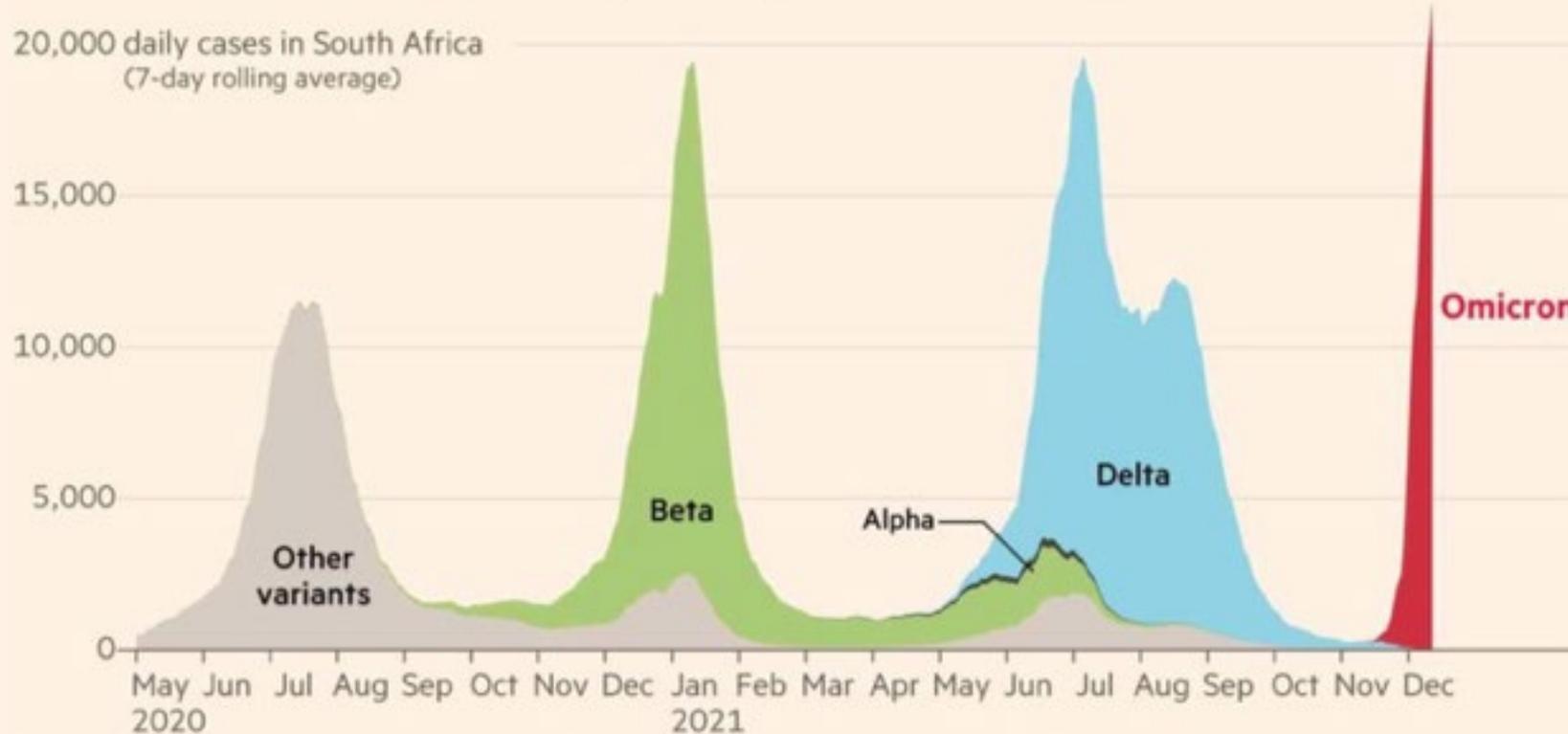
# #2. COVID: THE FOURTH WAVE

## We Remain on “Pandemic Footing” vs an Endemic Disease



The Omicron variant is driving a steep new wave of cases in South Africa

20,000 daily cases in South Africa  
(7-day rolling average)



Source: FT analysis of data from GISAID and the South African National Health Laboratory Service  
FT Graphic: John Burn-Murdoch / @burnmurdoch  
© FT

### Too Few Vaccinated

- U.S. 61% fully-vaxed (*not boosters*)
- Globally 45% fully-vaxed

### Virus Keeps Evolving

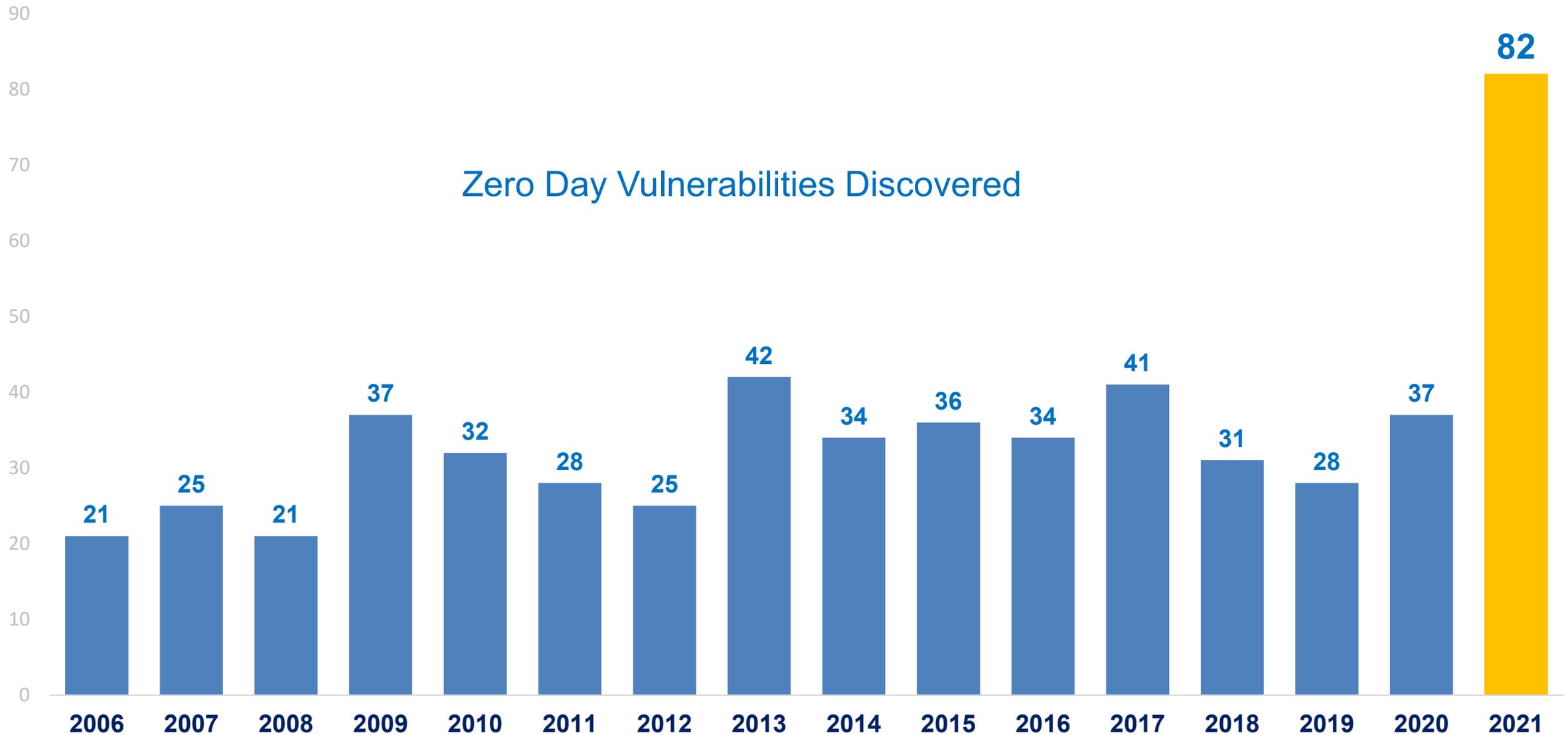
- WHO monitored >27 variants in 2021
- More coming in 2022 (& '23, '24...)

### Unprepared for Endemic

- Risks over-hyped
- Preventions under-embraced
- “Zero COVID” won’t work forever
- “Independence Day” never coming

# #3. INFRASTRUCTURE: CYBER INSECURITY

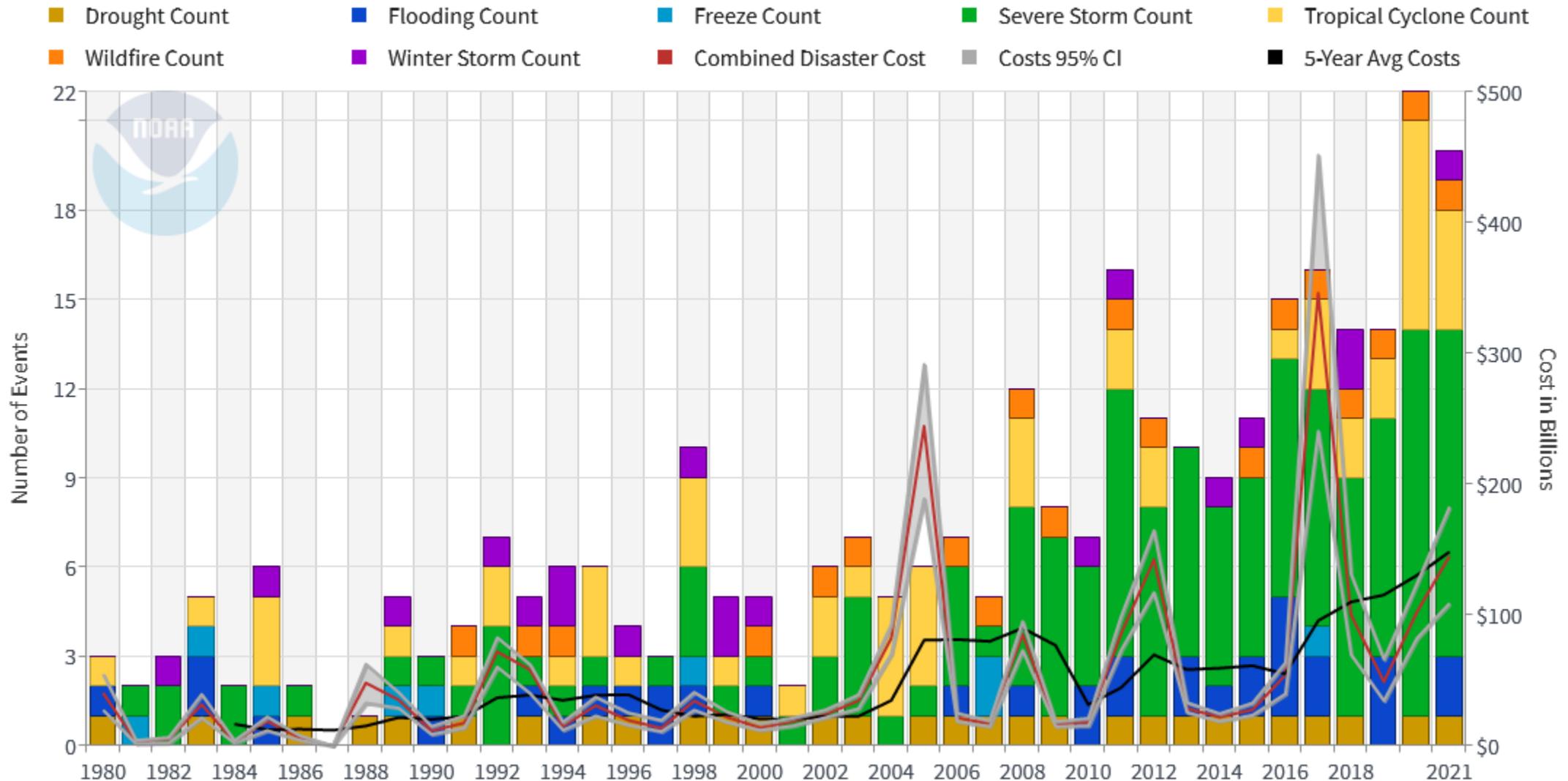
## Accelerating Pace of Cyber Attacks Breaching Increasingly Sensitive Systems



# #4. INSURERS: EXTREME WEATHER DISASTERS

## Disasters Increasing Costs, Challenging Supply Chains & Driving Policy

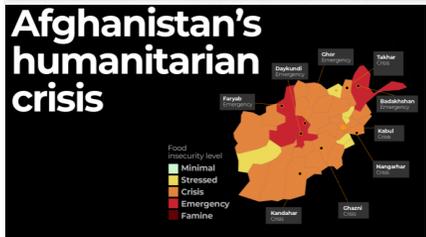
United States Billion-Dollar Disaster Events 1980-2021 (CPI-Adjusted)



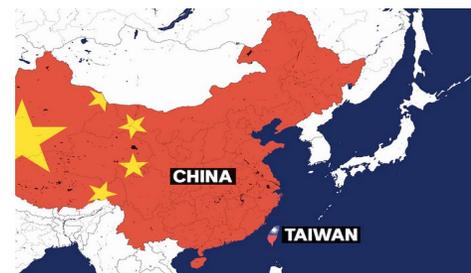
# #5. MULTILATERALISM: WARS, REFUGEES, NATIONALISM

## Will COVID, Energy & Supply Chain Crises Embolden Bullies?

### REFUGEE / HUMAN RIGHTS CRISES



### RISK OF WAR



MEHLMAN CASTAGNETTI  
— ROSEN & THOMAS —

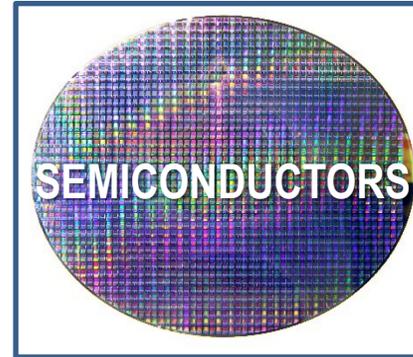
### ECONOMIC NATIONALISM



# ECONOMIC RISKS

# #6. MANUFACTURERS (SHORT TERM): ONGOING SHORTAGES

## Politics Prolonging Supply Chain Shortages



**COVID**

Sickness & Shutdowns

Supply & demand shocks

Cold (shutdown) & Hot (recovery)

**POLITICS**

Pandemic Partisanship

New "Cold War" vs China

Decarbonization

**RESULT**

Workers under-concerned or over-reacting

Decoupling & domestic manufacturing prioritized

Low fossil fuel inventories & investment

# #7. CONSUMERS: INFLATION

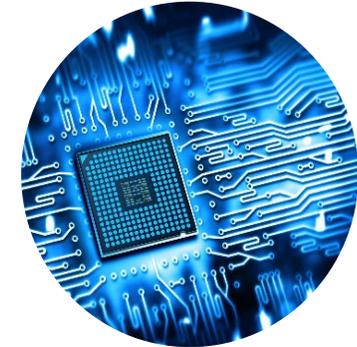
## Persistent Inflation Raising Multiple Public Policy Battles



**Tighter monetary policy or prioritize jobs?**



**Investigate big players or encourage productivity?**



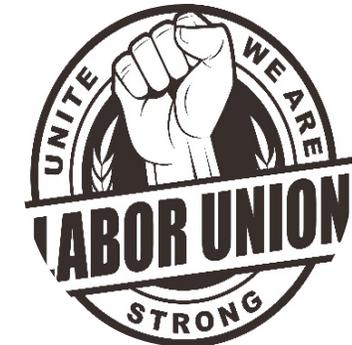
**Leverage global supply chains or deny tech to adversaries?**



**Tighter fiscal policy or prioritize domestic spending / defense?**



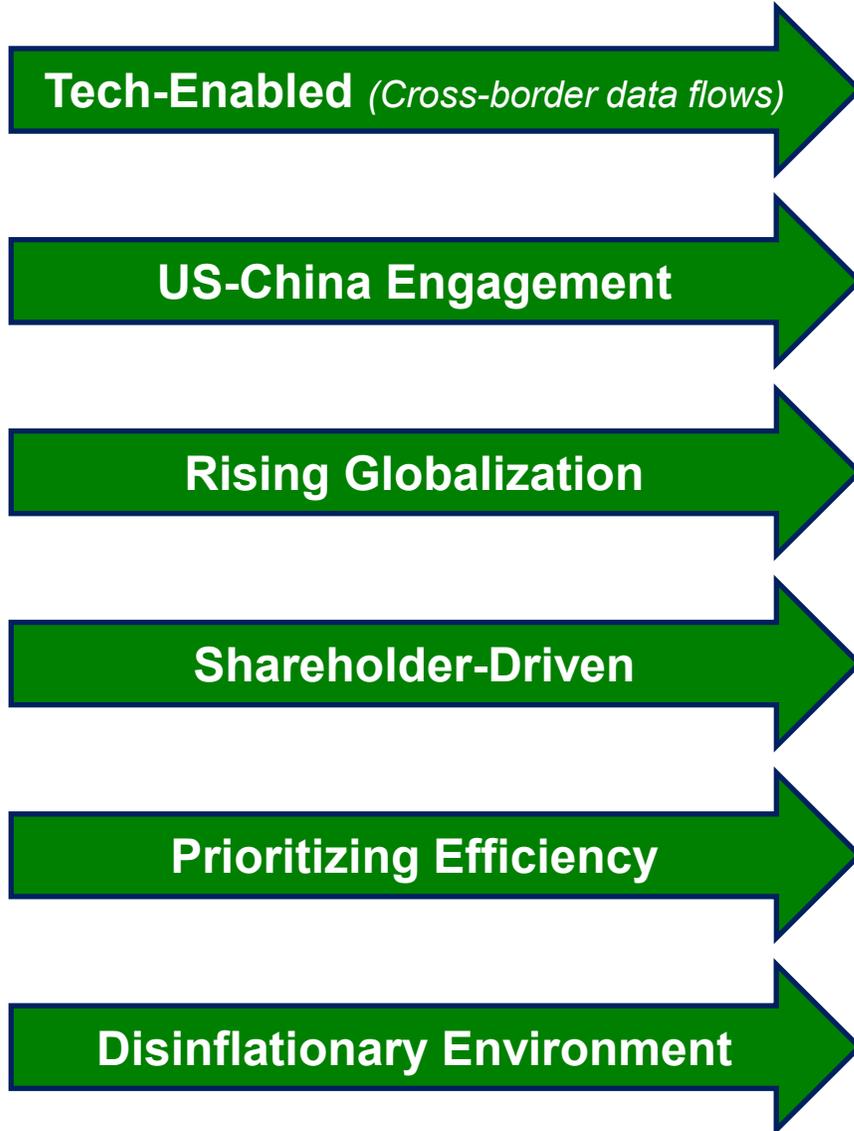
**Subsidize fossil fuels and/or renewables?**



**Encourage union strikes or expand labor force?**

# #8. MANUFACTURERS (LONGER-TERM): SUPPLY CHAIN HEADWINDS RISING

## 1989-2019: Tailwinds Prevailed



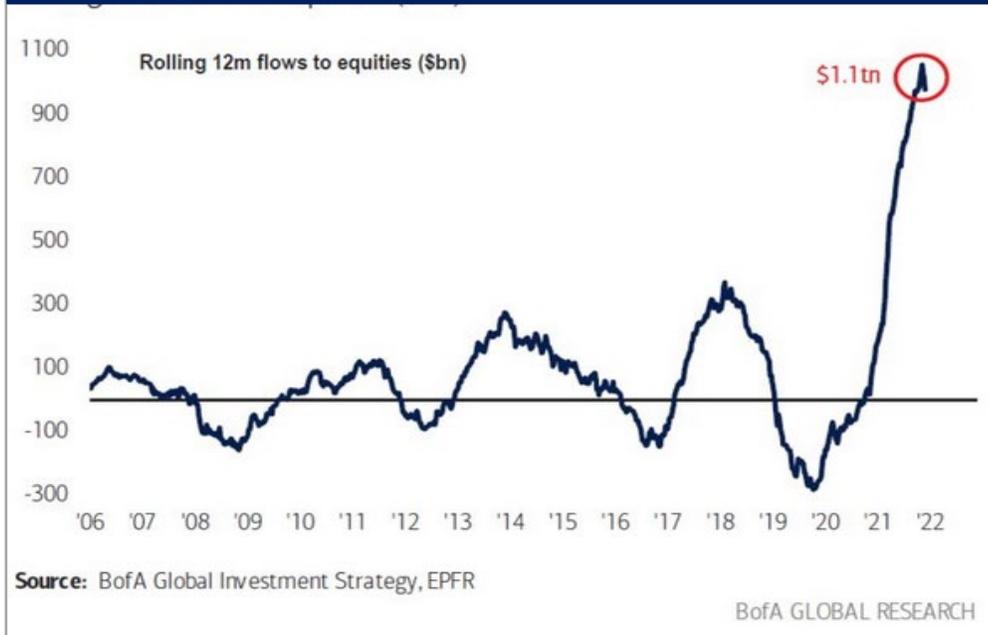
## 2020- : Headwinds Rising



# #9. MARKETS: IRRATIONAL EXUBERANCE

## What Happens When the Fed Starts Tightening?

### 2021 investments into equities exceed combined inflow of previous 19 years



### S&P500 more concentrated in the 5 largest stocks now than ever



- **75% of companies going public in 2021 were unprofitable** (up from 25% of IPOs in 1980)
  - Total cryptocurrency markets up **>300%** over 1 year (12/4/20-12/3/21)
  - Total U.S. household wealth up **19.6%** (\$118.5T (Q2 '20) → \$141.7T (Q2 '21))
    - U.S. home prices up **>20%** (in 2021 vs. ~3.5% long-term avg./yr)

# #10. NETWORKS: SPACE, THE FRAGILE FRONTIER

**Odds of Incidents or Accidents Grow as Traffic Explodes** (sometimes literally)

## >7,500 ACTIVE SATELLITES IN LEO

Over 65,000 additional satellites planned by SpaceX, Amazon, OneWeb & StarNet/GW (China) over next 5 years

## >8,800 TONS OF ORBITAL DEBRIS

Over 128,000,000 pieces of debris in LEO

Collisions likely to beget more collisions in a “cascade waterfall” threatening GPS, communications & weather systems, among others

## ANTI-SATELLITE WEAPONS

To-date 4 countries displayed A-SAT capabilities: US, Russia, China, India

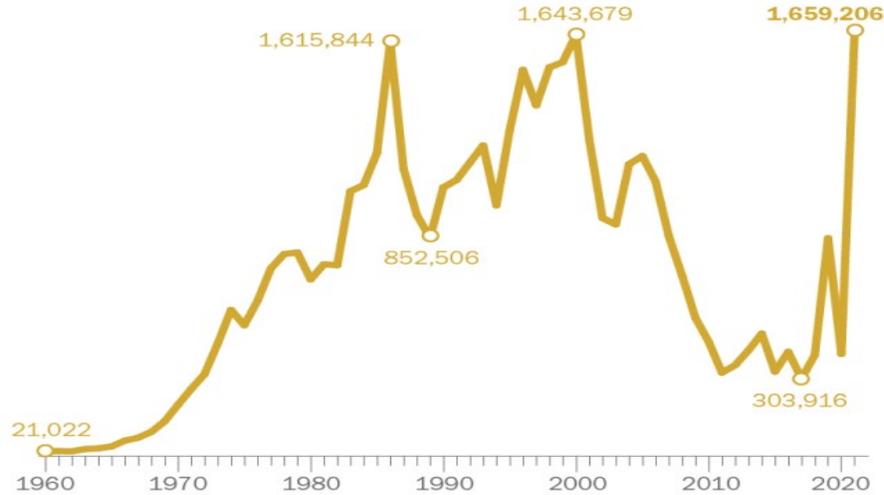
Russia’s Nov. 2021 A-SAT test created 1,500 pieces of debris, threatening the International Space Station

# POLITICAL RISKS

# #11. BIDEN: PERCEIVED "SOFTNESS"

## Soft on the Border

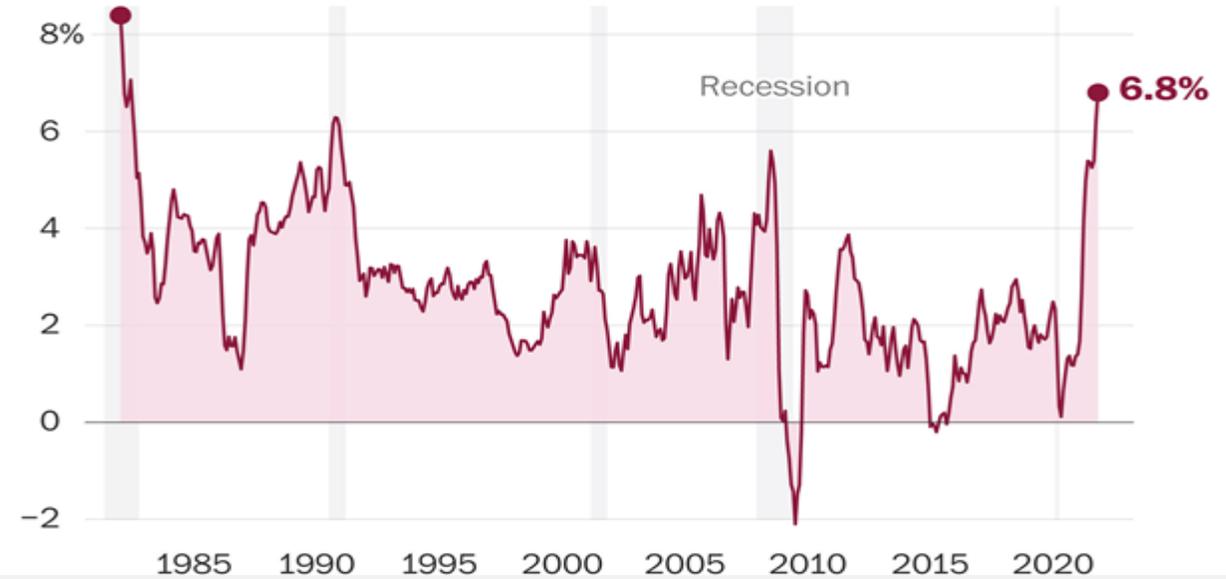
Migrant encounters at U.S.-Mexico border, by fiscal year



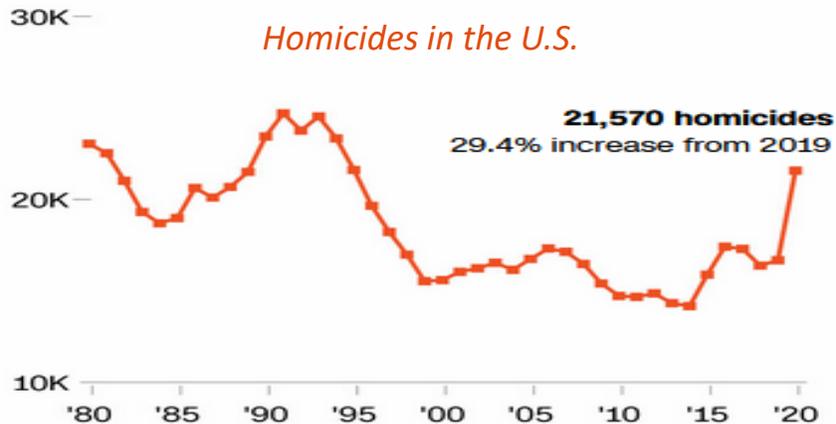
Source: Pew. Nov. 2021

## Soft on Inflation

U.S. consumer price index, change from a year earlier



## Soft on Crime



Source: FBI data via CNN chart

## Soft on Foreign Policy



# #12. DEMOCRATS: GOP WAVE ELECTION LOOKING LIKELY

## Senate Dems

(-1 seat flips control)

**SENATE** *per CPR*

Toss-Up / Lean seats:  
4 Dem, 5 GOP

**HOUSE** *per CPR*

Toss-Up / Lean seats:  
21 Dem, 9 GOP

## House Dems

(-5 seats flips control)

# GOP WAVE

**House Retirements (28D, 13R *per 270towin*)**

**POTUS Net Approval (-14% *per RCP*)**

**Enthusiasm Gap (R+14 *per NBC*)**

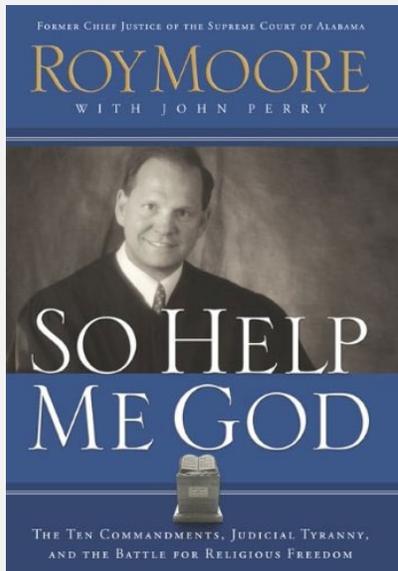
**Wrong Direction (65% *per RCP*)**



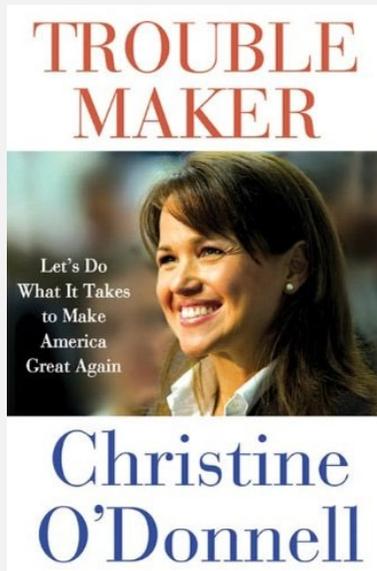
# #13. SENATE GOP: AVOIDING PRIMARY FAILURES

2022: “Secure the Senate” or “Stop the Steal”?

## Weak Candidates Lose Winnable Races, Even in Red States



2018 Alabama



2010 Delaware



2010 Nevada



2012 Missouri

Will Top-Tier Candidates Pass...



... or will Fealty > Electability?



# #14. HOUSE GOP: AVOIDING AN “OFF-YEAR, OFF-YEAR”

## Cautionary Lessons from Potentially-Parallel Prior Years

### 1998

*To Maintain a Roaring Economy*



*Because Other Guys Worse*



### 2002

*To Support a Wartime Leader*



*To Rally vs External Threats*



### 2018

*To Protect Health Care*



*It's a Referendum on Trump*

**Oct. '18**

42% Approve  
51% Disapprove



**Oct. '21**

38% Approve  
50% Disapprove

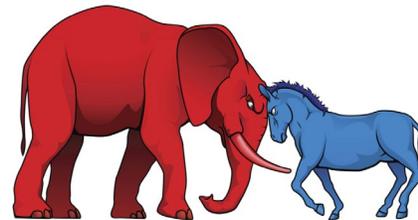
# #15. VOTERS: ONE ZILLION ATTACK ADS



## 2022 Will Be the Most Expensive Midterms in U.S. History, Historic Volume of TV, Print & Digital Ads

### GOP 2022 Election Themes

- Biden “Mismanagement”:**
  - Economy: Inflation & Debt
  - Domestic failures: The Border & Crime
  - COVID: Intrusive mandates
  - Foreign failures: Afghanistan, Russia, China
  
- Too Much Political Correctness (WokeLash):**
  - Education / Schools
  - Media
  - Workplace (mandates)

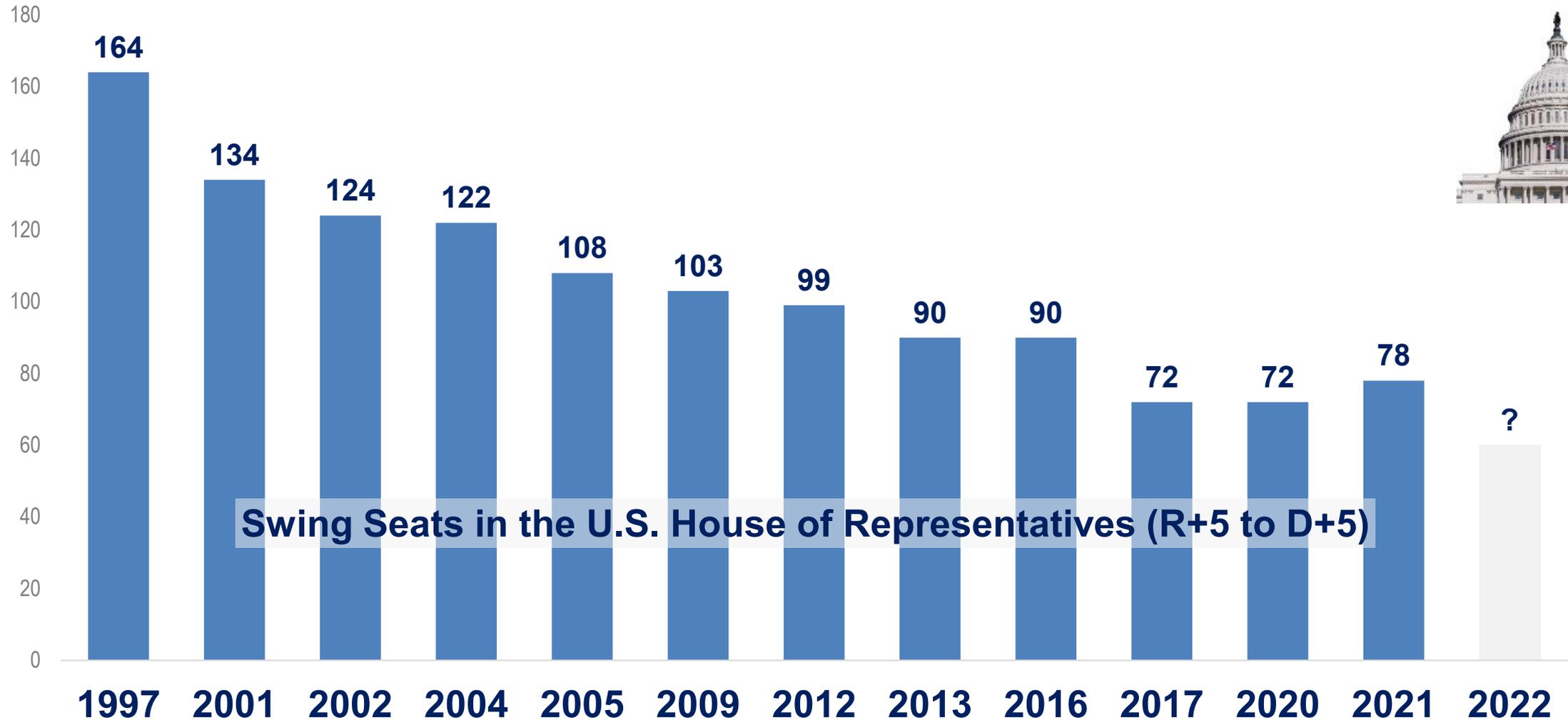


### DEM 2022 Election Themes

- Republicans “Too Dangerous”:**
  - GOP ending Right to Abortion?
  - Anti-civil rights (voting & immigration)
  - Anti-vax, gun control, climate
  - Republicans = Trump = Jan. 6<sup>th</sup>
  
- Democrats are Succeeding:**
  - “Morning in America” economy
  - Winning COVID war
  - Rebuilding better (infrastructure, green, safety nets)

# #16. MODERATES: SWING SEATS DISAPPEARING

## Redistricting Killing Competitive Seats, Intensifies Partisanship



# #17. INCUMBENTS: RESTLESS ELECTORATE VOTING FOR CHANGE

**Change in Control** of House, Senate and/or WH Is New Norm

1952 1954 1956 1958 1960 1962 1964 1966 1968 1970 1972 1974

1976 1978 1980 1982 1984 1986 1988 1990 1992 1994 1996 1998

2000 2002 2004 2006 2008 2010 2012 2014 2016 2018 2020 2022

You are here

# BUSINESS RISKS

# #18. BUSINESS: BUREAUCRACY RISING

## Activist Government Is Back (“Phone & Pen” 2.0)

### OVERSIGHT



Consumer Financial  
Protection Bureau



### REGULATION



### ENFORCEMENT



# #19. MULTINATIONALS: U.S.-CHINA DECOUPLING

## Both Leaders Will Balance Assertiveness & Accommodation

*(Businesses should plan for neither détente nor war but steady decoupling with tightening restrictions)*

**Both need to do enough to...**



**But don't do so much that you...**

...demonstrate your toughness before your Fall (s)elections

**National Politics**

...provoke a war or an economic downturn

...reduce domestic inequality & check Big Tech power

**Tech & Innovation**

...weaken your nation's innovation capacity

...shrink global dependencies in strategic sectors

**Trade & Geopolitics**

...lose access to markets or alienate friends

...leverage the crisis for big systemic change

**COVID & Change**

...erode trust in your leadership due to mismanagement

# #20. CEOs: POLITICAL HOMELESSNESS

## Republican Criticisms

### Too "Woke"



### Too Paternalistic



## Bipartisan Criticisms

### Too Cozy with China

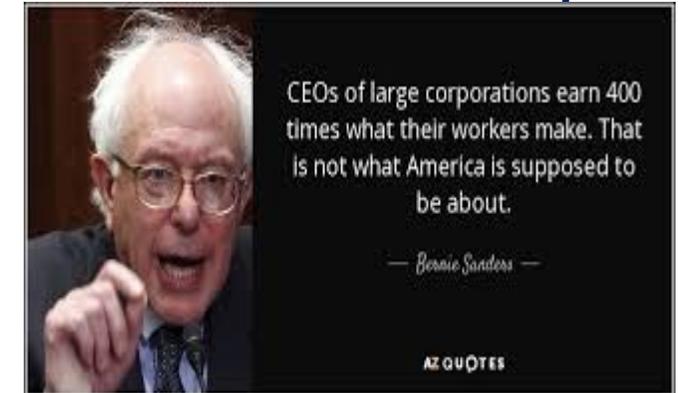


### Abusing Market Power



## Democratic Criticisms

### Excessive CEO Comp



### Share Buybacks



# #21. BRANDS: EMPLOYEE ACTIVISM

## Employees Will Demand Action in 2022... But on What Issues?

### KNOWN KNOWN RISKS

*(on the calendar)*

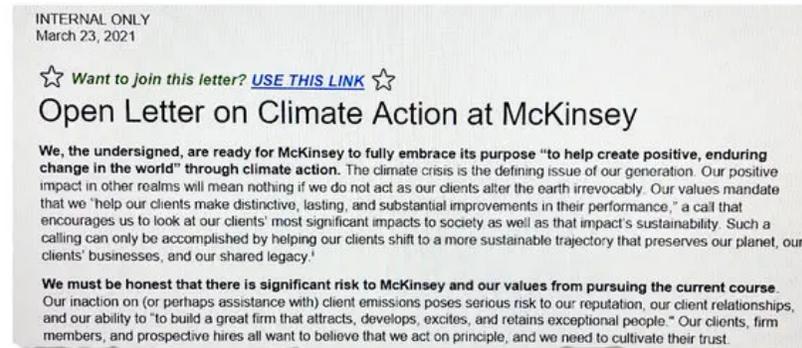
1. Beijing Olympics (Feb)
2. Mask / Vax mandates (Now)
3. Abortion decision (June/July)
4. Qatar World Cup (Nov)
5. Election disputes (Primaries, Nov)



### KNOWN UNKNOWN RISKS

*(always occur, don't know when)*

1. Mass / school shootings
2. Police violence on video
3. Disputed judicial verdicts
4. Voting rights laws (in states or U.S. Senate)
5. Disfavored clients



### UNKNOWN UNKNOWN RISKS

*(may happen or may not)*

1. Rogue executive misdeeds
2. Client corruption or scandal
3. Divestment campaigns
4. New flexibility/WFH demands?
5. Ill-advised comment (Dimon; Dalio)



## Volatility & Disruption are the New Normal

*Macro trends are reshaping your industry. Reforms will disrupt your business.*

### #1. UNDERSTAND

How are you tracking tech, geopolitics & cultural trends?

How are broader changes impacting you, competitors & your markets?

### #2. ADAPT

What are your digital, global & ESG strategies?

How do you assess political risk, plan for contingencies & pressure-test your plans?

### #3. ENGAGE

Do you hear from a broad range of sources or echo chamber?

Which stakeholders will have your back when you need allies?

Are you at the table with policymakers (or on the menu)?

To join our list for future reports: [bruce@mc-dc.com](mailto:bruce@mc-dc.com)

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