

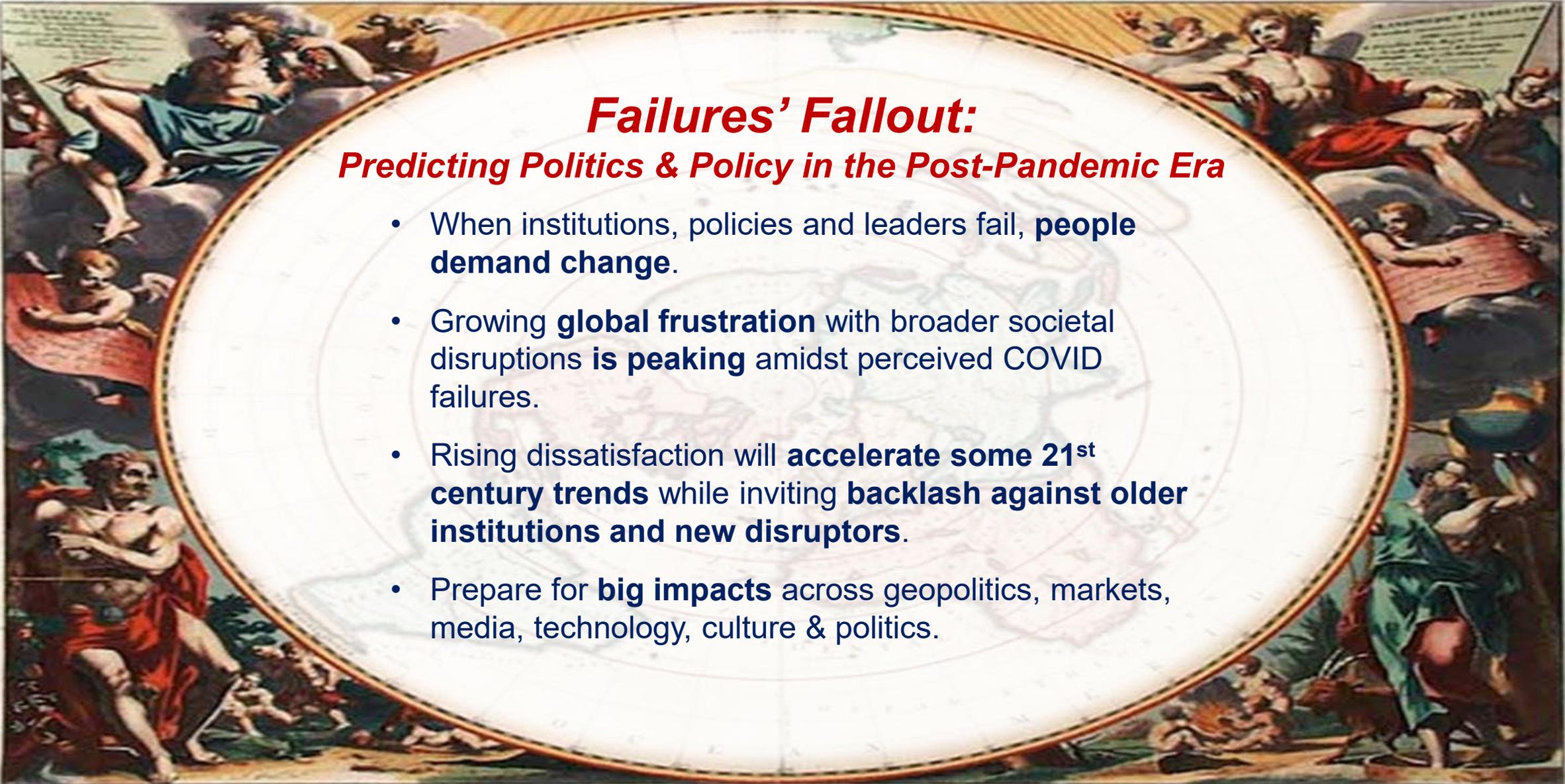


Q3 2021

Failures' Fallout



Predicting Politics & Policy in the Post-Pandemic Era



Failures' Fallout: Predicting Politics & Policy in the Post-Pandemic Era

- When institutions, policies and leaders fail, **people demand change**.
- Growing **global frustration** with broader societal disruptions **is peaking** amidst perceived COVID failures.
- Rising dissatisfaction will **accelerate some 21st century trends** while inviting **backlash against older institutions and new disruptors**.
- Prepare for **big impacts** across geopolitics, markets, media, technology, culture & politics.

HOW FAILURES LEAD TO CHANGE

Backlash against:

- Failed leaders
- Failed strategies
- New disruptors



Acceleration of:

- Innovative change
- Alternative approaches
- Systemic reform

Impacts across:

Geopolitics



Markets & Media



Science & Tech



Culture & Politics



FAILURES' FALLOUT: LESSONS FROM HISTORY



PERCEIVED FAILURES

ACCELERATED

BACKLASH

WWI
Spanish Flu
1920 Depression

- Global entanglements bad
- Inadequate public health
- Over-active government

- Isolationism & protectionism
- Infrastructure (*public health system*)
- Innovation (*cars, radio, telephony*)
- Expanding freedom (*Suffrage, Jazz*)

- Anti-Immigration (*1st Red Scare*)
- Spirituality vs Modernity (*Prohibition, 1925 Scopes Trial*)
- End Progressive Era (*"Business of America is business"*)

Great Depression
Pearl Harbor
WWII

- Isolationism & appeasement fail
- Inadequate safety nets
- Insufficient economy oversight

- US lead new order (*UN, GATT, NATO*)
- Infrastructure (*TVA, SSA, highways*)
- Innovation (*flight, TV, penicillin*)
- Expanding freedom (*Brown vs Bd*)

- Anti-Communism (*2nd Red Scare*)
- Regulation vs Capitalism (*SEC, FCC, FDIC*)
- End Laissez-faire Era

Vietnam
Watergate
Stagflation

- Wrong global strategies
- Abuse of power & corruption
- Uncompetitive business climate

- Globalization, Nixon to China
- Deregulation (*Reaganomics*)
- Innovation (*PCs, cable TV, GPS*)
- Expanding freedom (*18 yr-old vote*)

- Anti-Soviet (*3rd Red Scare*)
- Environmentalism, Anti-Nuke
- End Great Society (*Anti-bureaucracy / "Government is the problem"*)

21ST CENTURY FAILURES: CRESCENDO IN 2020

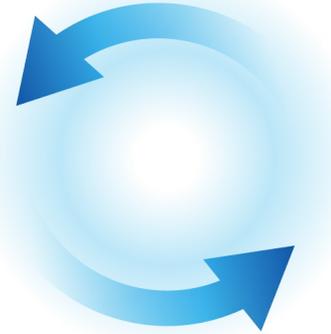


2020



COVID IS A CATALYST: WHAT TO EXPECT IN 2021 & BEYOND

BACKLASH



ACCELERATION

- U.S.-China Decoupling
- Global Unrest Increasing



Geopolitical

- Nationalism Overpowering Globalism
- COVID Worsening Globally

- Supply Chain Frictions Growing
- News Consumption Shrinking



Markets & Media

- Extreme Weather Upending Markets
- Substackification: Atomizing News

- “Big Tech” Crackdowns Intensifying
- Trusting Science, Not Companies



Science & Tech

- Disruptive Innovation Accelerating
- Bandwidth Is the New Electricity

- Institutional Mistrust Deepening
- Biden Headwinds Emerging



Culture & Politics

- Activist Pressure on CEOs Growing
- GOP Populism Rising

ACCELERATING CHANGE

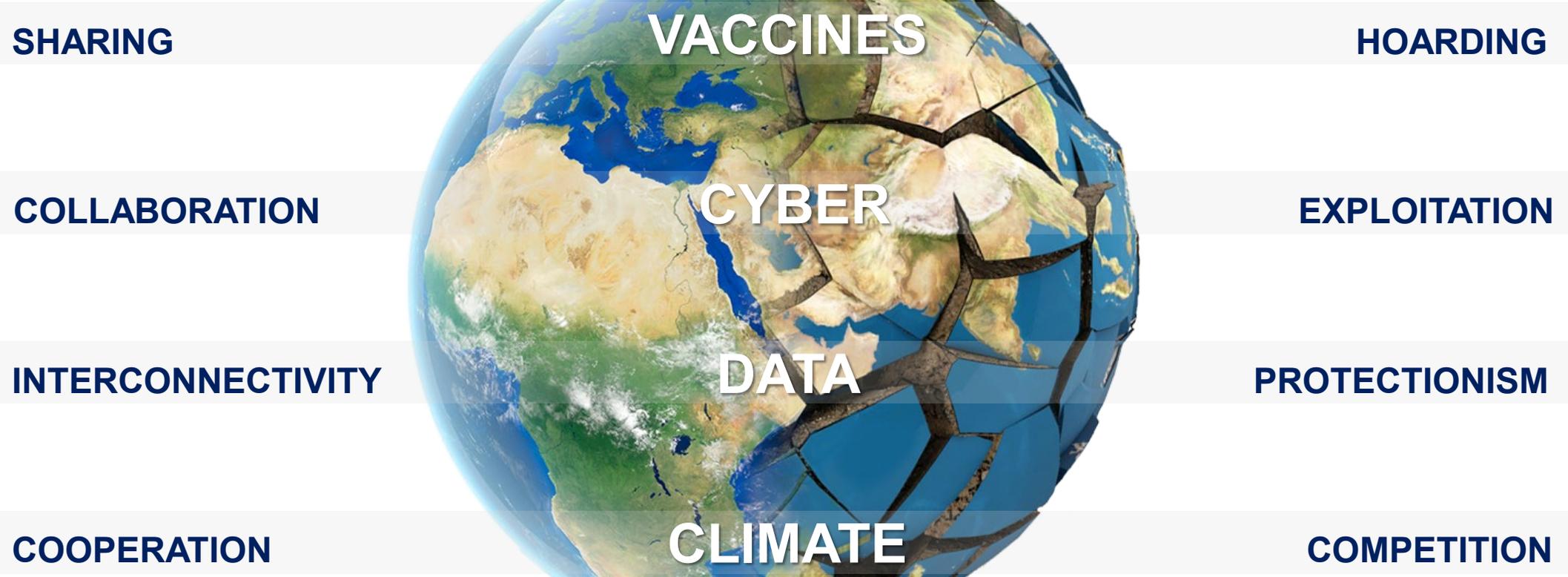
Trends Bringing the Future Faster

GEOPOLITICAL: NATIONALISM OVERPOWERING GLOBALISM

Every Nation For Itself (e.g. “Buy American”)

MULTILATERALISM

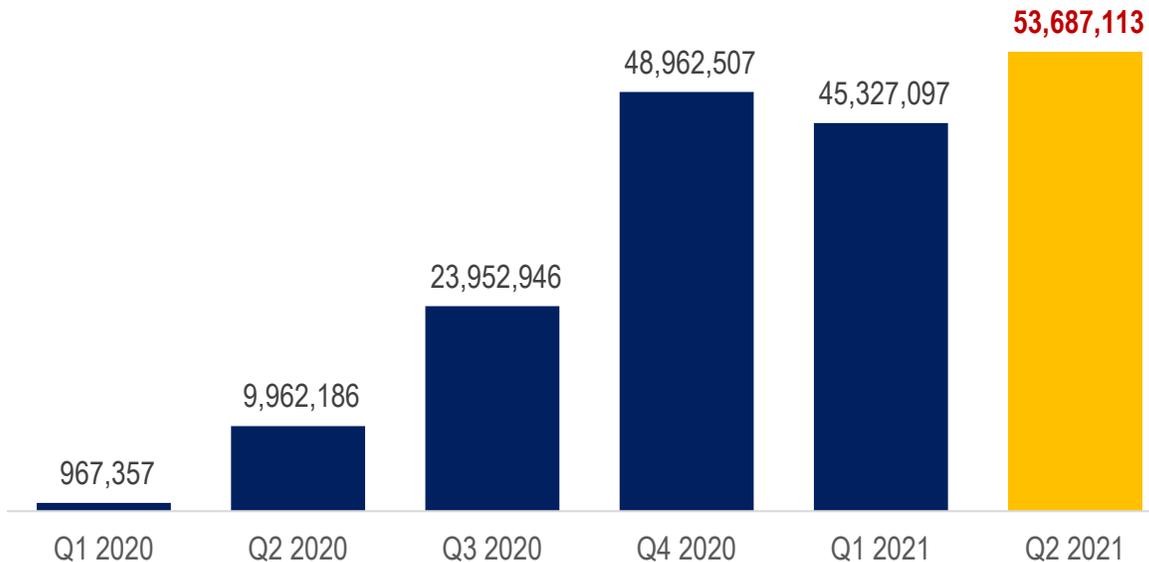
NATIONALISM



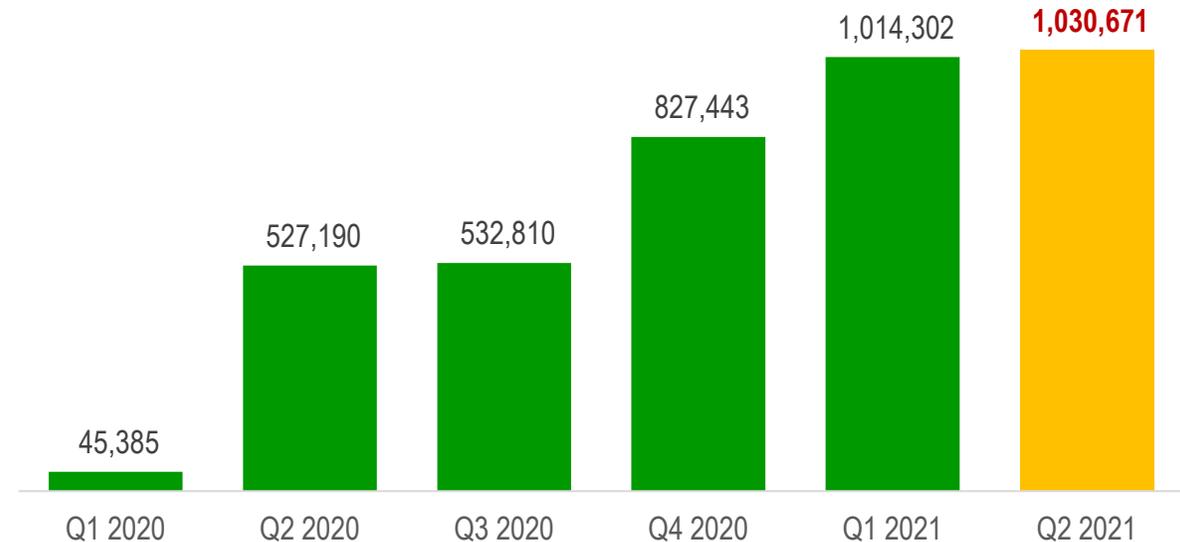
GEOPOLITICAL: GLOBALLY PANDEMIC GETTING WORSE

Contagious Variants + Limited Vaccinations = Record Cases & Deaths in Q2 '21

New Cases (Global)



Deaths (Global)



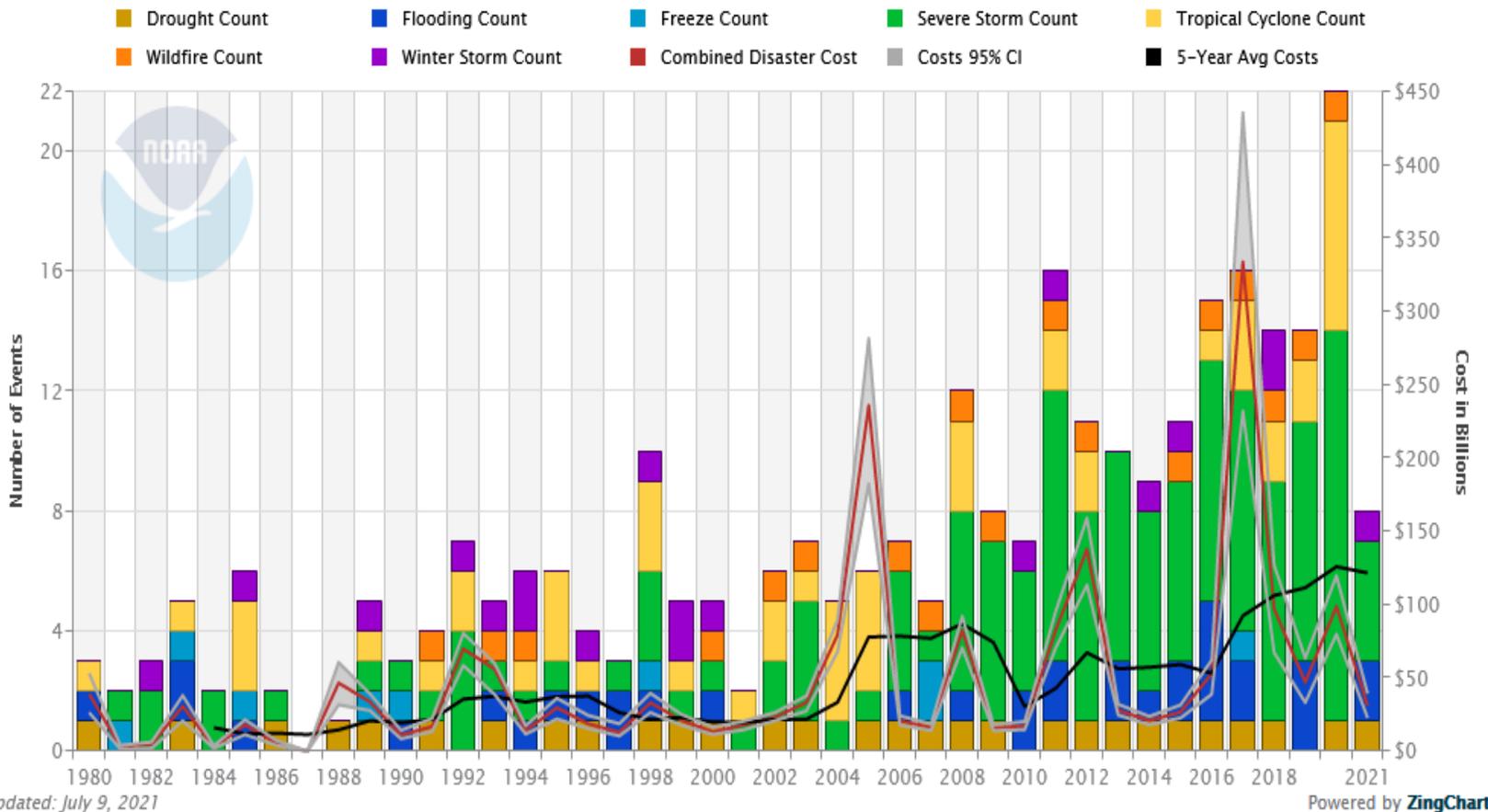
Previous Pandemics → Deadliest Years (not the 1st)

- 1889 pandemic → 1890
- 1918 pandemic → 1919
- 1957 influenza → 1960
- 1968 pandemic → '68 in US, '69 in EU
- 2009 influenza → 2010 outside US

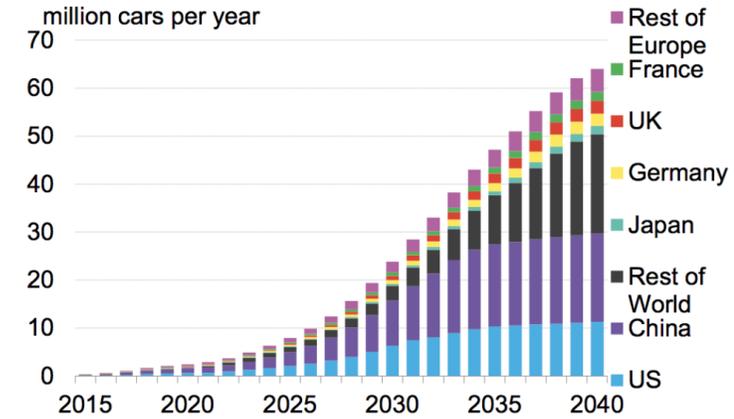
MARKETS: EXTREME WEATHER UPENDING INVESTMENTS

Rising Costs of Extreme Climate Events, Soaring Investments in Resilience

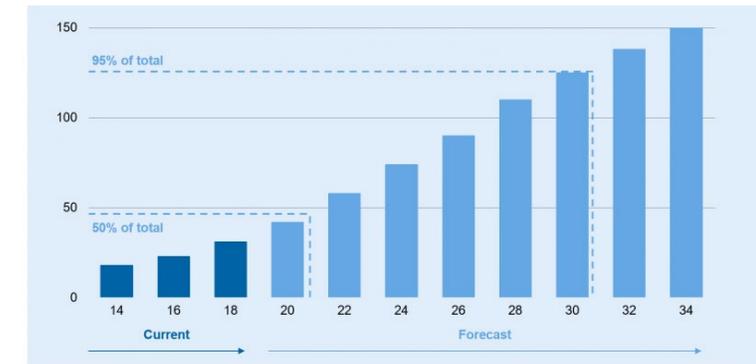
United States Billion-Dollar Disaster Events 1980-2021 (CPI-Adjusted)



EV sales



ESG Funds AUM



Source: Deutsche Bank, Global Sustainable Investment Alliance, zeb research

MEDIA: SUBSTACKIFICATION... NEWS KEEPS ATOMIZING

More Information, More Disinformation, Less Shared Reality



Old Gatekeepers

New Gatekeepers

No Gatekeepers

Local paper monopoly

Media web orgs, aggregators

Writers / podcasts you subscribe to

Big 3 Networks

Cable TV & Talk Radio

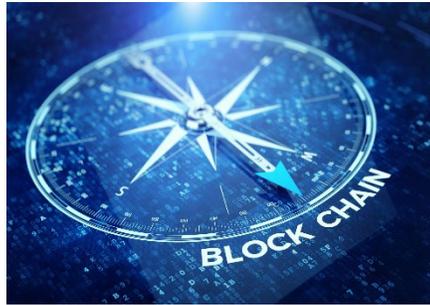
Stories your friends share

National papers / magazines

Punditry sites (Vox)

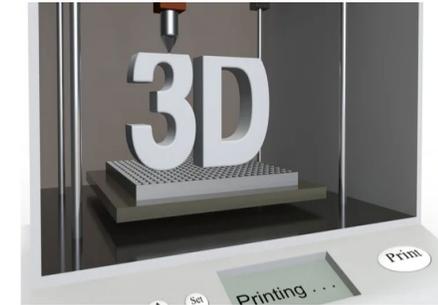
Influencers you pick to follow

TECH: DISRUPTIVE INNOVATION ACCELERATING



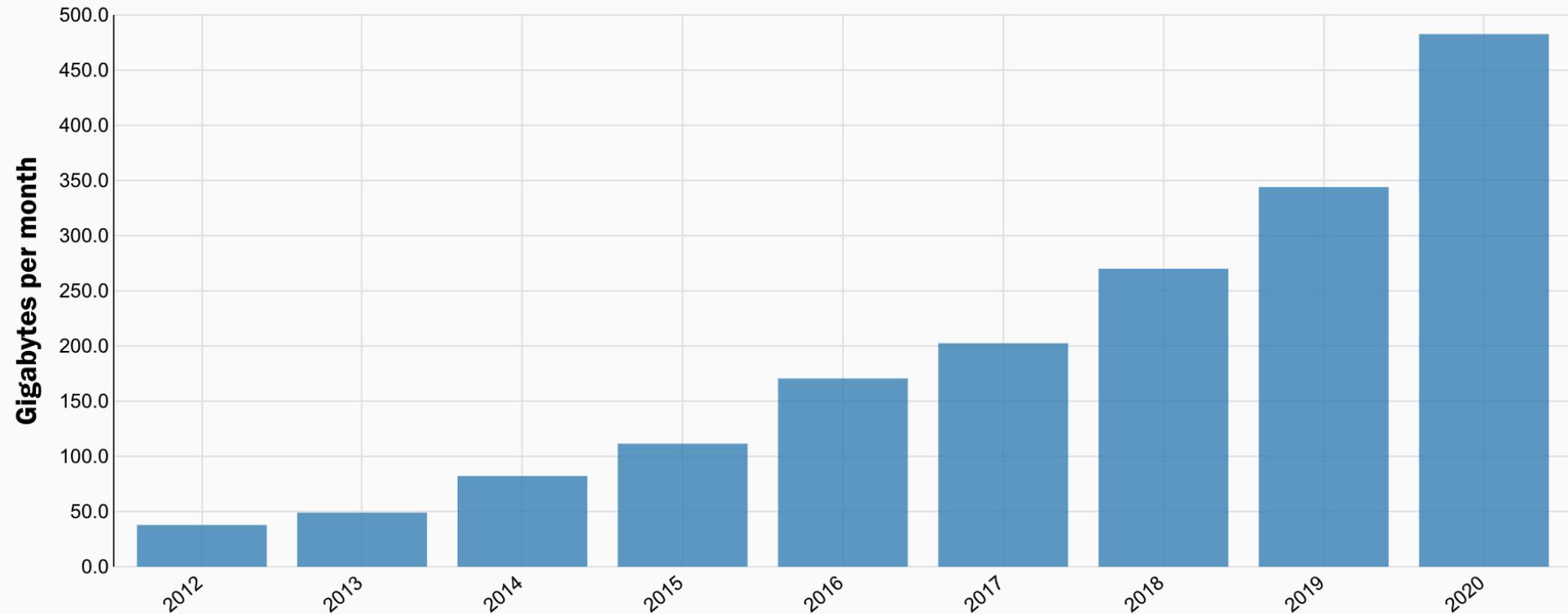
*“The **biggest innovations** rarely occur when everyone’s happy and safe, or when the future looks bright. They happen **when people are a little panicked**, worried, and when the consequences of not acting quickly are too painful to bear.”*

—Morgan Housel



Transformational & Essential... How to Make It Universal?

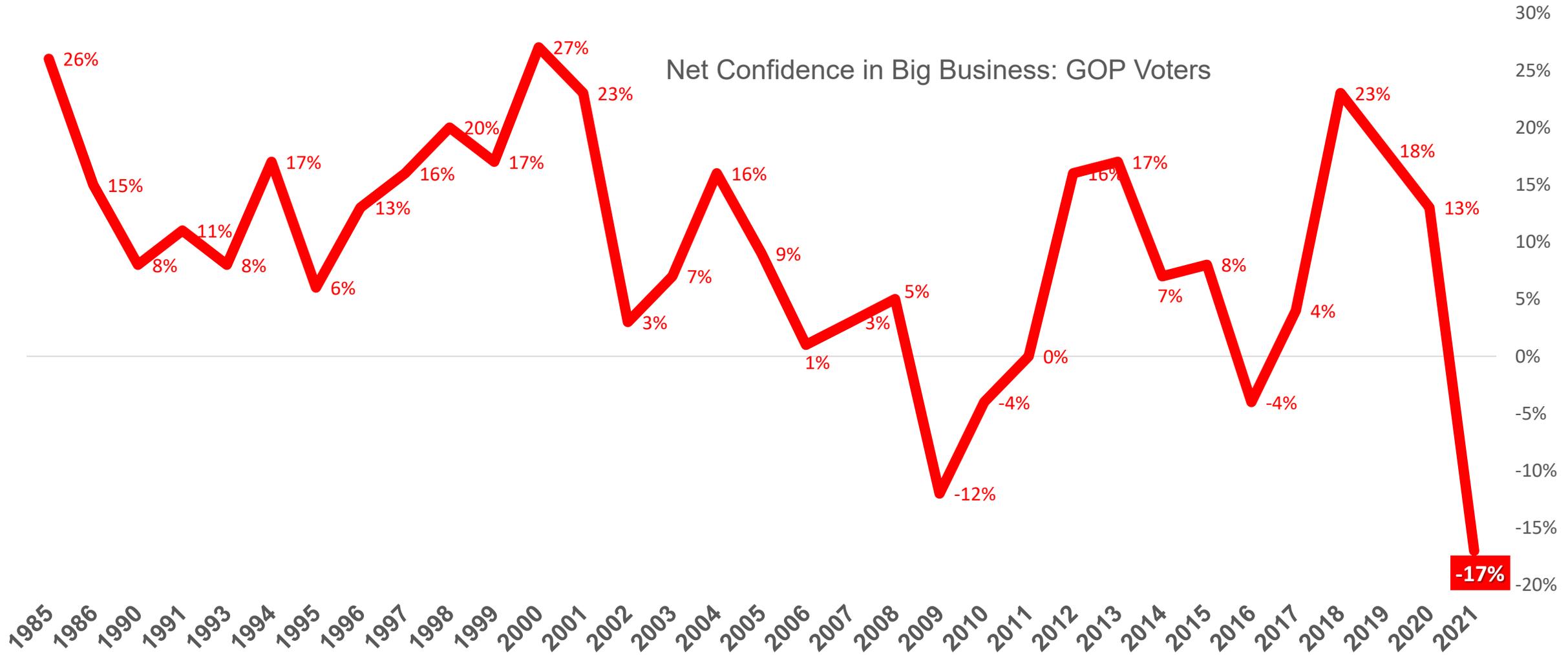
Average monthly broadband consumption per household



OpenVault Broadband Insights Report.

BROOKINGS

Republicans' Confidence in Big Business Wanes As Populism Rises



CULTURE: ACTIVISTS POSSESS NEW TOOLS, TARGETS & STRATEGIES

New Tools

Mobile & Weaponized Social Media

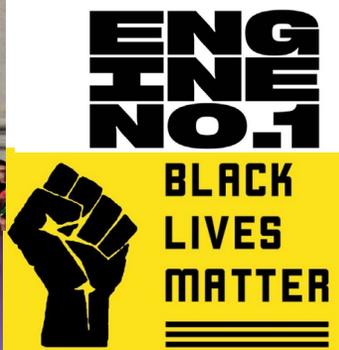


New Targets

Boards



New Vehicles for Activism



Brands



GROWING BACKLASH

Current Leaders, Policies & Institutions Under Attack

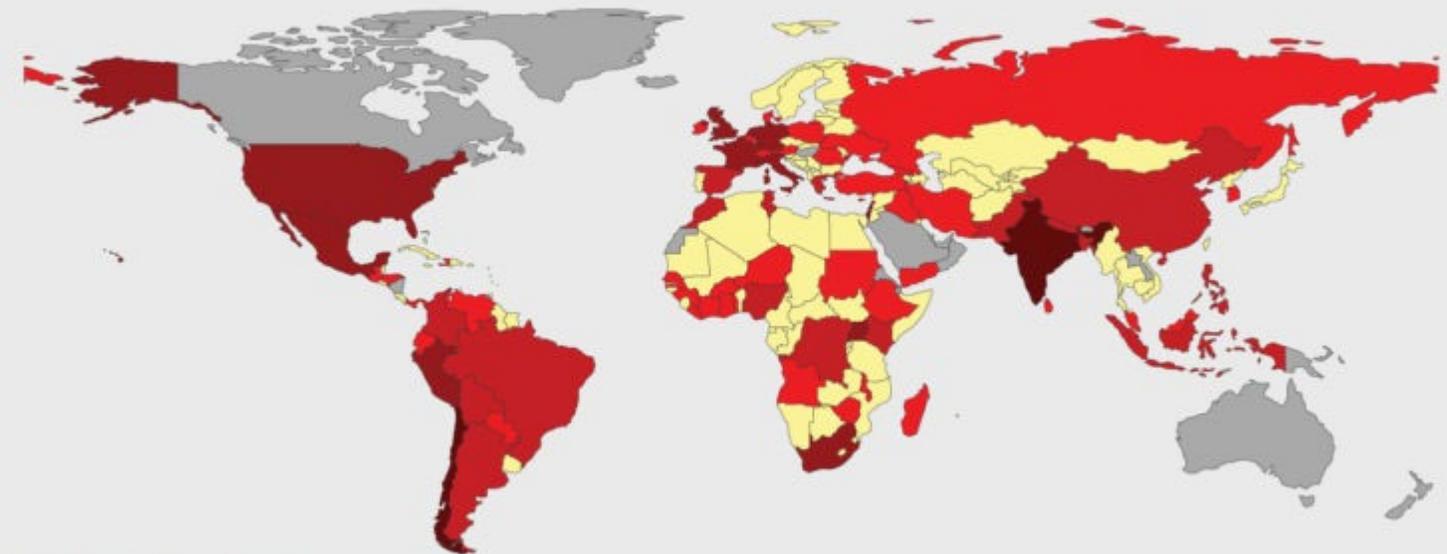
GEOPOLITICAL: RISING UNREST CHALLENGING GLOBAL LEADERS

There were **14,871** violent demonstrations, protests and riots in 2020, a **10% increase** over 2019.

DRIVING UNREST

- ❖ **COVID** / lockdowns, mask & vaccine mandates
- ❖ **Inflation** / food insecurity
- ❖ **Jobs** / economic recession
- ❖ **Politics** / fraud & corruption
- ❖ **Inequality** / health, work

Map of COVID-19 related violent incidents, January 2020 to April 2021



0 10 50 100 200 900 NO DATA

Source: ACLED COVID-19 Disorder Tracker (acleddata.com), IEP calculations

IEP

53 of the 57 epidemics between the Black Death in the 1300s & Spanish Flu of 1918 led to civic unrest & revolts.

GEOPOLITICAL: U.S.-CHINA “CONSTRUCTIVE ENGAGEMENT” IS OVER

More Competition, Less Collaboration, Business Stuck in Between



Export controls
Software origins
Critical materials



Data localization
Boycotts / Nat'lism
IP protection



Content liability
Privacy / Antitrust
Standard setting



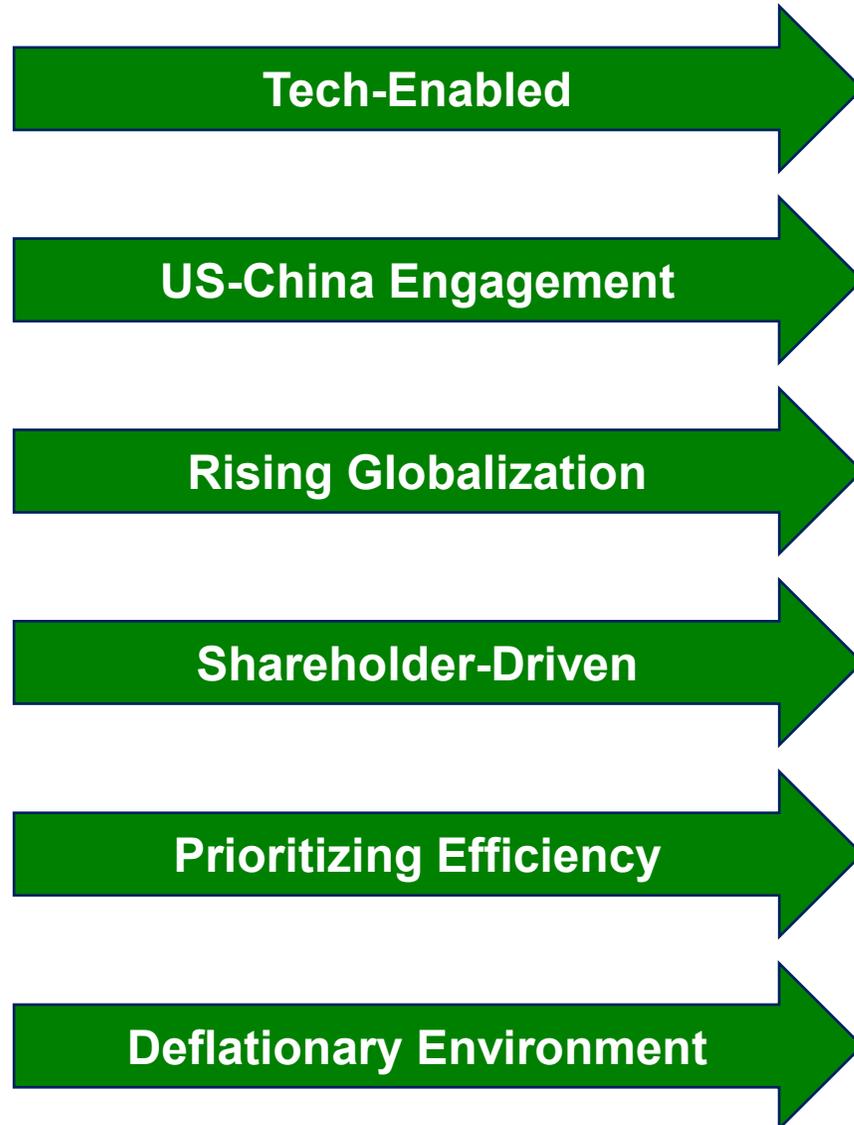
FDI / M&A / LPs
IPOs & Delisting
Reserve currency



Hacking / Crypto
Taiwan / TSMC
Law enf. access

MARKETS: SUPPLY CHAINS CONFRONTING NEW CONDITIONS

1989-2019: Tailwinds Prevailed

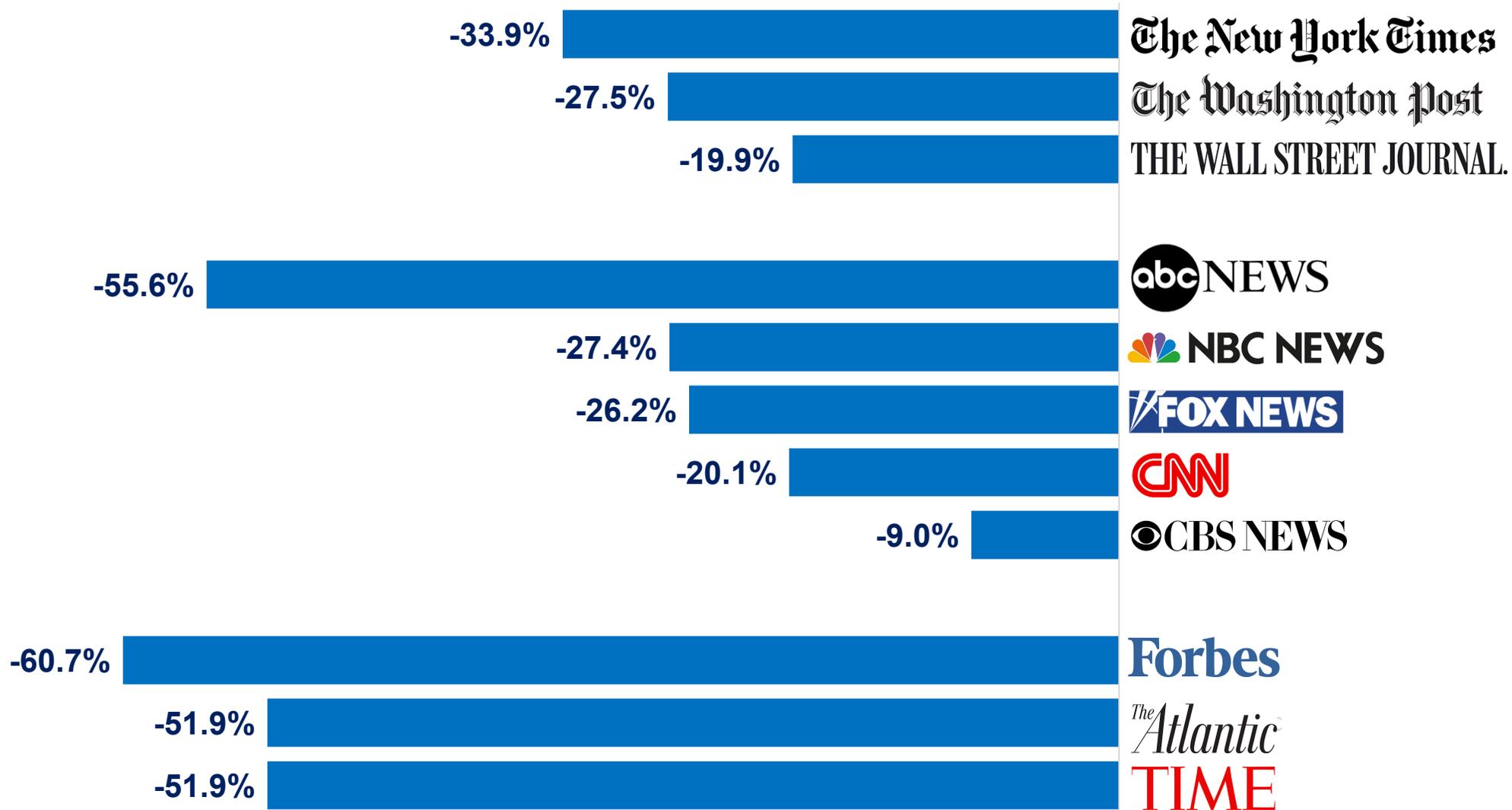


2020- : Headwinds Rising

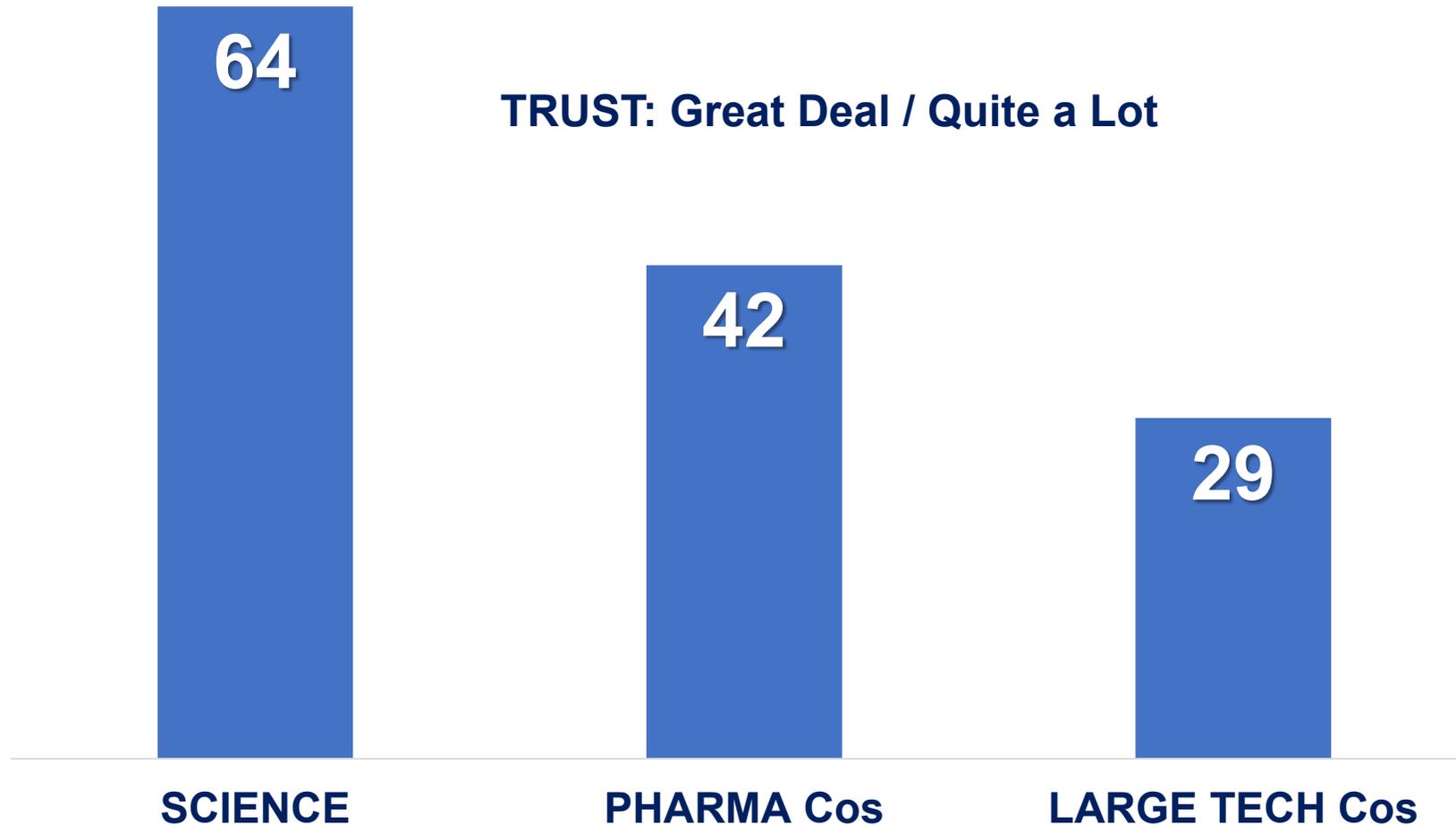


MEDIA: TIRED OF POLITICS, SICK OF COVID COVERAGE

Change in Traffic to Leading News Sites, June 2021 vs June 2020



We Trust Science More than Companies Creating or Leveraging It



Trending...



“Overall View of tech companies such as Amazon, Facebook & Google”

VERY NEGATIVE

2019

2021

10%

22%

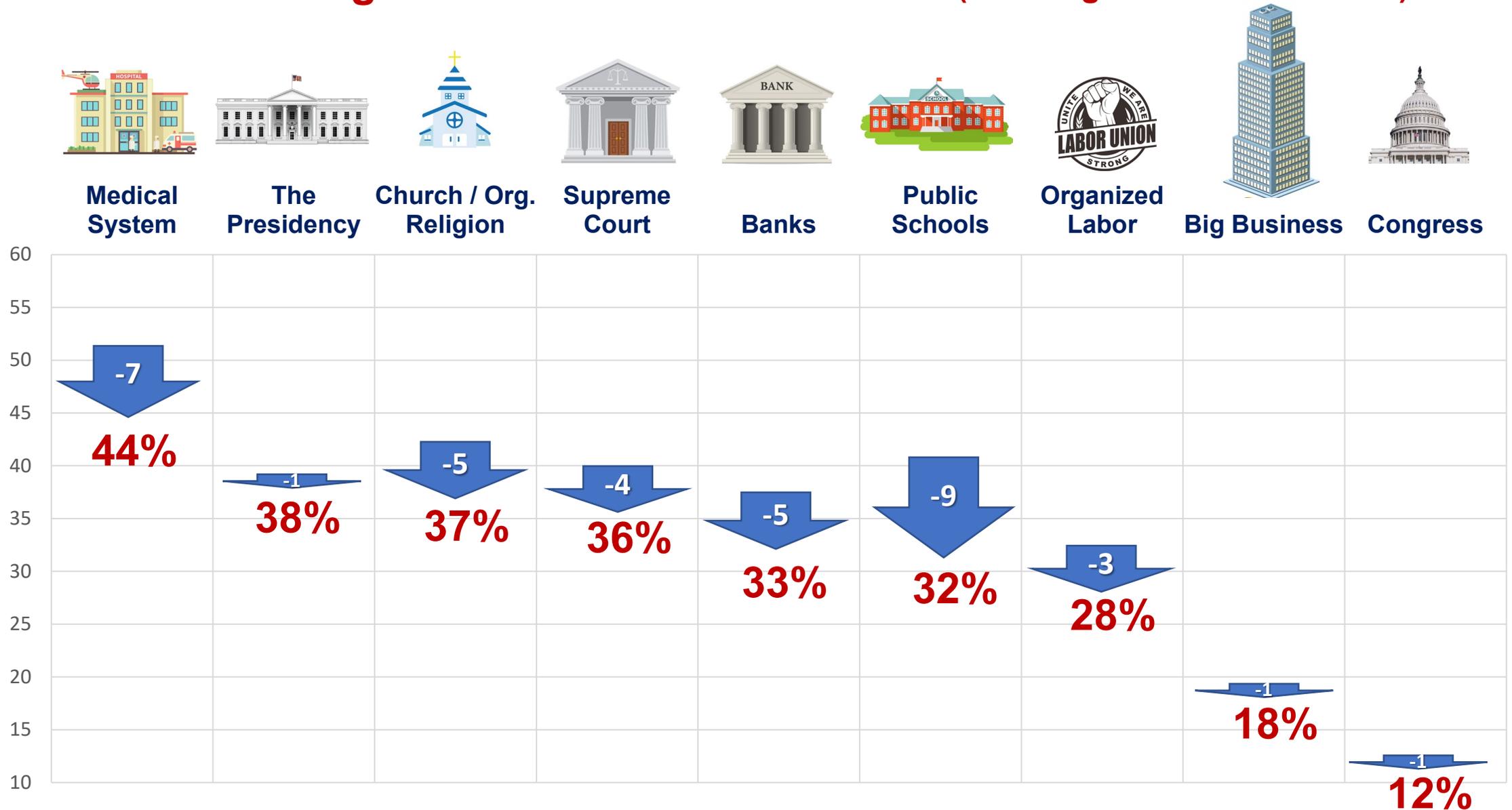
TECH: NATIONS REASSERTING GOVERNMENT PRIMACY

Different Regions, Similar Strategies: Limit Firms, Advance Technologies

	Protect Consumers & Social Order	Rebalance Economic Power, Reduce Inequality	Promote National Security & Geopolitical Power
	<ul style="list-style-type: none"> • Speech controls: block more and/or censor less • More consumer privacy 	<ul style="list-style-type: none"> ▪ Antitrust crackdown ▪ Cryptocurrency regulation ▪ Minimum global tax ▪ More gig worker rights 	<ul style="list-style-type: none"> ▪ Subsidize 5G & semiconductors ▪ Buy local, support champions ▪ Export/import controls ▪ Data localization
	<ul style="list-style-type: none"> • Speech controls • Limit undesirable content • Social credit scores 	<ul style="list-style-type: none"> ▪ Antitrust crackdown ▪ Cryptocurrency ban ▪ More gig worker rights 	<ul style="list-style-type: none"> ▪ Subsidize 5G & semiconductors ▪ Buy local, support champions ▪ Export/import controls ▪ Data localization & state access
	<ul style="list-style-type: none"> • Speech (DSA) & market behavior controls (DMA) • GDPR de facto global privacy standard 	<ul style="list-style-type: none"> ▪ Antitrust crackdown ▪ Digital services taxes ▪ Minimum global tax ▪ More gig worker rights 	<ul style="list-style-type: none"> ▪ Subsidize 5G & semiconductors ▪ Buy local, support champions ▪ Export/import controls ▪ Data localization

CULTURE: TRUST IN INSTITUTIONS RESUMING DECLINE

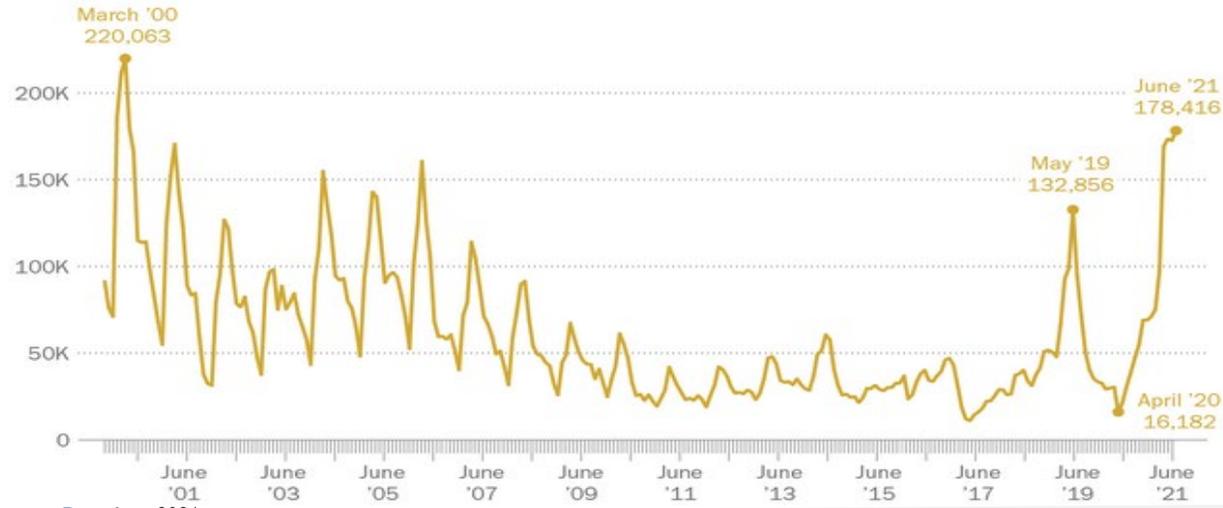
Percent Trusting “a Great Deal / Quite a Lot” (& Change in 2021 from 2020)



POLITICS: BIDEN HEADWINDS EMERGING

Border Crisis Growing

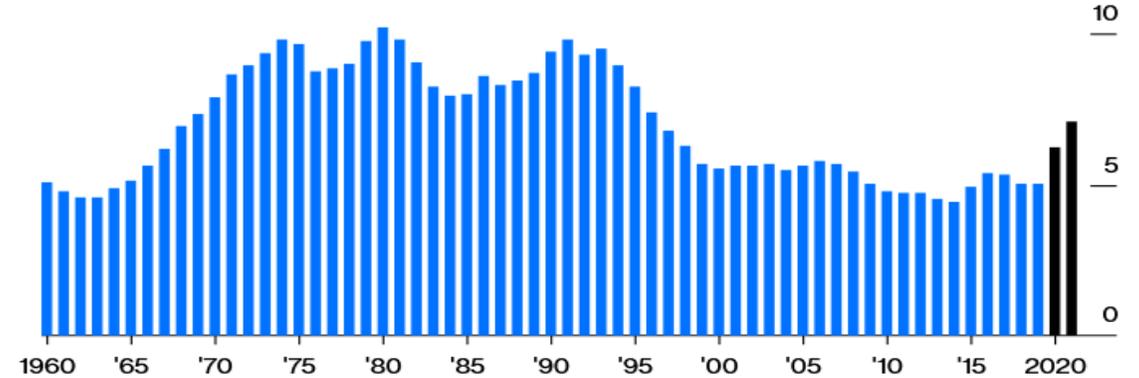
Migrant encounters at U.S.-Mexico border, by month



Source: [Pew](#), Aug. 2021

Murder Rate Climbing

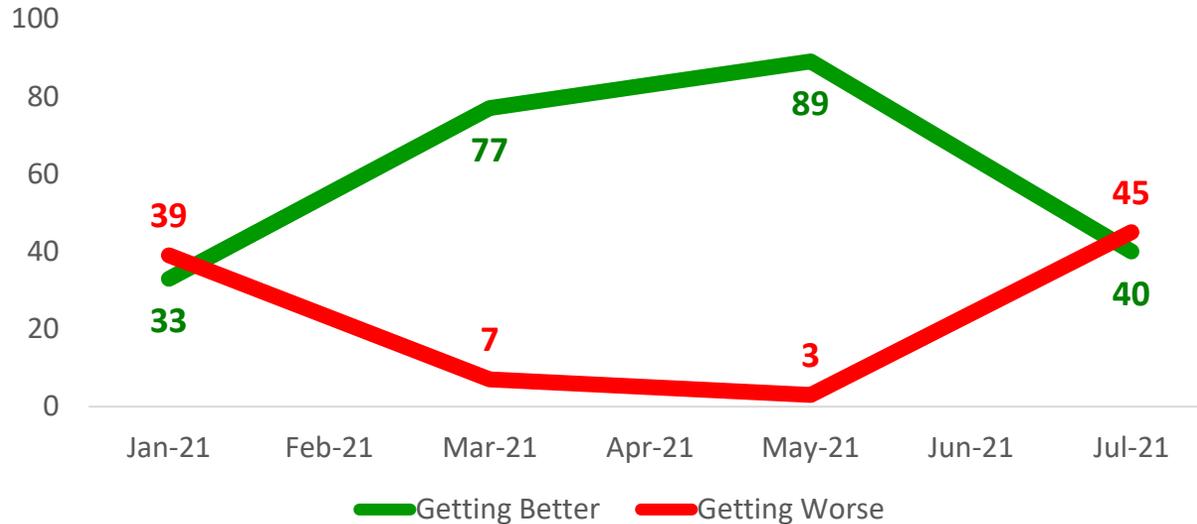
U.S. murders per 100,000 population*



Sources: Federal Bureau of Investigation; AH Datalytics
 *2020 based on preliminary FBI estimate of 25% increase over 2019; 2021 assumes 15% increase over 2020

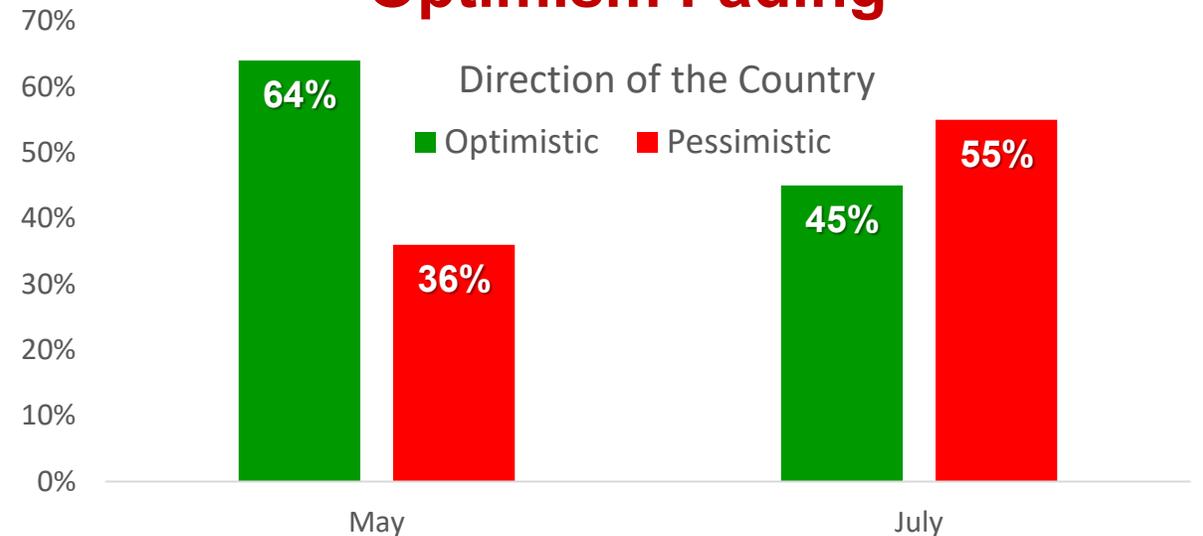
Source: [Bloomberg](#)

COVID Confidence Collapsing



Source: [Gallup](#)

Optimism Fading



MEHLMAN CASTAGNETTI
 ROSEN & THOMAS

Source: [ABC News / Ipsos](#), July 2021

KNOWN UNKNOWN

May Be Accelerating, May Be Rolling Back

IS RISING INFLATION LASTING OR A TEMPORARY SURGE?

Why Inflation May Be Transitory

DRIVING PRICES DOWN

COVID accelerating/Delta slowing global recovery

Stimulus ending (maybe)

Recessionary effects (still 5.7M **jobs** below last peak)

Technology (digital productivity, automation)

Supply chain corrections (eg lumber)

Massive government **debts**

Why Inflation May Keep Accelerating

PUSHING PRICES UP

Wage gains sticky & **labor markets** tight

Epic government **stimulus spending**

Historic consumer **savings**

Supply chain issues & rebuilding inventories

Tariffs & deglobalization

Fed's QE ∞

Money supply (**M2**) up 30% in 18 months

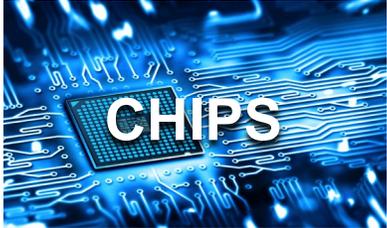
WILL DEBT & DEFICITS MATTER?

We're All Modern Monetary Theorists Now

Select Stimulus Bills & Tax Cuts	2020 Dollars	% US GDP
American Rescue Plan (2021)	\$1.90T	9.1%
<i>Bipartisan Infrastructure (2021)*</i>	\$550B	2.4%
<i>Ds' Reconciliation Bill (2021)*</i>	\$3.50T	15.4%
Phase 4 Covid Relief (2020)	\$900B	4.3%
CARES Act (2020)	\$2.02T	10.2%
Tax Cuts & Jobs Act (2017)	\$1.9-\$3.0T	
ARRA (2009)	\$1.03T	5.8%
Marshall Plan (1948)	\$154B	5.2%
New Deal (1930)	\$835B	12.6%

IS BIPARTISANSHIP “BACK” ... OR BROKEN?

Big Bipartisan Possibilities



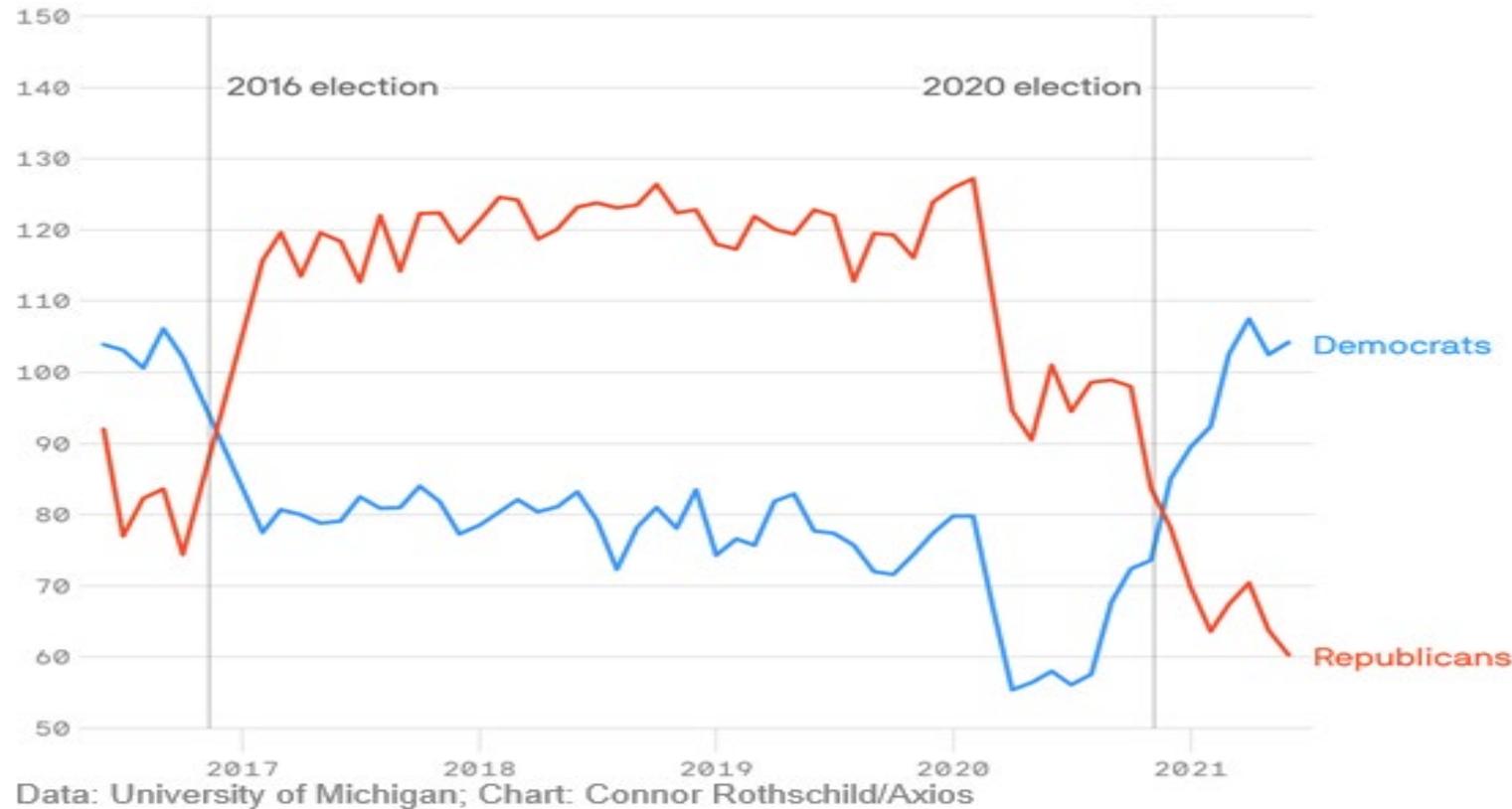
Major Bipartisan Senate Action, Past & Future, 2021	Vote Margin
COVID-19 Hate Crimes Act	94-1
US Innovation & Competition Act	68-32
Juneteenth National Independence Day Act	Unanimous consent
US Capitol Security Funding & Afghan Refugee relocation	98-0
Bipartisan Infrastructure Funding	69-30
National Defense Authorization Act	Expected
FY22 Appropriations	Expected
Increasing the Debt Ceiling	Fingers crossed

DOES POLLING ON THE ECONOMY TELL US ANYTHING?

“Consumer Sentiment” depends on which Party holds the White House

Consumer sentiment by political party

Higher index value equals more economic confidence; June 2016 to June 2021



WHAT ARE WE MISSING WHILE WE'RE WATCHING COVID?

YEAR

BIGGEST NEWS STORY

GREATEST LONG-TERM IMPACT

1994

GOP captures Congress



First Internet browser launched

2001

9/11 terrorist attacks



China joins the WTO

2007

Mortgage foreclosure crisis



The iPhone is born

2020

COVID-19 pandemic



?

For future slides: bruce@mc-dc.com

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<https://bit.ly/Mehlman-Infographics>