

KNOWN & UNKNOWN



Hunting Black Swans in the Age of Disruption

CONTENTS

HUNTING BLACK SWANS*

Underappreciated Political Possibilities in 2020

	<u>KNOWN</u>	<u>UNKNOWN</u>
CONGRESS	Impeachment Congress	Productive Congress?
ELECTIONS	Close Election	Tied Election?
TURNOUT	Turnout Tsunami	Who Benefits?
TRADE	China Trade War	EU Trade War?
MARKETS	Strong Economy	Fragile Economy?
PARTY LEADERS	GOP: Disruptor in Chief	DEM: 70+ White Male?
SCOTUS	Hot Button Issues	Vacancy?
TECH	Global Techlash	Breakup/Antitrust Suits?
GEOPOLITICS	Populism Rising	Multilateralism Falling?
NEW POWERS RISING	States Leading	CSR Showing Teeth?
PARTISANSHIP	Partisan Divide	Social Divides?
DISPUTED OUTCOMES	Disinformation Election	Who'll Referee?

* *Black Swan: /n/ an unpredictable or unforeseen event, typically with extreme consequences*

KNOWN: AN IMPEACHMENT CONGRESS

Overwhelmingly Party Line Vote in House; Same Expected in the Senate



UNKNOWN: A PRODUCTIVE CONGRESS?

What If Infrastructure Week Really Is Infrastructure Week? (Post-Impeachment Incentive to Get More Done)

MUST-DO
Foreign Intelligence Surveillance Act Authorities <i>(expire 3/15)</i>
Health Extenders <i>(expire 5/22)</i>
Government FY21 Funding <i>(or shutdown 9/30)</i>
Nat'l Flood Insurance program <i>(expires 9/30)</i>
Surface Transportation <i>(expires 9/30)</i>
National Defense Authorization Act <i>(expires 12/31)</i>
Water Resources Development Act <i>(expires 12/31)</i>

LIKELY
Confirm Federal Judges & Administration Nominees
USMCA (new NAFTA) ✓
5G Wireless bills
Election Security legislation



More Laws* Pass in 4 th Years					
Year	Clinton	W.Bush	Obama	Trump	
3 rd	80	161	96	114	
4 th	224	245	123	??	

*Not including Bills "to designate" (i.e. ceremonial). Source: National Journal

POSSIBLE
Huge Infrastructure bill <i>(Pres. Trump, Speaker Pelosi & swing state unions all want to invest trillions to fix U.S. infrastructure)</i>
Rx Drug Pricing bill
" Surprise " Medical Billing
Federal Privacy legislation
Cannabis Banking bill
Autonomous Vehicle bill
New Liability for Internet Platforms (amend §230)
Sanctions on Turkey; Russia; Iran; China; Venezuela
Anti-Money Laundering bill
New Tax bill <i>(extenders, technical fixes & cuts)</i>
Pipeline Safety Authorization <i>(expired 9/19)</i>

KNOWN: A CLOSE ELECTION

HOW TRUMP WINS



1. MAKE IT A CHOICE:

- If **Biden**: Agent of Change vs. Establishment Insider
- If **Sanders/Warren**: Capitalism vs. Socialism
- If **Buttigieg/Bloomberg**: Populists vs. Elitists

2. HIGHLIGHT THE ECONOMY:

- **52%** economy job approval (end 3rd year) > HW Bush (31%), Clinton (42%), W Bush (50%) & Obama (40%)
- **80%** say 2020 will be better for their families

3. RALLY THE BASE:

- Hold **89%** GOP approval via “promises kept” re taxes, NAFTA, China, judges, guns, dereg. & immigration
- Run superior digital campaign via 
- Dominate discussion, dictate narrative via 

4. RUN SMARTER:

- Raise more \$\$; Spend early to define Dem nominee
- Focus on Electoral College; 2016 non-voters
- Provoke the Woke... politically-correct overreactions from media & left-wing

HOW A DEM WINS

1. MAKE IT A REFERENDUM:

- Avoid culture wars & class wars... make it all about Trump, the **only President to never reach 50% job approval** at any point (Gallup)
- Underwater in MI -15, WI -10, PA -6, AZ -3, GA -2

2. TAILOR MESSAGING:

- Win back swing voters via macro-message (Restore Decency, Dignity & Stability)
- Turn out base via micro-messaging (Climate, Guns, Civil Rights, Immigration, Inequality, Health Care, etc.)

3. RALLY THE RESISTANCE:

- Trump net-disapproved by women (-24%), African Americans (-70%), Latinos (-36%), White college grads (-20%) & youth (-28%) (WSJ/NBC)

4. RUN SMARTER:

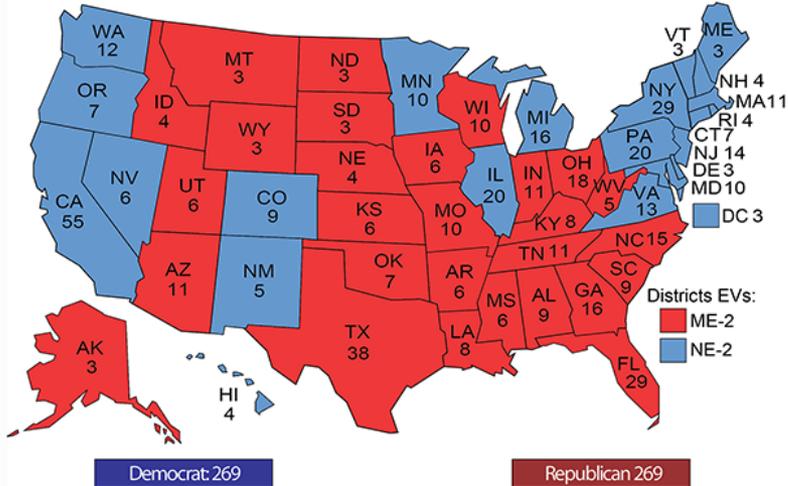
- Double Trump's spending (Bloomberg's billions)
- Resist the “condescension of the elite” (e.g. “deplorables”... don't take Trump's bait)

UNKNOWN: A TIED ELECTION?

269-269 TIED ELECTORAL COLLEGE

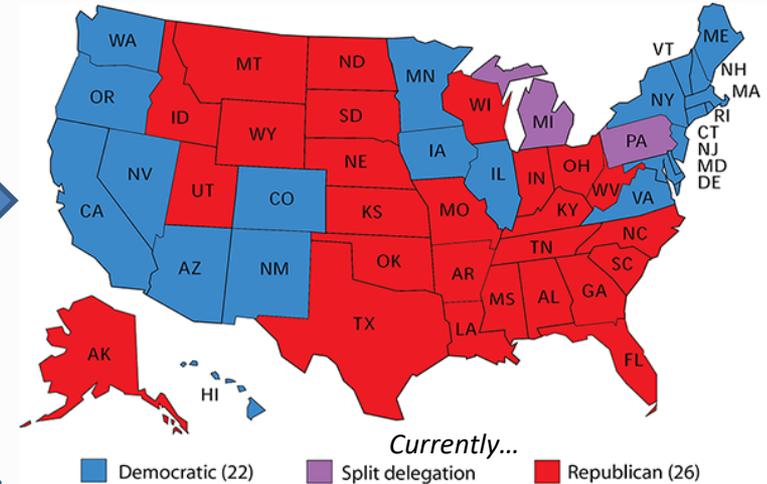
(64 Tie Combos, e.g. Dems flip PA, MI & ME-2 from 2016)

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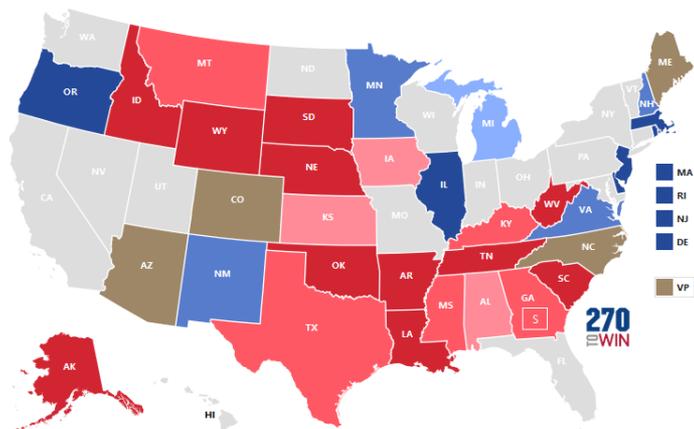
NEITHER PARTY HAS 26 DELEGATIONS

IN NEW HOUSE (Net 1 change from 2020)



SENATE TIED 50-50, CANNOT DECIDE

(GOP defending 4 toss-ups, D's 1 lean-R in 2020)



SPEAKER OF THE HOUSE NEXT IN LINE...

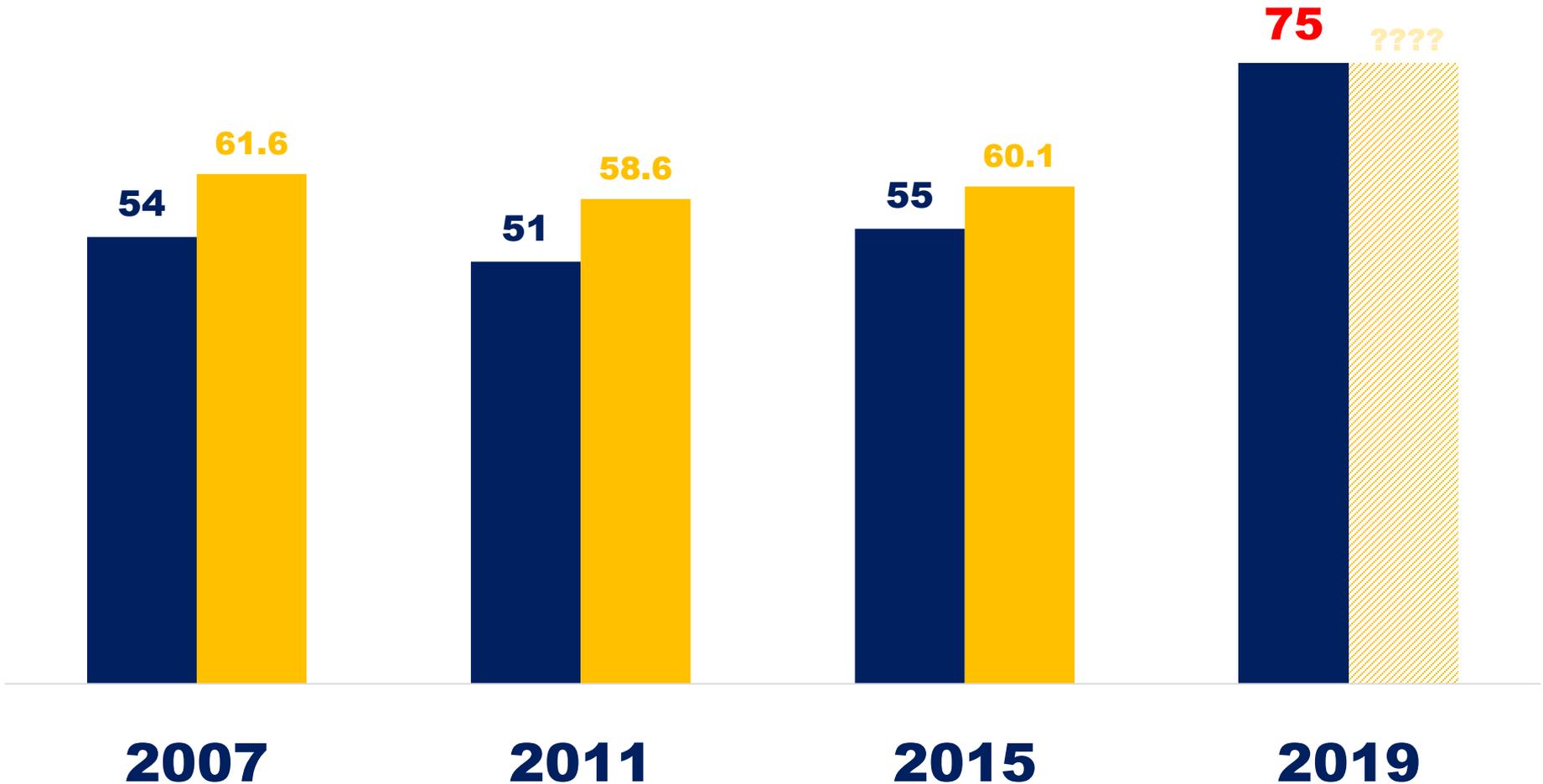
President Pelosi??



KNOWN: A TURNOUT TSUNAMI

Highest “Extremely Enthusiastic” to Vote Ever Recorded by 

■ Extremely / Very Enthusiastic about voting next year ■ Final Election Turnout



UNKNOWN: WHO BENEFITS FROM HIGHER TURNOUT?

Eligible Citizens Who Didn't Vote in 2016

State/2016	Non-College White	College White	Non-White
MI	1,563,809	412,191	643,000
MN	786,284	210,716	259,000
NH	220,282	68,924	24,795
PA	2,289,875	603,125	695,000
WI	819,356	160,644	306,000
AZ	683,831	228,169	904,000
FL	2,565,664	719,336	2,565,000
GA	1,171,614	327,386	1,303,000
NC	1,105,431	320,569	834,000
TX	2,665,119	812,881	4,274,000

Trump Opportunities: Rust Belt

Democratic Opportunities: Sun Belt

KNOWN: US-CHINA TRADE WAR IS HERE

Despite U.S.-China Phase One Deal, Tensions Will Grow Driven By...

New U.S. Export Controls, Tougher CFIUS & ICT Supply Chain Regulations



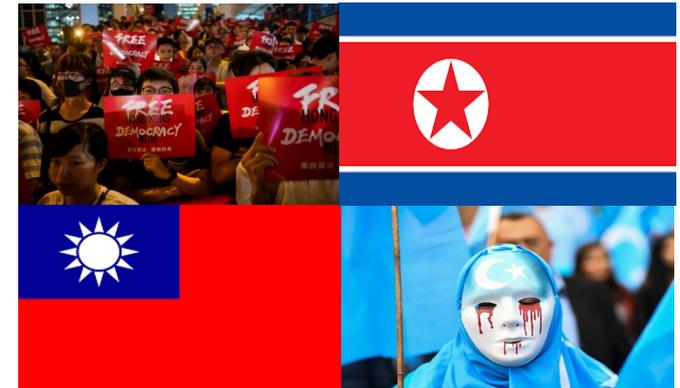
Made in China 2025 Campaign & Competing National Champions



Many Frictions Remain



Human Rights & Regional Risks



UNKNOWN: IS A US-EU TRADE WAR UNAVOIDABLE?



vs.



REGULATION



U.S. Demands no Huawei in EU 5G networks

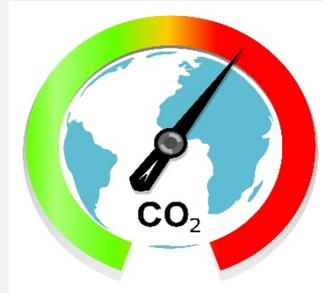


EU Drive for "Technological Sovereignty" risks new rules on AI, Cloud, etc.

TAX



Digital Services Taxes / ~\$2B U.S. Retaliation (France, Italy, Austria, Norway?)



EU Climate Change Tariffs threatened

TRADE



U.S. tariffing EU steel & aluminum



U.S. Auto Tariffs threatened

SUBSIDIES

AIRBUS

U.S. retaliation vs. illegal EU subsidies



Fights Over Iran Sanctions, NATO Dues & WTO Rules

KNOWN: ECONOMIC GROWTH HAS BEEN STRONG



80%

of families believe their lives will improve in 2020

Lowest "Misery Index" since the 1950s

Highest Homebuilder Optimism since June 1999

Highest Consumer Sentiment in Year-Before-Reelect Since 1963

WE'RE HIRING!

3.9%

Lowest Unemployment (avg rate) in first 35 months for any President

President	First 35 Months	Avg Unemployment Rate (%)
Eisenhower	Feb. 1953- Dec. 1955	4.3
JFK*	Feb. 1961-Nov. 1963	6.2
LBJ	Dec. 1963- Oct. 1966	4.6
Nixon	Feb. 1969-Dec. 1971	4.8
Carter	Feb. 1977-Dec. 1979	6.3
Reagan	Feb. 1981-Dec. 1983	9
Bush I	Feb. 1989-Dec. 1991	5.9
Clinton	Feb. 1993 - Dec. 1995	6.2
Bush II	Feb. 2001-Dec. 2007	5.5
Obama	Feb. 2009-Dec. 2011	9.3
Trump	Feb. 2017-Dec. 2019	3.9

*Assassination occurred after 34 months

Fastest Wage Growth for lowest-earning 25% since Jan. 2008



117

New All-Time Highs for the DJIA in Trump's first three years

13 year-high predicted for new home sales in 2020

VC investment hit \$136.5B in 2019, second-most ever (behind 2018's \$140B)

UNKNOWN: HOW FRAGILE IS THE ECONOMY?

Economy Propped-Up by Ongoing & Extraordinary Stimulus:

- **3 Fed Rate Cuts** in 2019
- **\$1.02 Trillion** in deficit spending in 2019
- **\$300B** in Fed asset purchases (QE4) since Sept. 2019
- **Highest farm subsidies** in 14 years (\$22.4B)



ISM Manufacturing Index at 10-Year Low

(Readings below 50 = Recession)

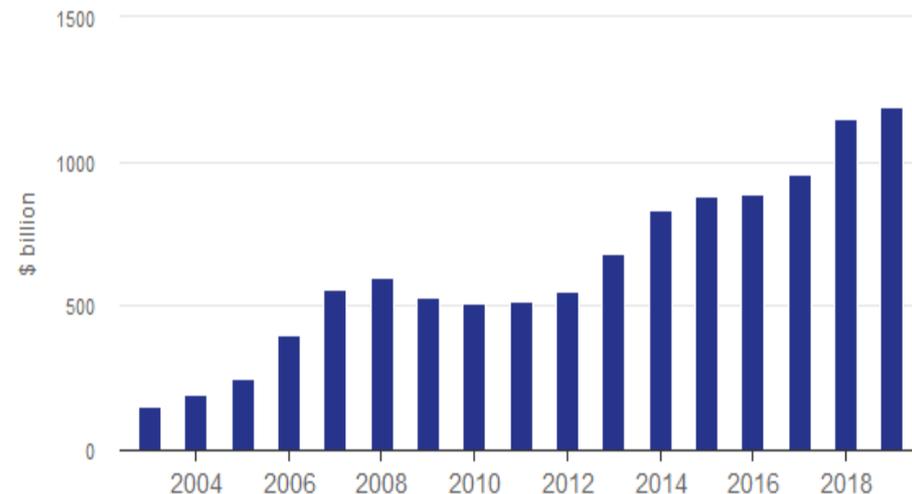
Reading above 50 indicates expansion in manufacturing activity



Source: Institute for Supply Management via FRED

Over \$1T in Leveraged Loans Outstanding

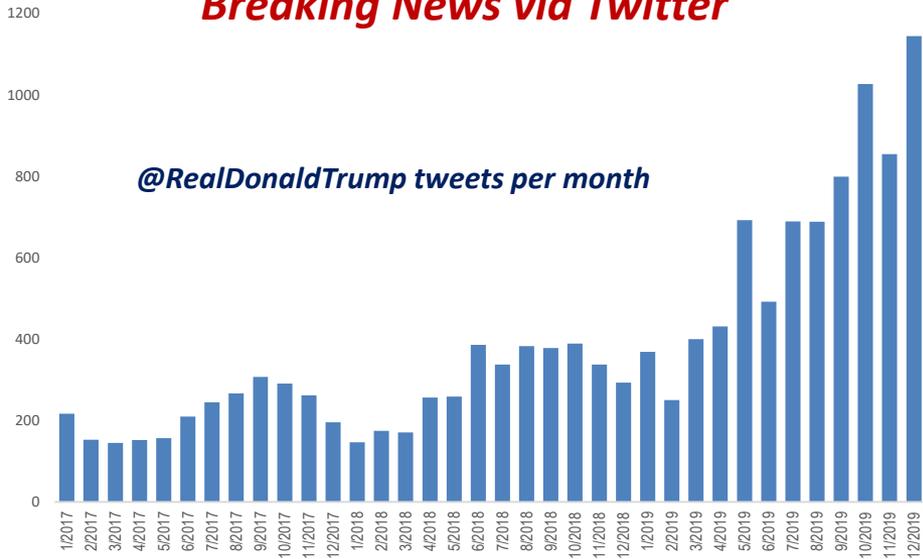
(Search for higher yield spreads higher risks)



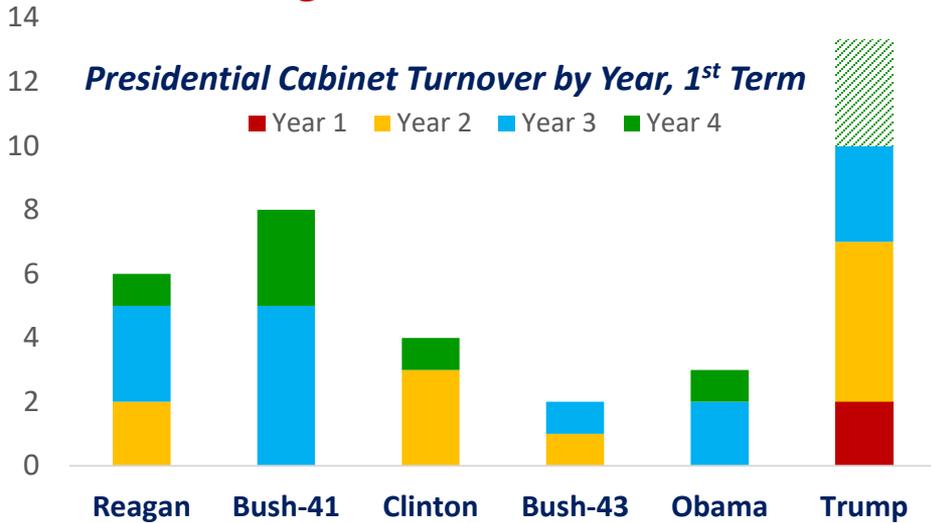
LCD

KNOWN: GOP LED BY THE DISRUPTOR IN CHIEF

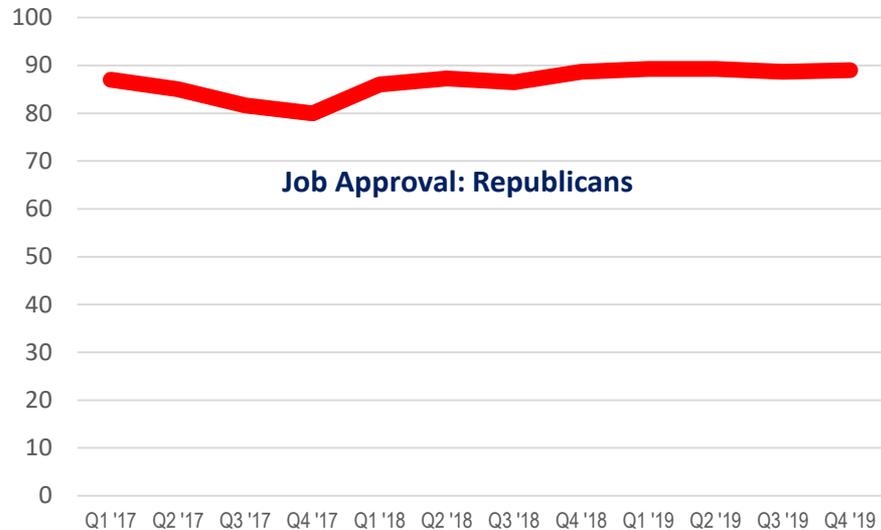
Breaking News via Twitter



High Cabinet Turnover



Unshakable GOP Support



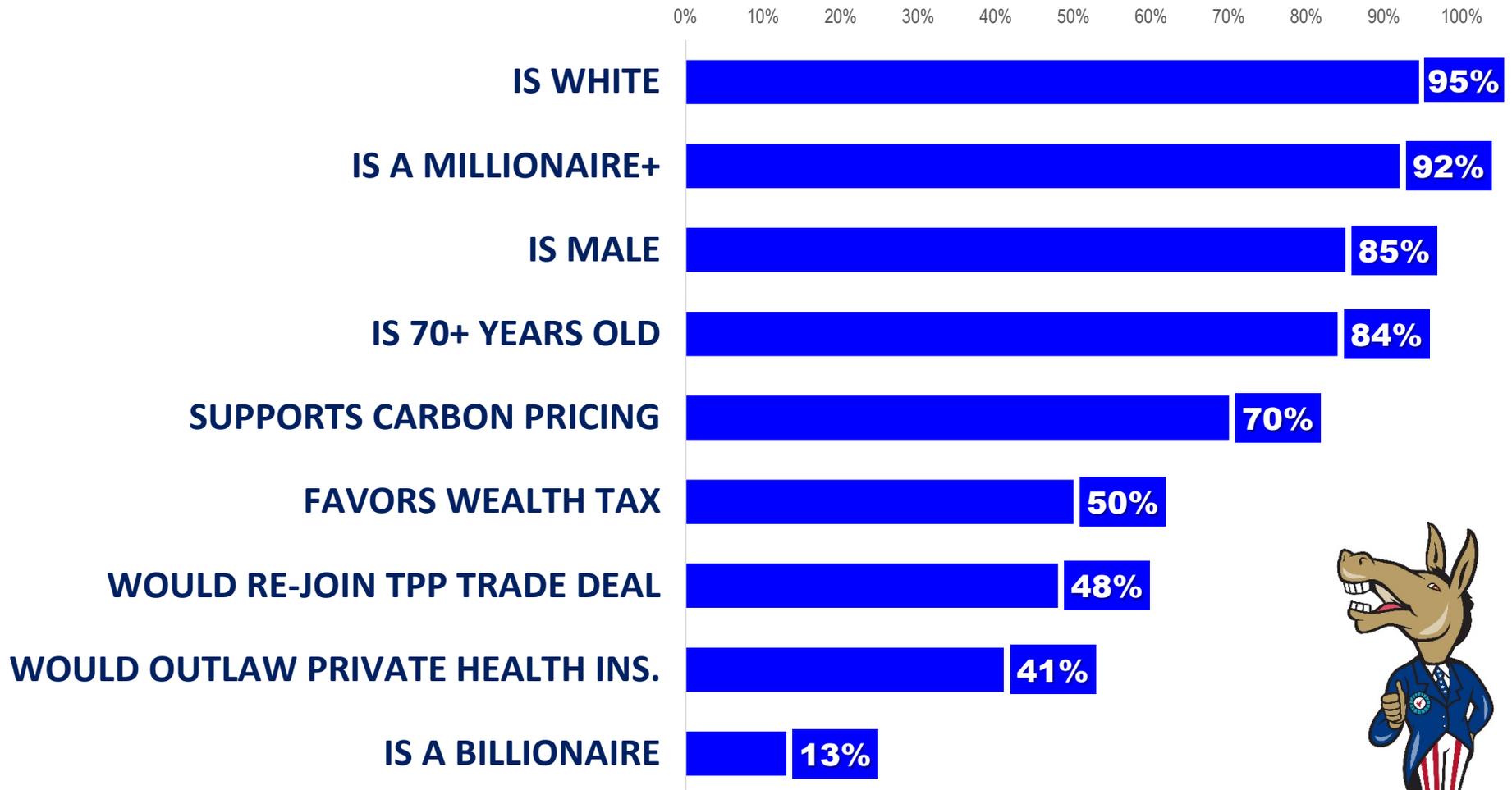
Intentional Political Incorrectness



UNKNOWN: WHO WILL LEAD THE DEMOCRATS?

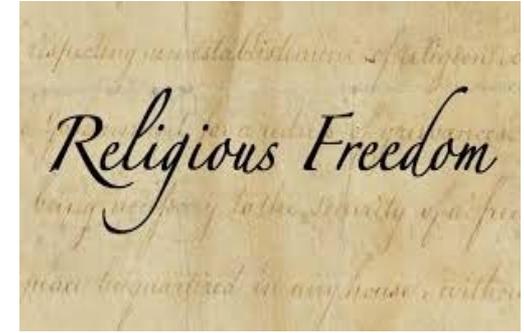
What the Betting Markets Say About the Likely Democratic Nominee

Odds Dem Nominee is:



KNOWN: SUPREME COURT FACING HOT BUTTON ISSUES 2019-2020

Culture War's "Greatest Hits" are on the 2020 Docket



UNKNOWN: A SUPREME COURT VACANCY?

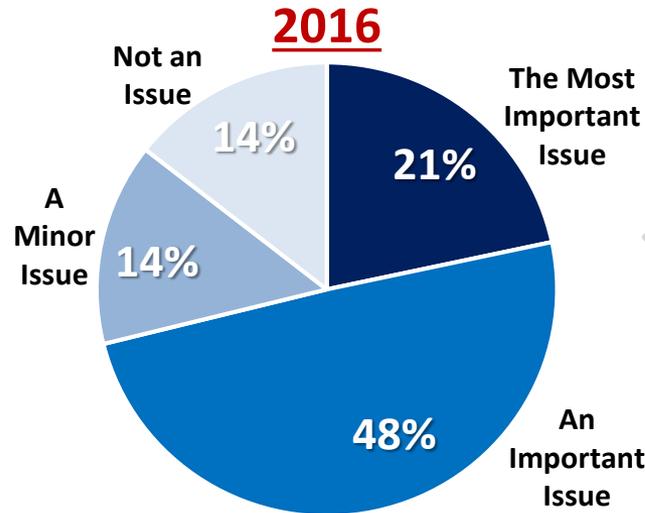
Current Justices Older Than / Near Recent Average Departure Age (80.4)

Age of Justices Upon Retirement or Death Since 1990

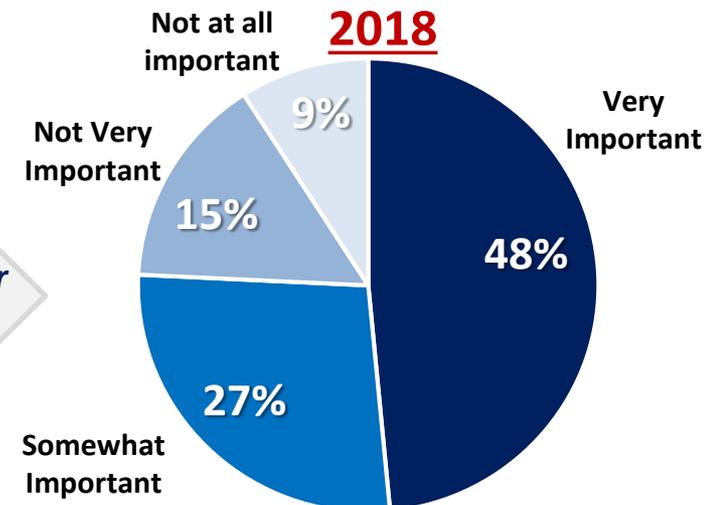
Stevens	90
Ginsburg	86
Blackmun	85
Brennan	84
Marshall	83
Kennedy	82
Rehnquist*	81
Breyer	81
Modern Avg. 80.4	
Scalia*	79
White	76
O'Connor	75
Thomas	71
Souter	69
Alito	69

* Died while in office

Voters Are Highly Motivated by the Supreme Court



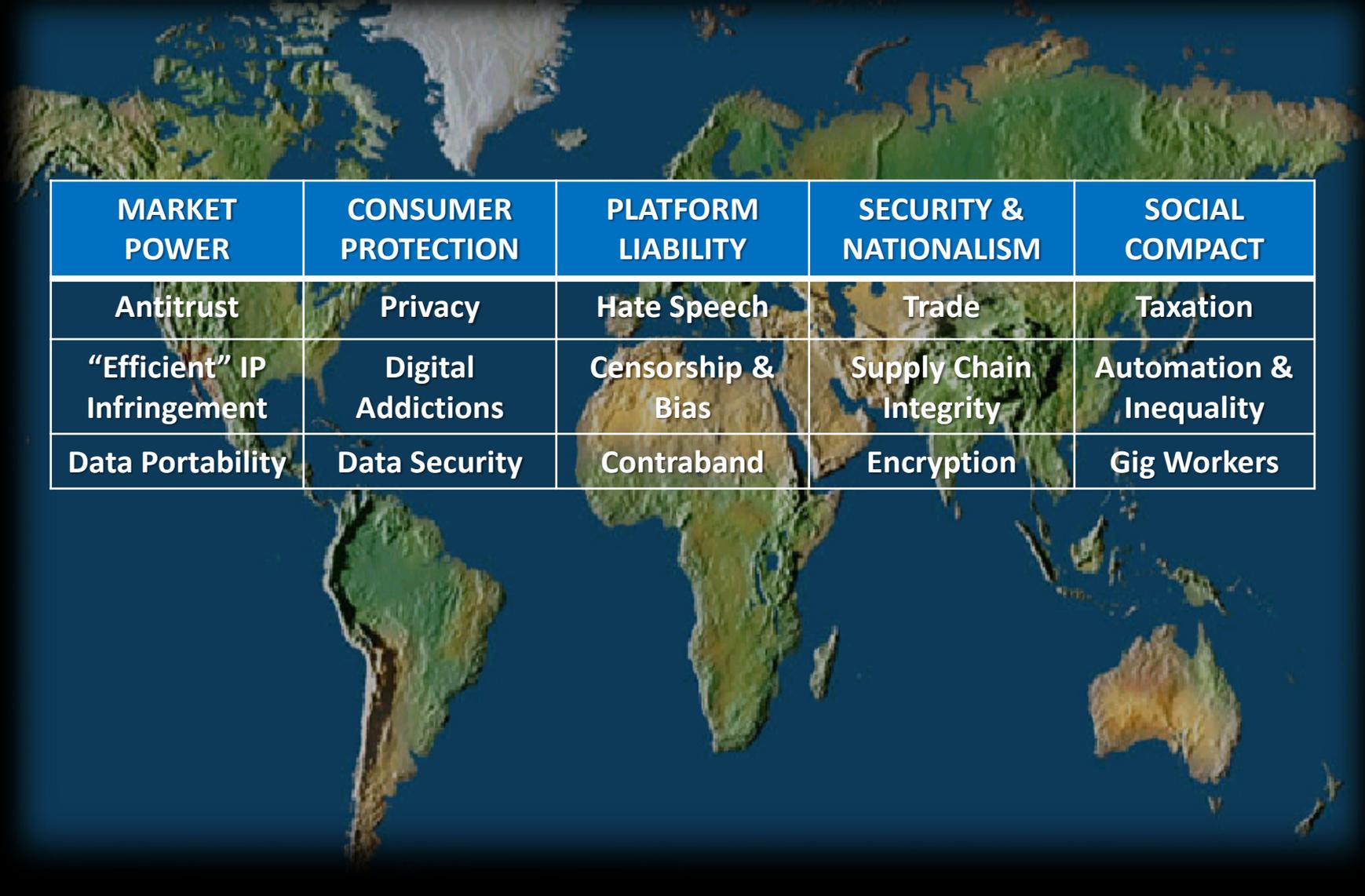
2016 Exit Poll asked:
In your vote, were Supreme Court appointments...



2018 Exit Poll asked:
Importance of the debate over Kavanaugh's confirmation to your vote...

KNOWN: GLOBAL TECHLASH ACCELERATING

Growing Global Policy Challenges:

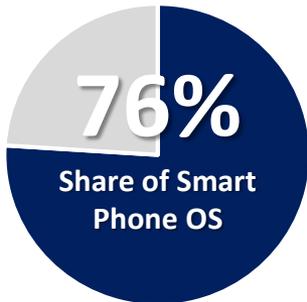


MARKET POWER	CONSUMER PROTECTION	PLATFORM LIABILITY	SECURITY & NATIONALISM	SOCIAL COMPACT
Antitrust	Privacy	Hate Speech	Trade	Taxation
“Efficient” IP Infringement	Digital Addictions	Censorship & Bias	Supply Chain Integrity	Automation & Inequality
Data Portability	Data Security	Contraband	Encryption	Gig Workers

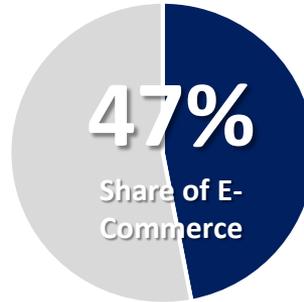
UNKNOWN: ARE ANTITRUST SUITS COMING?

Platforms accused of abusing dominance, competing unfairly

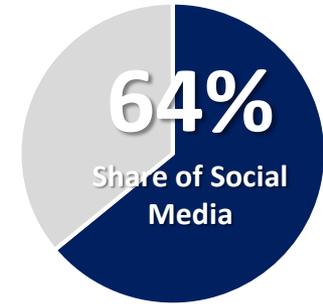
U.S. vs.
Google



U.S. vs.
amazon



U.S. vs.
facebook

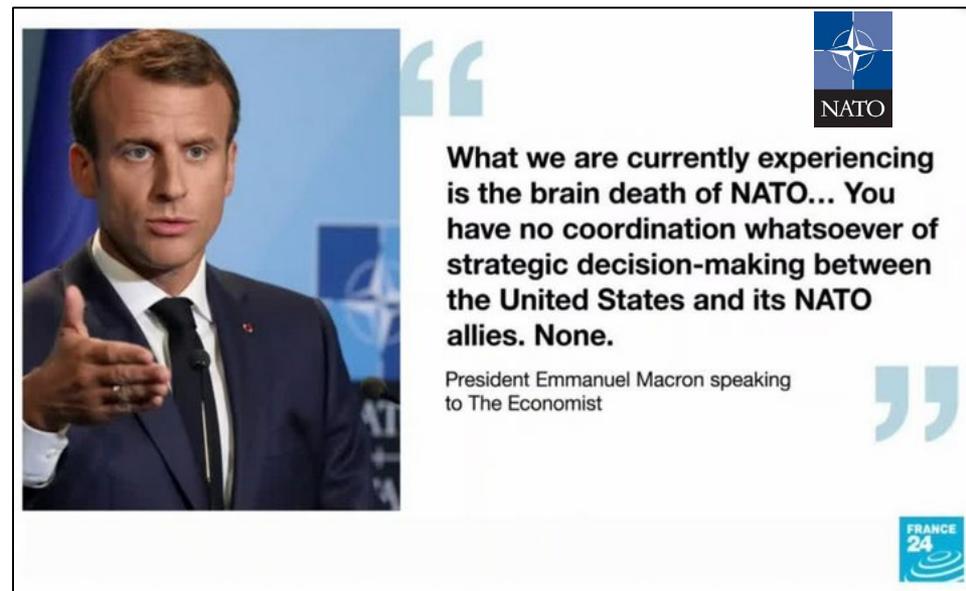


Antitrust investigations by:	GOOG	AMZN	FB
State attorneys general	✓		✓
US Dept. of Justice	✓	✓	✓
Federal Trade Commission	✓	✓	✓
House Judiciary Committee	✓	✓	✓
European Union	✓	✓	✓

KNOWN: POPULISM IS RISING

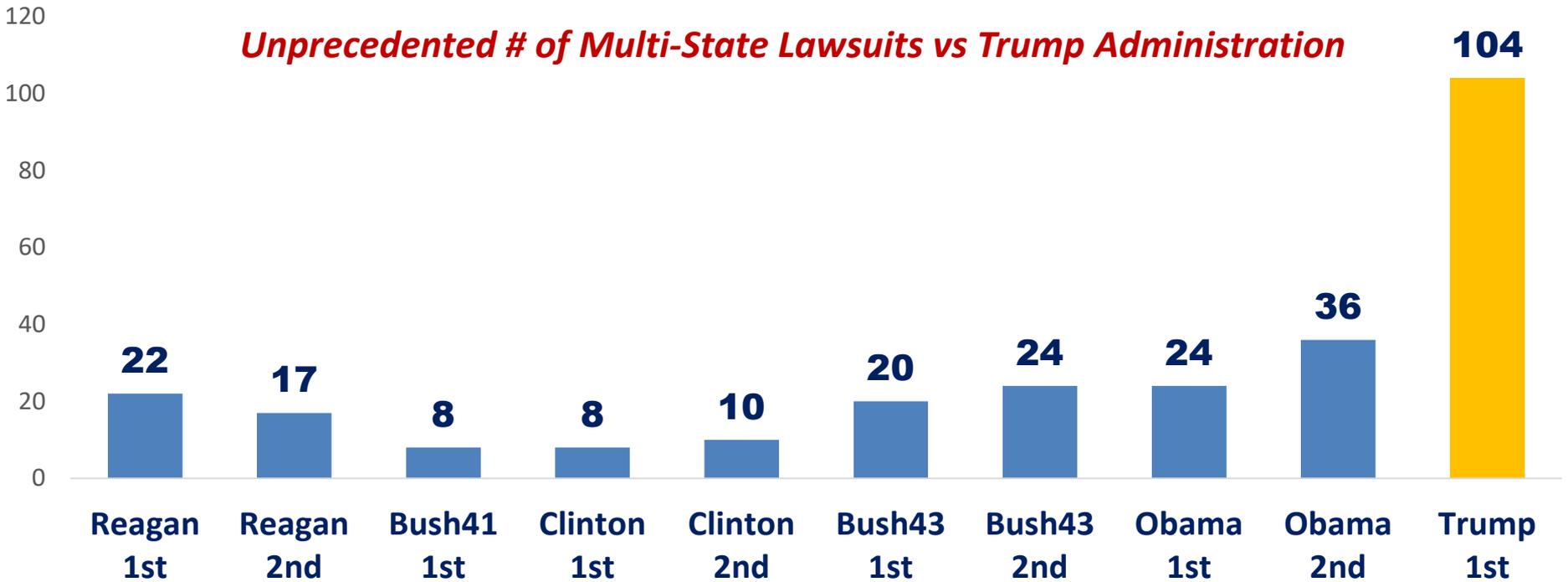


UNKNOWN: IS MULTILATERALISM FAILING?



KNOWN: STATES ARE NOT WAITING FOR WASHINGTON

Unprecedented # of Multi-State Lawsuits vs Trump Administration



Nearly 20 states considering new **data privacy** laws, while CA's law takes effect

...And California Shall Lead Them

NY, NJ, IL considering laws like CA's AB-5 to **limit gig economy** work (so far)



UNKNOWN: IS "WOKE CAPITALISM" RISING?

Growing Denial of Business Services for Ideological Reasons

De-Platforming (kicking off the Internet)



De-Banking (restricting partners)



De-Investing (no \$\$\$ for coal co's)



De-Fleece-ing (no branded vests for WS)



De-Sponsoring (cutting ads for TV hosts)



De-Discounting (no affinity deals)

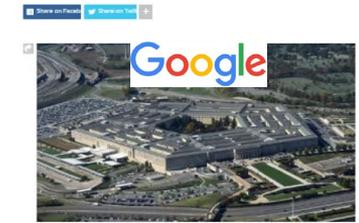


De-Scriminating (refusing services)

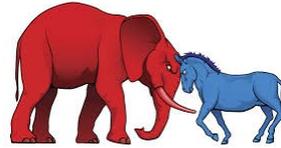


De-DOD-ing (not working with USG)

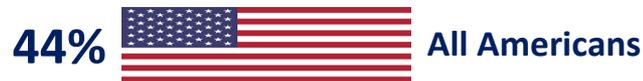
Google won't renew its U.S. Defense Department contract in 2019



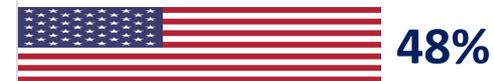
KNOWN: INTENSE PARTISANSHIP PERSISTS



“The Democratic Party Has Been Taken Over by **Socialists**”



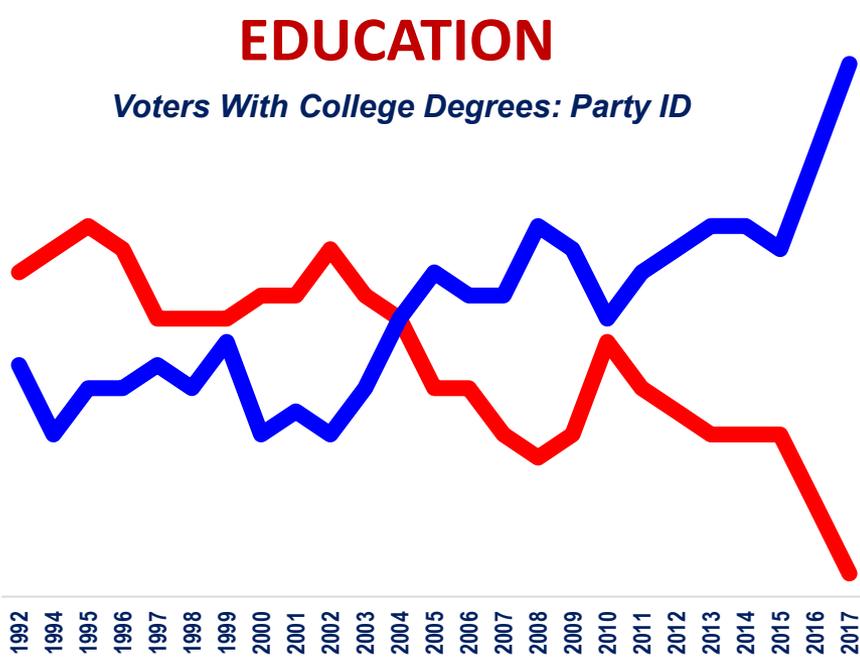
“The Republican Party Has Been Taken Over by **Racists**”



UNKNOWN: ARE OUR PARTIES REALIGNING?

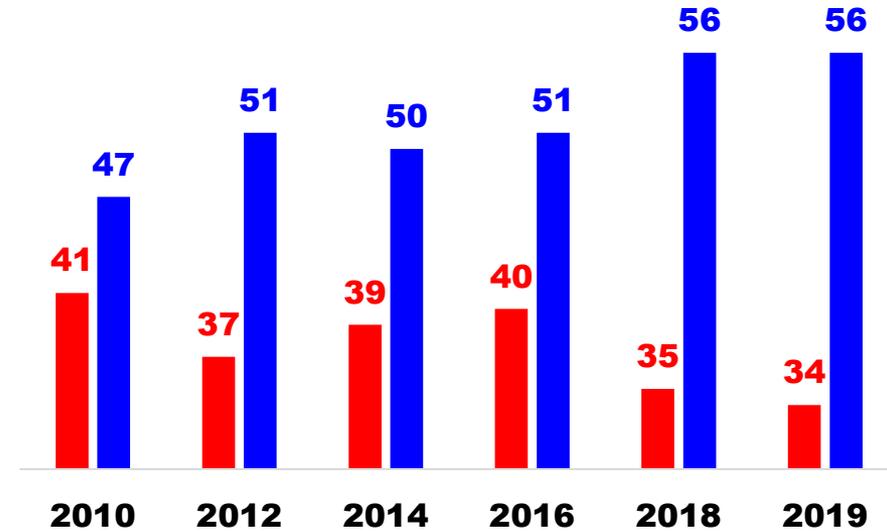
EDUCATION

Voters With College Degrees: Party ID



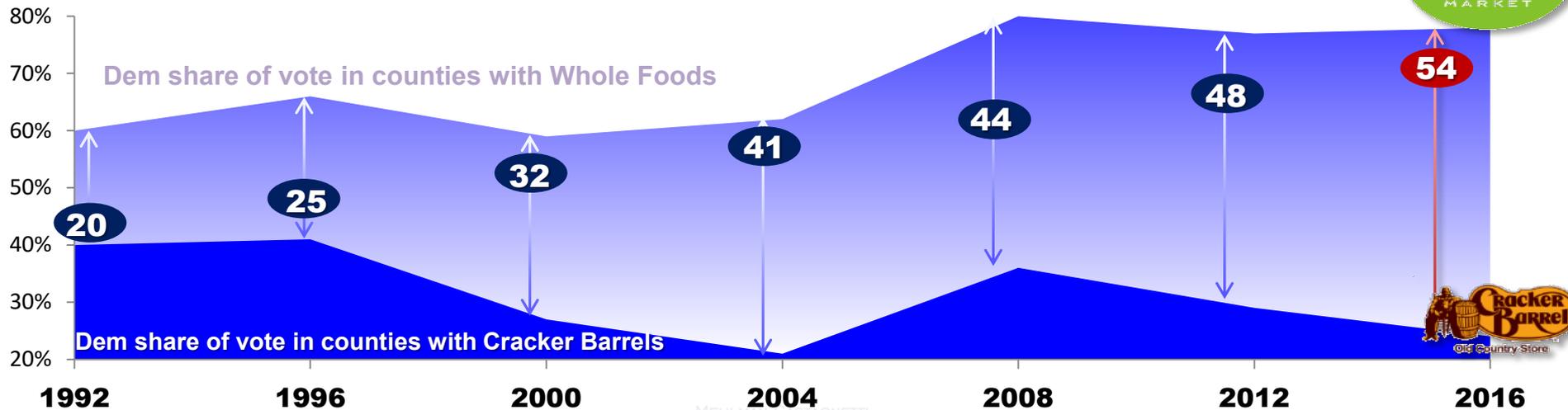
GENDER

Women: Congressional Control Preference



GEOGRAPHY

Democrats' Share of Rural vs Urban/Suburban Counties



KNOWN: EXPECT ANOTHER DISINFORMATION ELECTION

We're Preparing for the Last War

Phishing attacks on campaigns

Foreign IP addresses behind "U.S." voices

Social media ads paid for via foreign currency

Fake news travels faster, further than truth



We're Facing New Combatants, New Weapons & New Tactics

"Deepfake" videos will be deployed to portray candidates saying and doing things they never said or did.

Digital voter suppression will again be one of the main goals of partisan disinformation.

Unwitting Americans could be manipulated into participating in real-world rallies and protests.

For-profit firms based in the U.S. and abroad will be hired to generate disinformation.

Iran and China may join Russia as sources of disinformation.



Domestic disinformation will prove more prevalent than false content from foreign sources.

WhatsApp, the Facebook-owned messaging service, may be misused to provide a vector for false content.

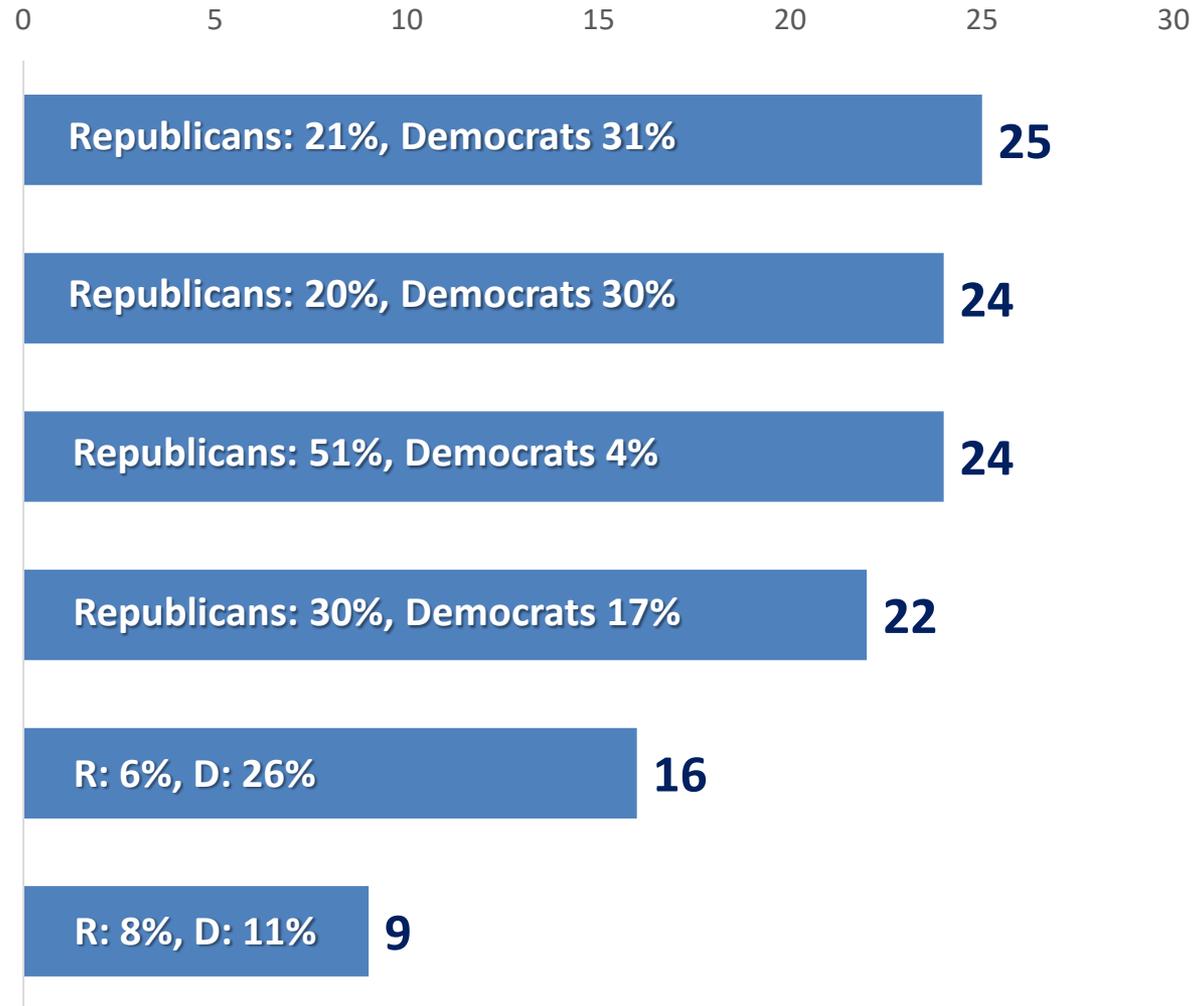
Instagram, more than its parent, Facebook, will be the vehicle of choice for people who wish to disseminate meme-based disinformation.

UNKNOWN: WHO'LL REFEREE A CONTESTED 2020?



Few Institutions Trusted by All Sides

"A Great Deal" of Trust in:



NEWS MEDIA



CONGRESS

2020 Recommendations

For Leaders & Investors

Navigating the Age of Disruption

2020 RECOMMENDATIONS FOR LEADERS

1. Disruption Is Accelerating

- *Understand what new innovations are coming and the challenges & opportunities they present for you, your stakeholders & competitors.*

2. Political Risk Is Growing

- *Conduct scenario planning to identify and mitigate risks in a deglobalizing world; include experts in politics and policy in business considerations.*

3. Traditional Gatekeepers Are Losing Power

- *Expand stakeholder outreach to those who can validate your brand locally and partner on your priorities because you supported theirs.*

4. A Reform Era Is Coming

- *Identify and support policy reforms that meaningfully expand opportunity... global populism will continue rising until more citizens feel “dealt-in”.*

5. Expect to See More Black Swans

- *Prepare for a greater number of high-impact, formerly-low-probability events to protect your license to operate and anticipate opportunities.*

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