



## US Politics Watch:

Four scenarios for 2020 and beyond

An ING report in conjunction with Oxford Analytica  
[www.oxan.com](http://www.oxan.com)

# Preface

Trump has changed the rules and forecasters are struggling to keep up

Since his surprise election victory in 2016, US President Trump has been challenging and changing the political and economic rules. Pollsters, forecasters and investors not only largely failed to predict his win, but misread the consequences. He has pursued his populist agenda in ways that have been unconventional and often unpredictable. 'Fake news' and the echo chamber effects of social media have fuelled the polarisation of politics, making it all the harder to find objective and reliable analysis. Forecasters across the world are struggling to cope with this evolving political disruption.

We present four scenarios looking ahead to the outcome of the 2020 elections and beyond

In an effort to address this, we have decided to launch a concerted and ongoing effort to analyse the implications of the US political outlook in a structured way. To start, we have decided to focus on four alternative scenarios looking ahead to the outcome of the 2020 elections and beyond. Our goal is to focus less on the probability of these scenarios than their impact. To do so, we will aim to objectively identify the economic, social and political drivers of the scenarios to develop plausible narratives which we hope will help readers to form their own judgements about the likely outcomes.

Working with Oxford Analytica to draw out the economic and market implications

To produce this report, which will be followed by a series, we have teamed up with Oxford Analytica, an independent geopolitical analysis and consulting firm that draws on a worldwide network of experts. Founded in 1975, it has developed an unrivalled reputation for impartial analysis in this field. ING's team of economists and market strategists are working closely with the Oxford Analytica team both to craft the scenarios and to draw out the economic and market implications. This scene-setting report is the first fruit of this collaboration. Since the story will doubtless take unpredictable turns in the months to come, we will be tracking events closely, gathering feedback from our readers and clients, and producing regular updates. Your comments and suggestions would be welcome.

**Mark Cliffe**

**Chief Economist ING Group**

## Executive Summary

Donald Trump's election campaign in 2016 ripped up the rule book on how to win the Presidency and he has been challenging convention ever since. We are now just 18 months away from the next election, which has the potential to be even more contentious and unpredictable than the last. Already, over a dozen different candidates have announced their intention to run as a Presidential contender. This gives rise to a very broad range of potential political and economic outcomes, but within this report we identify the four key scenarios<sup>1</sup>.

### Scenario 1: United States of Trump

- President Trump is re-elected. He retrenches his views on international trade and multilateral institutions.
- Renewed push for infrastructure spending, reliant on significant state financing and expanded use of localised energy policies to support fossil fuels.
- Healthcare policy would remain largely unchanged, while regulation of technology firms would rely on congressional action.

### Scenario 2: A Republican phoenix

- A non-Trump Republican wins, likely leading to another round of tax legislation, along with establishing protections for privacy.
- The leadership would re-engage with international institutions and take a less antagonistic stance towards external trade relationships.
- Fiscal conservatism would likely return to the forefront in national and congressional politics, making fiscally expansive budgets unlikely.

### Scenario 3: A Democrat consensus builder

- A centrist Democrat wins. Increased federal spending on both infrastructure and healthcare, as well as increased efforts to establish a national single payer service.
- Climate change would emerge as a key political agenda, with government support for renewable energies increasing significantly.
- Technology companies would face increased regulatory oversight.

### Scenario 4: A New New Deal

- A populist Democrat is elected. Significant fiscal expansion fuelled by increased corporate tax rates, which includes both support for environmental projects (funding a 'Green New Deal') as well as redistributive spending.
- Large technology companies subjected to anti-trust action.
- Trade protectionism as seen under President Trump to continue, albeit with strong support for international agreements on climate change.

We do not offer a definitive conclusion about the likelihood of these scenarios, but instead set out the ways in which they could arise and the potential impact of each one. Moreover, we note that the outcome of Congressional elections will significantly influence the respective types of Presidency, either by making the passing of legislation smoother or more challenging. We address these in detail within the report.

---

<sup>1</sup> While we acknowledge third party candidates can influence the contest between the nominees from the two main parties, the scenario of an independent candidate winning the election is of low probability due to the structure of politics in the United States.

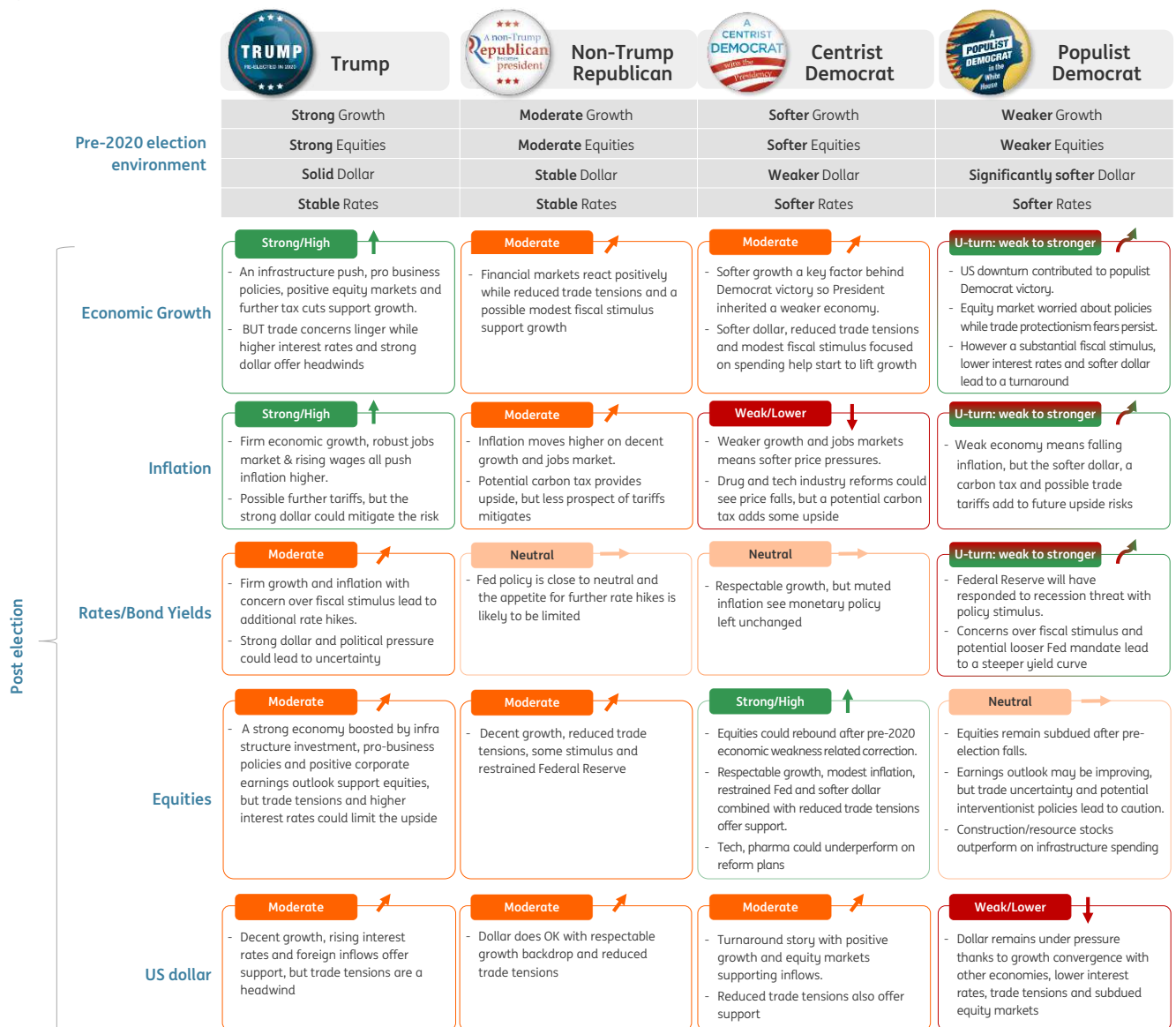
### “The economy, stupid”?

The campaign mantra, it’s “the economy, stupid”, first coined by Bill Clinton’s strategist, James Carville, has ruled electoral politics for more than a quarter century, and it remains a key driver in this election, too.

Other issues will of course come into play, such as healthcare and identity politics, but if the US economy remains strong between now and November 2020, the Democrats will have a tough challenge to unseat the President. Should the economy falter and markets take a more negative tone, the door is opened much wider to this outcome.

In the grey panels of figure 1 we outline the pre-election economic and market environment that most likely generates each Presidential scenario. Below that, we summarise the potential implications for the economy and markets for 2020-2022.

Fig 1 Economic and market conditions pre- and post-election



Source: ING

### What could it mean for the economy?

Should President Trump win, we see a potential boom-bust economic scenario, particularly if Republicans also win control of Congress. More fiscal stimulus could initially boost economic growth, equity markets and the US dollar, but it would also

generate inflation and result in a more aggressive response from the Federal Reserve that would lead to an eventual slowdown.

A non-Trump Republican President is likely to change course and be less confrontational on the international stage and may seek a return to a more fiscally conservative stance. This provides a more stable platform for the US economy, resulting in a more modest, less volatile economic and market performance.

Given the likelihood that a weaker pre-election economy would contribute to a Democrat Presidential victory, a centrist Democrat would be looking to create a platform that allows growth to rebound. This means that after initial weakness in equity markets and the dollar, financial markets could be moving into recovery mode. Inflation would be low due to economic softness, implying relatively low interest rates.

A populist Democrat would most likely win if the economy had experienced a prolonged and significant period of weakness. This would see a large fiscal stimulus package focused on spending, with pressure on the Federal Reserve to respond aggressively, especially if its mandate is changed to focus increasingly on employment. Massive stimulus would mean an eventual turnaround in the economy. But longer-term issues over trade protectionism, higher wealth, income and corporate taxes, plus more intervention in markets and key industries, could become more of a focus for financial markets.

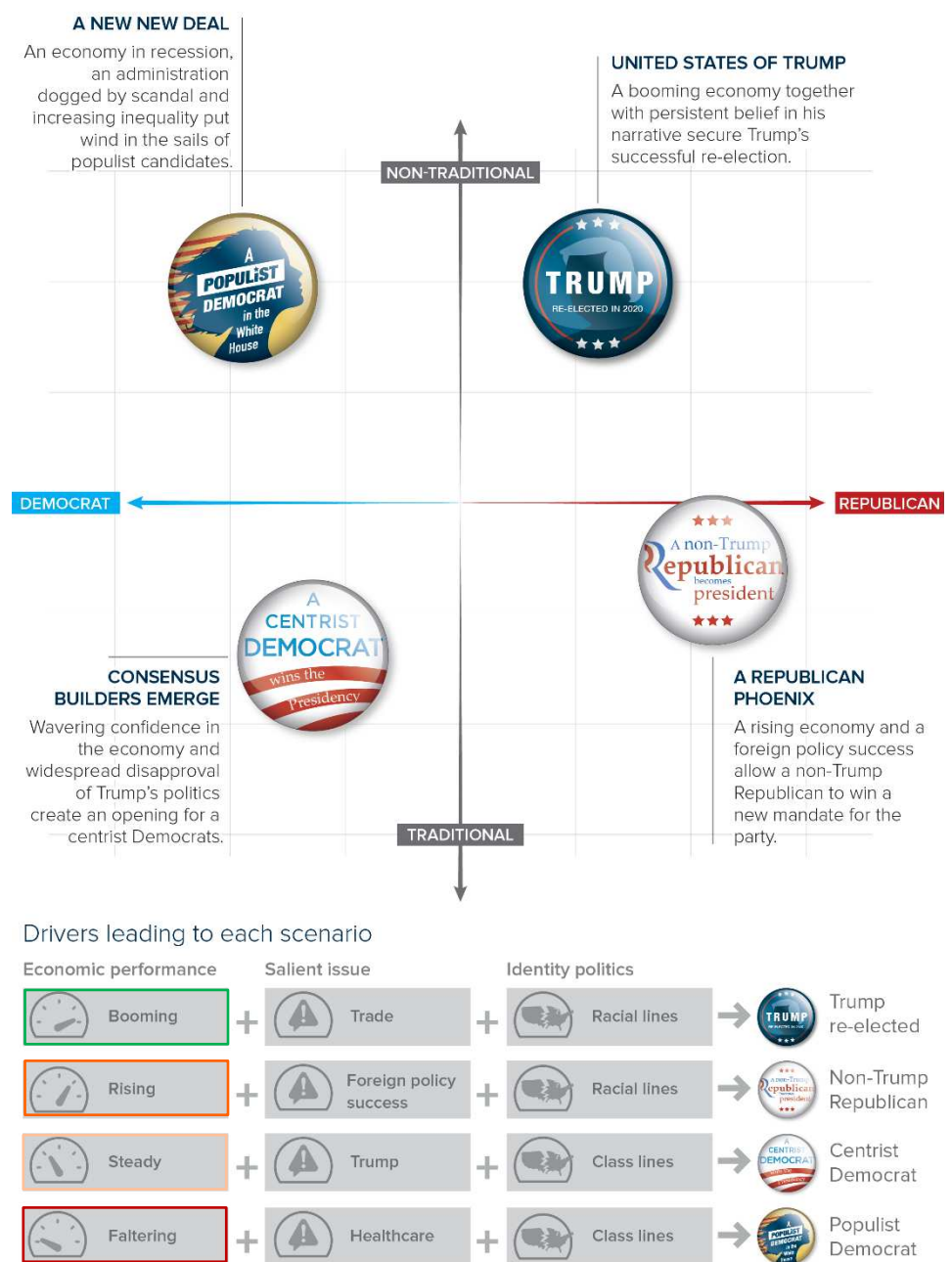
#### **Twists and turns ahead**

As Washington insiders become consumed by the daily minutiae of the road to Iowa and beyond, we hope that this report will guide investors and observers to identify what matters – and what it all means -- as we head towards the decisive vote on 3 November 2020.

# Visualising the 2020 presidential election

To simplify what the election scenarios look like and the drivers behind them, the following graphic places the different candidates on two axes, one representing their place within traditional political norms, and the other, their relative adherence to party dogma and their own political identification within the system. These placements, along with the status of key factors leading up to the election, such as economic performance, the salience of issues and the nature of identity politics, help clarify both the result and impact of different outcomes.

**Fig 2 US presidential election scenarios at a glance**



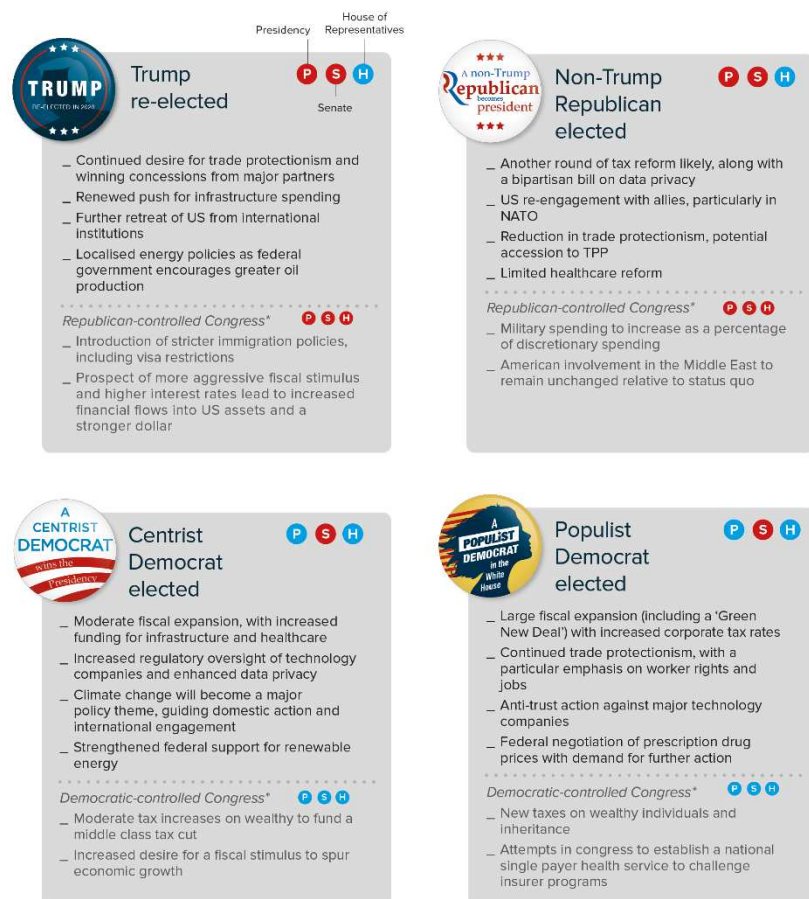
Source: ING, Oxford Analytica

# Scenario impacts- Congress matters

Baseline scenarios assume the make-up of Congress remains unchanged, but we highlight the possible impact of a unified government as well

Our baseline scenarios assume that the current make-up of Congress, with a Republican-controlled Senate and Democratic-controlled House of Representatives, does not change. However, congressional elections are often correlated with Presidential elections. Strong electoral campaigns by a Presidential candidate may increase the chances that both houses of Congress and the White House are controlled by the same party, though this has occurred only three times since 1981. Presidential coattails are also more pronounced in the House of Representatives than the Senate, due to the election cycle. While the likelihood of the 2020 election creating a unified government is below 50% at present, we highlight some policy impacts that may follow if a Republican Presidential victory is accompanied by Republican control of Congress, and if a Democratic victory brings Democratic control, which is more likely to occur under the populist scenario.

Fig 3 Scenario impacts



Source: ING, Oxford Analytica

## Drivers

Economy, identity politics, party cohesion, issue salience and foreign policy will help determine election outcome

Several key issues along with structural components of the American electorate and political parties will determine the Presidential election result. We identify these elements as: the economy, identity politics, party cohesion, issue salience and foreign policy. The outcomes for each theme will affect the election outcome. Twists and turns in the country's economic performance, foreign policy, or the state of identity politics will determine the results. We discuss each factor in turn.

### Economy

Perceptions about the direction of the economy are especially important

Election outcomes are traditionally most closely linked to perceptions about the direction of the economy. All else being equal, if voters think that the economy is improving, they are more likely to re-elect a President, even if the absolute state of the economy is weak by historical standards. Conversely, a negative economic performance, or the perception thereof, facilitates demands for change and helps opponents.

For Trump, a positive view is critical

For President Trump to be re-elected, a positive view of the economy is critical. A national perception that the post-recession economic recovery has taken a new upward turn, further momentum in wage growth and a possible continuation of the bull market in equities would all be positive signs for Trump's re-election.

Rising median income, falling income inequality could give sense of improvement

A reversal in the rise of economic inequality, or at least a perception that this is happening, would significantly raise the probability of Trump's re-election<sup>2</sup>. The traditional sign posts of an improving economy, such as rising median income, falling income inequality, increasing rates of labour market participation, and high consumer confidence, would combine to give the sense that things are improving for middle class voters.

Trump must convince Midwestern states

This perception is particularly important in key Midwestern states, where Trump's base of white males over the age of 45 feel they have missed out on the economic growth enjoyed by American residents of coastal and urban centres. If Trump can successfully make the claim that he has improved their financial conditions, he will find it easier to motivate his core supporters and increase his voting base in key districts – thereby improving his odds of re-election. Key metrics could be a rising proportion of manufacturing within total employment and a continuation of production worker pay outperforming the rest of the economy.

---

*“If the Republican nominee is not President Trump, their best chance to get elected involves favourable economic conditions, such as falling unemployment, rising wages, and a growing stock market.”*

---

For Democratic candidates seeking their party's nomination, a positive economic performance would decrease public desire for change and could be damaging for populist candidates. Centrist candidates could still benefit from a neutral or moderately negative perspective on the economy, as their approach to economic policy would be calibrated to attract moderate

and independent voters in the election. Attracting these voters would be easier if Trump were to do nothing more on tax policy to help the middle- and upper middle class, which make up the bulk of this group.

An economic downturn would help populist Democrats

If the economy were to experience a significant downturn, however, the electoral potential of populist Democrats would rise. These politicians argue that the current system does not meet the needs of ordinary households, so any event which highlights

---

<sup>2</sup> <https://www.frbatlanta.org/chcs/wage-growth-tracker?panel=1>

these difficulties- particularly for the middle class- would strengthen this argument and drive media attention to their message.

---

*“Democratic candidates already characterise Trump’s economic policies as favouring the wealthy over the middle class, an opinion that Republican surveys found was widely shared in 2018 with the public agreeing by 61% to 30%.”*

---

Negative public opinion about the 2017 tax package would also become a stronger issue. Democratic candidates already characterise Trump’s economic policies as favouring the wealthy over the middle class, an opinion that Republican surveys found was widely shared in 2018 with the public agreeing by 61% to 30%<sup>3</sup>. Unless the economy takes a marked turn

The Democratic nominee will say Trump’s policies favour the wealthy

upwards in such key metrics as median incomes, the Democratic nominee will use the 2017 tax package to paint the Republican candidate as uninterested in advancing the middle class, who are likely to feel their economic position worsening.

Economic shocks, such as a recession, a bear market, a sharp increase in the oil price (even if some key Trump supporting, oil producing states would benefit) or another financial crisis would all improve the election odds of a populist Democrat.

### Identity politics

Which identity narrative dominates in the next two years will play an influential role in voter mobilisation and, hence, shape the election outcome. Republican support is not, by itself, sufficient to win the election. In crucial swing states, Democrats have an average partisan identification advantage of 44.7% to 40.0%.

Trump’s appeal to the disenfranchised working class remains central to his campaign

Much of Trump’s success in 2016 arose from his skilful creation of a cohesive narrative blending traditional Republican policy concerns, such as the desire for tax cuts, with his own brand of identity politics lambasting what he, and his supporters, felt were overly progressive shifts to the left in social policy during the 2009-17 Obama administration and the disenfranchisement of the white working class. This narrative continues to be a central theme of Trump’s electoral pitch, and his continuing ability to promote that argument successfully will be a key factor if he is to be re-elected. He also needs to reverse the trend of the Republican Party losing self-identified members to the larger Democratic and independent blocs.

He also needs to win a higher share of independent voters, college-educated white voters and women

For Trump, re-election hinges on the continued strength of that narrative and the support it generates from white voters without a college degree, who went from voting for Mitt Romney by 25 percentage points in 2012 to voting for Trump by 39 percentage points. Trump will also need to win a higher share of independent votes, as well as securing gains from middle class and college-educated white voters, including women. Continued strong support for Trump within his core demographics, and even slight increases in support among middle class and college-educated white voters would be a strong driver of Trump’s re-election.

A non-Trump Republican also needs these groups to win

A non-Trump Republican would also need to appeal to these electoral groups to win. But such a nominee might have greater success in appealing to affluent minority voters. And a reversion to a more traditional Republican approach could see those who voted for Hillary Clinton in 2016 return to the party, particularly if faced with a non-Trump Republican and a populist Democrat.

Democratic nominees must make inroads into Trump’s base

Success for a centrist or populist Democrat would probably hinge on the success of a ‘multiple identity activation’ strategy, because appealing to one group alone is unlikely to produce a majority in the Electoral College. To succeed in a Presidential election, any Democratic nominee must make inroads into Trump’s base of white voters without a college degree, building upon gains made in the 2018 midterm elections. Such a

---

<sup>3</sup> [https://www.realclearpolitics.com/epolls/other/trump\\_republicans\\_tax\\_reform\\_law-6446.html#polls](https://www.realclearpolitics.com/epolls/other/trump_republicans_tax_reform_law-6446.html#polls)

nominee would need also to boost turnout among non-white voters, rebuilding part of the coalition that elected President Barack Obama, while continuing to activate suburban voters. This strategy may be difficult. The two groups have different interests and different priorities when casting their vote, but if a Democrat were able to form an integrated and compelling narrative for each of these groups, the odds of success would increase significantly.

#### Party cohesion – the ability to keep voters united

For Trump to be re-elected, he must maintain similar levels of support from Republicans as in 2016

Party identification remains a key driver of votes in national elections. In 2016, Donald Trump received 88% of the Republican vote, with Clinton gaining a similar level of support among Democrats. For Trump to be re-elected, he must maintain similarly high levels of support from Republicans in 2020: had he instead won only 80% of Republican voters in 2016, he would have lost Wisconsin, Michigan, Pennsylvania and Florida, and, therefore, the election. A recent Washington Post survey shows that 24% of Americans identify as Republican, 32% as Democrat, and 37% claim to be independent.

---

*“The more unified the Republican Party is around Trump and his policies, the better his chances of winning in 2020.”*

---

If Trump continues to align with Republicans in Congress on policy throughout 2019 and early 2020 (and vice versa), it would indicate that he is likely to retain high levels of support from Republican voters in the 2020 election because

The more unified the Republican Party is around Trump and his policies, the better his chances of winning

he will be the vehicle for their policy preferences. Strong support from this group would bode well for his chances of winning re-election. In short, the more unified the Republican Party is around Trump and his policies, the better his chances of winning in 2020. Republican voters often vote strongly on partisan lines even when they dislike the personality of the candidate.

Conversely, a return to the ‘Never Trump’ movement or a public split with important Republicans in Congress would damage his support in key states. Similarly, a serious primary challenge would damage his chances of re-election as it could reopen wounds within the Republican Party, and signify that a break between the President and the Republican Party has already occurred.

A fracturing of the Republican Party bodes well for a Democratic nominee

President Trump running unopposed for the Republican nomination is another key component of this driver, whereas a fracturing of the Republican Party bodes well for a Democratic nominee. For a non-Trump Republican to get elected, maintaining the support of the party in the aftermath of either a Trump resignation, or a primary victory is equally important. Indeed, it opens up the key question as to how far they should distance themselves from Trump, which will likely depend on the manner in which he departs the political stage.

Unity among Democrats is important for both centrist and populist candidates

Similarly, however, unity among Democrats is important for both centrist and populist candidates. In 2016, the refusal of some supporters of Bernie Sanders to vote for Clinton cost her support and might have cost her the election. A fiercely divisive primary campaign that either alienates centrist Democratic voters or splits the progressive vote on wedge issues would strengthen any Republican nominee.

#### President Trump runs for election

A key component for the outcome of all four scenarios is if Trump runs for re-election: his decision will shape the odds for a non-Trump Republican, as well as for a centrist or populist Democrat.

A critical component of a non-Trump Republican winning in 2020 is if and when Trump leaves the race

If Trump were to run for re-election, the odds of a non-Trump Republican winning would be slim, as the President would be heavily favoured in any primary contest. Even if he were to lose, the fracturing of this base would damage the Republican nominee in the Presidential election. Thus, a critical component of a non-Trump Republican winning in 2020 is Trump choosing not to seek re-election early enough for a non-Trump

Republican to reset public opinion in their favour. September 2019, which is likely to mark the start of intense focus on the 2020 race, is a plausible point after which Republicans would find it difficult to select another nominee who could generate new expectations. This includes a potential scenario in which Vice President Mike Pence assumes the presidency, following either the resignation or impeachment of Trump.

If Trump runs for re-election, the odds of a centrist being the Democratic nominee are strengthened

The effects of a Trump re-election bid would also cascade onto internal Democratic Party politics. If Trump runs for re-election, it will spur discussions among Democrats about which candidate is best suited to challenge the President and to appeal to members of his voting base, particularly those that are socially conservative and economically liberal, as these groups are a former source of Democratic votes. The need for Democrats to appeal to these voters in the election would strengthen centrist candidates during primary contests, as they are less likely to take positions on social policies that may be regarded as unduly liberal. Thus, if Trump were to run for re-election, the odds of a centrist being the Democratic nominee are strengthened (though voters in Democratic primaries may be keen to embrace a more populist candidate).

If Trump were not to run for a second term, a populist candidate is more likely to win the Democratic nomination

If Trump were not to run for a second term, however, populist Democrats could argue that the election should be framed around traditional Democratic and Republican issues, with a 'reset' from the anomaly of the Trump presidency. In order to appeal to those who voted for both Obama and Trump and to boost turnout among populist groups, these Democrats could say they need to offer an agenda that paints a clear contrast. This would create distance between themselves and centrist candidates in the primary while appealing to the Democratic Party base, improving the odds that a populist candidate wins the Democratic Party nomination.

The Democratic Party is relatively unified in its major policy objectives

Centrists prefer incremental reforms while populists favour more sweeping change

### 'Centrist' vs 'Populist' Democrat

The Democratic Party is relatively unified in its major policy objectives. During the government shutdown of December 2018-January 2019, House and Senate Democrats never wavered on their positions, and many policy areas, from minimum wage to healthcare, see broad consensus. Nonetheless, there are differences between the potential candidates in the scale of change they wish to create and the speed at which they hope to do so.

Research from the 2016 campaign showed that Clinton and Sanders supporters were largely similar on policy; differences were greatest on the view that "politics is a rigged game".

Centrist Democrats are more likely to be comfortable with incremental reforms to the status quo or building on existing institutions. Populist Democrats are more in favour of larger-scale reform to the current system to achieve their aims and in breaking political norms. They also shun existing party structures and traditional means of fundraising, focusing on grassroots support.

One example of how this divide works is in the area of healthcare. Sen. Bernie Sanders, a populist Democrat, advocates a Medicare for All plan, which would rapidly shift the country to a single-payer system; most centrist Democrats are in favour of adding a buy-in plan that would graft a public option for health insurance plans to the existing Affordable Care Act structure, representing a more gradual shift.

Beyond the centrist and populist divide, it is also important to note that populist and progressive are not equivalent terms, with one indicating a left-leaning policy perspective, and the other a type of politics and political behaviour. Populism is more of an indicator of the method of change to the political system and a direct appeal to voting groups such as the working class, as done by President Trump in his 2016 campaign, whereas progressive indicates the type of policies that would be adopted. This divide can be seen when contrasting Senators Booker and Warren. Senator Booker is a progressive with one of the most liberal voting records in Congress, but is also more inclined towards the slow and steady approach to reform favoured by centrist Democrats. Warren similarly has one of, if not the most, liberal voting records in Congress, but instead of incremental change, favours a radical overhaul of the system and politics closely aligned with grassroots activism and support from non-traditional party structures. Thus, during the 2020 election, while many Democratic candidates may vie for the title of progressive, relatively few will actively seek to play the role of a populist.

While unlikely, the potential also exists for a new left-wing populist candidate to emerge between now and the 2020 election, given the fast moving nature of populist politics. Such a candidate would use more nationalistic language and class-based identity politics to separate themselves from the current seekers of the Democratic Party nomination.

Foreign policy success can influence the mood of the electorate

### Foreign Policy

Although foreign policy success is hardly a guarantee of re-election, it does influence perceptions of a President and the mood of the electorate. To date, Trump has three areas in which his foreign policy is most open to potential criticism or acclaim: trade conflicts with China and Mexico, the removal of the US from the Joint Comprehensive Plan of Action with Iran, and his diplomatic overtures to North Korea.

A major breakthrough in foreign policy could help Trump

If US policy in any of these three areas were to experience a major breakthrough, such as large economic concessions from Beijing (and possibly the EU), a commitment by Iran to renegotiate, or North Korea agreeing to dismantle its nuclear programme, Trump would be able to argue that he had achieved foreign policy objectives that his predecessors could not. In the case of easing trade tensions, it would also likely generate a positive boost to investor sentiment, supporting equity markets and the broader economy.

If Trump were to handle a foreign policy crisis well, it could boost his chances of re-election and potentially validate his “America First” and transactional view of international politics.

---

*“If Trump does not run for re-election, a crisis might permit a new Republican nominee to create his or her own narrative and appeal to voters, increasing their electability.”*

---

A foreign policy crisis or event could also help a non-Trump Republican reset public opinion about the party. If Trump does not run for re-election, a crisis might permit a new Republican nominee to create his or her own narrative and appeal to voters, increasing their electability.

But significant economic damage from foreign conflicts could hurt Trump's re-election prospects

Conversely, significant economic damage from any of the aforementioned conflicts, such as reduced American exports due to Chinese tariffs, a sharp increase in oil prices, or a blow to Trump's personal credibility from the failure to achieve meaningful progress with North Korea, could hurt his re-election prospects or those of another Republican nominee. It could also refocus the election on domestic policy, an area where the President has less of an advantage.

**Issue Salience**

Presidential campaigns are rarely fought on a single policy issue. As the candidates are speaking about every area of governance, it is difficult for one to dominate.

A single issue can assume an outsized importance.

Nonetheless, during some campaigns, a single issue can assume an outsized importance. During the 2004 election, the Iraq War and terrorism proved such an issue while healthcare was the main issue influencing voters in the 2018 mid-term elections.

Elections are rarely long enough for campaigns to persuade voters on the merits of their position. More often, parties will be seen as the stronger option to tackle different issues. When that issue becomes the campaign's driving force, it will lift that party along with it.

---

*“The issues that have grown most in voters' salience over the past decade - although they are still a lower priority than education, terrorism, and social security - are protecting the environment, dealing with climate change, and improving transportation.”*

---

The 2020 election will likely be a referendum on President Trump and not on a specific set of policies. However, if post-recession trends continue, reducing healthcare costs could be the top public priority, overtaking the economy. The issues that have grown most in voters' salience over the past decade - although they are still a lower priority than education, terrorism, and social security - are the environment, climate change, and

transportation. These three areas are a higher priority for Democratic voters, so a continued rise in prominence of those issues could drive higher turnout for Democrats.

The quirks of the US electoral system mean the Presidential election is not determined by national trends, but by those most salient in the 'swing states'

In 2020, the most likely swing states are Michigan, Wisconsin, Pennsylvania, Florida, and Arizona

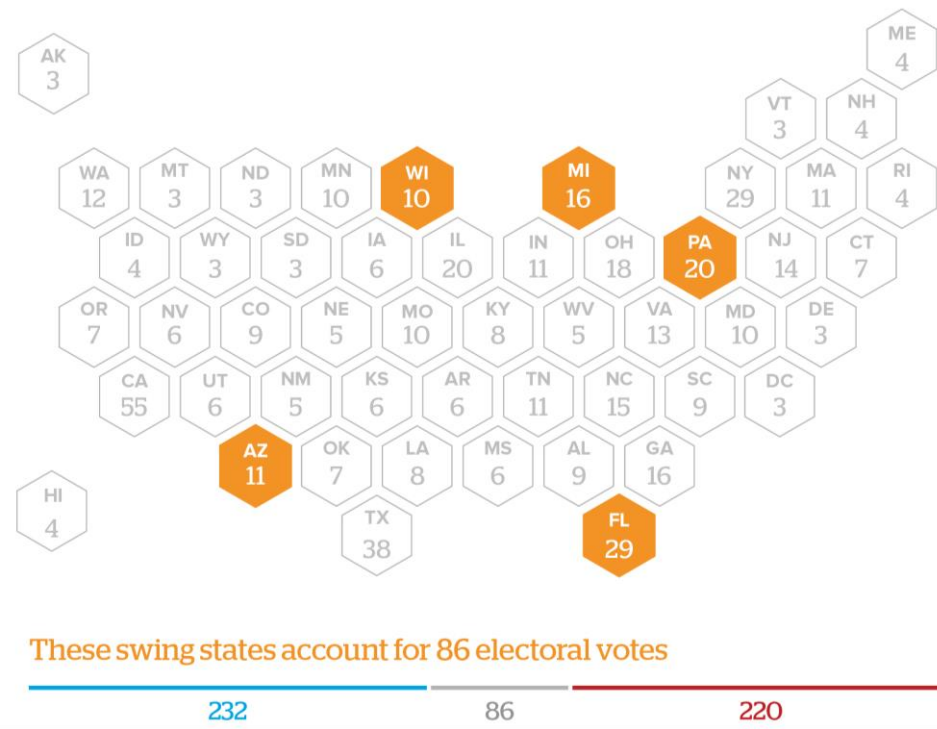
Swing States

One unique feature of US politics is that the President is not technically elected by voters, but the Electoral College. This body, set up at the very beginning of the American Republic, is the same size of Congress, and each state has the same number of members of the Electoral College as it has members of Congress. Each state decides for itself how its votes are apportioned in the Electoral College, but most use a winner takes all approach.

For example, this means that although Donald Trump won 49% of the vote in Florida while Clinton won 47.8%, all of the Florida's 29 votes in the Electoral College (the same number as it members in the House plus the two Senators that each state has) went to Trump. Although Clinton received three million more votes than Trump across the country, Trump won in the Electoral College by 306 votes to 232. Therefore, the election is ultimately not determined by national trends, but by the trends that are most salient in the 'swing states', those that can swing back and forth between the parties and deliver the election.

In 2020, the most likely swing states are Michigan, Wisconsin, Pennsylvania, Florida, and Arizona. Collectively, they have 86 Electoral College votes. Assuming no changes in the outcomes of what are considered 'safe' states, the Democratic candidate requires 38 of the 86, and a Republican 50, in order to win the election. Although it is possible for other states, like Georgia, Ohio, North Carolina, or Minnesota, to break against previous patterns, it is most likely that they would do so in a national wave, after the swing states had broken to the winner.

Fig 4 Five swing states hold the key to the 2020 Presidential election



Unified control will produce more legislation than divided government

Our baseline assumes a Democratic House and Republican Senate

But winning the White House increases the chance of winning unified control of Congress

### Congress

The next President will need to work with Congress to pass any legislation. Unified control – one party in the White House and with majorities in the House and Senate – will produce more legislation than divided government and will advance more of the President's priorities.

Currently, Washington has a divided government, with Democrats in control of the House of Representatives and Republicans of the Senate. This is the baseline assumption for the 2021-22 session.

Democrats are strongly predicted to retain the House in 2020. They have a 37-seat majority (out of 435) and Presidential election years are typically better for Democratic turnout for House seats.

Republicans are favoured to retain the Senate, although by less than the House forecast, as only one-third of seats are up for election. Democrats would need to pick up four seats to regain control of the chamber. They face the prospect of only two Republican-held seats in Democratic-leaning states (Maine and Colorado) and they have one seat in a Republican state (Alabama). They will likely need to flip, meaning to change partisan control, four seats out of the five likely targets – Maine, Colorado, North Carolina, Arizona, and Iowa – a difficult target even if their party wins office.

Congressional elections are correlated with Presidential elections, so winning the White House should increase the chance of winning unified control of Congress. Strong electoral campaigns by a Presidential candidate increase the chances of unified government, even if that outcome is unlikely. The chance of unified control for any party in 2021 is below 50% at present, given the difference in maps between the House of Representatives (the entire country in a Presidential year, which favours Democrats) and the Senate (which favours Republicans given the allocation of states). However, if one nominee appears to be heading to a landslide victory, the probability that their success will lift their party to total control of Congress can rise significantly. This would especially be the case if the economy deteriorates prior to the election, which would strengthen a populist Democratic candidate and downticket Democratic candidates in congressional elections.

## Scenario 1: United States of Trump

### President Donald Trump re-elected

Trump could be vulnerable to demographic shifts since 2016

Trump won the 2016 election by a margin of 80,000 votes in three swing states while losing the popular vote by three million. His approval ratings have been near or below 40% for most of his presidency, meaning that they have been below nearly every previous President at similar points in their terms. And his reliance on white voters, especially those above 65 years old, means that his coalition might be vulnerable to demographic shifts since 2016, although such vulnerability could be counteracted by the attraction of new Republican votes as the electorate ages. While he remains a political iconoclast, the result of the 2018 midterm elections showed that traditional political lessons still apply and suggest these factors remain relevant for the 2020 Presidential election.

First-term Presidents are favoured to win re-election. Since 1932, only two Presidents have lost after a single term:

- Jimmy Carter (1977-1981), who was defeated amid rising unemployment, high inflation, and the Iran hostage crisis; and
- George H.W. Bush (1989-1993), who campaigned for re-election during a slow recovery after a recession, further hampered by a three-candidate race which split the centre-right vote.

Historical patterns favour a President winning a second term in a good economy. Yet structural factors suggest his defeat

A positive economy with low unemployment usually leads to a presidential re-election. Trump's re-election prospects therefore rest on the balance between historical patterns that favour a President's second term in a good economy (especially in swing states), structural factors that suggest his defeat, such as his low approval rating driven partly by his polarising behaviour, and the chance that events may send those variables in different directions.

\*This section, and the corresponding ones for each scenario, are meant to illustrate a hypothetical series of events that may play out and lead to the scenario outcome. This is not to deny that there are many paths which could play out in each case.

## Looking back from January 2021: How Donald Trump was re-elected\*

As Donald Trump prepared for his second inauguration, Washington assessed the outcome of another Presidential election in which he defied political expectations.

At the start of 2019, he faced serious challenges. A new Democratic majority in the House of Representatives was already talking about impeachment, the Mueller report loomed, and the government shutdown was chipping away at his approval rating.

Trump faced serious challenges in 2019 and his approval rating continued to drop

Those challenges deepened as 2019 unfolded. The administration, which had already seen more Cabinet departures than under any previous President, faced a mini-exodus. Secretary of Homeland Security Kristjen Nielsen resigned, Secretary of Commerce Wilbur Ross was replaced in a Cabinet reshuffle, and Interim Chief of Staff Mick Mulvaney resigned after only a matter of months to become President of the University of South Carolina.

Trump's approval rating continued to drop as mounting scandals emerged from the investigations, though the Mueller report did not bring criminal charges of conspiracy, allowing him to remain personally removed from the scandals of his 2016 campaign staff.

But an end to the trade conflict helps his approval rating to bounce back

An end to the trade conflict with China, as Beijing agreed to significant trade concessions, and concessions from Europe regarding imported vehicles, saw his approval rating rise, his support strengthen in Midwestern states, and national opinion of his foreign policy approach improve.

*“To maintain support with his base and keep the Republican Party unified behind him, throughout the summer and fall he held rallies across the country and tweeted praise for almost all potential Republican challengers”*

To maintain support with his base and keep the Republican Party unified behind him, throughout the summer and fall he held rallies across the country and tweeted praise for almost all potential Republican challengers. His only opponent for the Republican nomination, former Massachusetts Governor Bill Weld, lost the Iowa caucuses by 80%-20%, showing that his campaign was doomed. By early March,

Trump was the unquestioned prospective nominee and the party fell in line to support him.

*“Meanwhile, the Democratic primary election was a bitter battle that left the eventual winner battered and damaged, and the party splintered.”*

Meanwhile, the Democratic primary election was a bitter battle that left the eventual winner battered and damaged, and the party splintered. Anger over the policies of Trump and the splintering of the centrist vote, led to the nomination of a populist Democrat,

Anger over Trump's policies and the splintering of the Democratic centrist vote led to the nomination of a populist

alienating many party leaders and major donors. By the time of the Democratic National Convention in July, prominent Democrats were openly airing concerns over the electability of the nominee with certain groups, particularly suburbanites, and saying that they would not campaign for the nominee. Media outlets relentlessly covered the Democratic divide.

The final months of the campaign saw Trump pressing four main messages. To social conservatives, he stressed the promise of another two Supreme Court seats. To working class voters, he promised a new style of Republican economics, claiming that he could

Trump highlights booming economy...

... and wins the Electoral College, again

remake the Republican agenda into a more protectionist vision. And to the country as a whole, he continually stressed the success of his foreign policy approach and his status as a 'dealmaker' while pointing to the booming economy, which in 2019 and early 2020 posted the highest median income wage growth in decades due to continually low levels of unemployment.

As the final votes came in, and despite all the twists and turns of the campaign, the map closely resembled that of 2016. Trump again won the Upper Midwest and thus won the Electoral College, even as his Democratic challenger repeated Clinton's popular vote victory. Trump had prevailed and his agenda would be in place for another four years.

## Timeline

### SCENARIO 1



This timeline outlines some of the key events that may take place leading to President Trump being re-elected in November 2020.

While fictional, they highlight the type of issues and signposts that point to factors being favourable for a Trump re-election campaign from early 2019 until election day.

 Economic performance  
**Booming**

 Salient issue  
**Trade**

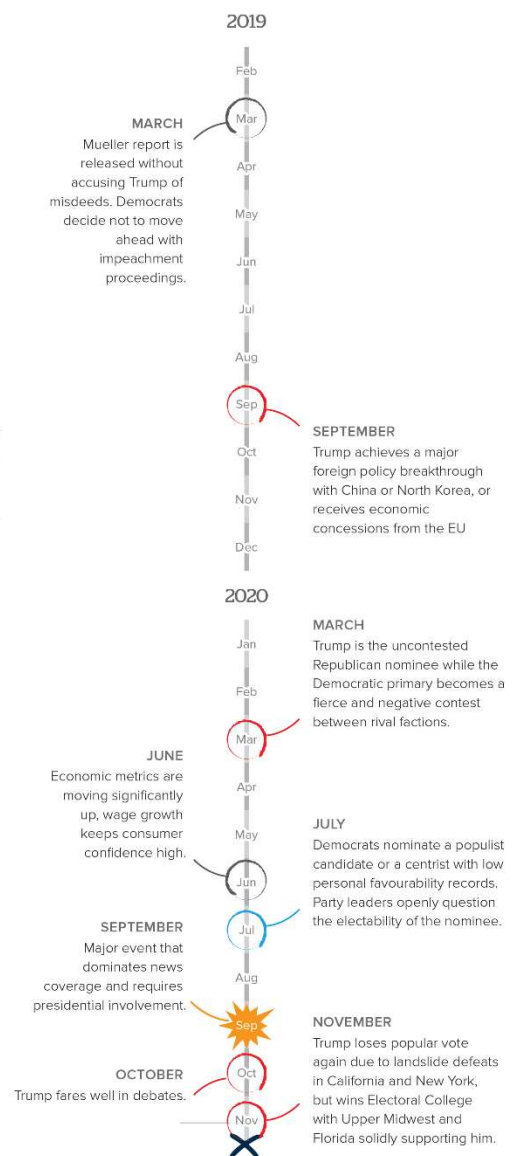
 Identity politics  
**Racial lines**

 **Grey Swan events**  
*Low probability, high impact events that can lead to the scenario outcome.*

- Israel invades Syria
- Supreme Court justice(s) incapacitated in 2020
- Riots outside Democratic National Convention



Signposts



Source: ING, Oxford Analytica

## Impacts – Constrained by Congress

If Trump were re-elected, most of his policy agenda would remain as it is now. However, some differences may emerge as he consolidates his control over the Republican Party and the prospect of another four years in office encourages a new round of policy initiatives.

Trump's ability to make policy would still be constrained by a divided government

These impacts assume that Democrats will retain control of the House of Representatives, which constrains Trump's ability to make policy. Democrats have a 36-seat majority and tend to perform better in Presidential years, which makes the prospect of them losing control of the House unlikely, even if Trump were to win re-election.

---

*“Limited by congressional deadlock, President Trump will struggle to pass major legislation in a second term”*

---

Limited by congressional deadlock, Trump could struggle to pass major legislation in a second term. Bipartisan action may be possible in areas such as infrastructure spending, but for the most part divisions between and within

the two parties will remain material. Faced with this, Trump is likely to focus on areas where executive powers give him more leeway to set the agenda, such as trade policy. Trump could also seek another round of tax cuts, which would likely seek to support the middle class, since the 2017 tax package was aimed primarily at wealthier households and corporations.

The combination of modest tax cuts and some infrastructure spending in an environment of healthy business and consumer confidence – a robust economy is a major factor that helped President Trump win re-election – should keep economic growth, equities and the dollar supported. Businesses and financial markets will, however, be wary of the potential for a future re-escalation of trade tensions.

## Fiscal policy – Modest middle class tax cuts

More tax cuts would be heavily watered down and not guaranteed to pass, though some stimulus is possible

The accumulation of debt from a new package of cuts would likely be back-loaded to pass through reconciliation measures, as they were in 2017, with many cuts having a sunset provision. Spending would, however, remain somewhat constrained in order to gain the support of fiscal hawks – note that the Congressional Budget Office predicts government borrowing to rise above 5% of GDP even before additional tax cuts.

These tax cuts would not be guaranteed to pass given the likelihood of a split Congress, with initial proposals possibly heavily watered down. As such, this could ease bond market fears about longer-term debt sustainability for an economy that is already seeing rising debt and deficit ratios.

## Monetary policy – Recurrent conflict

Monetary policy is likely to remain apolitical despite pressure

It's possible that Trump will continue to badger the Federal Reserve to defer/reverse interest rate rises. While a second term would give him more power to shape norms, market pressure should ensure the autonomy of the Fed. As such, monetary policy is likely to remain apolitical, with Federal Reserve officials underlining their commitment to independent monetary policy. But if the Fed were perceived to be responding to pressure from the White House, markets could become anxious.

## International trade – The transactional strategy continues

Trump's approach to trade won't change

It is unlikely that Trump's antipathy towards the globalised system of free trade agreements would change if re-elected, especially if his re-election campaign is positively assisted by progress in trade conflicts with China and the EU, which would in

---

*“Most likely, the prospect of another four years in the Oval Office would do more to re-orient the rest of the party towards his protectionist views on trade than the reverse.”*

---

all likelihood further cement his thoughts on and approach towards international trade. Most likely, the prospect of another four years in the Oval Office would do more to re-orient the rest of the Republican Party towards his protectionist views on trade than the reverse. This could then allow these views to expand

into other areas such as tax policy, and the treatment of inward and outward foreign direct investment, making America more geared towards transactional politics.

China trade conflict could continue and even escalate

In a Trump second term, the US would be likely to withdraw from international trade institutions, or at least disregard their opinions. While the nature of the trade conflict with China during a second Trump term is somewhat dependent on the size and scale of any agreement made prior to the election, even if major concessions were gained, an antagonistic trading posture towards China would continue. This could potentially be over highly visible goods like steel and aluminium if those issues remain unresolved or it may escalate into other areas such as intellectual property rights if sufficient progress on goods has already been made. New tariffs would be most likely to emerge in manufactured goods and in financial services.

Trump could reduce the number of student visas from China

Other protectionist measures are also likely to be considered. Trump may reduce the number of visas for foreign students to attend US universities, particularly from China, (which are, effectively, a service export), block acquisitions, or impose export controls.

If trade becomes the only real source of authority for the President, he could continue pushing hard for China to make concessions to lower the bilateral deficit. While trade is not necessarily a critical issue for the Democrats, it is unlikely they will support a trade war with allies such as the EU. Likewise, Democrats are unlikely to support the withdrawal from the World Trade Organization. As a result, Congress may put up more resistance regarding trade policy.

New trade agreements would likely encourage protectionist measures

New trade agreements may be reached with other countries. These are likely to encourage more protectionist measures, in particular surrounding manufactured goods and major American exports, such as agricultural products.

### **Infrastructure policy – A possible deal on Federal funding?**

Infrastructure remains a key policy area for Trump, and though his initiatives to date have often been derailed by unrelated events happening at the same time, a second term is likely to free up time to address the issue, especially since this would be an area of bipartisan interest.

Trump would be more willing than most Republicans to ask Congress to use public money to finance infrastructure projects

The infrastructure plan outlined by the White House in 2018 shifted a sizeable amount of the financial burden for public works onto states and local levels of government, making self-financing a critical component of the criteria for receiving a federal infrastructure loan. Trump would be more willing than the majority of Republicans to ask Congress to use public money to finance major federal investment in new infrastructure projects -- a move which could be backed by Democrats.

### **Health policy – Only modest changes to ‘Obamacare’**

A second Trump Administration would continue efforts to weaken the Affordable Care Act, and may succeed in constraining certain elements of it, such as adding restrictions to the Medicaid expansion. However, since healthcare was the primary issue behind the Democratic success in the 2018 midterms, it is unlikely that Republican members of Congress would try to repeal it again, particularly with the House expected to remain under Democratic control.

It is unlikely that Republican members of Congress would try to repeal Obamacare again

But there could be efforts to reduce the cost of medicine

There will be efforts to reduce the cost of pharmaceutical drugs, which could gain bipartisan support in Congress. Regulatory action may be taken against pharmaceutical mergers or acquisitions, especially if it is expected that the result would be a company that gains a monopolistic position on a drug type and would raise prices. While this issue has not seen much attention, it is constantly floated as an area of imminent action, which indicates that eventually there will be movement on it.

Supreme Court appointees could whittle away at government control of health policy

Additional Trump appointees to the Supreme Court would move the Court further to the right and lock in a generation of pro-business rulings. Such changes would probably permit a series of policies to be implemented at the state level that would whittle away at government control of health policy.

Trump could support antitrust cases to break up big tech companies

### **Technological regulation – Antitrust action contingent on Congress**

If re-elected, Trump would be forced to address the issues surrounding artificial intelligence and the use of data by technology firms. Tougher data regulation and data privacy laws are likely to become a reality in 2019. It is difficult to forecast how Trump might act towards the issue compared to other Presidents. He has not spoken about it, and his policy platform does not indicate a long-standing attitude towards technology. However, his personal attitudes and some past statements do suggest he would be willing to urge the Department of Justice to pursue antitrust cases to break up tech companies that hold monopolistic positions, though he may do this without a coalition in Congress in favour of the move.

Most climate policies would rely heavily on states and cities

### **Climate and Energy – ‘Clean coal’ aside, left to the locals**

Climate and energy policy would likely see even greater tension between a federal desire to deregulate and state-led initiatives into renewable energies, driven by increasing cost effectiveness compared to traditional fuels like coal. In this case, there would be large-scale state-led efforts to limit greenhouse gas emissions, with Democratic governors arguing that they cannot wait another four years to take action.

---

*“During a second term President Trump will not prioritize climate change mitigation or adaptation, nor would he re-join the Paris Agreement.”*

---

During a second term, Trump would not prioritise climate change mitigation or adaptation, nor would he re-join the Paris Agreement. While the Department of Energy has many expensive scientific programmes including those on electricity storage, solar,

and fusion, most climate policies would rely heavily on states and cities.

Federal deregulation in the areas of environment and energy use would continue at pace

However, there is uncertainty about the extent to which federal agencies with long time horizons would plan for the impacts of climate change. Litigation stemming from this inaction would be likely, though its outcome highly uncertain. Federal deregulation in the areas of environment and energy use would continue at pace, with industries being left to self-regulate. Federal support for renewable energies is likely to continue to fall, particularly as the technologies make themselves more affordable and less in need of government protection. Support for “clean coal” from the federal government could materialise, as votes in traditional coal producing areas represent a component of Trump’s main support.

The economic forces surrounding renewables would have a greater bearing on energy sector decisions than policy from the White House. Thus, irrespective of federal policy shifts supporting the domestic use of traditional fuels, coal is likely to be seen increasingly as just an export good, when market conditions allow, and states will continue to permit and encourage wind and solar energy. Offshore wind would have its greatest impact in the north-eastern United States, where it would primarily require the approval of states governed by Democrats, minimising the impact of Washington.

A second term for Trump would therefore see a continuation of an increasingly visible divergence on climate and energy policy between the federal government and state and local actors.

### Foreign policy – ‘Strong man’ disputes with international institutions

If re-elected, there is little chance of a change in Trump’s foreign policy and his current aims could be approached with heightened vigour, as he would be less constrained than he is in domestic politics.

---

*“Trump might not withdraw the United States from NATO, but he will almost surely continue to criticise the alliance and undermine its effectiveness, whether deliberately or through inattention”*

---

Trump might not withdraw the United States from NATO, but he is likely to continue to criticise the alliance publicly and in doing so, undermine its effectiveness. Barring a major international incident in Europe that requires mobilisation, NATO is likely to face an uncertain future. By weakening the US commitment to

NATO is likely to face an uncertain future...

Europe, there would be a strong push within the European Union to elevate the security elements of the Common Foreign and Security Policy. This would require boosting the interoperability of European militaries and greater investment in a common defence industrial base.

...which could cause divisions in Europe

Disagreements in Europe over these issues would likely cause further problems within the European Union. One possibility would be to tie any strengthened US trade deal with the EU to a requirement that EU members meet NATO’s spending requirements. However, because the EU and NATO are separate institutions, there would be no way to make this a formal agreement, only an informal issue linkage among members of both institutions in what would be a grand political compromise.

Trump could move towards greater support for authoritarian regimes

Trump has shown greater comfort in dealing with authoritarian leaders than many of his predecessors would have tolerated. In a second term, he would likely continue to foster these relations and, in the process, could move towards greater support for authoritarian regimes. In the Middle East, this could mean continued support for Saudi Arabia’s war in Yemen, despite Congressional opposition.

And roll back US commitment to international institutions like the World Bank, the IMF and UN

A second Trump administration would also roll back US commitment to international institutions like the World Bank, the International Monetary Fund, and the United Nations. Even in the absence of withdrawal, reduced effort will go into institutional collaboration and the execution of established policy. The United States would not become fully isolationist, but it would withdraw from leadership positions on a wide range of international issues and reduce its financial contribution to international organisations.

---

*“In particular, the position of Chinese firms in the US market, such as Huawei, could become more closely scrutinized, as competition with foreign economies is set to remain a key component of Trump’s foreign policy approach.”*

---

Conflicts in the international area would be increasingly reflected in the domestic marketplace. In particular, the position of Chinese firms in the US, such as Huawei, could become more closely scrutinised, as competition with foreign economies is set to remain a key component of Trump’s foreign policy approach. Technology transfer, foreign

ownership of US firms, and foreign involvement in critical infrastructure will all be bargaining tools used to extract other trade concessions from countries viewed as strategic competitors.

Republicans capturing the House in 2020 would be taken as a vindication of Trump's economic policies

More tax cuts could give an extra near-term push to domestic demand

But this could be a boom-bust story and risks an aggressive response from the Fed

Escalating tensions with the Fed and signs of weaker growth would be a strong excuse to sell the dollar

### President Trump and a Republican-controlled Congress

While this combination appears unlikely from early 2019, when the Democrats have just won control of the House, Republicans capturing the House in 2020 would be taken as a vindication of Trump's economic policies and his "America First" agenda.

With another electoral win under his belt, he could get stronger support from the Republican Party, with renewed efforts to get trade concessions from China and Europe, more tax cuts (middle class focused or at a minimum, making the current cuts permanent) and an ongoing hard-line stance on immigration.

More tax cuts could give an extra near-term push to domestic demand. Ongoing economic growth and an ever-tightening labour market (immigration controls will curtail labour supply, thereby adding to labour shortages) would intensify wage pressures and push broader inflation measures higher.

Concerns surrounding the fiscal deficit would likely increase (especially if there is a government funded infrastructure spending spree), which could result in higher Treasury yields. Such a move would be compounded by rising inflation.

This could be a boom-bust story as it risks an increasingly aggressive response from the Federal Reserve through higher interest rates. Such a scenario could put Federal Reserve Chair Jerome Powell on a collision course with the President, further unsettling financial markets. This could be a difficult situation to manage, with longer-dated yields dropping on expectations of a policy reversal from the Fed.

The dollar could initially strengthen under this scenario thanks to strong economic growth and rising interest rates. However, over time, investors would become increasingly concerned by the growing twin deficit (rising government borrowing and an expanding current account deficit).

Escalating tensions with the Federal Reserve, coupled with eventual signs of weaker growth, would be a strong excuse to sell the dollar. In the event of a recession, the Fed has scope to cut interest rates relatively aggressively and re-implement Quantitative Easing. President Trump and the Republicans would have the ability to pass a more aggressive fiscal stimulus package to support growth.

## Scenario 2: A Republican Phoenix

### Non-Trump Republican elected

#### Main candidates

Vice President	Mike Pence
Maryland Governor	Larry Hogan
Utah Senator	Mitt Romney
Ohio Governor	John Kasich
Texas Senator	Ted Cruz
Former Massachusetts Governor	Bill Weld

Several pathways for an alternative Republican Party candidate to win the presidency

Even if Trump is not a candidate, there remain several pathways along which a Republican Party candidate could win the presidency in 2020.

This scenario assumes that Trump does not to run for a second term, either because he has left office through impeachment or resignation, or that he does not seek re-election in response to pressure from his party.

This scenario does not look at the possibility that Trump steps down during the latter stages of the campaign; such a move would be highly disruptive to the Republican ticket, although the party could recover if the Vice Presidential nominee were perceived as electable.

This scenario is based on the premise that the Republican nominee would have time to build a traditional campaign

Instead, this scenario is based on the premise that the Republican nominee, either Vice President Pence or another candidate, would have had the time to build a traditional campaign following a normal nominating process. It would also require that the nominee had been able to distance himself or herself from Trump, who is presumed not to be standing because of significant unpopularity.

It is important to note that this scenario presents the eventual Republican nominee with a difficult task. Gerald Ford, who took over after Richard Nixon's resignation, and Hubert Humphrey, who was the Democratic candidate after Lyndon Johnson withdrew from the race amid low approval ratings, were both defeated, showing the difficulty of separating a candidate from an unpopular previous President of the same party. Both also faced strong primary challengers and won close contests, showing that sitting Vice Presidents, or those that assume the Presidency unelected, are unlikely to have an easy path to the nomination. Therefore, this scenario includes drivers that would be required to permit the candidate to overcome this hurdle, and does not assume that Vice President Pence would be the nominee, though this is one potential outcome within the scenario.

\*This section, and the corresponding ones for each scenario, are meant to illustrate a hypothetical series of events that may play out and lead to the scenario outcome. This is not to deny that there are many paths which could play out in each case.

### **Looking back from January 2021: How a non-Trump Republican was elected**

2019 started out badly for the Republican Party and quickly got worse. The government shutdown was universally blamed on Trump, and the video clip of him taking credit for a shutdown in a meeting with Chuck Schumer and Nancy Pelosi was made the centrepiece for early attack ads against Republican senators up for re-election.

Questionable activity by Trump  
and his family is not survivable...

Things got even worse when the Mueller report came out. Trump claimed that he did not collude with Russia and was vindicated, but evidence which pointed to obstruction of justice was ultimately presented to Congress following the public release of the report and helped foster increased demand for impeachment proceedings. That may have been survivable, but recordings and emails seized from the office of his personal lawyer, Michael Cohen, and the testimony of Trump Organization CFO Allen Weisselberg revealed a long history of questionable activity by Trump and his family. The indictment of Donald Trump Jr and Ivanka Trump for breaking the Foreign Corrupt Practices Act alienated even Trump ally Senator Lindsey Graham.

... and Trump is convinced to  
resign

In summer 2019, Republican Senators held an impromptu summit over a weekend with Trump. They convinced him to resign; the threat of impeachment hung over the discussion, but all confirm that he had done so to protect the party's chances in 2020. US asset markets and the US dollar fell on the news, with consumer and business confidence hurt by the sense of crisis.

Pence introduces new bills to  
pivot away from Trump and  
solidify the Republican Party

Immediately after the August Congressional recess, President Pence introduced a variety of new bills to pivot attention away from Trump's resignation and solidify the Republican Party. His middle-class tax cut failed in the House, but a major infrastructure package passed with large bipartisan majorities in both houses. He also introduced a comprehensive immigration package, trading a barrier along the US Mexico border for an extension of the DACA legislation that protects those who entered the US illegally as children. While it failed in the House, Pence was able to tell voters that he had done more than most to deliver Trump's wall, and in doing so he minimised Democratic turnout among those for whom immigration was the highest priority.

A Republican nominee becomes  
clear by April 2020

The Republican campaign was spirited, but less discordant than in 2016. Pence, governors, and senators largely advocated a similar policy vision, and all dismissed questions about Trump and the slow drip of continued revelations. By early April 2020, the nominee had become clear, and the party was able to unify around a set of policy objectives that appealed to its traditional base as well as emerging affluent voters in suburban and urban areas.

The focus shifts to economic  
growth

After a drop in economic performance following Trump's decision not to run for re-election, the economy recovered and posted strong growth, with middle-class incomes rising and the first few quarters of the infrastructure package acting as a stimulus. The relative calmness of the Pence White House enabled the Republican nominee to set the agenda for the campaign, focusing attention on positive economic growth.

A national security event in early fall redirected part of the campaign away from domestic issues and towards foreign affairs and security policy. Pence's return to a more traditional approach to American allies allowed the Republican nominee to capitalise on the issue of security and maintain momentum.

## Republicans celebrate on election night

The election was close throughout the summer and fall. Nonetheless, the Republicans were able to celebrate on election night. The Democrats were unable to turn the narrative of the race away from the country's rising economic performance or the recent national security event, with the Republican constantly holding rallies at new infrastructure building sites, appealing to college-educated white voters and affluent minority families. The result was narrow but decisive, vindicating the hard line held by senators the year before.

## Timeline

### SCENARIO 2



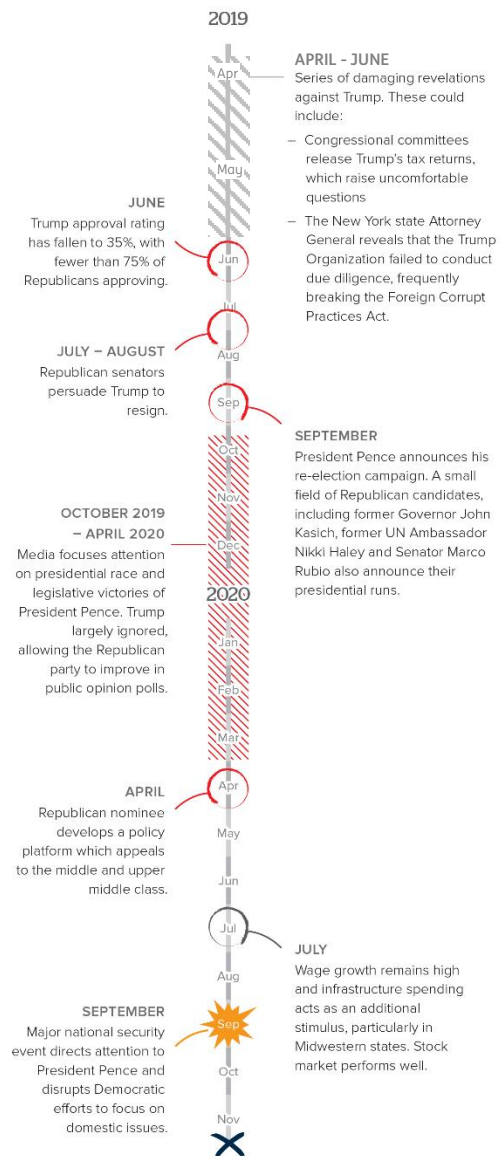
This timeline outlines some of the key events that may take place leading to another Republican being elected in November 2020.

While fictional, they highlight the type of issues and signposts that point to factors being favourable for a non-Trump Republican to both win the Republican nomination and win a national election.

- Economic performance  
**Rising**
- Salient issue  
**Foreign policy success**
- Identity politics  
**Racial lines**

- Grey Swan events**  
*Low probability, high impact events that can lead to the scenario outcome.*
- Former Starbucks CEO mounts independent presidential campaign
  - Russia again hacks Democratic campaign and media covers the leaks
  - Mexico experiences major civil unrest.

### Signposts



Source: ING, Oxford Analytica

## Impacts – Conventional calm

Some of the current policy agenda would remain unchanged under another Republican candidate

If Trump were replaced by another Republican nominee, some of the current policy agenda would remain unchanged because most of the possible non-Trump Republican candidates hold similar positions. In many areas, Trump has pursued orthodox Republican policy. For example, he has endorsed ending or diluting Environmental

Protection Agency rules and the use of fossil fuels in ways many Republican supporters in the energy sector approve. He has embraced conventional Republican scepticism about welfare programmes and about excessive federal regulation of education.

However, there are ways in which another Republican President would adopt positions that depart significantly from those of the Trump administration.

But a less aggressive trade agenda is likely, as is a less combative approach to the Fed

The major shifts from signature Trump policies under a successful Republican candidate are likely to be a less aggressive trade agenda and a less combative approach towards the Federal Reserve. Some tax cuts are possible in this environment and would focus on middle income households, while some infrastructure spending is possible, too.

*“While there will be less US fiscal thrust, trade tensions will ease, which will offer comfort to corporate America, and the US will revert to a more conventional foreign policy.”*

There is likely to be a more benign global economic environment than under Trump. While there would likely be less fiscal stimulus, trade tensions would ease, which could offer comfort to corporate America, and the US would revert to a more conventional foreign policy. With this uncertainty lifted, business

A more benign global environment would likely reduce the prospect of a boom-bust scenario

investment and labour hiring could continue in a moderate manner. It is also likely to reduce the prospect of a boom-bust scenario, while easing longer-term fiscal sustainability fears. The environment for the dollar and equity markets should be supportive.

If there is a recession in 2021-2024, the Fed would likely work with the government, loosening monetary policy aggressively and enacting some temporary fiscal stimulus focused more on middle income tax cuts and increases in spending. In the case of a Republican President/Democratic Congress, agreement on fiscal policy might comprise a negotiated focus on spending rather than lower taxes.

### Fiscal policy – A possible Grand Bargain

A ‘Grand Bargain’ on fiscal stimulus is most likely under a Democratic House and a non-Trump Republican President

The 2017 tax legislation was supported by the Republican Party as a whole, and the next President would probably try to enact another round of tax changes targeted at areas not included in 2017. A Democratic-controlled House of Representatives would ensure that these changes are minimal or are enacted only as part of a legislative compromise.

The idea of a ‘Grand Bargain’ on social spending and tax revenues is mentioned in Washington far more frequently than is realistic, but a Democratic House and a non-Trump Republican President in 2021 is one of the more probable combinations for bringing this about.

### Monetary policy – The Fed’s back in charge

Reaffirming the independence of the Fed would signal a break from Trump

The new President’s move to reaffirm the independence of the Federal Reserve would be a highly visible sign of a break from Trump’s governing style, with no political costs. Such a move would be seen as a return to the political norm, and well received by the financial markets.

### Infrastructure policy –Over to the private sector

A major infrastructure package is less likely under a non-Trump Republican President

A non-Trump Republican would be less likely to agree to, or sponsor a major infrastructure package, especially since rising deficits would constrain their willingness to spend. They may be interested in encouraging public-private partnerships and seek to encourage private investment in public works, but there would be noticeably less interest from Washington to pursue a large, federally funded, infrastructure plan.

### Health policy – Small and personal

A series of small changes is more likely in the healthcare sector to incentivise lower drug costs

The 2018 midterm elections showed that efforts to repeal the Affordable Care Act are broadly unpopular. Accordingly, a Republican President would introduce a series of

smaller changes to the healthcare sector, aiming to create market-based systems to incentivise lower pharmaceutical drug costs and higher care results, or to connect government benefits to other issues, as with some states' work requirements for Medicaid. New regulations would be required for personalised medicine, and data monitoring would become a major issue that crosses partisan divides.

### Technological regulation – A balancing act

A Republican President would need to balance minimal regulation with tech firms monetising personal data

A Republican President would need to balance the party's traditional preference for minimal regulation with an economic structure that encourages tech firms to monetise personal data, going against libertarian principles held by some party members. Balancing these competing interests would be the central tenet of any approach to the technology sector.

It is likely that some kind of industry self-regulation would be encouraged. Government support could be offered on cybersecurity measures, but the technology sector would be asked to create approaches that remove the need for a new privacy regulator, or for the current regulator to increase its budget and oversight. Current regulations governing internet usage are likely to remain broadly similar, meaning net neutrality will not be reinstated.

### International trade – Free trade, but Chinese rivalry still in focus

The current trade war with China would end and the White House would take a less protectionist approach towards its discussions with China, Japan and the EU.

---

*“A Republican President - or a President Mike Pence in 2019 or 2020 - will probably finalise the US-Mexico-Canada Agreement (USMCA, or the new NAFTA) and seek to join the Trans-Pacific Partnership.”*

---

A Republican President - or a President Pence in 2019 or 2020 - would probably finalise the US-Mexico-Canada Agreement (USMCA, or the new NAFTA) and seek to join the Comprehensive and Progressive Agreement on Trans-Pacific Partnership (CPTPP). They would also accelerate talks on the Transatlantic Trade and

Investment Partnership (TTIP), although the date on which that agreement will be completed is still uncertain.

A non-Trump Republican would likely return the party to its traditional stance, which is pro-free trade

A non-Trump Republican is likely to return the party to its traditional stance, which is pro-free trade. A trade policy more in line with that seen under Presidents Bush and Obama would be likely - although would not revert completely to the status quo under those Presidents. A more positive opinion of free trade and global economic norms from the White House would likely boost business sentiment and generate an economic boost.

Though a hard line on China could remain

One key exception to this return to traditional views on trade may be in regard to China, where Trump's actions could, in part, reflect a shift in the Washington consensus, and a broad desire to treat it as an economic competitor. While many of the tariffs on Chinese goods would be dropped, action regarding intellectual property theft and efforts to undermine Chinese trade diplomacy worldwide would continue.

### Climate and Energy – Carbon tax compromise

The Trump administration has broadly followed Republican policy in these areas, with some exceptions. Another Republican President probably would not have withdrawn from the Paris Agreement; Secretary of State Rex Tillerson's opposition to the move indicates what the broader Republican attitude would have been. They also would have been unlikely to withdraw subsidies for renewable energy to the same extent.

A non-Trump Republican might respect, rather than deride, the scientific basis of global warming and climate change

A non-Trump Republican would likely support renewable energy more and coal less. There might also be some support for climate mitigation plans, and a carbon tax might be acceptable as a compromise in a larger bill with a Democratic House. The scientific

basis of global warming and climate change would be respected rather than derided. However, support for the pace at which environmental regulation has been weakened during the Trump administration is likely to be maintained in public, even if the detailed aspects of deregulation are in fact taken more slowly, as this has proven popular with Republican voters.

### Foreign policy – Rebuilding coalitions, competing with China

A non-Trump Republican would also quickly emphasise US commitment to NATO

The largest change in policy between Trump and another Republican President would be in foreign policy. A non-Trump Republican would quickly emphasise US commitment to NATO. If Trump were succeeded by Pence, this would be done soon after Trump's departure from office. If Trump stayed in office but did not seek re-election, it would be an area of easy distancing for the Republican nominee; allowing him or her to gain credit for a policy position which would have been adopted anyway.

---

*“While the United States and Europe would have significant differences on a variety of issues, acrimonious rhetoric would be replaced with calmer diplomatic exchanges”*

---

US-Europe relations would partly revert back to their standing during the Obama Administration or George W. Bush's second term. While the US and Europe would have significant differences on a variety of issues, acrimonious rhetoric would be replaced with calmer diplomatic exchanges. US policies

toward Russia would also somewhat stiffen, though the existing presence of sanctions limits the degree to which new action could be taken.

The US could re-join the Iran nuclear deal

Whether the United States re-enters the Joint Comprehensive Plan of Action- which is intended to regulate Iran's nuclear policy- is dependent on the actions of Iran over the next two years. However, unless the next President were to actively seek a military confrontation with Iran, it is highly likely that the US could re-join JCPOA as part of a broader rapprochement with Europe. Any move to do so would, however, be unpopular with some in the Republican-led Senate.

China would be seen as the main global competitor

One likely trend is that the United States continues its shift towards viewing China as its main global competitor. The probability of an armed conflict remains low, due to the nuclear deterrent. But competing with China's power could be the conceptual underpinning of a Republican President's foreign policy to a greater extent than under the Trump Administration, which has taken a more transactional view of international affairs.

A different Republican President could encourage Europe to push back on China's influence in the tech sphere

A different Republican President may encourage Europe to join a global array of countries pushing back on Chinese plans to expand its influence, particularly in raising the barriers of entry for Chinese technology firms operating in Europe. Such a President would aim to evoke a shared sense of concern among European allies about Chinese technological influence and potential imitation of western technology. He or she would also focus on growing Chinese investment and influence on smaller, former communist Eastern European states, seeking to replace that line of income with European funds. Many European leaders recognise that these issues are of concern but have lacked a diplomatic engagement from the US to address them.

A more traditional approach to American involvement in the Middle East

The size of the federal deficit would return as a major policy issue as would 'Obamacare'

### **A non-Trump Republican and a Republican-controlled Congress**

The Congressional Republican caucus would likely be strengthened in this situation, with its tendencies, particularly on foreign policy, healthcare and international trade, more reflected in the positions taken by the White House.

The US would take a more traditional approach to American involvement in the Middle East, and would likely seek to push back against Russian and Chinese interests in the Middle East and Africa, respectively. American allies that have also broken international norms, such as Saudi Arabia, would also face greater scrutiny.

The size of the federal deficit would return as a major policy issue, with fiscal conservatives likely to push for a reduction in overall discretionary spending to finance additional middle class tax cuts. Some budget areas would be secure, with military spending increasing as a percentage of the federal budget as other areas of discretionary spending are minimised. Another attempt at dismantling the Affordable Care Act could also take place.

## Scenario 3: Consensus Builders Emerge

### Centrist Democrat elected

#### Main candidates

California Senator	Kamala Harris
Texas Representative	Beto O'Rourke
New Jersey Senator	Cory Booker
Former Vice President	Joe Biden
New York Senator	Kirsten Gillibrand
Colorado Governor	John Hickenlooper
Montana Governor	Steve Bullock
Minnesota Senator	Amy Klobuchar
Washington Governor	Jay Inslee

Primary politics usually favour more radical candidates but maybe not this time

While primary politics naturally favour more radical candidates or those closely aligned with party grassroots members, the desire to regain the White House in 2020 could spur Democratic activists into supporting a more centrist candidate that would have national appeal, even if certain policy positions are unpalatable.

This scenario therefore rests on the ability of a centrist candidate to emerge from the Democratic primary relatively unscathed, and without having to 're-invent' themselves during contests in early states such as Iowa and New Hampshire. A centrist candidate that could do this would be in the strongest position to win the election, as Democrats maintain a generic ballot advantage over Republicans nationally.

\*This section, and the corresponding ones for each scenario, are meant to illustrate a hypothetical series of events that may play out and lead to the scenario outcome. This is not to deny that there are many paths which could play out in each case.

#### Looking back from January 2021: How a centrist Democrat was elected

The early, bulging field of Democratic candidates was dominated by populist voices, and debates in 2019 involved passionate arguments over which healthcare plan was best and how to control corporate power.

Public scandals see Trump's approval rating fall and Republican in-fighting escalates

While the Democratic candidates were out campaigning in Iowa and New Hampshire, Trump saw his approval ratings fall due to additional public scandals involving members of his Administration as well as the 2019 shutdown of the federal government and feuds with Republican senators who he felt were not doing enough to advance his agenda. The in-party fighting escalated to the point where Trump appeared at a rally with Senate Majority Leader Mitch McConnell's primary opponent in the fall of 2019. Prominent Republicans mulled running against him as an independent candidate in the Presidential election, though no real challenge materialised.

Democratic nominee touts experience and ability to win over independents

Against this backdrop, the eventual Democratic nominee touted their government experience and electability when speaking to primary audiences, highlighting the need for Democrats to win independent voters in swing states and to avoid being labelled as a 'socialist' by Trump. The nominee also claimed to be best positioned to attract traditional Democratic voters and suburbanites who might otherwise vote Republican.

Iowa sets the tone. Populists split and centrist emerges victorious

The Democratic voters responded positively to this message, and the candidate slowly gained media attention ahead of the Iowa caucus.

And it was Iowa that set the tone for the nomination. The populist candidates divided their support and saw the centrist emerge as the winner, as larger-than-normal voter turnout included traditionally independent voters and those new to primary politics. Momentum built through New Hampshire, where a third-place finish behind Bernie Sanders and Elizabeth Warren -- who represent neighbouring states -- allowed them to consolidate the centrist vote moving into South Carolina. The remaining few centrists dropped out and endorsed the frontrunner following that contest.

Democratic candidates agree not to go negative

After Super Tuesday, the centrist candidate's lead was sufficient to attract donations and endorsements from across the country. With Trump winning the nomination easily on the Republican side, and significant pressure from major donors for the candidates to run a positive campaign, the Democratic candidates agreed not to go negative against each other, so as to preserve the popularity of the eventual winner. Not all candidates complied, and there were still frequent attacks on the frontrunner from some corners, but the overall effect was to lock in the early lead of the centrist candidate, and by the time the last states had voted, the eventual nominee had just under 50% of the delegates. Populist candidates pledged not to force a brokered convention in exchange for a populist Vice Presidential candidate, and the nomination was sealed amid pledges of party unity.

Economy muddles through 2020, the trade conflict is unresolved and the stock market is soft

The economy muddled through 2020. Trade protectionism headwinds hurt business sentiment, leading to a slowdown in hiring and investment while stock markets were soft. The economic debates on income inequality and healthcare intensified. Continuing Republican-led attempts to repeal Obamacare played poorly with suburban voters and blue-collar workers in key Midwestern states, damaging Trump's support with his base. The lasting impacts of the 2019 federal shutdown and the economic damage caused by the still-unresolved trade conflict with China damaged Trump's image as a 'deal maker' and a foreign policy success, forcing Trump to campaign on his 2017 tax package and appointment of conservative jurists.

---

*"Come Election Night, the Democratic ticket commanded a stable lead in swing state polls and the result was the one that had been predicted in previous weeks."*

---

A major hurricane hit South Florida in early October which commanded national attention for a week and highlighted the issue of climate change. Public criticism of Trump's handling of previous environmental disasters, such as Hurricane Maria in 2017, allowed the

Democratic nominee to capitalise on the issue, and generate additional support in a key swing state. Come election night, the Democratic ticket commanded a stable lead in swing state polls and the result was the one that had been predicted in previous weeks.

## Timeline

### SCENARIO 3



This timeline outlines some of the key events that may take place leading to a centrist Democratic candidate winning their party's nomination and being elected in November 2020.

Although fictional, the events mentioned highlight the type of issues and signposts that point to factors being favourable for a centrist Democratic candidate to both win the Democratic Party nomination and a national election.



Economic performance  
**Steady**



Salient issue  
**Trump**



Identity politics  
**Class lines**



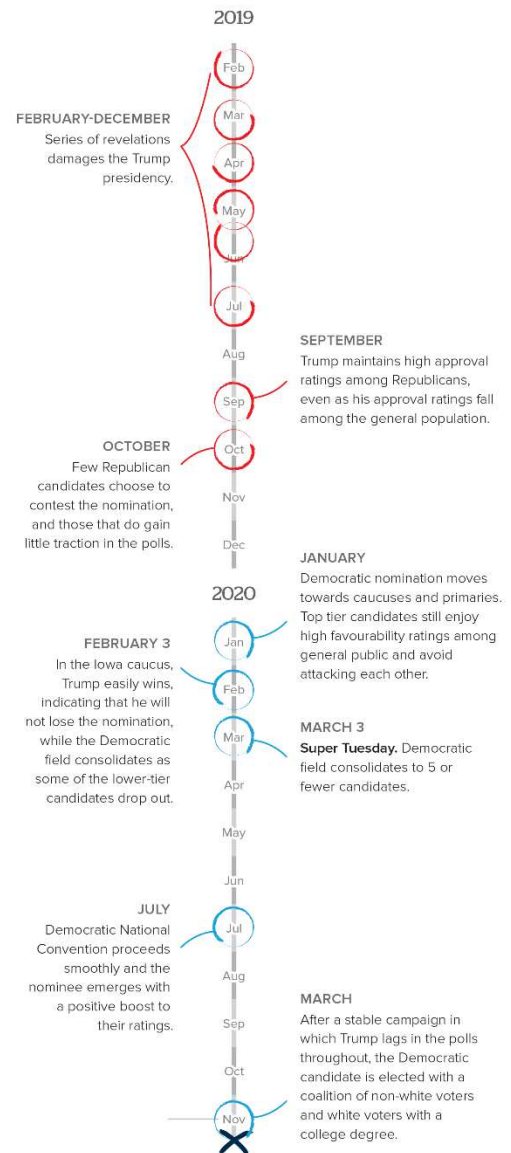
#### Grey Swan events

*Low probability, high impact events that can lead to the scenario outcome.*

- Crisis in the Middle East requires congressional leadership to mediate conflict.
- Trump places tariffs on autos and pulls out of NAFTA, devastating manufacturing supply chains and hurting Europe especially hard.
- Jared Kushner and Donald Trump, Jr., are indicted by the Special Counsel's office but immediately pardoned by Trump.



Signposts



Source: ING, Oxford Analytica

### Impacts- Seeking a Grand Bargain?

The Democratic Party platform is largely unified but priorities differ

Adoption of policies assumes that Democrats retain the House and some Republicans back legislation

The Democratic Party platform is largely unified in terms of the general direction it wants to take the country and the topics that matter most. However, there is considerable variation among its members about the exact policy within each topic, and upon the ranking of its priorities.

The policies identified below enjoy broad support across the party and are thus more likely to be championed by a centrist candidate. Adoption of these policies assumes that Democrats will retain control of the House, and that the presence of Republican Senators in some swing states will allow legislation to pass through Congress.

There may be scope for a “grand bargain” under this scenario. Middle income tax cuts would remain possible while some modest infrastructure spending could be approved. Trade tensions would probably ease and there could be agreement on a less strict immigration policy. Fears about fiscal sustainability might ebb and could be a positive story for Treasury securities and the dollar. This scenario is supportive for equities coming from a position of weakness.

*“The risk of recession is likely higher in this scenario since a weaker economy will likely be a key factor behind a Democratic victory.”*

Indeed, the risk of recession is likely higher in this scenario since a weaker economy would probably be a key factor behind a Democratic victory. The reaction to a recession would likely be similar to the Non-Trump Republican scenario. The Federal Reserve and government

would likely work together but the onus would be on the Fed to react initially. Agreement could take time to materialise on the fiscal side, given the split between the White House and Congress, and there would probably be more focus on spending than tax cuts.

### **Fiscal policy – Less expensive and expansive**

The first fight of the new Democratic House majority in 2019 was over the inclusion of the Pay As You Go Rule (PAYGO), which is intended to block new spending without commensurate rises in taxes or cuts to other spending (Republicans used a waiver in 2017 to pass their tax package).

Democrats may be willing to overlook the PAYGO rule in areas such as healthcare, infrastructure and education

The fight indicates what a Democratic Congress would prioritise for deficit financing. Rep. Tim Ryan, a moderate, and Rep. Ro Khanna, a progressive, have both identified healthcare, infrastructure and education, as issues where they would support the federal government running deficits to enact their policy agenda. On education, this would be likely to include more federal funding for students to attend vocational schools or colleges, and subsidies or relief for student debt. It remains unclear if deficit financing for a ‘Green New Deal’ (discussed further below) would be sought, though it would likely be incorporated into infrastructure policy under federal programmes.

Centrist policies are likely to be less expensive and expansive than those sought by populists, especially in the area of climate change

If a centrist were elected, the policies put forth would probably be less expensive and less expansive than those proposed by a populist Democrat, including in the area of climate change. This would mean smaller budget deficits are likely to be sought, suggesting more compromise with fiscal conservatives within the party. PAYGO would also likely stay in place to appease that faction of the Congressional caucus. Taxes on the wealthy would rise to previous levels, but no universal basic income would be introduced, at least during the first two years in office, due to its high cost and uncertain economic benefits.

### **Monetary policy – Non-interventionist**

Centrist President less likely to publicly interfere with the Federal Reserve

A centrist Democratic President would be less likely to publicly interfere with the Federal Reserve or to comment on its policy decisions other than to underline the importance of a politically independent Fed.

### **Infrastructure policy – A major package, partly deficit-financed**

A major infrastructure package is likely in early 2021, and because it pays for itself eventually, fiscal hawks are somewhat appeased

A centrist Democratic President would likely introduce a major infrastructure package early in 2021, similar in scale to Clinton’s proposed \$275 billion plan in 2016. However, that plan was funded in part by a corporate tax repatriation scheme which was addressed in the 2017 tax legislation. This would require more deficit spending, help from state governments or money from federal loans. Because infrastructure usually has a positive multiplier – S&P estimates that there is \$1.30 in economic growth for each \$1.00 of infrastructure spending – this initiative may not be vulnerable within the party

to the charge of fiscal irresponsibility, although fiscal hawks in the Republican Party would resist.

### **Technological regulation – Curbing Big Tech on privacy and dominance**

Internet regulation, data privacy, artificial intelligence, and tech monopolies would attract considerable attention from the Executive Branch and Congress.

Data privacy laws could be expanded and penalties imposed on some companies

Most likely, data privacy laws would be expanded and penalties on data loss could be imposed on companies which do not adequately protect data. There would probably be at least one high-profile case of a company forced into bankruptcy due to lax privacy protections. Enhanced regulatory oversight of technology firms would be used to compensate for a lack of anti-trust activity against tech monopolies like Facebook and Amazon.

New tech acquisitions could potentially be thwarted

While they could balk at breaking up monopolies, new tech acquisitions could potentially be thwarted. Such an approach would not be unpopular with the general public but would be resisted both by Wall Street and the tech industry. The initial reaction in the financial markets might also be negative, although this could be mitigated if action were also taken to defend US tech companies from Chinese competition.

AI would be regulated

Applications using Artificial Intelligence would be regulated to ensure that they are not discriminatory against specific parts of society, and the Department of Justice would pursue such cases.

Obama-era regulation for the internet could be reinstated

Net Neutrality would likely be reinstated, reverting to Obama-era regulation for the internet. We could also see a rapprochement with the EU that facilitates a joint policy with regard to China's tech strategy.

### **Climate and Energy – A Green New Deal to boost renewables**

Sweeping changes to address climate change and implement a carbon tax. US re-joins Paris Agreement

If Democrats are in power, they would embrace sweeping changes designed to address climate change and implement a carbon tax, most likely labelling this climate change legislation as a 'Green New Deal'. Renewable energy would gain subsidies, restrictions on fossil fuels would be implemented, funds would be made available for states and cities to enact mitigation and adaptation plans, and the US would re-join the Paris Agreement.

Policies geared towards more immediate and readily achievable goals

A centrist Democrat is likely to support renewable energy platforms through government subsidies or research and development grants. Lower levels of government, such as states and cities, would also be incentivised to adopt climate mitigation and adaptation strategies. Any programme put forth by a centrist Democratic leader would be geared towards more immediate and readily achievable goals, operating under a time frame of no more than 10 years.

### **Foreign policy – Reversing Trump's moves**

Climate change and international tax avoidance among the top priorities

The basic structure of a Democratic foreign policy strategy would be engagement with international institutions to confront problems that require a concerted effort. Climate change and international tax avoidance would be among the highest priorities. Security challenges, such as Russia, would most likely be secondary, though (non-financial) American support for NATO would increase.

More active stance on foreign policy intervention

A centrist Democratic President elected in 2020 is likely to have a more active stance on foreign policy intervention, akin to positions seen under President Obama. This will see the US maintain troops in Afghanistan, and the continued use of counterterror drone operations when needed. The military's budget would, however, be held constant.

Increased sanctions on Russia, support for Saudi Arabia drops, US embassy may move back to Tel Aviv

A centrist Democratic President would likely increase sanctions on Russia, in part as a result of actions during the 2016 campaign. Support for Saudi Arabia would drop precipitously -- especially for operations in Yemen if that conflict were to persist, aligning

the White House with Congress, which has already condemned the conflict. Israel has also become a partisan issue in US politics, with a growing share of Democrats more sympathetic to Palestinians than to the Israeli government. While it is unlikely that military aid to Israel would be eliminated, diplomatic pressure would be brought to bear against settlements. A change in the location of the US embassy back to Tel Aviv from Jerusalem might also occur.

### Healthcare – Public options and cheaper drugs

A centrist Democrat would likely seek to expand healthcare by allowing a “buy-in” plan or public option to Medicare or Medicaid. This would minimise disruption to the existing healthcare system while shifting towards a publicly-run system. Along with allowing the government to bargain for prescription drugs, this would reduce healthcare expenditures by \$58 billion per year, according to one analysis from 2010. Insurance companies and pharmaceutical companies would see their profits shrink dramatically.

### International trade – Re-engagement

Trade protectionism would be reined in but not reversed. The US would join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), perhaps with some changes for more environmental and worker protections. However, the greatest shift would come from a larger sense of re-engagement with global institutions and ending most of the overt trade conflicts.

### Centrist Democrat elected with Democrat-controlled Congress

Tax cuts are less likely in this scenario but there could be a decent-sized infrastructure plan. Given that this would raise the productive capacity of the US economy, there would be a limited impact on the cost of government borrowing despite higher near-term deficits.

Trade protectionism could be reined in, but not completely reversed. Nonetheless, we will see the US more actively engaged in global affairs with a decent environment for medium-term US growth and the dollar, notwithstanding the fact that a weaker economy would likely be a key factor that led to Democrats winning a clean sweep at the election.

In the event of recession, the response would include fiscal stimulus focused on lower income tax cuts/support with more emphasis on government spending, particularly getting people to work on infrastructure plans. The Federal Reserve would cut rates and extend quantitative easing (QE).

Centrist could shift to publicly-run healthcare system. Insurance and drug companies may see profits shrink dramatically

Protectionism reined in but not reversed. A greater sense of re-engagement and an end to most trade conflicts

Tax cuts less likely but a decent-sized infrastructure plan

US is more actively engaged in world affairs. Respectable environment for US growth and the dollar

Recession response could include government spending and working class tax cuts. Fed rate cuts and QE extended

## Scenario 4: A New New Deal

### Populist Democrat elected

#### Main candidates

Massachusetts Senator	Elizabeth Warren
Vermont Senator	Bernie Sanders
Mayor of South Bend	Peter Buttigieg

As mentioned above, this scenario focuses on the potential for a populist Democratic candidate to be elected. Separate from a progressive candidate, which is someone who favours left-leaning policy choices, a populist Democratic nominee is one who favours more immediate and sweeping changes to the system than the incremental change favoured by centrists, and is grounded in activist-centric politics outside of party power structures. Many Democratic candidates in the 2020 election describe themselves or their policies as progressive, but relatively few inhabit the role of populist, with Senators Elizabeth Warren and Bernie Sanders and South Bend Mayor Pete Buttigieg the only three major candidates to do so. As mentioned previously, while unlikely, given the nature of populist politics, the potential also exists for another populist Democratic candidate to emerge prior to the election.

A populist Democrat must secure the party nomination and also dominate the national narrative

A populist would be favoured to win in a narrow primary contest where his or her support from grassroots organisations would carry the most weight. This advantage in the traditional primary system does not, however, carry over to a national election, where a populist candidate may find themselves too far outside of the political mainstream in many states, leading to a similar electoral outcome to 2016. This scenario therefore rests on a populist Democrat being able to secure the party nomination, while also being able to dominate the national narrative surrounding the election, forcing it to be about traditional issues for either party.

A win is predicated on the public desire for change

The election of a populist Democrat is also predicated on the electorate's desire for change. If the status quo is popular with most Americans, a populist will struggle to make the case for a major shift in direction. Poor economic performance, or exceedingly low approval ratings for Trump (below 30%) would be signs that the electorate could be amenable to a populist Democrat.

\*This section, and the corresponding ones for each scenario, are meant to illustrate a hypothetical series of events that may play out and lead to the scenario outcome. This is not to deny that there are many paths which could play out in each case.

#### Looking back from January 2021: How a populist Democrat was elected

Trump resigns unexpectedly. Populists pledge to run a supercharged version of Obama's 2012 message against Romney

The race shifted dramatically in mid-2019 when Trump resigned unexpectedly. Immediately, the Democratic candidates were forced to re-evaluate their electoral strategies. The electability argument was turned on its head, as moderate suburbanites were replaced by voters who had earlier switched from Obama to Trump as the key demographic that would determine the election. Centrist candidates who had been touting a new map based around victories in previously Republican states of Georgia and Arizona lost ground among donors to populists who pledged to run a supercharged version of Obama's 2012 message against Romney, reuniting his coalition and retaking the Midwest. Their arguments gained credence when Romney announced his candidacy

and quickly became a heavy favourite for the Republican nomination over the newly appointed President Pence.

---

*“The impact of the No Deal Brexit and the lingering effects of the trade wars saw the stock market fall heavily.”*

---

The Democratic race was focused largely on social issues during the primary, and steady inroads were made by a few populists as the global economy worsened and another wave of scandals by major technology companies

were reported in the media. The economy continued to lose momentum and together with the ongoing trade wars resulted in the stock market falling heavily. The working class, including poorer white voters who previously supported President Trump, became a key demographic for these populist candidates.

Global economy worsens.  
Business confidence plunges,  
unemployment rises, stock  
market falls heavily

Plunging business confidence hit the labour market hard with unemployment starting to rise and wage growth stalled. Households grew increasingly cautious, pulling back on discretionary spending, while the housing market downturn accelerated.

Populist Democrats argued that the country was hungry for change and those who had been talking about drastic change for the entire campaign saw their credibility enhanced among primary voters.

Populists ask “Who is better off  
than four years ago?” with  
images of record corporate  
profits, the 2017 tax cut, and  
stories of workers’ stagnant  
wages

The echoes of 2008 grew after the nomination, when the Republican candidate tried to unify the party with a pro-Trump Vice Presidential candidate. Democrats tied their opponents to the unpopular Trump and to worries about a recession which seemed to be looming. The question that ran on advertisements played on the famous Reagan line of, “Are you better off than you were four years ago?”. They asked voters “Who is better off than four years ago?” with images of record corporate profits, the 2017 tax cut, and stories of workers’ stagnant wages. The tactic was effective. Instead of highlighting their tax package and the state of the economy, the Republican nominee was forced to pivot to cultural and social issues, which did not have the same impact as in 2016, or to debate economic policies, which played into the Democrats’ desired game plan.

End result is a narrow  
Democratic victory

The polls had gyrated dramatically over the campaign, and the predictions spanned the gamut from landslide Democratic win to comfortable Republican victory because analysts were unable to confidently predict turnout among white voters without college degrees. The result was a narrow Democratic victory.

## Timeline

### SCENARIO 4



This timeline outlines some of the key events that may take place leading to a populist Democratic candidate winning their party's nomination and being elected in November 2020.

Although fictional, the events mentioned highlight the type of issues and signposts that point to factors being favourable for a populist Democratic candidate to both win the Democratic Party nomination and a national election.



Economic performance  
**Faltering**



Salient issue  
**Healthcare**



Identity politics  
**Class lines**



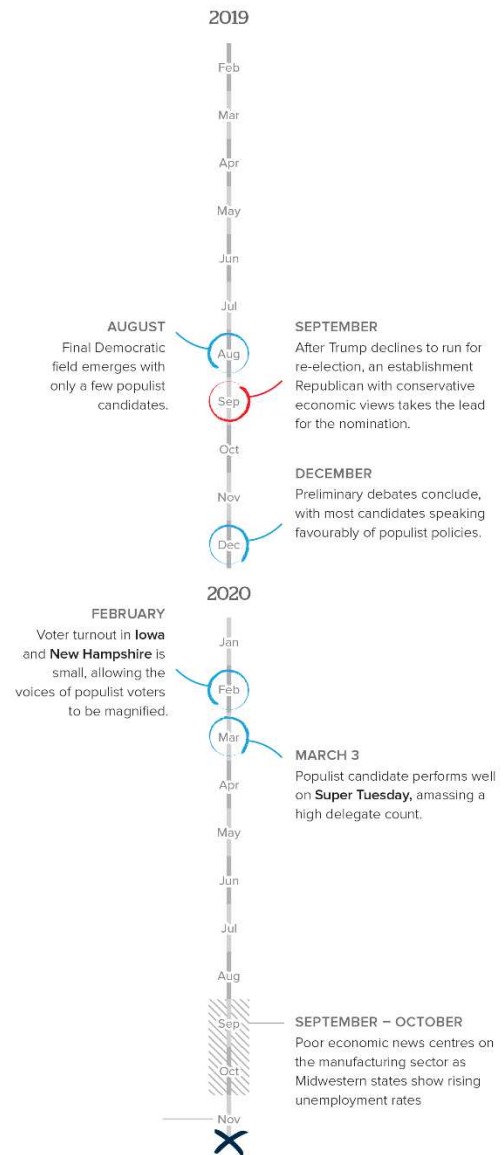
#### Grey Swan events

*Low probability, high impact events that can lead to the scenario outcome.*

- Trump tax returns are released to show evidence of decades of tax avoidance.
- Congressional oversight committees find extensive corruption in Trump administration and unethical influence from lobbyists.
- At a debate, a leading centrist attempts to copy the populist policy agenda but mixes up simple terms and is exposed for lack of knowledge / competence.
- House of Representatives pass a Green New Deal.



#### Signposts



Source: ING, Oxford Analytica

Populist President and Republican Senate risks gridlock but with economy likely in recession, some stimulus is possible

### Impacts – Gridlock?

With the Senate controlled by Republicans, there is a risk of gridlock. Republicans could use the narrative of fiscal prudence to push back on Democratic plans. However, with the economy likely in recession, they could acquiesce and allow some infrastructure spending to go through, though major tax rises for corporates would be blocked by the Senate. Republicans would also oppose a wealth tax or at least try to minimise it.

Markets and the dollar may initially rally on the fiscal stimulus to combat economic weakness, but there could well be a sense of nervousness about the longer-term implications of a 'tax and spend' and generally more interventionist President.

---

*“If a steep fall in economic output and job losses fails to unify both sides of the political spectrum...the Federal Reserve would need to step in.”*

---

Given the economic backdrop and the desire for 'change', this is the most economically uncertain scenario. If a steep fall in economic output and job losses fails to unify both sides of the political spectrum, and the President and Congress find themselves at loggerheads, the

Federal Reserve would need to step in with a more aggressive response that includes rate cuts and quantitative easing. The dollar would fall, and equities would suffer.

### Monetary policy- Challenging the Fed's mandate

New President could push the Fed to ease further and could also talk down dollar

Given the strained economic environment, the new President could take an interventionist approach towards the Federal Reserve to encourage even more policy easing while also talking down dollar. This could involve a formal change to the Fed's mandate either to raise the longer-term inflation target from the current 2% or even include a formal target for employment. In 'normal' times, financial markets would penalise such action, but in a weak economic situation, this could actually provide a boost to US financial market sentiment.

### Fiscal policy – Redistributive taxes and spend, spend, spend

Push to eliminate PAYGO, tax increases on businesses and high earners

Populist Democrats could push to eliminate PAYGO, although they would argue that their policies of expanding government funding for healthcare and infrastructure are investments that would reduce future deficits. Once the economy is on a stronger footing we could see more momentum for tax increases on corporations or high earning households to fund additional expenditure on social welfare programmes.

Working class giveaways, including a national living wage, free higher education and universal healthcare could cost \$50 trillion over 10 years

A populist Democrat could also embrace modern monetary theory (MMT), which downplays the importance of balancing budgets, so would be more open to a host of packages that lead to higher deficits, including a fiscally expansive "Green New Deal". Such a programme would demand significant federal investment, while also having a redistributive effect towards working class voters in the form of a national living wage, free higher education, and universal healthcare.

The costs of this are hard to foresee. Some estimates go as high as \$93 trillion<sup>4</sup> over the next decade in its most extreme form, but there are caveats. Moreover, the costs of such a programme, including upgrading all existing buildings in the US, upgrading power grids and meeting 100% of US power demand through "clean, renewable and zero emission energy sources", have to be set against the potential economic and social costs of global warming and pollution.<sup>5</sup>

Expansionary budget is a near-certainty

While the private sector would be expected to contribute, most of the burden would fall on the government. A large fiscally expansionary budget would thus be a near certainty

---

<sup>4</sup> <https://www.americanactionforum.org/research/the-green-new-deal-scope-scale-and-implications/>

<sup>5</sup> <https://ocasio-cortez.house.gov/sites/ocasio-cortez.house.gov/files/Resolution%20on%20a%20Green%20New%20Deal.pdf>

New Medicare plan would cover 100% of the population and include government-regulated pricing structures. Inflation is reduced but healthcare stocks take a hit

Tech monopolies seen broken up, tax rates on tech firms may go up

A populist President could join TPP after a period of negotiation. A trade deal with EU is more likely and a new TTIP could pass on both sides of the Atlantic

A Green New Deal would be one of the major foreign policy priorities

A carbon tax could be implemented, potentially adding to headline inflation

in this scenario, which would likely lead to higher government borrowing costs despite the arguments of MMT proponents.

### **Healthcare – Medicare, and cheap drugs, for all**

A populist would seek to implement Medicare for All; considerable legislative debate could then ensue about the logistics, but the direction of the plan would be for 100% coverage of the population and government-regulated pricing structures. This would lead to faster reductions in drug prices and healthcare costs, which could materially reduce the overall rate of inflation. However, the disruption to health markets could lead to unintended consequences throughout the health industry, and a fall in the value of this sector in the stock market.

### **Technological regulation – Big squeeze on Big Tech**

A populist Democrat could seek to break up tech monopolies and increase the real tax burden on these firms. There would be major legislation regarding data privacy, which could allow consumers to 'lease' their data, creating a new industry.

Competition with Chinese tech firms and concerns that US workers are vulnerable to job losses from intellectual property theft could lead to executive actions that contribute to a bifurcated global technological market, with negative effects on trade, investment and the financial markets. A populist Democrat, might, however, seek to support US technology with increased federal funding for investment, which would boost investor confidence in the sector.

### **International trade – Job-focused protectionism**

A populist would be less likely to join existing trade deals, or negotiate new ones, but could seek to renegotiate existing arrangements if provisions for workers' rights and environmental protection were strengthened. They may join the Trans-Pacific Partnership but only after a year or two of negotiating. A trade deal with Europe is more likely, since the EU does not pose the same fear of undercutting wages. A harder line against countries seen to be undercutting US labour in terms of wages or conditions would be expected. Countries such as Ireland, which offer low corporate income tax rates and where significant overseas holdings of US corporations are located, would also face additional scrutiny.

A populist Democrat is likely to be opposed to some of the policies advocated by the US corporate community, which are also opposed by many Europeans - perhaps increasing the chances of a new Transatlantic Trade and Investment Partnership (TTIP) to pass on both sides of the Atlantic.

### **Climate and energy – Strong support for the Green New Deal**

A "Green New Deal" aimed at making America carbon neutral would see major public financing of climate strategies. This would likely encompass an infrastructure package, energy regulations, increased funding for scientific research, and legislation targeting economic inequality. It would also be one of the major foreign policy priorities of the new administration, with an expanded Paris Agreement being one of the first tasks for the new Secretary of State. Increased taxation on corporations to fund this fiscally expansive programme would be expected, as would higher income taxes on both wealthy and upper-middle class earners.

As part of this redistribution, a carbon tax would most certainly be implemented, even in the face of Republican opposition in Congress. This would add to headline inflation, although the effect would depend on whether the proceeds were used to reduce other consumption taxes (which might be targeted at items consumed by the middle and lower-middle class).

Ending tax havens would be a primary goal

## Foreign policy – Economically driven

A populist Democrat would place economic issues at the centre of a foreign policy agenda; ending tax havens would be one of the primary goals of the new Administration. This would require the cooperation of European allies in the fight against tax avoidance. Russia could be framed as less of a hostile nation than a source of laundered funds; cooperation with Moscow is possible if a global fight against capital flight is in the interests of Putin or his successor.

Stimulus measures suggest a swifter economic recovery

### Populist Democrat elected with Democrat-controlled Congress

Given the sweeping political shifts that would likely accompany a populist Democratic candidate to the White House, this scenario has a higher potential of also having a Democratic-controlled Congress compared to if a centrist Democrat is elected.

With Congressional Democrats keener to support the President's initial stimulus efforts, there is the prospect of a swifter economic recovery. The stimulus would be concentrated on spending increases with little prospect of tax cuts other than for low income households. Changes to the Federal Reserve's mandate would also be more probable and aggressive rhetoric to weaken the dollar is also likely.

But longer term, higher fiscal deficits are likely, which would be bad for the dollar and Treasuries

Longer term, a populist Democrat with Democrat Congress may mean higher fiscal deficits for longer than markets would like. This is unlikely to be good for the dollar or for Treasuries, especially if Federal Reserve monetary policy is perceived to be loose given any changes to its mandate. Corporate America could become more nervous about taxation policy and a more interventionist government, with US equity markets suffering as a consequence. Wealth taxes could be introduced, leading to outflows from US assets. Investment more broadly into America could also suffer while trade tensions could return as the President seeks to protect US workers from cheap competition.

Alternatively, if the Fed re-asserted its independence, it could swiftly normalise monetary policy, giving the dollar a boost

There is an alternative scenario for the dollar, however. If the Federal Reserve decides to push back against the President and reassert its independence, it could be more inclined to swiftly normalise monetary policy in the upturn. Historically, this is a positive USD environment, though given the negatives already mentioned regarding interventionism, the dollar's performance may be more nuanced.

## Conclusion

President Trump has ripped up the rule book. His blend of identity politics and transactional policy-making will have lasting effects regardless of the outcome of the election in 2020.

In this report, we have identified four key scenarios: Trump is re-elected, Trump leaves the race and another Republican candidate triumphs, a centrist Democrat is elected or a populist Democrat emerges victorious. As we have shown, the consequences for the economy and markets could be profoundly different.

Should President Trump win, we see a potential boom-bust scenario, particularly if Republicans also win control of Congress. While additional fiscal stimulus could fuel an initial boost, this would likely be cut short by substantial monetary tightening from the Federal Reserve.

Were another Republican to replace him, less confrontational international relations and a more fiscally-conservative stance would likely lead to a less volatile economic and market performance.

In our view, a victory for Democrats would partly stem from a weaker pre-election economy, creating pressure for a policy stimulus from the incoming Administration. Under a centrist Democrat, equity markets and the dollar would likely be weak initially before moving into recovery mode, with interest rates held in check by subdued inflation.

If the economy were to see a more prolonged and significant period of weakness prior to the election, the odds of a populist Democrat winning the White House shorten, particularly given their likely platform of aggressive fiscal stimulus. Pressure would also mount on the Federal Reserve to respond aggressively, especially if its mandate is changed to focus increasingly on employment. Massive stimulus would lift the economy, but trade protectionism, higher wealth, income and corporate taxes, and market interventions could pose challenges to the financial markets.

Our scenarios highlight the high stakes involved in the 2020 elections. Since there is time for many surprises along the way, we will be watching closely to update and calibrate our assessments. The disruptions triggered by the Trump Presidency are far from over.

**Mark Cliffe, Chief Economist, ING Group**

**+44 20 7767 6283**

**James Knightley, Chief International Economist, ING Group**

**+44 20 7767 6614**

**Amalia Khachatryan, Deputy Director of Advisory, Oxford Analytica**

**+44 1865 261 600**

**Evan Karr, Senior Associate of Advisory, Oxford Analytica**

**+44 1865 261 600**

**Giles Alston, Senior Associate of Advisory, Oxford Analytica**

**+1 646 430 9014**

## Research Analyst Contacts

Developed Markets		Title	Telephone	Email
London	Mark Cliffe	Head of Global Markets Research	44 20 7767 6283	mark.cliffe@ing.com
	James Knightley	Chief International Economist	44 20 7767 6614	james.knightley@ing.com
	James Smith	Economist, Developed Markets	44 20 7767 1038	james.smith@ing.com
	Jonas Goltermann	Economist, Developed Markets	44 20 7767 6909	jonas.goltermann@ing.com
	Carlo Cocuzzo	Economist	44 20 7767 5306	carlo.cocuzzo@ing.com
	Chris Turner	Global Head of Strategy and Head of EMEA and LATAM Research	44 20 7767 1610	chris.turner@ing.com
	Petr Krpata	Chief EMEA FX and IR Strategist	44 20 7767 6561	petr.krpata@ing.com
	Padhraic Garvey	Global Head of Debt and Rates Strategy	44 20 7767 8057	padhraic.garvey@ing.com
Amsterdam	Maarten Leen	Head of Macro Economics	31 20 563 4406	maarten.leen@ing.com
	Teunis Brosens	Senior Economist, Eurozone	31 20 563 6167	teunis.brosens@ing.com
	Bert Colijn	Senior Economist, Eurozone	31 20 563 4926	bert.colijn@ing.com
	Raoul Leering	Head of International Trade Analysis	31 20 576 0313	raoul.leering@ing.com
	Joanna Konings	Senior Economist, International Trade Analysis	31 20 576 4366	joanna.konings@ing.com
	Timme Spakman	Economist, International Trade Analysis	31 20 576 4469	timme.spakman@ing.com
	Marieke Blom	Chief Economist, Netherlands	31 20 576 0465	marieke.blom@ing.com
	Marcel Klok	Senior Economist, Netherlands	31 20 576 0465	marcel.klok@ing.com
	Jeroen van den Broek	Head of DM Strategy and Research	31 20 563 8959	jeroen.van.den.broek@ing.com
	Maureen Schuller	Head of Covered Bond Strategy and Financials Research	31 20 563 8941	maureen.schuller@ing.com
	Benjamin Schroeder	Senior Rates Strategist	31 20 563 8955	benjamin.schroeder@ing.com
	Warren Patterson	Head of Commodities Strategy	31 20 563 8921	warren.patterson@ing.com
	Suvi Platerink Kosonen	Senior Credit Analyst, Financials	31 20 563 8029	suvi.platerink@ing.com
	Nadège Tillier	Senior Credit Analyst, Utilities	31 20 563 8967	nadege.tillier@ing.com
	Hendrik Wiersma	Senior Credit Analyst, TMT	31 20 563 8961	hendrik.wiersma@ing.com
	Job Veenendaal	Credit Analyst, Consumer Products and Retail	31 20 563 8956	job.veenendaal@ing.com
	Roelof-Jan van den Akker	Head of Technical Analysis	31 20 563 8178	roelof-jan.van.den.akker@ing.com
Brussels	Peter Vanden Houte	Chief Economist, Belgium, Eurozone	32 2 547 8009	peter.vandenhoute@ing.com
	Julien Manceaux	Senior Economist, France, Belgium, Switzerland	32 2 547 3350	julien.manceaux@ing.com
	Philippe Ledent	Senior Economist, Belgium, Luxembourg	32 2 547 3161	philippe.ledent@ing.com
	Steven Trypsteen	Economist, Spain, Portugal	32 2 547 3379	steven.trypsteen@ing.com
	Charlotte de Montpellier	Economist, Switzerland	32 2 547 3386	charlotte.de.montpellier@ing.com
Frankfurt	Carsten Brzeski	Chief Economist, Germany, Austria	49 69 27 222 64455	carsten.brzeski@ing.de
	Inga Fechner	Economist, Germany, Austria	49 69 27 222 66131	inga.fechner@ing.de
Milan	Paolo Pizzoli	Senior Economist, EMU, Italy, Greece	39 02 55226 2468	paolo.pizzoli@ing.com
Emerging Markets		Title	Telephone	Email
New York	Gustavo Rangel	Chief Economist, LATAM	1 646 424 6464	gustavo.rangel@ing.com
London	Nicholas Smallwood	Senior Emerging Markets Credit Analyst	44 20 7767 1045	nicholas.smallwood@ing.com
	Trieu Pham	Emerging Markets Sovereign Debt Strategist	44 20 7767 6746	trieu.pham@ing.com
Czech Rep	Jakub Seidler	Chief Economist, Czech Republic	420 257 47 4432	jakub.seidler@ing.com
Hong Kong	Iris Pang	Economist, Greater China	852 2848 8071	iris.pang@asia.ing.com
Hungary	Péter Virovác	Senior Economist, Hungary	36 1 235 8757	peter.virovac@ing.com
Philippines	Nicky Mapa	Senior Economist, Philippines	632 479 8855	nicholas.mapa@asia.ing.com
Poland	Rafal Benecki	Chief Economist, Poland	48 22 820 4696	rafal.benecki@ingbank.pl
	Piotr Poplawski	Senior Economist, Poland	48 22 820 4078	piotr.poplawski@ingbank.pl
	Jakub Rybacki	Economist, Poland	48 22 820 4608	jakub.rybacki@ingbank.pl
	Karol Pogorzelski	Economist, Poland	48 22 820 4891	karol.pogorzelski@ingbank.pl
Romania	Ciprian Dascalu	Chief Economist, Romania	40 31 406 8990	ciprian.dascalu@ing.com
	Valentin Tataru	Economist, Romania	40 31 406 8991	valentin.tataru@ing.com
Russia	Dmitry Dolgin	Chief Economist, Russia and CIS	7 495 771 7994	dmitry.dolgin@ingbank.com
	Egor Fedorov	Senior Credit Analyst, Russia and CIS	7 495 755 5480	egor.fedorov@ingbank.com
Singapore	Rob Carnell	Chief Economist & Head of Research, Asia-Pacific	65 6232 6020	robert.carnell@asia.ing.com
	Prakash Sakpal	Economist, Asia	65 6232 6181	prakash.sakpal@asia.ing.com
Turkey	Muhammet Mercan	Chief Economist, Turkey	90 212 329 0751	muhammet.mercan@ingbank.com.tr

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("**ING**") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies). The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is subject to limited regulation by the Financial Conduct Authority (FCA). ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <https://www.ing.com>.