

I'm loading up on the popcorn!

The coming Democratic debates kick off what promises to be a very interesting 2020 presidential election season.

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[Editor's Note: The last of three weekly specials for May, this one on the coming 2020 election season.]

We're a month away from the first Democratic presidential debate and I can't wait. It's going to be a crowded stage. As of this writing, 17 of the 23 announced candidates have qualified to appear over the 2-night event. Biden is leading in the polls, followed by Sanders. But it's early. At this point in the 2008 race, Cowen & Co. reminds us, Hillary Clinton led by nearly 10 points and kept that lead for another 228 days while Rudy Giuliani was up by a more impressive 14 points, a lead that held for 192 days. The Iowa caucuses are in 221 days on Feb. 3, 2020 and the general election is in 495 days on Nov. 3, 2020. This is a marathon, not a sprint. It rarely pays to be the front-runner.

It is going to be interesting to see how Democrats handle their ideological divides, starting with Medicare for All. When asked by Kaiser if they would be more likely or less likely to favor a presidential candidate who backs Medicare for All, 88% of Democrats said more likely and just 7% said less likely. Support among the general public is substantially lower. When asked if they would like such a plan if it eliminated private health insurance companies, opponents outnumbered supporters 58-37%. And, if it would result in higher taxes for most Americans, 60% were opposed while 37% support

it. Cornerstone Macro believes the politics are worse than these polls suggest because about 160 million Americans get their insurance from employer coverage and would lose it under Medicare for All.

In 2016, the Trump campaign proved very adept at big-data analysis and the Institutional Strategist (TIS) says the playbook this time around has been enhanced. Comprehending when to best apply pressure to certain subjects and when to back off is the polar opposite to a sometimes haphazard White House. Take a look at the recent announcement from Education Secretary Betsy DeVos, who proposed the elimination of funding for the Special Olympics. Trump reacted almost instantly to reverse that decision and announce it would maintain funding.

Trump's announcement that the GOP is now the party of the American worker, a message originally conveyed as his presidency began, is running in unison with its current focus on immigration, clashing with the opposition. He openly mocked Alexandria Ocasio-Cortez (AOC) for her Green Deal, which a right-leaning think tank estimated will cost between \$51 trillion and \$93 trillion over 10 years, and has used that proposal and Medicare for All to cast Democrats as "socialists." Sen. Ron Wyden (D-OR), the ranking member of the Senate Finance Committee, is exploring a mark-to-market system designed to tax unrealized capital gains at the top marginal rate of 37%. How this would be managed logistically, particularly in illiquid assets, shows a total lack of foresight, TIS says, and does nothing but benefit the Republicans and reinforce Trump's capitalism vs. socialism message.

As has been the case for decades now, the presidency will once again be decided by a handful of states. Eight Rust Belt and Sunbelt states are the ones to watch, Cowen & Co. says: Arizona, Florida, Iowa, Michigan, North Carolina, Ohio, Wisconsin and Pennsylvania, my home state and a bellwether where Obama won more votes than Trump. Presidential elections typically are either a referendum or a choice. The Democrats were able to turn the midterms into a referendum on Trump and had their biggest net win in the House since Watergate, but Trump has been able to cast 2020 as a choice between "America First" and "socialism." Trump's secret weapon to win re-election may just be the Democrats.

The suburbs will be key to watch, Cowen & Co. says. A former GOP bedrock, they were inching away from Republicans pre-Trump, a trend the midterms suggest is accelerating and moving beyond just the Northeast and Rust Belt into the South. There was no autopsy after the 2018 midterms performed by the Republican Party, largely in Cowen & Co.'s opinion because it knew what it would find, an anti-Trump toxin that runs deep. It will be hard for our president to get these suburban voters back into the tent if this is a referendum election on him. Another major factor dovetailing with the suburbs: women. It is not so much a gender gap as a gender chasm for Republicans, with 90% of House Republicans white men and only 13 women, a 25-year low.

I have been reading presidential biographies, and a common attribute of presidential election winners is that they are compelling communicators. Imagine if one of the more progressive Democratic candidates wins the presidency, and Democrats sweep both houses of Congress. What will be the first legislation passed? Perhaps a large tax hike to offset that massive cut last year? Markets will surely react to this likelihood well in advance of Election Day. Such a possibility calls for some ballast in investment portfolios. Yes, this election is shaping up to be more interesting than the last one. I'm going to need lots and lots of popcorn.

WHAT ELSE

A U.K. advisor once told me, 'They tax the air that we breathe.' Several cities besieged by rush-hour traffic are weighing a congestion tax after New York state lawmakers adopted such a surcharge for drivers at all points of entry into Manhattan below 60th Street. New Jersey has a rain/flood defense tax and Chicago has a tax on streaming services such as Netflix. Illinois may extend it to the entire state, where some municipalities have approved a transfer tax on homes above a certain value. Known as an exit tax, it penalizes those trying to move out to more beneficial tax environments.

Elections a capex catalyst? With the 2020 election 18 months away and every Democratic presidential candidate calling for higher taxes to include the corporate rate, companies may seek to pull forward their capital expenditures (capex) to take advantage of the existing tax code, Strategas Research says. It cites in particular 100%

expensing that requires companies to have their investments placed in service to qualify for the benefit. Capex surged in 2011, when President Obama had 100% expensing for that one year, and recent data suggest it's on the rise again after a second-half lull in 2018.

Pay matters So far, five presidential candidates have embraced the idea of a jobs guarantee, citing the Works Progress Administration (WPA) under the New Deal, which is widely viewed as a success. But Bernstein Research says the WPA never stood the critical test: it was closed down when the labor market tightened and so escaped the difficult trade-off between maximizing the utilization of labor and optimizing the allocation of labor. The former is an attainable goal for a jobs guarantee, the latter not so much. Moreover, the current labor market is very tight and the jobs guarantee would add huge additional pressure. The issue really is the quality of jobs (wages), not the quantity.

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