POLITICAL PULSE
On the Dems' "Virtual Convention"
Friday, August 21, 2020
Donald Luskin

The die is cast: Biden and Harris are set to repeat Clinton's 2016 errors.

With US equities having made new all-time highs on Wednesday while the economy still struggles to come out of a deep recession, we have to think more than ever that Mr. Market must think that Donald J. Trump is going to be re-elected (see "When Is Mr. Market Going to Start Worrying About President Biden?" July 27, 2020). It is difficult to talk about politics, especially nowadays, and we assure you that we are doing our best to keep our biases in check and focus exclusively on the impacts of various electoral outcomes on the markets and the economy. In that spirit, we just don't see how new highs could be consistent with the loss of Trumponomics, and the imposition of Bidenomics which, among other anti-growth attributes, would raise corporate taxes and reduce S&P 500 earnings by 12%. _But if we're right, look out – if Mr. Market is betting on Trump, then Trump had better win._

- _Given the polls, how could Mr. Market possibly think Trump will win?_
- For one thing, _the polls aren't as bad as you might think_ – at least they are no worse for Trump in 2016, and he managed to win then despite it (please see the chart below).
- For another, _Mr. Market gets a vote_. In a version of what George

Presidential election polls — 2020 — Same day in 2016

Biden +7
Clinton +5
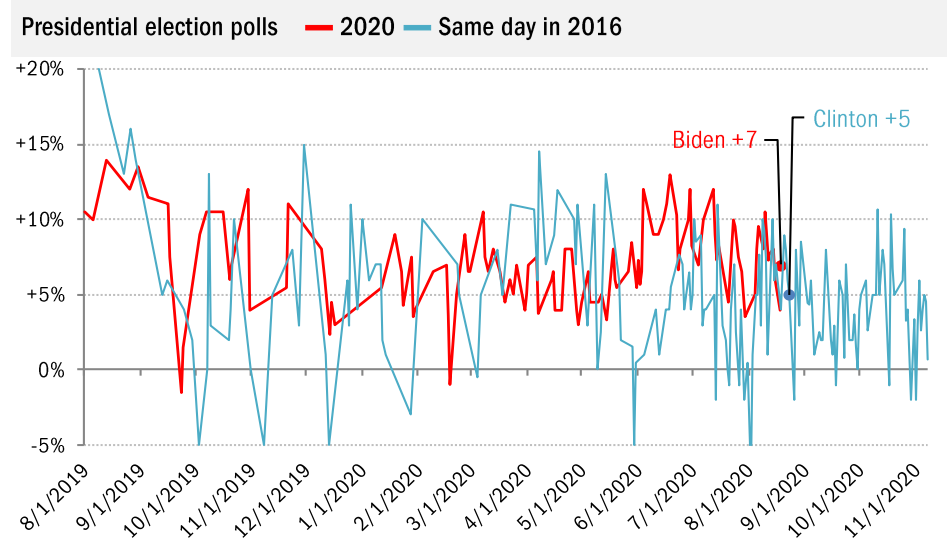
Source: RealClear Politics, TrendMacro calculations

Update to strategic view

US MACRO, US ELECTION MODEL, US STOCKS: If Mr. Market expects Trump to win, and expects the continuation of Trumponomics, then there is downside risk if he loses. By the polls, approval ratings, and our quantitative election model, there's reason to think Mr. Market may be right. The Dem's "virtual convention" had a smaller-than-usual audience and failed to provide the "social proof" that validates nominees in a typical convention. Biden performed well in his acceptance speech, with no evidence of the cognitive impairment seen in recent appearances. But his Trump-bashing based unnecessarily on false statements will do little to excite his supporters, who have heard it all before, and much to anger Trump's and drive them to the polls. Harris's speech was poorly delivered and ended with cringeworthy glitches. She played the race card and the gender card nonstop, revealing that she will not position herself as an Obama-like post-racial figure, but rather as a social justice warrior. The Trump…

Continued on next page

Soros calls "reflexivity", robust performance of asset markets might lift spirits and help the incumbent get re-elected. In the 24 presidential elections since 1924, a rising stock market in the three months before election day has failed to re-elect the incumbent party just two times (1968 and 1980).

- *Trump's approval ratings are higher than you may think*. They differ from pollster to pollster, and at the moment the daily tracking poll we use is an upside outlier. But it has his approval at 51%, third highest of any first-term president since Nixon on this day in the first term (please see the chart below).
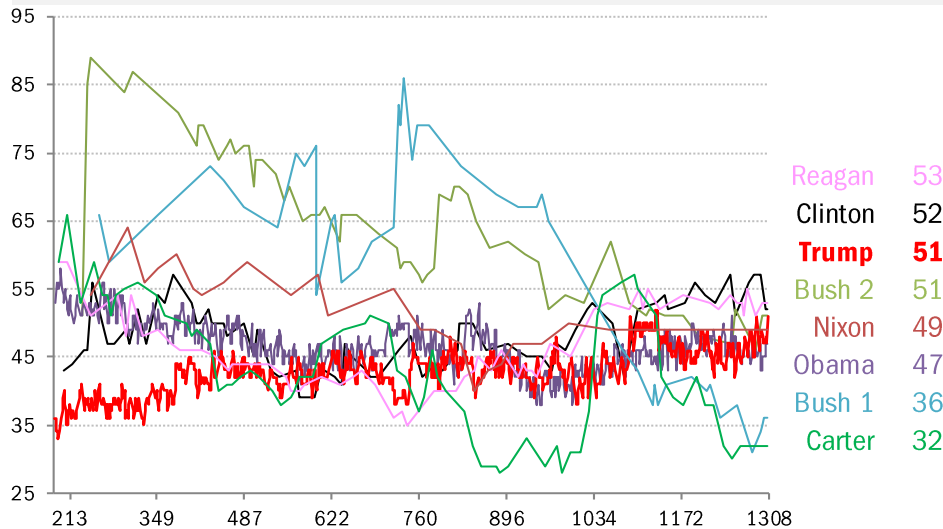
Presidential approval on comparable days in first term

Reagan	53
Clinton	52
Trump	**51**
Bush 2	51
Nixon	49
Obama	47
Bush 1	36
Carter	32

Source: Historical: Gallup; Trump: Rasmussen adjusted to Gallup norm, TrendMacro calculations

- *Our quantitative presidential election model agrees with Mr. Market*, forecasting that Trump will win by a wide margin of 282 electoral college votes (please see the chart on the following page). The model has been absurdly volatile, because it is driven by economic data inputs that themselves have been absurdly volatile. Maybe the model is broken – or maybe it correctly reflects the absurd realities we are living through. But thanks to a series of sharply improving jobs reports, and the impact on personal income of stimulus payments and enhanced unemployment benefits, the model is implicitly saying that voters have enough economic well-being, and that the economy is moving sufficiently in the right direction, to want to re-elect the incumbent (see "Video: What you're not hearing about the economy and the 2020 presidential election" August 3, 2020).

- In the remaining months until the election, the data inputs will change, and they will likely continue to be volatile. *The upside shock to personal income in Q2-2020 surely won't be repeated in Q3-2020. It remains to be seen whether Trump's executive orders on Social Security taxes and unemployment benefits will be sufficient to turn a lethal fiscal cliff into a benign fiscal ramp* (see "On Trump's Executive Action Stimulus" August 9, 2020).

TrendMacro 2020 presidential election prediction model:
margin in electoral college votes for incumbent party

Political variables		Economic variables	
81 Incumbent	16 Inflation	453 Income	
0 2-term limit	45 Oil price	103 Tax burden	
	110 GDP	-526 Jobs	

282
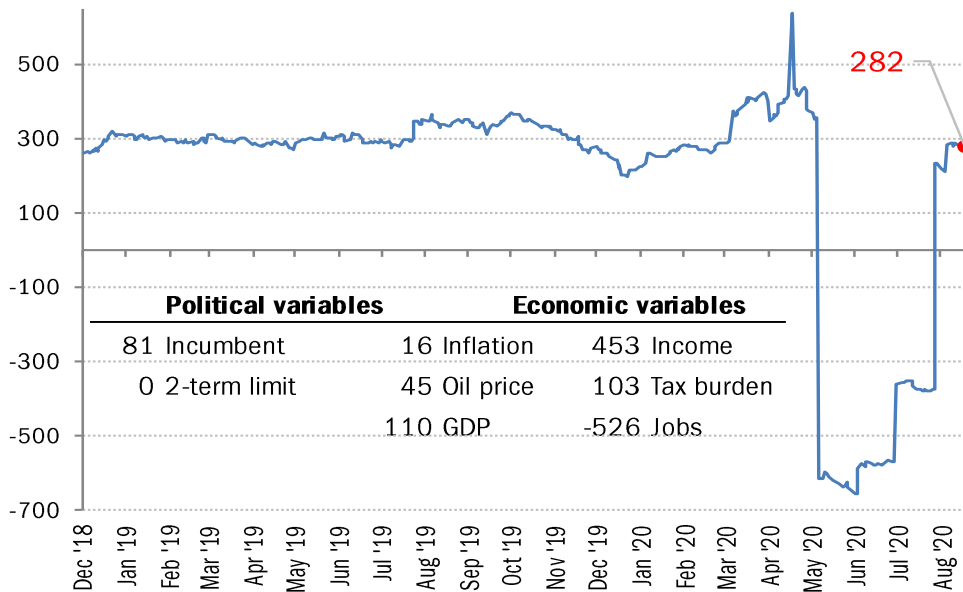
Source: BLS, BEA, Bloomberg, TrendMacro calculations

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[About us]

That's all we can say quantitatively, so now with the Democratic National Convention behind us, we'll share some qualitative views.

- *We think the Democrats' "virtual convention" is another reason why Mr. Market might be expecting Trump to win.*
- Viewership was down sharply compared to the DNC in 2016. The drop differed from night to night – almost 50% on Tuesday – depending on the star power of who was on the schedule.
- And for those who did watch, *the virtual convention lacked what we see as a key success factor.* Normally, as corny as typical arena conventions may be, with their hokey balloons and signs and confetti, they are an effective exercise of the persuasion technique called "social proof" – the impression that something must be good because so many people seem to like it.
- *The absence of social proof was on cringeworthy display Wednesday night, when vice presidential nominee Kamala Harris concluded her remarks and stared into the camera, smile frozen, as though waiting for applause in the dark nearly empty studio.* Finally, jazzy music and canned applause started, and a video-wall of 24 remote feeds lit up to Harris's left, showing Zoom-type windows of individuals clapping and waving, to whom she waved back doing her best to flash the kind of smile she'd use in a crowded arena. Actually, there were only 21 feeds on 24 screens – in an embarrassing screw-up, three of the feeds were duplicates.
- *Of course the most important and heavily anticipated event was Joseph R. Biden's acceptance speech because – let's be candid about this – there was reasonable doubt that a man his age, and with so much recent evidence of possible cognitive decline, could pull it off. Well, he did. There were a few verbal bobbles, but he*

pulled it off. Anyone looking for a "Dukakis moment" last night didn't get it (again, see "On Trump's Executive Action Stimulus").

- Biden is an effective speaker. Yes, he makes one think of George Burns' famous saying, "The key to success is sincerity. If you can fake that you've got it made." But we expect a certain amount of that from politicians, and in this instance he did it well. There wasn't a lot of that excess energy – which reads as anger – that we've seen from him in his very few unscripted campaign appearances this season.

- We'll say only a little about the content of the speech. There was nothing new. It was plenty of Trump-bashing and not much by way of policy – making it perfectly clear, if it wasn't already, that Biden intends to run primarily on the grounds that he, like 7 billion other people, is not Donald J. Trump.

- This will succeed with voters who already loathe Trump and won't win over a single voter who doesn't already. It won't help to repeat the falsehood, for the umpteenth time, that Trump called white supremacists "fine people." He went so far as to call that thing that never happened "a wake-up call" about Trump "for us as a country." We think such statements will mostly succeed in angering Trump voters and driving them to the polls as Hillary Clinton did in 2016 when she called them "deplorables". *For Democrats this is an unforced error. There are plenty of things to criticize about Trump that are true, without having to perpetuate hoaxes that insult Trump's supporters.*

- Biden used the word "dark" seven times to describe Trump and the Trump years – this persuasion-word was originated by Clinton in the 2016 campaign, and has become a staple Democratic trope ever since. He used the word "light" 11 times to describe himself.

- Biden's speech began in ominous near-total darkness. No doubt it was intended to be dramatic, but it leaves a negative impression even after the stage lights are finally turned up. *And it accentuates Biden's signature weakness as a candidate – that he is, in fact,*
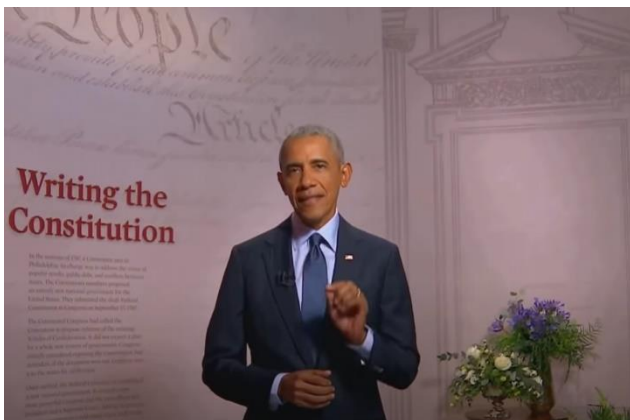
keeping himself in the darkness of his basement and not exposing himself to the light of public questioning.

- Former president Barack Obama got it right on Wednesday night, staged on a warmly and fully lit set – showing himself at the self-confident height of his powers.

- Which brings us back to Kamala Harris's speech. It was staged in a hulking and dark studio, with a vast interior vista extending behind her featuring

vertical signs with the names of US states like you'd see in a typical convention hall – but no light, and no people. Again, it was no doubt intended to be dramatic, but the impression was that she was the only one left in the hall after a nuclear war – not confidence-inspiring. In that environment, and without the social proof of an excited crowd, her weaknesses as a speaker were unfortunately quite obvious – again, if you will permit us to be candid. Her voice is dry and reedy, and she seems unable to speak without a certain tone of condescension and impatience – actually, she reminds us of Hillary Clinton. In her speech she was stiff and self-conscious, forcing herself to "act" various emotions, sometimes shifting weirdly from one to another in a single sentence. It was neither sincere, nor a good fake.

- *Aside from speaking style, based on the speech, apparently the decision has been made to reimagine this old-school Democratic machine politician as a social justice warrior. Harris played the race card and the gender card from the first words of her speech, and she never stopped – indeed, all 21 of the faces on her video wall at the end were women's.*

- She went so far as to embrace people who are "taking to the streets" and to claim that the disproportionate Covid-2019 death toll among minorities is "the effect of structural racism."

- We think Biden was forced to pick an African American woman as his running mate by the shifting sentiments in his party after the death of George Floyd (see "On the June Jobs Report, and Our 2020 Election Model" July 2, 2020). But that leaves the ticket with many choices about who that woman could have been, and how she portrays herself. We think the campaign has made a fatal error by not positioning Harris as an Obama-like "post-racial" politician.

- *It seems as though the Biden campaign has learned nothing from Clinton's 2016 loss. It picked a candidate who fakes sincerity as poorly as Clinton did. And it is sending her out on the campaign trail to make it clear to white and especially white male voters, just as Clinton did, that the Democratic Party is all about everybody but them.*

- *For this ticket, in which Biden's advanced age demands heightened scrutiny of the vice presidential nominee, Kamala is – as we said she would be – a weak link* (see "On Harris for Veep" August 11, 2020). *The Trump campaign will go after this weak link like a heat-seeking missile.*

Bottom line

If Mr. Market expects Trump to win, and expects the continuation of Trumponomics, then there is downside risk if he loses. By the polls, approval ratings, and our quantitative election model, there's reason to think Mr. Market may be right. The Dem's "virtual convention" had a smaller-than-usual audience and failed to provide the "social proof" that validates nominees in a typical convention. Biden performed well in his acceptance speech, with no evidence of the cognitive impairment seen in recent appearances. But his Trump-bashing based unnecessarily on false statements will do little to excite his supporters, who have heard it all before, and much to anger Trump's and drive them to the polls. Harris's speech was poorly delivered and ended with cringeworthy glitches. She played the race card and the gender card nonstop, revealing that she will not position herself as an Obama-like post-racial figure, but rather as a social justice warrior. The Trump campaign will zero in on her weaknesses, and drive turnout by telling white voters, especially white male voters, that the Democratic Party is for everybody but them – the same message that won for Trump in 2016 when Clinton made the same errors. ▶