

POLITICAL PULSE

Biden: Be Careful What You Wish For

Thursday, March 5, 2020

Donald Luskin

Sanders might have destroyed the US economy, but Biden might actually win.

In client conversations yesterday we heard repeatedly that the reason for the big risk-back-on day in markets was relief that, with the results from the Super Tuesday Democratic primaries, Joseph Biden (D-DE) had supplanted Bernie Sanders (D-VT) as the front-runner for the presidential nomination. *We don't want to get in a debate about what Mr. Market is thinking from day to day, but we feel strongly that these new election developments are not bullish at the margin.*

- Once again, please allow us to speak frankly about the divisive subject of politics, and rest assured that what we say is strictly from the perspective of economic and market strategy and forecasting.
- Our going-in proposition is that the most market-friendly outcome would be the re-election of President Donald J. Trump, the retention of Republican Senate control, and the recapture of Republican House control (rather than repeat our reasons, we ask you to please see ["2020 Outlook: After a Near-Miss Recession, It's the Election"](#) January 2, 2020).
- *So why would markets celebrate when Sanders – a candidate far too crazily radical to be elected president – falls behind Biden – a candidate moderate enough to possibly succeed?*
- A reason might be that *markets are unwilling to bear even the*

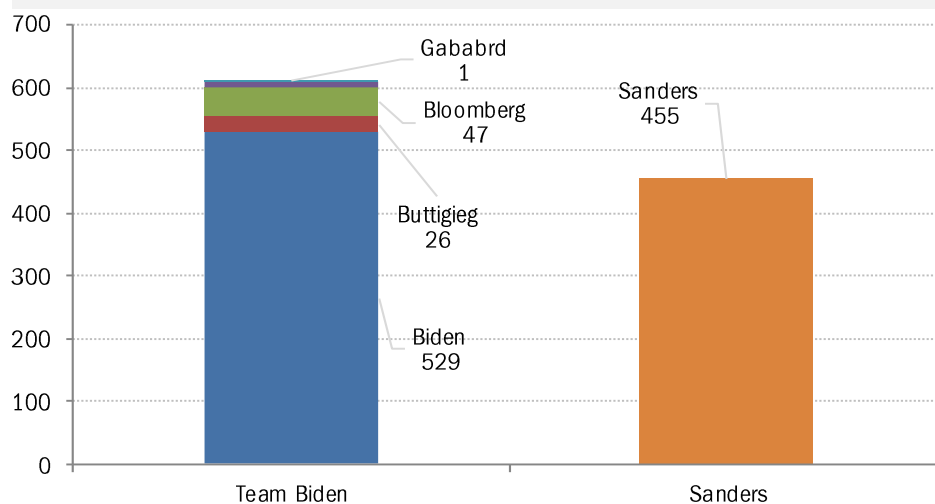
Update to strategic view

US ELECTION MODEL:

The threat of Sanders as president has receded. But now there is a different threat – the candidacy of Biden, who is far more likely to beat Trump than Sanders ever could have been. With three leading “suspended” Democratic aspirants endorsing Biden, the risk of a “brokered convention” is now virtually eliminated, which means the party will be more unified going into the election. If it’s close, Warren could be the “broker” with her 47 delegates, and could be Biden’s VP. Given his age, his VP pick will be key. We loosely predict Klobuchar, but if Biden picks an economic radical like Warren, that will introduce a new dimension of risks for markets. Our quantitative election model still predicts a strong win for Trump, unless the economy deteriorates in the wake of the Covid-2019 crisis.

[\[Strategy dashboard\]](#)

Democratic delegates: majority of 1991 required for nomination on first ballot



Source: Decision Desk HQ, TrendMacro calculations

slightest risk that Sanders might be elected and try to impose his “democratic socialist” agenda on the US economy. When he seemed like the inevitable front-runner just last week, we did speculate that markets were possibly focused on that tail-risk (see [“Covid-2019 and Bernie-2020”](#) February 26, 2019).

- Fair enough – investors are entitled to weigh risk-return tradeoffs any way they wish. But that isn’t how we see it, and we don’t think that’s how markets are going to see it for very long.
- But the congress is another consideration. It remains to be seen, but our going-in assumption that Sanders is unelectable would, if true, have had a “coat-tails” effect on Senate and House elections. For what it’s worth [Biden made much the same argument](#) going into Super Tuesday. So a Biden candidacy makes it harder for the GOP to keep Senate control or obtain House control.
- Now, it’s not just that Sanders is no longer the front-runner. It is that the delegate math is shaping up so that Biden can be nominated on the first ballot, without having to endure a “brokered convention” that could have shattered the Democratic party as it headed into the November election.
- We have explained that with a crowded field, and with primary elections that award delegates proportionately, it is almost arithmetically impossible for any candidate to arrive at the convention with a clean majority of delegates (again, see [“Covid-2019 and Bernie-2020”](#)). With Peter Buttigieg, Michael Bloomberg and Amy Klobuchar (D-MN) having “suspended” their campaigns and endorsed Biden, it is likely that their delegates would be instructed to vote for Biden on the first ballot (with some small variations in the [state-by-state rules](#), a candidate who has not formally dropped out of the race – only “suspended” – can indeed direct the re-allocation of his or her delegates).
- Today Elizabeth Warren “suspended” her campaign, too.
- That makes it a two-way race, so all Biden has to do to win on the first ballot is to proportionately maintain his present lead (please see the chart on the first page).
- To be sure, Biden’s lead is probably a little less than it looks now, because all the delegates haven’t been awarded yet in California. If Warren had endorsed Sanders, we could have added her 47 delegates to his. But Sanders would still be behind.
- It could still be a “brokered convention” if the margin between Team Biden and Sanders is within those 47 delegates, and that would make Warren the “broker.” That’s unlikely to happen, but don’t think Sanders won’t put up a fight through the rest of the primaries, with two thirds of delegates still to be awarded. So it might.
- If it does happen, either Sanders or Biden could offer Warren the vice president position to get her 47 delegates. If they both offer, we suspect she would take Biden up on it, not Sanders. Her policies are closer to those of Sanders, but we expect she would agree with us that Biden is more electable, and she will likely have little interest in being on anything other than a winning ticket.
- The veep choice is non-trivial, because at Biden’s age – he’ll turn 78 right after the November election – or Sanders’ – he’ll turn 79

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Gerry Shih
Washington Post
March 5, 2020

[So a Candidate Has Dropped Out. What Happens to Their Delegates?](#)

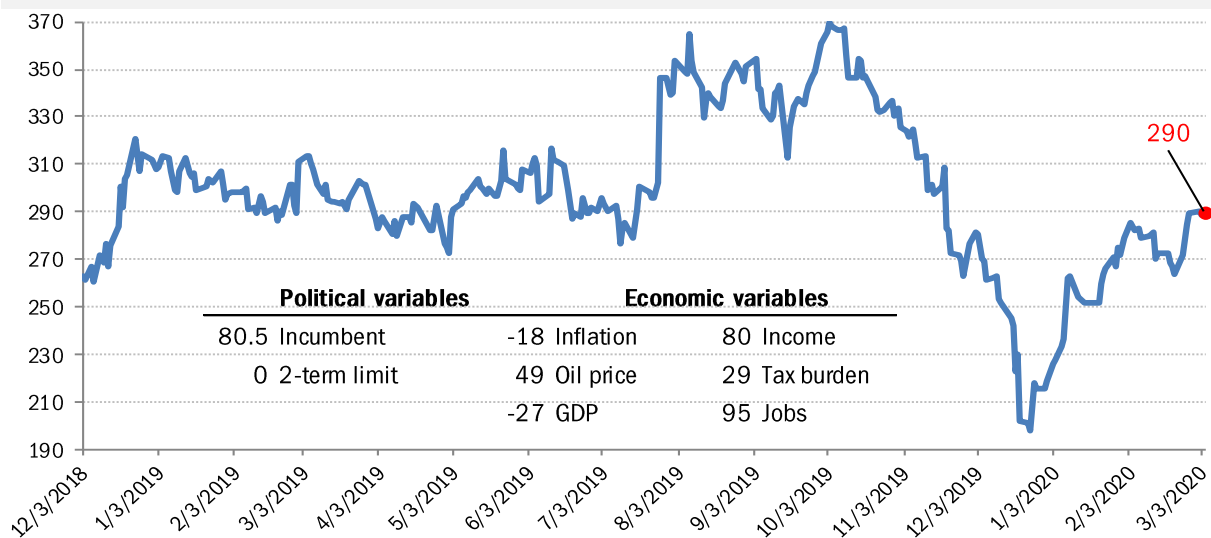
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March 2, 2020

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before the election – neither is unlikely to be a one-term president, if even that.

- With Biden seemingly in the lead, let’s consider his choices.
- Obviously he will pick someone younger (but that doesn’t really narrow the field, does it?). He’d likely pick a woman, to create a dimension of diversity on the ticket. It’s not clear he would necessarily pick a woman of color, because his deep support by African-Americans demonstrated on Super Tuesday suggests that he doesn’t need to.
- Klobuchar has the advantage of being a Midwesterner, who would blunt accusations by Trump that the Biden ticket is all “coastal elites.” And after handling herself reasonably well through multiple Democratic debates, she is a national figure now.
- Not strictly needing an African-American, we don’t see why Biden would pick Stacy Abrams – her image outside the mainstream in terms of identity politics, and Biden has just proven that the “centrist lane” is the right path for a Democrat this year.
- Kamala Harris (D-CA) checks lots of boxes. But again, her being a woman of color isn’t strictly necessary to the Biden ticket. And coming from California, she doesn’t bring any cultural diversification. And while it may seem attractive to help lock down a vote-rich state that just expressed its preference for Sanders, there’s really no way any Democrat isn’t going to carry California anyway. And unlike Klobuchar, having made it through only a couple debates, she’s not well-known nationally.
- We had told clients long ago and far away that we expected Harris would be the Democratic nominee at the top of the ticket. She made us wrong early on when she “suspended” her campaign in December. But if she ends up as Biden’s veep pick, we could still be right. As [our friend Scott Adams explains](#), there is a decent chance Biden, by virtue of his age and the rigors of the campaign, might not make it all the way to election day. Then Harris would be the nominee, and TrendMacro could claim it was right all along.

Margin in electoral college for Trump in 2020



Source: Various, TrendMacro calculations

- *We think the only serious veep risk with Biden is if he has to pick Warren to get those 47 delegates. That would introduce new risks, to be sure – but at the same time it would re-introduce some degree of unelectability to the ticket, given her image as a Sanders-type revolutionary.*
- *Our quantitative presidential election prediction model* (please see the chart on the previous page, and [“Video: TrendMacro's 2020 election model”](#) March 15, 2019) – which correctly predicted Obama in 2012 within 4 electoral college votes, and Trump in 2016 when everyone else’s models were predicting Clinton – *still assigns Trump a landslide-scale margin of 290 electoral college votes.* The model grants Trump a going-in advantage of 80 electoral college votes for being a first-term incumbent (they almost always win). Beyond that, it’s all economic inputs which, at least for now, are quite strong. Obviously, the threat of economic impact arising from Covid-2019 – and potentially draconian responses designed to contain it – could change that by election day.
- *As a matter of subjective judgment, this is another dimension in which we would be more comfortable with Sanders as the Democratic nominee. The worse the Covid-2019 crisis becomes, the more attractive will be a candidate who represents the safety of the establishment. Trump can do that as a sitting president, and Biden can do that as a former vice-president. Sanders cannot do that as a leader of a revolution.*

Bottom line

The threat of Sanders as president has receded. But now there is a different threat – the candidacy of Biden, who is far more likely to beat Trump than Sanders ever could have been. With three leading “suspended” Democratic aspirants endorsing Biden, the risk of a “brokered convention” is now virtually eliminated, which means the party will be more unified going into the election. If it’s close, Warren could be the “broker” with her 47 delegates, and could be Biden’s VP. Given his age, his VP pick will be key. We loosely predict Klobuchar, but if Biden picks an economic radical like Warren, that will introduce a new dimension of risks for markets. Our quantitative election model still predicts a strong win for Trump, unless the economy deteriorates in the wake of the Covid-2019 crisis. ▶