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POLTICAL PULSE
Our Hot Take on Last Night's Presidential Debate
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If Biden is replaced, it will be an uncertainty event that will discomfit markets.

It was a contest between bladder-control and impulse-control last night. It seems that impulse-control won.

With varying degrees of candor, the establishment media that tends to favor Democrats admitted that President Joseph R. Biden's performance in last night's debate was disqualifying, with even the *New York Times* admitting that the Democratic party is "panicking." As to Donald J. Trump, his impulse-control was a surprise on the upside – and the most the establishment media can say to diminish his performance is that he lied a lot (true enough – but no more or less than Biden did).

As of last night, the prediction markets have downgraded the probability of Biden being the Democratic nominee from 86% to 61%, and upgraded the probability of him resigning from 12% to 20% (please see the charts on the following page). *The probability of Trump being the GOP candidate is unchanged, and the probability of the GOP candidate being elected was upgraded from 55% to 59%.*
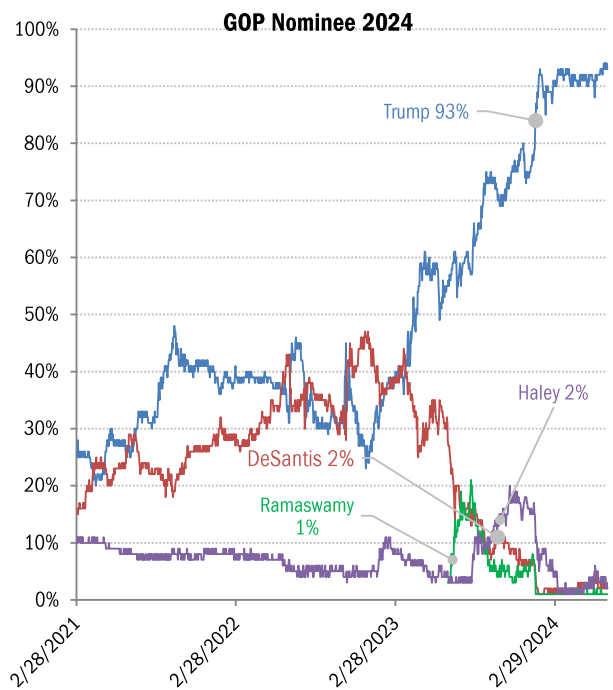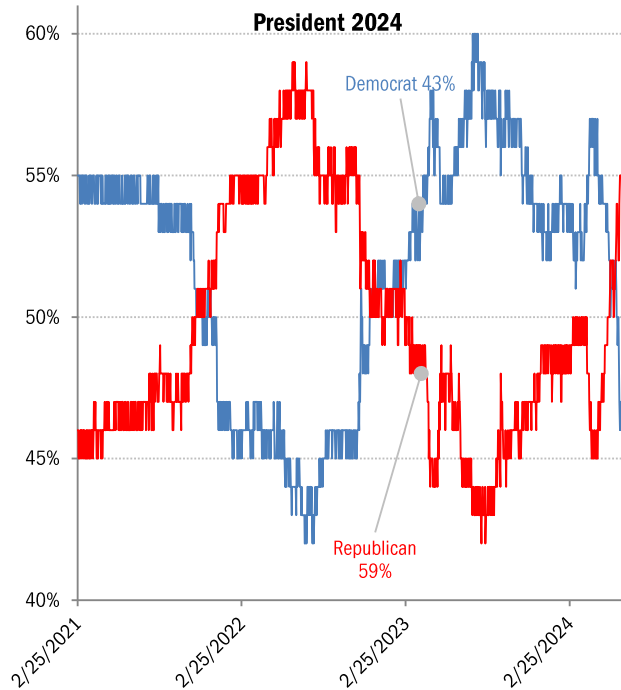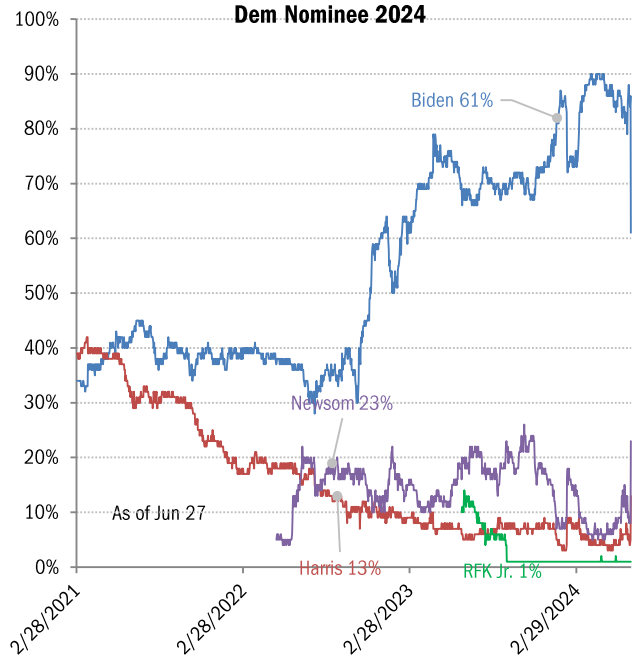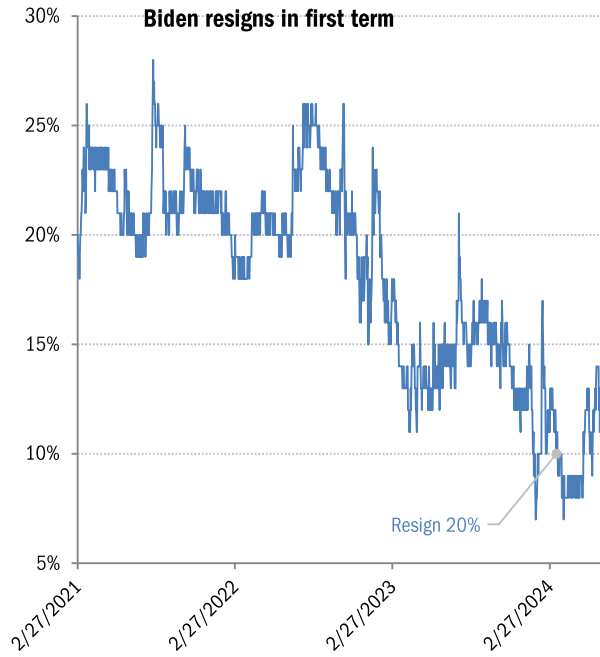
- But in the immediate aftermath, markets didn't seem to care all that much.
- *We think it's too soon before the election for markets to focus substantively on the risks and opportunities that would arise from the economic policy changes that would arise depending on which party's candidate is elected.* There are threats to markets if Biden is re-elected (see "Video: What you're not hearing about extending the 2017 tax cuts" May 9, 2024), and there are threats to markets if Trump is elected (see "Video: What you're not hearing about the effects of immigration on the post-pandemic boom" April 9, 2024). Markets will focus on this as the election draws nearer and both parties fine-tune their economic agendas.
- *As a general matter, we think if nothing else Trump is a very effective cheerleader for the grass-roots economy, especially small business. Despite all the policy trade-offs, we think markets will therefore end up preferring him as the next president.*
- *But in the aftermath of the debate, if Biden drops out of the race, there is a potential for a chaotic process of replacing him that could be discomfiting to markets because of the generalized uncertainty it would create.* It would have to be his own decision – his delegates

Update to strategic view

US POLITICS: Democrats are quickly coalescing around a consensus that last night's stumbling debate performance by Biden was disqualifying, and that Trump's surprising self-control advanced his cause. Biden's withdrawal as the nominee would have to be his own decision; his delegates are bound to him. If he is to stand aside, it will take time for him to do so, to distance such a decision from the embarrassment of last night. It's too soon for markets to focus on which party will win in November. There are positives and negatives on both sides on economic policy, and the trade-offs will become clearer over time. In the meantime, Biden's withdrawal will be an uncertainty event while it plays out, which could be discomfiting to markets. Harris is a non-starter as a replacement nominee. Obvious fallbacks Newson and Whitmer have no particular strengths. We dismiss speculation that Michelle Obama will be the nominee. Our quantitative model shows Biden or his replacement narrowly winning.

[Strategy dashboard]

Biden resigns in first term

Resign 20%

Dem Nominee 2024

Biden 61%

Newsom 23%

As of Jun 27

Harris 13%

RFK Jr. 1%

President 2024

Democrat 43%

Republican 59%

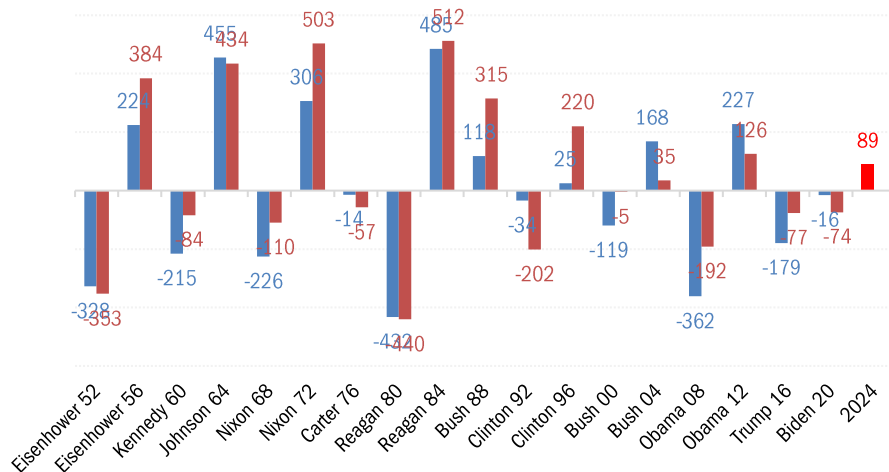**GOP Nominee 2024**

Trump 93%

Haley 2%

DeSantis 2%

Ramaswamy 1%

Source: Predict-it, TrendMacro calculations

are bound to him, and he would have to release them. There is no omnipotent "they" in a smoky room who can make this happen unless Biden agrees and participates. So a potential withdrawal is unlikely to happen quickly, because it would be humiliating to him if it were closely linked to his poor performance last night. Some time would have to pass to allow him to come up with a more generalized excuse. Or, if we may play armchair psychiatrist, it will

take time for him to go through [the five stages of grief](#) – he's likely in denial today, and it will take time to get all the way to acceptance. [Biden himself](#) and [the White House](#) are already buying that time with [statements meant to minimize](#) last night's significance (without seeming to realize that if you minimize it you are admitting it happened).

- We have no special insight as to who might be enlisted to replace Biden if he does indeed drop out. Without a robust Democratic primary process, there are no obvious voter-tested fallbacks – whereas the Republicans would have Ron DeSantis and Nikki Haley.

- We think Kamala Harris is a non-starter. She is not respected or liked by her own party. For this reason we think that, while it is at least likely that Biden will withdraw as the nominee, he would stay in office and finish out his term so as not to give Trump a Harris presidency to shoot against (or, for that matter, to give Harris the incumbency that might advance her chances to be the nominee).

- It would seem the Democrats' best ideas are governors Gavin Newsom and Gretchen Whitmer, but Newsom lost his debate with DeSantis earlier this year, and Whitmer, well, who exactly is Gretchen Whitmer? We give no credit to the widespread speculation on the right that Michelle Obama will be enlisted.

- By the way, our quantitative presidential election model has Biden – or at least the incumbent Democratic party – wining the presidency by a narrow electoral college vote margin (please see the chart below, and see ["For What It's Worth... TrendMacro's 2024 Presidential Election Model"](#) December 11, 2023). With the election more than five months away, with so many unique political factors in play, and with the economic variables that drive the model so scrambled after the unprecedented pandemic depression, we don't have all that much faith in it at this point.

TrendMacro presidential election prediction model
Electoral college vote margin for incumbent party ■ Model ■ Actual ■ Now

Next week we'll have more analysis aimed at understanding the economic agendas of Trump and Biden (or at least the canonical Democratic agenda he represents). For now, we'll sit back and watch what could be an historically unique election process.

Bottom line

Democrats are coalescing around a consensus that last night's stumbling debate performance by Biden was disqualifying, and that Trump's surprising self-control advanced his cause. Biden's withdrawal as the nominee would have to be his own decision; his delegates are bound to him. If he is to stand aside, it will take time for him to do so, to distance such a decision from the embarrassment of last night. It's too soon for markets to focus on which party will win in November. There are positives and negatives on both sides on economic policy, and the trade-offs will become clearer over time. In the meantime, Biden's withdrawal will be an uncertainty event while it plays out, which could be discomfiting to markets. Harris is a non-starter as a replacement nominee. Obvious fallbacks Newson and Whitmer have no particular strengths. We dismiss speculation that Michelle Obama will be the nominee. Our quantitative model shows Biden or his replacement narrowly winning.