

POLITICAL PULSE

Our Fearless Forecast

Tuesday, November 5, 2024

Donald Luskin**A not-insane analysis of polling: Trump wins the popular vote, Harris wins the election.***The biggest possible surprise in today's election is that it won't be close.*

- Models, prediction markets and polls all call for a close election.
- And they are not consistent as to which presidential candidate they predict will win, which itself points to a close election.
- Even if the Electoral College vote ends up being no less definitive than it was in 2016 and 2020 (77 and 74, respectively), the vote-count in individual determinative states can be quite close. In 2020 [just 43,000](#) votes across Arizona, Georgia and Wisconsin kept the Electoral College vote from being a literal tie.
- Close elections are subject to recounts, fraud, disputes and delays – and the risk that a few [“faithless electors”](#) could flip a seemingly settled election when they meet on December 17 (see [“Oh Come All Ye Faithless”](#) October 25, 2024).
- *Be prepared for procedural chaos that could discomfit markets.*

In the spirit of multi-modal research, let's review all the ways we might know how this is going to turn out.

- **NATIONAL POLLING:** According to polling aggregator [RealClear Politics](#), Kamala Harris up 0.1% in the national popular vote.
- National polls don't matter because they have few respondents representing a large and diverse population – and because the popular vote doesn't determine the presidency, anyway.
- That said, the very narrowness of Harris's lead is potentially indicative. On election day in 2016 Hillary Clinton was ahead by 3.2% (she won the popular vote by 2.1%, a polling error of 1.1%). On election day in 2020, Joseph Biden was ahead by 7.2% (he won by 4.5%, a widening polling error of 2.7% – see [“Video: What you're not hearing about the actual data on Trump's true position in the polls”](#) October 28, 2024).
- Even if the polls are dead accurate at 0.1% for Harris, such a narrow win in the popular vote dominated by large blue states would be a remarkable showing for Donald J. Trump. *But correcting for the worsening trend in polling errors in 2016 and 2020, we would expect Trump to win by 4.3%.* Well, “expect” is the wrong word – but that is what the numbers show.

Update to strategic view**US POLITICS, US MACRO, US STOCKS:**

This will likely be a very close election, reflected in polls, prediction markets and models. Not only are they all close – they also do not agree with each other as to the winner. Close elections are subject to recounts, frauds, disputes and delays, and the risk that “faithless electors” could flip a seemingly settled election in December. Such things would discomfit markets. Harris is very slightly ahead of Trump in national polls. Trump is slightly, but further, ahead in state polls in battleground states. Adjusting for polling error trends from 2016 and 2020, we get the astonishing result that Trump would win the popular vote but lose in the Electoral College. Trump is ahead in prediction markets. He is narrowly ahead in the Fair model, but Harris is narrowly ahead in the Silver model, and more definitively ahead in the TrendMacro model (based on economic data likely not relevant in the post-pandemic ...

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- **STATE POLLING:** State polling is generally more accurate because the number of respondents is usually a greater share of a less diverse population.
- And state polling captures the relevant dynamics of an election determined state-by-state in the Electoral College – a dynamic, for good and for ill, that is dominated by seven “battleground states” who effectively choose the president for all of us.
- According to [RealClear Politics](#), Trump is ahead by an average of 0.8% across the battleground states. *Compared to 2020, the polls show Trump flipping Arizona, Georgia, Nevada and Pennsylvania for a win by 54 Electoral College votes.*
- However, while polling error against Trump on a national basis disimproved from 2016 to 2020, it generally improved in the battleground states. *Correcting the polls for the improving error trend, Trump would not flip Pennsylvania or Georgia, so he would lose in the Electoral College by 14 votes.*
- *Combining national and state polling, and making the error trend adjustments, we get the astonishing result that Trump would win the popular vote and lose the Electoral College.* You heard it here first.
- **PREDICTION MARKETS:** As of this writing, [PredictIt](#) has Trump with a 54% probability of winning, Harris with 51% (see [“PredictIt Triumphs Over Regulatory Arrogance”](#) August 22, 2023).
- [Kalshi](#) has Trump with a 58% probability of winning, Harris with 42%.
- [Polymarket](#), which we believe is the largest and most liquid, has Trump with a 61.7% probability of winning, Harris with 38.5%.
- *All three prediction markets favor Trump, but what these narrow probabilities are telling us is there really is no clear expected winner.*
- **MODELS:** The granddaddy of all presidential prediction models, that of [econometrician Ray Fair](#), based on economic inputs, predicts Trump will win the popular vote by a margin of 0.53%.
- [Nate Silver’s model](#), based primarily on polling, predicts Harris will win by 4 Electoral College votes, with [a probability of victory of 50%](#). We note that this, Silver’s final prediction posted late last night, marks the first time in months his model has not predicted Trump to be the winner.
- The TrendMacro presidential election prediction model, based purely on economic inputs, predicts Harris will win by 100 Electoral College votes. It has been predicting Trump for months, but strong GDP and upward revisions to personal income data flipped it to Harris three weeks ago. Ever since the large and high-velocity economic fluctuations driven by the pandemic, we have counseled clients to disregard tried-and-true models based on past economic data – such as the yield curve and the index of leading indicators – and we have been very right, allowing us to stand against the overwhelming consensus for recession that has reigned for the last several years. We’re equally skeptical of our presidential model.
- **EARLY VOTING TRENDS:** A remarkable feature of this year’s election has been Republicans’ embrace of early voting.

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... world). Republican early voting is outstripping Democratic, revealing at least an enthusiasm gap. The House is still 50/50. Senate control is certain to go to the GOP. Markets are largely indifferent as to the presidency, because gridlock is probable. Markets seem to be implying that Trumponomics would be better for growth. We think a Trump win would immediately energize small cap stocks driven by animal spirits and liberation from excessive regulation.

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Remember – AI can be funky. This is still experimental. Check it out and let us know what you think.

Historically, Republicans have tended to prefer the traditional ritual of voting in person on election day. But this year, *Republican early voting is outstripping that of Democrats*. It remains to be seen whether this shows an enthusiasm gap in favor of Trump, or does nothing more than parasitize Republicans' election day turnout. But analyses by our friends at [Macrolens](#) and [Infonomena](#) argue that this points strongly to a Trump win, potentially by margins belied by the narrowness of polls and prediction markets.

- **HOUSE OF REPRESENTATIVES:** With so few competitive districts and poor telemetry, we have no better call than to say it's 50/50. Whichever party wins, it will enjoy only the same narrow majority as in the last two Congresses.
- **SENATE:** *Our longstanding high conviction that Republicans will take control of the Senate* (see, among many, ["2024: Deflation, Election, and No Recession"](#) January 3, 2024) *has only increased*.
- The W. Virginia seat left vacant by the retirement of Democrat Joe Manchin will surely go Republican.
- In Montana, Republican Tim Sheehy is ahead of incumbent Democrat Jon Tester by 7.7% [in the polls](#). He will win.
- *That's it. That's the two it takes to flip control to the Republicans*.
- In Ohio, Republican Bernie Moreno is ahead of incumbent Democrat Sherrod Brown by 1.7% [in the polls](#). That's within the margin of error, but it's in a state where Trump is polling ahead by anywhere from 7% to 12%, and favorite son JD Vance is on the ballot.
- We think the only Republican seat at risk is incumbent Deborah Fischer in Nebraska. There is no Democrat opposing her, but independent [Dan Osborn](#) is giving her a run for her money. But Osborn has said he will be a true independent in the Senate, caucusing with neither party – unlike *faux* independents Bernie Sanders (VT) and Angus King (ME) who caucus with the Democrats and effectively achieve their present majority. Even if Osborn wins, and even if Moreno does not, the flips in West Virginia and Montana would still mean a Republican majority, 50 to 49.

Okay. Here goes. We think it will be close. We think it could be chaotic. We think Trump will win.

- If he does, he'll have the Senate for sure. 50/50 on the House. So gridlock is a 50% probability.
- If Harris wins, she won't have the Senate even if Democrats flip the House. So the gridlock probability is 100%.
- Altogether, assuming the presidency itself is 50/50, gridlock is a 75% probability. This is why we have been saying as a first-order matter that *markets don't particularly care who the next president will be* (see ["Video: What you're not hearing about why the markets don't seem to care about the presidential election"](#) October 14, 2024).
- *The biggest black swan in this election is if we are wrong about the Senate – and Harris is elected with Democrats in control of both*

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chambers of Congress. That would take us back to the world of the first two Biden years, in which the economy had several near-death experiences with gigantic and colossally destructive tax-and-spend programs that were narrowly defeated.

- While markets aren't worried about such economic catastrophes – from either candidate – we do think they are revealing some preferences. By observing market behavior since June while the election has gone through so many remarkable news cycles, we think that markets do believe a Trump presidency would be somewhat more pro-growth (see [“Video: What you’re not hearing about who the market is voting for, and why”](#) October 30, 2024).
- We agree. There are plenty of flaws in Trumponomics – we think the worst is the damage to labor market growth that would come from sealing the border (see [“Video: What you’re not hearing about who are all those new immigrants in the labor force”](#) May 31, 2024). But we think Trump is such an effective cheerleader for the economy – and that he will be such an effective de-regulator – that he will restore the animal spirits of the small businesses that are responsible for more than half of all jobs in this country. That would be a rising tide from the grass roots – to mix a metaphor horribly – that would lift all boats (see [“Trumponomics II, The Sequel”](#) July 17, 2024).
- If Trump wins, we would therefore expect a repeat of what happened after his surprise victory in 2016 – a period of strong outperformance by small-cap stocks.

Bottom line

This will likely be a very close election, reflected in polls, prediction markets and models. Not only are they all close – they also do not agree with each other as to the winner. Close elections are subject to recounts, frauds, disputes and delays, and the risk that “faithless electors” could flip a seemingly settled election in December. Such things would discomfit markets. Harris is very slightly ahead of Trump in national polls. Trump is slightly, but further, ahead in state polls in battleground states. Adjusting for polling error trends from 2016 and 2020, we get the astonishing result that Trump would win the popular vote but lose in the Electoral College. Trump is ahead in prediction markets. He is narrowly ahead in the Fair model, but Harris is narrowly ahead in the Silver model, and more definitively ahead in the TrendMacro model (based on economic data likely not relevant in the post-pandemic world). Republican early voting is outstripping Democratic, revealing at least an enthusiasm gap. The House is still 50/50. Senate control is certain to go to the GOP. Our call: Trump wins. Markets are largely indifferent as to the presidency, because gridlock is probable. Markets seem to be implying that Trumponomics would be better for growth. We think a Trump win would immediately energize small cap stocks driven by animal spirits and liberation from excessive regulation. ▶