

POST-MEMORIAL DAY OUTLOOK

Monday, June 4, 2018

Congress returns today from Memorial Day recess 501 days into President Trump's first term with 156 days remaining until midterm elections. The House has 28 legislative days [scheduled](#) between now and August recess, with 19 more work days planned between Labor Day and elections. Here are **10 trends critical to strategic government relations planning** over the next 18 months.

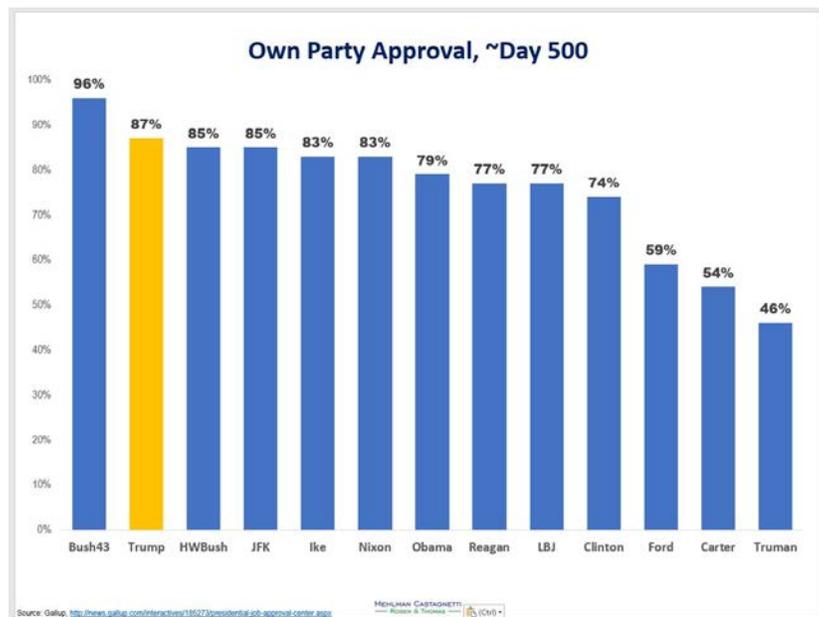
#1. President Trump is the Disruptor in Chief. This will not change.

More consistent than any political ideology, Donald Trump is a disruptor. He promised to shake up business as usual in Washington and around the world and he is delivering. Trump has hired more unconventional lieutenants, [fired](#) more senior staff and Cabinet officials, and encouraged more internecine competition among advisers than any President in modern memory. He is intentionally unpredictable and views controversy as a strategic opportunity to be leveraged.

The team advising the President on Day 500 is more disruptive / less traditional than that in place on Day 50. "Establishment" advisers such as Gary Cohn (economics) and HR McMaster (national security) are gone, with a much more hawkish John Bolton leading on security, NAFTA-China skeptics Peter Navarro and Bob Lighthizer running point on trade and former TV pundit Larry Kudlow in front on economic policy. The President promises to become more aggressive on immigration / border wall, trade/tariffs/China and prescription drug prices. 960 days remain in his first term.

#2. Trump's approval ratings remain remarkably consistent, with historically-high-and-holding support from his Republican base.

While polls have consistently shown more Americans disapprove of Trump's job performance than approve, those numbers reflect historic disapproval among the opposing party as much as anything else (only 10% of Democrats approve the President's job performance, lowest ever "opposing party" approval recorded by Gallup). Trump's 36% job approval among independents on day ~500 is also low, consistent with Truman's 28%, Ford's 38%, Carter's 40% and Clinton's 42%.



In contrast, [Donald Trump commands the 2nd highest "own party" approval on day ~500](#) (87%) since WWII, trailing only GW Bush's 95% "own party" approval 268 days after 9/11. (see chart).

For comparison, 79% of Democrats approved of President Obama's job performance on his 502nd day. Trump has likewise shown remarkable constancy in his approval ratings, with [less volatility in job approval ratings than any prior President](#) in the polling era. Trump's floor – and ceiling – appear remarkably inelastic.

#3. While some Republicans appreciate Trump's political incorrectness as truth-to-power, others separate the signal (policy) from the noise (tweets).

Some of President's Trump high GOP support – and intense disapproval among Democrats – results from his enthusiastic flouting of political correctness, especially via Twitter. For many Republicans, especially white voters who did not graduate college, Trump is also correct on the hot-button issues: right on undocumented immigrants, right on NFL players refusing to stand for the national anthem, right on media bias, right on guns and right to tear up Obama's Iran, Climate and TPP deals.

For other Republicans, while the “unpresidential” tweets are objectionable, there is nevertheless a positive signal within the noise. Let the media obsess over indecencies, they cite consistent “wins” for traditional GOP priorities and constituencies including the largest tax reform in 31 years, major energy and labor deregulation, a steady stream of conservative judges confirmed and victories against ISIS. While the President's rhetoric and recent actions on trade threaten GOP policy orthodoxy and conventional economic wisdom, markets and the economy remain strong so far.

#4. The GOP is now the Party of Trump.

Former Speaker John [Boehner](#) recently quipped that "There is no Republican party. There's a Trump party. The Republican party is kinda taking a nap somewhere." More realistically, however, President Trump reflects the new Republican Party. In 21st century politics, tribalism trumps ideology. Leaders shape the views of their followers, with majorities of Republicans now agreeing with Trump on trade, immigration, the media and even the FBI.

Given Trump's 87% job approval rating among Republicans, one can expect to see more GOP candidates running as “Trump Republicans” in November (eg TN's Marsha Blackburn), fewer primary challenges to the President in 2019, and cautious tip-toeing by Democratic incumbents seeking reelection in states Trump won in 2016 (to avoid a midterm referendum on the President in a state that approves). Likewise, the next GOP Speaker/Leader is most likely whomever Trump endorses.

#5. Democrats' civil war is mostly on-hold until the 2019 Presidential Primaries.

Democrats are united in their hatred of the President and desire to take back Congress. Beyond that, however, Dems are a house divided rapidly shifting leftward. The era of Bill Clinton centrism is over. Whereas 43% of Democrats claimed “liberal or mostly liberal” views in 1994, today it's 73%. Only 32% agreed immigration was good for the US back then vs 84% now. Many of Clinton's signature accomplishments (work-for-welfare reform, tough crime bill, NAFTA and China PNTR, bank dereg, don't ask-don't tell) are anathema to today's Democrats, as is the response to the #metoo allegations against him. This transformation is a long-term trend that's accelerating. Whereas 69% of Democrats said they prefer elected officials who compromise with people they disagree with in 2017, that fell to 46% in '18 ([Pew](#)).

Already at least nine of 49 sitting Democratic Senators [may run](#) for President in 2019, a primary contest sure to push candidates to the left given the critical importance of Progressives' energy, activism and resources. And Democrats' House leaders, averaging 78 years old and in office for the past 15, face growing [pressure](#) to make way for a new generation.

#6. Businesses are still engaged but less visibly.

Throughout 2017, many CEOs prominently engaged the President, either to support the Admin’s initiatives (eg joining advisory forums) or to oppose them (e.g. amicus briefs vs immigration executive orders, withdrawal from Paris Climate Accord, decision to shrink national monuments, etc.). While CEOs continue to engage the White House, most are taking a lower profile in 2018, either meeting with senior staff (such as the USTR) or privately.

Some of this reflects general business satisfaction with trends in policy and markets (other than recent actions on trade). As the [Economist](#) observed in its cover editorial May 24, “The people who run companies have made their calculations about the Age of Trump. On balance, they like it. Bosses reckon that the value of tax cuts, deregulation and potential trade concessions from China outweighs the hazy costs of weaker institutions and trade wars.”

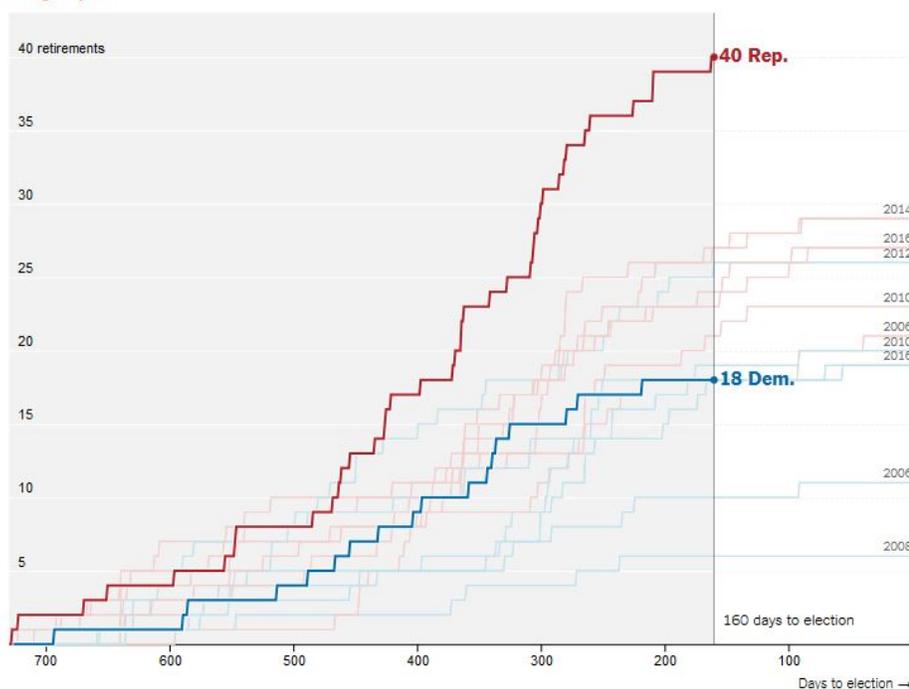
Yet CEOs’ lower profiles with this White House also reflect meaningfully-increased political activism by customers, millennial employees and social media mobs. There are far [greater expectations](#) for business leaders to engage on social issues, and far greater risks for getting it wrong. Partisanship is bad for business and personal engagement with controversial politicians are quite often unnecessary.

#7. Democrats will gain in midterm elections, but unclear if they can flip control.

As summarized by [UVA’s Kyle Kondik](#), “since the Civil War, the President’s party has lost ground in 36 of 39 midterms, with an average loss of 33 seats. In the shorter timeframe of the post-WWII era, the President’s party has lost an average of 26 seats per midterm. Democrats need to net 23 seats to win the House.” Kondik’s group gives the Democrats “roughly 50-50 odds” of winning the House, while [CBS News/YouGov](#) estimates Democrats winning 219 seats to the GOP’s 216.

All retirement announcements, 2006-18

Through May 30



Factors favoring Democrats in the House include historically-low overall Presidential approval, significantly more recruited candidates, consistent over-performance in 2017-2018 [special elections](#) and historically-high GOP retirements. In fact nearly 60 districts – 40 GOP-held, 18 Dem – won’t feature an incumbent running for reelection, the 2nd-highest total of [open seats](#) in the postwar era.

Yet Republicans in the House benefit from historic trends in midterm turnout (older, less diverse, more conservative voters), few truly-swing districts and well-financed allies aggressively engaging to protect

the majority. Both the “enthusiasm gap” (asking “are you excited to vote”) and the “generic ballot” (asking “would you rather see Congress controlled by D’s or R’s”) have tightened recently.

In the Senate, Republicans enjoy the most lopsided battleground map since [1938](#). Democrats are defending 26 seats including 10 in states won by Trump, five carried “bigly.” Republicans are only defending 9 seats in total, and just one carried by Hillary Clinton (NV). It is even possible that Republicans could lose the House yet increase their one-vote Senate margin.

#8. What to watch for in Washington from here through the end of 2018.

GOP leaders in both the House and Senate threaten to shorten August recess and add to the 47 scheduled legislative days before the election. Yet that move, along with everything else, will be based on electoral considerations. Senator McConnell’s top policy priority in 2018 is confirming as many lifetime judicial nominees and Trump Administration officials as possible. Congress also needs to pass new spending bills for FY19 (to avoid a 9/30 shutdown) and to extend / fund the National Flood Insurance program (expires 7/31), Farm Bill (9/30), FAA authorization (9/30), Animal Drug User Fees (9/30), National Defense Authorization (12/31) and Pandemic & All-Hazards Preparedness Act (9/30). While history suggests neither party would seek a shutdown 40 days before an election, we live in an age of disruptors, with an immigration / border wall showdown plausible.

Additional legislation may see action in 2018, including CFIUS / export control reform, the Water Resources Development Act, opioid crisis legislation and Intelligence Act reauthorization, among others. Odds are high that the House will vote on several immigration bills, with relief for so-called Dreamers seemingly the most likely to pass. However, it is hard to see the Senate tackling bipartisan immigration reform before the 2018 election. Oversight Committees will remain active on the opioid crisis, social media platform responsibility and prescription drug costs, among other hot button issues.

Too often lost amidst the political drama are major cases before the U.S. Supreme Court. SCOTUS will decide [29 cases](#) by the end of June, with profound implications for business, society and elections. Most prominent among these are questions over the constitutionality of Trump’s travel ban, police cell phone location-tracking, whether religious freedom allows for LGBTQ discrimination, whether states can compel collection of sales taxes by out-of-state online retailers, whether unions can force workers to pay dues and the constitutionality of partisan gerrymandering.

#9. 2019-2020 Congressional agenda: Who will be in control?

Regardless of election outcomes, significant change is coming to Congress. 2018 sees the 2nd highest number of voluntary House departures since at least 1970, including [10 Committee Chairmen](#) and large numbers on Judiciary (8), Ways and Means (7) and Energy & Commerce (5) Committees.

If Democrats capture either chamber in November, their top priority in 2019 will be aggressive oversight of the Trump Administration, with hard-hitting investigations into its people, policies and perceived outside enablers. Non-stop drama and breathless cable coverage will be the rule, especially if special counsel Mueller alleges wrongdoing. Democrats will look for ways to differentiate their policy positions from the President ahead of 2020, likely proposing aggressive crackdowns on prescription drug costs, a push for an Internet bill of rights (privacy + net neutrality), reversing Trump tax cuts and focus on climate change. Yet Democratic control might also make a big infrastructure

bill or crackdown on trade more likely, as Trump looks to cut deals with the new leaders while shoring up support for his own reelection (think Bill Clinton’s 1996 “triangulation”).

Regardless of which party holds Congress, we expect a 2019 Ethics Reform package in response to apparent violations of ethics rules / exploitation of loopholes by “shadow lobbyists” (non-registered influencers who claim to be consultants, strategic advisers or strategists). Likewise, Congress will maintain focus on the opioid crisis and the high cost of prescription medications, in addition to growing focus on so-called “[Big Tech](#),” especially ad-based platforms such as Google, Facebook and Amazon. Federal policymakers will likely join state and global leaders pushing new rules regarding data rights and responsibilities, intermediary liability and competition policy (antitrust).

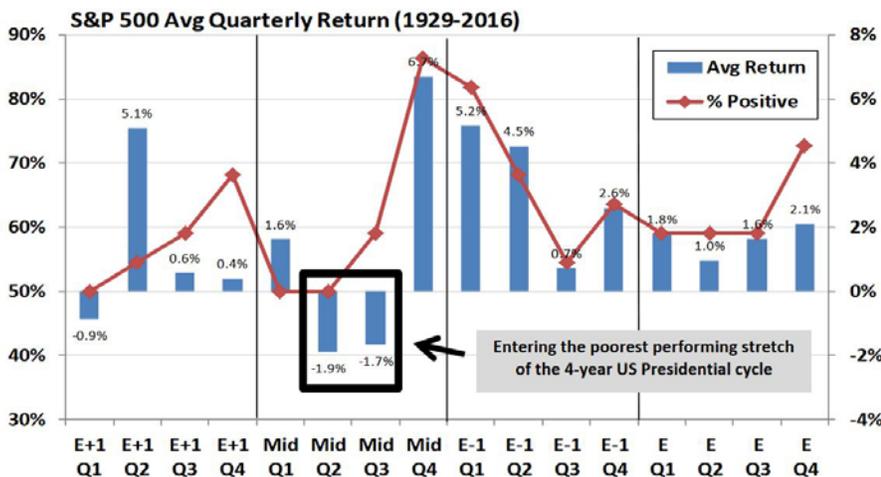
#10. Extraordinary wildcards persist: Markets, Madmen, Mueller

As disruptive as the known knowns are right now, the known unknowns offer exponentially greater risks to markets, businesses and electoral outcomes. Three stand out most of all:

Technical Analysis

The Most Bearish Chart in Our Deck

Overall, we see the setup for a market rally but seasonals are becoming a looming concern, by our analysis. For instance, equities have typically posted below-average returns over the summer months, and this is especially true during mid-terms years (e.g., 2018). In fact, Q2 and Q3 of mid-term years are two of the only three quarters of the 4-year US Presidential cycle in which the S&P 500 has averaged a negative return since 1929 (Q1 of post-election years is the other). A monthly breakdown shows that headwinds typically start in May.



Source: Oppenheimer & Co. and Bloomberg. Note: These results cannot and should not be viewed as an indicator of future performance.

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March 31, 2018

Madmen: As traditional alliances fray over trade disputes, nationalists attacking erstwhile allies and China rising, rogue regimes’ risks to the geopolitical order are even greater. Kim Jong Un, Vladimir Putin and Hassan Rouhani all face growing American sanctions and domestic incentives to fight back. Risks grow that they or western powers might “wag the dog” when cornered, with cyber hostilities and attempted 2018 [election-interference](#) the likeliest vectors for attack.

Mueller: After spending more than one year and \$20M, the former FBI director’s probe into Russian interference in the 2016 US elections shows no sign of ending any time soon. By contrast, media accounts suggest far greater likelihood of summer or fall clashes with the White House precipitating Constitutional crises and calls for impeachment.

Buckle up.

Markets: A significant amount of Trump base approval and business support flows from healthy stock market growth, high consumer confidence and the lowest unemployment rate in more than 50 years (3.8% in May). Yet since 1929 [the summer of a President’s second year is, on average, the worst stretch for the stock market during a four-year term](#). Many analysts see weakness in emerging markets and major recession risks from a trade war, and the fallout from populists’ recent victories in [Italian elections](#) demonstrates the potential for politics to impact bond and global markets.