Living in Limbo

Anticipating the Top 2022 Risks in Politics & Policy
LIVING IN LIMBO… TOP 2022 RISKS

- Uncertainty, volatility & disruption are the new normal.

- 2022 will neither be the best of times nor worst of times:
  - COVID won’t magically go away nor kill us all.
  - The economy won’t return 1970’s stagflation nor the 1990’s boom.
  - U.S.-China tension neither ends in WWIII nor in Chimerica 2.0.

- Reality will prove more nuanced & complicated. Leaders need to reassess approaches to risk analysis & preparation:
  - Understand macro trends driving technology, geopolitics & culture.
  - Adapt strategies to survive / benefit from accelerating change.
  - Engage stakeholders proactively to maximize intelligence & alliances.
Anticipating 2022 Risks in Politics & Policy

**EXISTENTIAL RISKS**
1. Extreme Expectations Obscure Common Ground
2. COVID: The Fourth Wave
3. Infrastructure: Cyber Insecurity
4. Insurers: Extreme Weather Events
5. Multilateralism: Wars, Refugees, Economic Nationalism

**ECONOMIC RISKS**
7. Consumers: Inflation
8. Manufacturers (long-term): Supply Chain Headwinds Rising
9. Markets: Irrational Exuberance
10. Networks: Space, the Fragile Frontier

**POLITICAL RISKS**
11. Biden: Perceived “Softness”
12. Democrats: Wave Election Likely
13. Senate GOP: Primary Failures
15. Voters: One Zillion Election Ads Coming
16. Moderates: Swing Seats Disappearing
17. Incumbents: Restless Electorate

**BUSINESS RISKS**
18. Business: Bureaucracy Rising
19. Multinationals: U.S.-China Decoupling
20. CEOs: Political Homelessness
21. Brands: Employee Activism

**Recommendations for Leaders**
EXISTENTIAL RISKS
We Can’t Solve Real Problems If We Can’t Agree on What’s Real

<table>
<thead>
<tr>
<th>Topic</th>
<th>Maximum Chaos</th>
<th>Return to Normalcy</th>
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<tbody>
<tr>
<td>COVID</td>
<td>The Andromeda Strain</td>
<td>Magically Goes Away</td>
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<tr>
<td>ECONOMY</td>
<td>1970’s Stagflation</td>
<td>1990’s Boom</td>
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<tr>
<td>US-CHINA</td>
<td>World War III</td>
<td>Chimerica 2.0</td>
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<td>POLITICS</td>
<td>New Rules After Every Election</td>
<td>Durable Majorities Bringing Certainty</td>
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<tr>
<td>BRANDS</td>
<td>Consumed by Culture Wars</td>
<td>Everyone Always Satisfied</td>
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<tr>
<td>MARKETS</td>
<td>1929</td>
<td>1999</td>
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#1 RISK: EXTREME EXPECTATIONS OBSCURE COMMON GROUND

We Can’t Solve Real Problems If We Can’t Agree on What’s Real

Maximum Chaos

- The Andromeda Strain

Return to Normalcy

- Magically Goes Away
- 1990’s Boom
- Chimerica 2.0
- Durable Majorities Bringing Certainty
- Everyone Always Satisfied
- 1999
We Remain on “Pandemic Footing” vs an Endemic Disease

Too Few Vaccinated
- U.S. 61% fully-vaxed (not boosters)
- Globally 45% fully-vaxed

Virus Keeps Evolving
- WHO monitored >27 variants in 2021
- More coming in 2022 (& ‘23, ‘24…)

Unprepared for Endemic
- Risks over-hyped
- Preventions under-embraced
- “Zero COVID” won’t work forever
- “Independence Day” never coming

Source: Johns Hopkins, CSSE, WHO data per Financial Times
#3. INFRASTRUCTURE: CYBER INSECURITY

Accelerating Pace of Cyber Attacks Breaching Increasingly Sensitive Systems

Zero Day Vulnerabilities Discovered

Source: Zero Day Tracking Project
#4. INSURERS: EXTREME WEATHER DISASTERS

Disasters Increasing Costs, Challenging Supply Chains & Driving Policy

United States Billion-Dollar Disaster Events 1980-2021 (CPI-Adjusted)

- Drought Count
- Flood Count
- Freeze Count
- Severe Storm Count
- Tropical Cyclone Count
- Wildfire Count
- Winter Storm Count
- Combined Disaster Cost
- Costs 95% CI

Updated: October 8, 2021

Source: NOAA
Will COVID, Energy & Supply Chain Crises Embolden Bullies?

REFUGEE / HUMAN RIGHTS CRISES

RISK OF WAR

ECONOMIC NATIONALISM

- Afghanistan’s humanitarian crisis
- Belarus
- Poland
- Russia
- Ukraine
- Crimea
- China
- Taiwan
- Israel
- Iran
- Sudan
- Eritrea
- Ethiopia
- Uighur
- Technology Sovereignty
- Data, Cyber, Privacy Laws
ECONOMIC RISKS
#6. MANUFACTURERS (SHORT TERM): ONGOING SHORTAGES

Politics Prolonging Supply Chain Shortages

**COVID**
- Sickness & Shutdowns
- Pandemic Partisanship

**POLITICS**
- Workers under-concerned or over-reacting
- Decoupling & domestic manufacturing prioritized

**RESULT**
- Cold (shutdown) & Hot (recovery)
- New "Cold War" vs China
- Decarbonization
- Low fossil fuel inventories & investment
#7. CONSUMERS: INFLATION

Persistent Inflation Raising Multiple Public Policy Battles

- Tighter monetary policy or prioritize jobs?
- Investigate big players or encourage productivity?
- Subsidize fossil fuels and/or renewables?
- Encourage union strikes or expand labor force?
- Tighter fiscal policy or prioritize domestic spending / defense?
- Leverage global supply chains or deny tech to adversaries?
1989-2019: Tailwinds Prevailed

- Tech-Enabled *(Cross-border data flows)*
- US-China Engagement
- Rising Globalization
- Shareholder-Driven
- Prioritizing Efficiency
- Disinflationary Environment

2020- : Headwinds Rising

- Tech Regulations-Hindered
- US-China Decoupling
- Rising Nationalism
- Stakeholder-Resisted
- Prioritizing Resilience
- Costs Rising *(Wages, Energy, Logistics)*
What Happens When the Fed Starts Tightening?

- **75%** of companies going public in 2021 were unprofitable (up from 25% of IPOs in 1980)
- Total cryptocurrency markets **up >300%** over 1 year (12/4/20-12/3/21)
- Total U.S. **household wealth up 19.6%** ($118.5T (Q2 ‘20) → $141.7T (Q2 ‘21)
- U.S. **home prices up >20%** (in 2021 vs. ~3.5% long-term avg./yr)

Sources: BofA per Bloomberg; IPOs; Home prices; Crypto (CoinMarket); Wealth (Gavekal)
Collisions could create a “waterfall cascade,” accelerating in near-earth orbit object. Over 7,500 active satellites in LEO, with over 65,000 additional satellites planned by SpaceX, Amazon, OneWeb, StarNet/GW (China) over the next 5 years. This leads to over 8,800 tons of orbital debris in LEO, with over 128,000,000 pieces of debris threatening GPS, communications, and weather systems. Collisions likely to beget more collisions in a “cascade waterfall” threatening the International Space Station. Anti-satellite weapons have been displayed by four countries: US, Russia, China, and India. Russia’s Nov. 2021 A-SAT test created 1,500 pieces of debris, threatening the International Space Station. The odds of incidents or accidents grow as traffic explodes, sometimes literally.
POLITICAL RISKS
#11. BIDEN: PERCEIVED “SOFTNESS”

**Soft on the Border**
Migrant encounters at U.S.-Mexico border, by fiscal year

**Source:** Pew, Nov. 2021

**Soft on Inflation**
U.S. consumer price index, change from a year earlier

**Soft on Crime**
Homicides in the U.S.

**Soft on Foreign Policy**

Source: FBI data via CNN chart
#12. DEMOCRATS: GOP WAVE ELECTION LOOKING LIKELY

## GOP WAVE

Generic Ballot (R+3.1% per RCP)
House Retirements (19D, 12R)
POTUS Net Approval (-9.9% per RCP)
Satisfaction with “Way Things Going” (23% per Gallup)
History (WH party losses avg. 26.8 seats in 1st midterm since 1946)

Will it be big enough to win the Senate?
2022: “Secure the Senate” or “Stop the Steal”?

Weak Candidates Lose Winnable Races, Even in Red States

- 2018 Alabama
- 2010 Delaware
- 2010 Nevada
- 2012 Missouri

Will Top-Tier Candidates Pass…

- SUNUNU DECLINES A NH SENATE RUN
- … or will Fealty > Electability?

Perdue/Loeffler Didn’t Deliver For Trump, DON’T Deliver For Them.
#14. HOUSE GOP: AVOIDING AN “OFF-YEAR, OFF-YEAR”

Cautionary Lessons from Potentially-Parallel Prior Years

1998
To Maintain a Roaring Economy
Because Other Guys Worse
1998 US GDP +4.5%

2002
To Support a Wartime Leader
To Rally vs External Threats

2018
To Protect Health Care
It’s a Referendum on Trump

Oct. ‘18
42%
Approve
51%
Disapprove

Oct. ‘21
38%
Approve
50%
Disapprove

2022 ECONOMIC FORECAST
2022 Will Be the Most Expensive Midterms in U.S. History, Historic Volume of TV, Print & Digital Ads

**GOP 2022 Election Themes**

- Biden “Mismanagement”:
  - Economy: Inflation & Debt
  - Domestic failures: The Border & Crime
  - COVID: Intrusive mandates
  - Foreign failures: Afghanistan, Russia, China

- Too Much Political Correctness (WokeLash):
  - Education / Schools
  - Media
  - Workplace (mandates)

**DEM 2022 Election Themes**

- Republicans “Too Dangerous”:
  - GOP ending Right to Abortion?
  - Anti-civil rights (voting & immigration)
  - Anti-vax, gun control, climate
  - Republicans = Trump = Jan. 6th

- Democrats are Succeeding:
  - “Morning in America” economy
  - Winning COVID war
  - Rebuilding better (infrastructure, green, safety nets)
#16. MODERATES: SWING SEATS DISAPPEARING

Redistricting Killing Competitive Seats, Intensifies Partisanship

Swing Seats in the U.S. House of Representatives (R+5 to D+5)

Source: Dave Wasserman, Cook Political Report, 2021
#17. INCUMBENTS: RESTLESS ELECTORATE VOTING FOR CHANGE

Change in Control of House, Senate and/or WH Is New Norm


You are here
BUSINESS RISKS
Activist Government Is Back ("Phone & Pen" 2.0)

OVERSIGHT

REGULATION

ENFORCEMENT
Both Leaders Will Balance Assertiveness & Accommodation

(Businesses should plan for neither détente nor war but steady decoupling with tightening restrictions)

Both need to do enough to...

- demonstrate your toughness before your Fall (s)elections
- reduce domestic inequality & check Big Tech power
- shrink global dependencies in strategic sectors
- leverage the crisis for big systemic change

But don’t do so much that you...

- provoke a war or an economic downturn
- weaken your nation’s innovation capacity
- lose access to markets or alienate friends
- erode trust in your leadership due to mismanagement

National Politics

Tech & Innovation

Trade & Geopolitics

COVID & Change
#20. CEOs: POLITICAL HOMELESSNESS

## Republican Criticisms
- Too “Woke”
- Too Paternalistic

## Democratic Criticisms
- Excessive CEO Comp
- Share Buybacks

## Bipartisan Criticisms
- Too Cozy with China
- Abusing Market Power
Employees Will Demand Action in 2022… But on What Issues?

**KNOWN KNOWN RISKS**
(on the calendar)
1. Beijing Olympics (Feb)
2. Mask / Vax mandates (Now)
3. Abortion decision (June/July)
4. Qatar World Cup (Nov)
5. Election disputes (Primaries, Nov)

**KNOWN UNKNOWN RISKS**
(always occur, don’t know when)
1. Mass / school shootings
2. Police violence on video
3. Disputed judicial verdicts
4. Voting rights laws (in states or U.S. Senate)
5. Disfavored clients

**UNKNOWN UNKNOWN RISKS**
(may happen or may not)
1. Rogue executive misdeeds
2. Client corruption or scandal
3. Divestment campaigns
4. New flexibility/WFH demands?
5. Ill-advised comment (Dimon; Dalio)
Volatility & Disruption are the New Normal

*Macro trends are reshaping your industry. Reforms will disrupt your business.*

#1. UNDERSTAND
How are you tracking tech, geopolitics & cultural trends?
How are broader changes impacting you, competitors & your markets?

#2. ADAPT
What are your digital, global & ESG strategies?
How do you assess political risk, plan for contingencies & pressure-test your plans?

#3. ENGAGE
Do you hear from a broad range of sources or echo chamber?
Which stakeholders will have your back when you need allies?
Are you at the table with policymakers (or on the menu)?
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