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.
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
#1 RISK: EXTREME EXPECTATIONS OBSCURE COMMON GROUND

We Can’t Solve Real Problems If We Can’t Agree on What’s Real…
Hyper-partisans see what they want to be true vs what is.

<table>
<thead>
<tr>
<th>Category</th>
<th>Maximum Chaos</th>
<th>Return to Normalcy</th>
</tr>
</thead>
<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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<tr>
<td>POLITICS</td>
<td>New Rules After Every Election</td>
<td>Durable Majorities Bringing Certainty</td>
</tr>
<tr>
<td>BRANDS</td>
<td>Consumed by Culture Wars</td>
<td>Everyone Always Satisfied</td>
</tr>
<tr>
<td>MARKETS</td>
<td>1929</td>
<td>1999</td>
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</table>
#2. COVID: THE FOURTH WAVE

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
Disasters Increasing Costs, Challenging Supply Chains & Driving Policy

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

- Drought Count
- Flooding Count
- Freeze Count
- Severe Storm Count
- Tropical Cyclone Count
- Wildfire Count
- Winter Storm Count
- Combined Disaster Cost
- Costs 95% CI
- 5-Year Avg Costs

Source: NOAA
Updated: January 10, 2022
Will COVID, Energy & Supply Chain Crises Embolden Bullies?

#5. MULTILATERALISM: WARS, REFUGEES, NATIONALISM

REFUGEE / HUMAN RIGHTS CRISES

RISK OF WAR

ECONOMIC NATIONALISM

Data, Cyber, Privacy Laws

Technology Sovereignty
ECONOMIC RISKS
#6. MANUFACTURERS (SHORT TERM): ONGOING SHORTAGES

Politics Prolonging Supply Chain Shortages

<table>
<thead>
<tr>
<th>COVID</th>
<th>POLITICS</th>
<th>RESULT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sickness &amp;</td>
<td>Pandemic</td>
<td>Workers under-concerned or over-reacting</td>
</tr>
<tr>
<td>Shutdowns</td>
<td>Partisanship</td>
<td>Decoupling &amp; domestic manufacturing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>prioritized</td>
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<tr>
<td></td>
<td></td>
<td>Cold (shutdown) &amp; Hot (recovery)</td>
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<tr>
<td></td>
<td></td>
<td>Decarbonization</td>
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<tr>
<td></td>
<td></td>
<td>Low fossil fuel inventories &amp; investment</td>
</tr>
<tr>
<td>Supply &amp;</td>
<td>New “Cold War”</td>
<td></td>
</tr>
<tr>
<td>demand shocks</td>
<td>vs China</td>
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SEMICONDUCTORS

WORKERS

ENERGY
Persistent Inflation Raising Multiple Public Policy Battles

- Tighter monetary policy or prioritize jobs?
- Investigate big players or encourage productivity?
- Tighter fiscal policy or prioritize domestic spending / defense?
- Subsidize fossil fuels and/or renewables?
- Leverage global supply chains or deny tech to adversaries?
- Encourage union strikes or expand labor force?
#8. MANUFACTURERS (LONGER-TERM): SUPPLY CHAIN HEADWINDS RISING

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)*
#9. MARKETS: IRRATIONAL EXUBERANCE

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 65,000 additional satellites planned by SpaceX, Amazon, OneWeb & StarNet/GW (China) over next 5 years.

>7,500 ACTIVE SATELLITES IN LEO
Over 65,000 additional satellites planned by SpaceX, Amazon, OneWeb & StarNet/GW (China) over next 5 years.

>8,800 TONS OF ORBITAL DEBRIS
Over 128,000,000 pieces of debris in LEO

Collisions likely to beget more collisions in a "cascade waterfall" threatening GPS, communications & weather systems, among others.

ANTI-SATELLITE WEAPONS
To-date 4 countries displayed A-SAT capabilities: US, Russia, China, India.

Russia’s Nov. 2021 A-SAT test created 1,500 pieces of debris, threatening the International Space Station.

Odds of Incidents or Accidents Grow as Traffic Explodes (sometimes literally)

Sources: LEO; Debris; A-SAT
POLITICAL RISKS
#11. BIDEN: PERCEIVED “SOFTNESS”

**Soft on the Border**

Migrant encounters at U.S.-Mexico border, by fiscal year

**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: Pew, Nov. 2021

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

House Dems  
(-5 seats flips control)

Senate Dems  
(-1 seat flips control)

GOP WAVE

House Retirements (28D, 13R per 270towin)

POTUS Net Approval (-14% per RCP)

Enthusiasm Gap (R+14 per NBC)

Wrong Direction (65% per RCP)

SENATE per CPR
Toss-Up / Lean seats:
4 Dem, 5 GOP

HOUSE per CPR
Toss-Up / Lean seats:
21 Dem, 9 GOP

Polls as of 1/24/22
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?
#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*

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

#15. VOTERS: ONE ZILLION ATTACK 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)
Redistricting Killing Competitive Seats, Intensifies Partisanship

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

- 1952
- 1954
- 1956
- 1958
- 1960
- 1962
- 1964
- 1966
- 1968
- 1970
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- 1974
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- 2000
- 2002
- 2004
- 2006
- 2008
- 2010
- 2012
- 2014
- 2016
- 2018
- 2020
- 2022

You are here
BUSINESS RISKS
#18. BUSINESS: BUREAUCRACY RISING

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

Midterm elections Nov. 2022
20th Party Congress votes Oct. 2022
#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)?
Mehlman Castagnetti Rosen & Thomas

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