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.
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Anticipating the Top 2022 Risks in Politics & Policy

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** Recommendations for Leaders
EXISTENTIAL RISKS
#1 RISK: EXTREME EXPECTATIONS OBSCURE COMMON GROUND

2022 Will Neither Be the Best of Times Nor the Worst of Times

We can’t solve real problems if we can’t agree on what’s real. But our post-Trump, mid-pandemic, media-driven, social media-amplified world allows no nuance. If your expectations always “go to eleven,” you detach from reality… our biggest threat for 2022.

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#2. COVID: THE THIRD WAVE

How Long Will We Remain on “Pandemic Footing” vs an Endemic Disease?

Too Few Vaccinated
- U.S. 61% fully-vaxed \(\textit{not boosters}\)
- 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
- 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: October 8, 2021
Is Global Community Still Willing to Speak Out, Impose Sanctions or Actively Intervene Amidst the COVID, Energy & Supply Chain Crises?

#5. MULTILATERALISM: WARS, REFUGEES, NATIONALISM
ECONOMIC RISKS
COVID + Politics = New Mindsets

- **COVID**: Demand & supply shocks *(fear of COVID + childcare + robust stimulus $ + epic demand for goods)*
- **POLITICS**: Not working pays *(Dems subsidize those who quit for fear of virus, R’s those who fear vaccine)*
- **MINDSET**: Workers flush, empowered & choosey *(Great Resignation, faster retirements, record start-ups)*

- **COVID**: Unexpectedly robust economic recovery & logistics snafus
- **POLITICS**: Policymakers discouraged investment *(fossil fuels disfavored, inventories run low)*
- **MINDSET**: Greens leveraging crisis to accelerate decarbonization

- **COVID**: Accelerated digitization + shift from services to goods + flush consumers
- **POLITICS**: U.S. vs China *(tariffs + export bans = under-investment + hoarding + low inventories; Taiwan risk)*
- **MINDSET**: Governments prioritizing decoupling & domestic manufacturing
Inflation Raises Multiple Public Policy Battles

- Tighter monetary policy or prioritize jobs?
- Investigate big players or encourage productivity?
- Leverage global supply chains or deny tech to adversaries?
- Tighter fiscal policy or prioritize domestic spending / defense?
- Subsidize fossil fuels and/or renewables?
- Encourage union strikes or expand labor force?
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)
Odds of Incidents or Accidents Grow as Traffic Explodes (sometimes literally)

Few Rules Currently Exist to Manage Low Earth Orbit (LEO) Satellite Traffic

>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

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

Source: Pew, Nov. 2021

### Soft on Inflation

U.S. consumer price index, change from a year earlier

Source: FBI data via CNN chart

### Soft on Crime

Homicides in the U.S.

Source: FBI data via CNN chart

### Soft on Foreign Policy

Source: Various media outlets.
#12. DEMOCRATS: GOP WAVE ELECTION LOOKING LIKELY

**GOP WAVE**

**GOP Wave Coming…**

- 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?**

**Senate Dems**  
(-1 seat flips control)

**HOUSE**  
Toss-Up / Lean seats: 13 Dem, 3 GOP

**HOUSE Dems**  
(-5 seats flips control)

**SENATE**  
Toss-Up / Lean seats: 4 Dem, 5 GOP
#13. SENATE GOP: AVOIDING PRIMARY FAILURES

2022: “Secure the Senate” or “Stop the Steal”? 

Weak Candidates Lose Winnable Races, Even in Red States

- 2018 Alabama: Roy Moore
- 2010 Delaware: Christine O’Donnell
- 2010 Nevada: Sharron Angle
- 2012 Missouri: Todd Akin

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”

Why Previous Years’ Voters Stuck With Incumbents (and/or Rejected the GOP)

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

1998 US GDP +4.5%

1998

2002

2018

Oct. ‘18
42%
Approve
51%
Disapprove

Oct. ‘21
38%
Approve
50%
Disapprove

Because Other Guys Worse

2022 ECONOMIC FORECAST

2022
#15. VOTERS: ONE ZILLION ATTACK ADS

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

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

Change in Control of House, Senate and/or White House


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

OVERSIGHT

REGULATION

ENFORCEMENT
Both Leaders Trying to Balance Assertiveness & Accommodation

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

Midterm elections Nov. 2022
20th Party Congress votes Oct. 2022

National Politics
Tech & Innovation
Trade & Geopolitics
COVID & Change
Republican Criticisms

Too “Woke”

Too Paternalistic

Bipartisan Criticisms

Too Cozy with China

Abusing Market Power

Democratic Criticisms

Excessive CEO Comp

Share Buybacks
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)

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**Open Letter on Climate Action at McKinsey**

March 23, 2021

We, the undersigned, are ready for McKinsey to fully embrace its purpose “to help create positive, enduring change in the world” through climate action. This climate risk is the defining issue of our generation. Our positive impact in this enterprise will begin with us. We will no longer work for clients who fail to align with our global standards. We must be transparent about our client relationship as well as our intent to support sustainability. Such a change can only be accomplished by helping our clients shift to a more sustainable trajectory that preserves our planet, our clients, businesses, and our shared legacy.

We must understand that there is significant risk to McKinsey and our values from pursuing the current course. Our mission and our purpose are served best by aligning our clients’ interests with those of the planet. As our clients, we are committed to taking a lead role in creating a world that is fair and equal for all.

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SO WHAT? RECOMMENDATIONS FOR LEADERS

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)?
is one of the nation's most innovative government relations firms, offering strategic solutions to companies, trade associations, non-profits, and entrepreneurs that help them succeed in Washington.

RECENT ANALYSES: