BACKLASH

The Counter-Revolutions Driving Politics & Policy
Politics and policy move in cycles. The pendulum swings from growing government to conservative retrenchment, less regulation to stronger oversight, Democratic leadership to Republican. Momentum is shifting again. **There are four key backlashes to recent trends that businesses and investors must understand and navigate to succeed in 2023-24.**

- **Political Cycle**: After 2 years of Democrats’ unified control in Washington (their first since 2010), the GOP is poised to recapture one or both houses of Congress.

- **Culture Cycle**: After a decade of advancing environmental & social issues through C-suites when stymied by courts or legislatures, the ESG movement faces mounting headwinds.

- **Market Cycle**: The era of easy money is over, with rising global inflation forcing the tightest monetary (and potentially fiscal) policy in decades.

- **Technology Cycle**: Longstanding tech business models are being upended by rising U.S.-China tensions, the expansion of EU tech regulation and its imitation by U.S. states, regulatory agencies and Congress.
THE U.S. POLITICAL CYCLE

Red Storm Rising

2022
Unified One-Party Control* of Washington is Fleeting


2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010


2021 | 2022

* Unified Control = House + Senate + White House
<table>
<thead>
<tr>
<th># of Candidates Running (FEC)</th>
<th>YEAR</th>
<th>GAP in Number of Candidates running for U.S. House, by Party</th>
<th>OUTCOME</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NO WAVE</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GOP</td>
<td>DEM</td>
<td>1998</td>
<td>D+5</td>
</tr>
<tr>
<td>981</td>
<td>971</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>940</td>
<td>901</td>
<td>39</td>
<td>R+8</td>
</tr>
<tr>
<td><strong>DEM WAVE</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>844</td>
<td>948</td>
<td>2006</td>
<td>D+31</td>
</tr>
<tr>
<td>1220</td>
<td>1511</td>
<td>291</td>
<td>D+41</td>
</tr>
<tr>
<td>1220</td>
<td>1511</td>
<td>104</td>
<td></td>
</tr>
<tr>
<td><strong>GOP WAVE</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1224</td>
<td>1104</td>
<td>1994</td>
<td>R+54</td>
</tr>
<tr>
<td>1724</td>
<td>1104</td>
<td>120</td>
<td></td>
</tr>
<tr>
<td>1370</td>
<td>909</td>
<td>2010</td>
<td>R+63</td>
</tr>
<tr>
<td>1678</td>
<td>1294</td>
<td>2022</td>
<td>?</td>
</tr>
<tr>
<td>1678</td>
<td>1294</td>
<td>384</td>
<td></td>
</tr>
</tbody>
</table>

Source: Open Secrets (UPDATED from initial release of this deck... I'd used FEC data including Senate & some duplicates)
"WAVE INDICATOR" #2: DEMOCRATS MORE EAGER TO QUIT

House Democrats Retiring in Midterm Election Years
## Democratic Advantage on Education

*(Whom do you trust to do a better job?)*

<table>
<thead>
<tr>
<th>Year</th>
<th>All Voters</th>
<th>Parents</th>
<th>Voters of color</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>12</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>16</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>16</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>19</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>26</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>29</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>16</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>13</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td>15</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2021</td>
<td>10</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2022</td>
<td>-4</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Battleground State Poll**
*(Democrats for Education Reform)*

- **Trust Gap on Education**
  - All Voters: R+4
  - Parents: R+9
  - Voters of color: R+10

“WAVE INDICATORS” #4-9: HISTORIC GOP TAILWINDS

BIGGER WAVE

<table>
<thead>
<tr>
<th>Consumer Sentiment</th>
<th>Direction (% Dissatisfied)</th>
<th>Inflation (June)</th>
<th>POTUS (% Job Approval)</th>
<th>Congress (% Trust)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2022</td>
<td>2022</td>
<td>2022</td>
<td>2022</td>
<td>2022</td>
</tr>
<tr>
<td>2010</td>
<td>2014</td>
<td>1990</td>
<td>2018</td>
<td>2010</td>
</tr>
</tbody>
</table>

Sources: Sentiment June (U.Mich); Direction (Gallup); POTUS ~July 4 (Gallup); Congress (Gallup); Inflation June (BEA)
THE CASE FOR THE GOP: IT’S STILL THE ECONOMY, STUPID

Fastest Pace of Real Hourly Earnings Decline in 40 Years

-4.4% (June 2020)

Worst First Half S&P 500 Returns Since 1970

-20.6%

Lowest Consumer Sentiment Index #... Ever (U. Mich, since 1951)

50.0

Nearly 9 in 10 Americans say we’re on the “Wrong Track”

87%

Biden Under Water in All Key Senate Battlegrounds

Republican More Eager to Vote in 2022

Enthusiasm Gap

Sources: J. Furman; S&P; U. Michigan; Gallup; Morning Consult (Biden); Gallup (Enthusiasm)
THE CASE FOR THE DEMS: IT’S RESPONSIBILITY, STUPID

Abortion Fights Rally Dem Base & Sway Swing Voters

‘22 Becomes Referendum on Trump ‘24

Jan. 6 Hearings Highlight GOP Leadership Failure

~2 Job Openings for Every Job-Seeker

Many First-Time GOP Senate Candidates Unseasoned, Gaffe-Prone

Democratic Senate Candidates Better Funded

<table>
<thead>
<tr>
<th>DEM</th>
<th>STATE</th>
<th>REP</th>
</tr>
</thead>
<tbody>
<tr>
<td>$24.9M</td>
<td>AZ</td>
<td>$1.58M (Masters)</td>
</tr>
<tr>
<td>$22.2M</td>
<td>GA</td>
<td>$6.80M</td>
</tr>
<tr>
<td>$7.37M</td>
<td>NH</td>
<td>$0.98M (Morse)</td>
</tr>
<tr>
<td>$9.85M</td>
<td>NV</td>
<td>$2.15M</td>
</tr>
<tr>
<td>$3.57M</td>
<td>OH</td>
<td>$0.63M</td>
</tr>
<tr>
<td>$5.50M</td>
<td>PA</td>
<td>$1.13M</td>
</tr>
</tbody>
</table>

On the 2022 ballot in AZ, GA, KS, MI, NC, PA & WI, among others.

Source: Where Abortion Is on the Ballot, NYT, 7/20/22

Source: FEC
COUNTER-INDICATOR: HISTORICALLY-LOW UNEMPLOYMENT

Unemployment June Midterm Year

Source: BLS (lowest in a midterm year since 1948… tied with Nov. 1966 (also 3.6%)
TINY MARGINS OF CONTROL MAKE FLIPS MORE LIKELY

HOUSE Majority by Party Holding the White House at Midterm Elections

SENATE Majority by Party Holding the White House at Midterm Elections
FEWER "PERSUADABLE VOTERS" IN THE MIDDLE

Approval Gap Keeps Growing *(Own – Other Party, June of 2nd Year)*

<table>
<thead>
<tr>
<th>President</th>
<th>April</th>
<th>June 2nd Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Truman</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ike</td>
<td>33</td>
<td></td>
</tr>
<tr>
<td>JFK</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>LBJ</td>
<td>29</td>
<td></td>
</tr>
<tr>
<td>Nixon</td>
<td>34</td>
<td></td>
</tr>
<tr>
<td>Carter</td>
<td>55</td>
<td></td>
</tr>
<tr>
<td>Reagan</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>Bush 41</td>
<td>49</td>
<td></td>
</tr>
<tr>
<td>Clinton</td>
<td>61</td>
<td></td>
</tr>
<tr>
<td>W</td>
<td>66</td>
<td></td>
</tr>
<tr>
<td>Obama</td>
<td>79</td>
<td></td>
</tr>
<tr>
<td>Trump</td>
<td>82</td>
<td></td>
</tr>
<tr>
<td>Biden</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Gallup June of 2nd year except W/Bush 43 where overall avg show solid & June of 2002 in dashed lines)

June of 2nd year was inflated by 9/11
Change in Control of House, Senate and/or White House


SO WHAT?... BACKLASH IS BAKED-IN
THE CULTURE (WAR) CYCLE

“WOKELASH”
HOW WE GOT HERE: RISE OF ESG

Business Leaders Started Taking Stands on Social & Cultural Issues

WHY CEOs ENGAGED

- **Generational**: Younger workers & consumers want employers who “care”
- **Activist-Driven**: Agents of change leveraging new tools & venues to push brands
- **Investor-Embraced**: Managers favoring ESG assets & wielding proxy power
- **Problems Persist**: Same failures animating global populism are pushing business leaders to offer solutions

WHERE COMPANIES ENGAGED

*(Share taken a public stance since 2020)*

- Racial equality: 61%
- LGBTQ+ rights: 44%
- Vaccinations/COVID-19: 40%
- Gender equality: 39%
- Anti-Asian violence: 31%
- Sexual harassment in the workplace: 26%
- Women's reproductive rights: 21%
- Elections and voting: 20%
- Human rights: 19%
- Health care access: 18%
- Economic equality: 15%
- Gun safety: 12%
- Dobbs v. Jackson Women's Health: 8%
- Immigration: 6%

Source: The Conference Board (per Axios)
GROWING BACKLASH AGAINST THOSE SPEAKING OUT ON SOCIAL ISSUES

Don’t Take a Stand if You Can’t Take a Punch

GOP Politicians Are Spoiling to Fight…

… But So Is President Xi & Even SF Voters
WHY ESG MAY GET HARDER

**ENVIRONMENTAL**
- Allied Coal > Russian Gas

**SOCIAL**
- Nations Punishing Activism
- States Penalizing Activism
- More Divisive Issues, But Harder to Avoid

**GOVERNANCE**
- Pushback vs Fund Managers
- Lawsuits

**POLITICS**
- States Penalizing Activism

**LEGAL**
- Fiduciary Duty
- Tugger Standards See & Enforced

**ECONOMICS**
- Energy Inflation
- Business Pressures
UGLY STATE LEGISLATIVE FIGHTS AHEAD

Culture War Battles Facing Businesses in 2022-23

- New state laws (ban abortion/ IVF/ birth ctrl/ other) with liability for “abetting”
- Bans on doing business with / lost tax credits in states
- Law enforcement subpoenas / demands for data, internal communications
- Issue may be unavoidable… every co has health benefits & data privacy policies

- State bans on teaching gender identity issues in schools
- State bans on medical interventions for trans minors
- State bans on diversity training based on race or LGBTQ
- SCOTUS may upend affirmative action in 2023 (SFA v Harvard)

- State bans on investing state $$ in ESG funds
- Lawsuits / laws claiming ESG practices violate fiduciary duties
- Federal & state efforts to limit or disallow proxy voting of shares by fund managers

- State anti-discrimination laws (eg SB13) extended to gun industry
- States updating gun control laws post-Bruen decision
SO WHAT?... CULTURE WARS WILL FURTHER ERODE TRUST

Voters with a Great Deal / Quite a Lot of TRUST (1977 → 2022)

Source: Gallup
THE MARKET CYCLE

The Era of Easy Money is Over
The Extraordinary Economics of 2020-2021

- **40.6%**
  - U.S. Money Supply (M2) 2020-2021
  - Monetary Policy

- **56.3%**
  - U.S. Federal Spending (2020-21 vs 2018-19)
  - Fiscal Policy

- **47.3%**
  - S&P 500 2020-2021
  - Market Mania

Sources: FRED; WH OMB; S&P
FISCAL BACKLASH: AUSTERITY HANGOVERS FOLLOW CRISIS SPENDING

**WWI & Spanish Flu**
- Crisis Spending
- Austerity Hangover

**World War II**
- Crisis Spending
- Austerity Hangover

**Global Financial Crisis**
- Crisis Spending
- Austerity Hangover (Sequestration)

**COVID Pandemic**
- Crisis Spending
- Current OMB Projections

Source: White House Budget Office
"We need a wealth-destruction event equivalent to the 2008-2009 Great Financial Crisis just to get the ratio of wealth to GDP back to pre-pandemic levels."

-Ben Hunt
INFLATIONARY BACKLASH: RISING COSTS MAY BE THE NEW NORMAL

Cost of Inputs: RISING

Cost of Capital: RISING

Cost of Energy: RISING

Cost of Compliance: RISING
POLITICAL BACKLASH: COMING FIGHTS OVER SPENDING & TAX CUTS

Last 4 Times GOP Captured Congress During a Dem Presidency…

66th Congress vs. President Wilson
Congress established a GAO Comptroller who couldn’t be removed by the President (Wilson vetoed); Passed five tax cuts from 1921-1928.

80th Congress vs. President Truman
Congress demanded big cuts (8%-12%) to Truman’s budget; passed tax cuts over Truman’s 3rd veto.

104th+ Congress vs. President Clinton

112th+ Congress vs. President Obama
Budget Control Act of 2011 created the “Supercommittee” & Sequester cuts; Shutdown in 2013; made most “Bush Tax cuts” permanent in 2013.

The Debt Ceiling returns in 2023
Trump individual tax cuts expire in 2025

Source: White House Budget Office; Truman;
SO WHAT?... TIGHT MONEY HAS A LONG TAIL

SHIFTING POWER & PRIORITIES

Funders > Founders
Profitability > Scale
M&A > Zombification
Debt Service > Buybacks
Salaries > Stock Options
Value Investing > Growth

LESS $$$ AVAILABLE FOR OTHER CRISIS

Long COVID: ~15M Americans could have long Covid, potentially costing the economy more than $2.6T.

Learning Loss: By 2040 education lost to school closures could reduce global GDP by 0.9% ($1.6T).

Food Insecurity: 1.92B people globally will face food insecurity by November 2022.

Energy Transition: Coal consumption up 12% in the EU & 17% in the U.S. in 2021, with more increases in 2022.

Sources: Long COVID (Cutler & Summers); Learning Loss (McKinsey); Food (Eurasia Group); Coal (IEA);
THE TECH CYCLE

Global, National & Local Techlash, Accelerated by Geopolitics
**Energy**

Majority of fossil fuels produced in non-free nations *(Per Freedom House’s Rankings)*

- Not Free: 30.8%
- Partially Free: 54.5%
- Free: 12.9%

**Critical Minerals**

U.S. dangerously-dependent on imports

- Cesium: 100%
- Fluorspar: 100%
- Gallium: 100%
- Graphite: 100%
- Manganese: 100%
- Rare Earths: 100%
- Tantalum: 100%
- Titanium: 91%
- Tellurium: 75%
- Cobalt: 72%
- Germanium: 50%
- Lithium: 50%

**Semiconductors**

Global supply chains leave both East & West dependent & vulnerable

- U.S. too dependent on Taiwanese foundries (manufacturing) & Chinese materials
- China too dependent on U.S. / Western semiconductor design, software & tools
HOW WE GOT HERE #2: SOFTWARE ATE THE WORLD

**Tech Companies Dominated Markets**

<table>
<thead>
<tr>
<th>2007 Market Cap Leaders</th>
<th>2022 Market Cap Leaders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exxon</td>
<td>Apple</td>
</tr>
<tr>
<td>GE</td>
<td>Saudi Aramco</td>
</tr>
<tr>
<td>Total S.A.</td>
<td>Microsoft</td>
</tr>
<tr>
<td>Microsoft</td>
<td>Google</td>
</tr>
<tr>
<td>R.D. Shell</td>
<td>Amazon</td>
</tr>
<tr>
<td>PetroChina</td>
<td>Tesla</td>
</tr>
<tr>
<td>AT&amp;T</td>
<td>Berkshire Hthwy</td>
</tr>
<tr>
<td>Citigroup</td>
<td>United Health</td>
</tr>
<tr>
<td>BP</td>
<td>Meta</td>
</tr>
<tr>
<td>Bank of America</td>
<td>J&amp;J</td>
</tr>
<tr>
<td>China Mobile</td>
<td>Visa</td>
</tr>
<tr>
<td>Toyota</td>
<td>TSMC</td>
</tr>
<tr>
<td>Walmart</td>
<td>NVIDIA</td>
</tr>
<tr>
<td>P&amp;G</td>
<td>Tencent</td>
</tr>
</tbody>
</table>

**Tech Products Dominated Our Lives**

Minutes Per Day on Digital Media

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>2011</td>
<td>214</td>
<td>250</td>
<td>288</td>
<td>309</td>
<td>328</td>
<td>343</td>
<td>353</td>
<td>364</td>
<td>409</td>
<td>470</td>
<td>479</td>
<td>489</td>
</tr>
</tbody>
</table>

Sources: Statista (eMarketer)
GLOBAL TECHLASH: DOMINANT PLATFORMS UNDER FIRE

(Some of the) Nations Pursuing “Big Tech”

Antitrust Actions

Content Controversies

Privacy Proceedings

Demand less censorship
Demand more policing
Demanding both

Demanding both

Demanding both
NATIONAL TECHLASH: U.S. POLICYMAKERS WILL BE AGGRESSIVE IN 2023

**Consumer Protection**
- Privacy
- Crypto Regulation
- Protecting Children

**Competition Policy**
- Consumer Protection
- Crypto Regulation
- Data Portability

**National Security**
- National Security
- Supply Chain Resilience
- Cybersecurity
- Law Enforcement Access

**Social Compact**
- Social Compact
- AI Ethics
- GIG Economy

33
LOCAL TECLASH: U.S. STATES CONTESTING CONTENT POLICIES

Bills Aimed at Tech Platforms’ Content Moderation in 34 States

Some states object to too much censorship (e.g. FL, TX)
Other states object to not enough policing of “bad” content (e.g. NY)

Law Enacted
Legislation Introduced
No legislation

Source: Politico, 2022
SO WHAT?... TECH COMPANIES FACE HISTORIC POLICY RISKS, QUESTIONS

• Will new EU regulations change tech products globally or lead to regional offerings?

• Will aggressive actions expected from FTC, SEC & CFPB survive judicial scrutiny?

• Will new merger review standards undermine startups or undo prior deals?

• Will increasing transparency, investment & export restrictions hurt U.S. or China more?

• Will increasingly-conflicting state laws around privacy, content & benefits be navigable?

• How will GOP hostility to “big tech” impact existing bipartisan bills & amp-up oversight next Congress?
LESSONS & RECOMMENDATIONS

How To Navigate an Age of Disruption
#1. STAY ENGAGED: CONGRESS IS MORE PRODUCTIVE THAN YOU THINK

*Reports of the Death of Bipartisanship are Greatly Somewhat Exaggerated*

<table>
<thead>
<tr>
<th>HOUSE VOTE</th>
<th>SELECTED LEGISLATION IN 117th CONGRESS</th>
<th>SENATE VOTE</th>
</tr>
</thead>
<tbody>
<tr>
<td>221-201</td>
<td>INFRASTRUCTURE: II&amp;JA</td>
<td>69-30</td>
</tr>
<tr>
<td>243-193</td>
<td>GUNS: BSCA</td>
<td>65-33</td>
</tr>
<tr>
<td>363-70</td>
<td>DEFENSE: FY ‘22 NDAA</td>
<td>88-11</td>
</tr>
<tr>
<td>342-92</td>
<td>POSTAL REFORM: PSRA</td>
<td>79-19</td>
</tr>
<tr>
<td>369-40</td>
<td>CIVIL RIGHTS: Anti-lynching law</td>
<td>Unanimous</td>
</tr>
<tr>
<td>243-187</td>
<td>CHINA: Chips &amp; Science Act</td>
<td>64-33</td>
</tr>
<tr>
<td>267-157</td>
<td>CIVIL RIGHTS: Respect for Marriage Act</td>
<td>tbd</td>
</tr>
<tr>
<td>tbd</td>
<td>ELECTIONS: Electoral Count Act Reform</td>
<td>tbd</td>
</tr>
</tbody>
</table>
#2. THINK LONG-TERM: BROADER TRENDS OUTLAST BACKLASHES

- The Energy Transition is coming
- Disruptive innovation is accelerating
- U.S.-China competition is growing
- U.S. diversity & inclusion are expanding
#3. LEARN & IMPROVE: LESSONS FROM DISNEY vs. DESANTIS

1. **Under-prepared**: New CEO & key deputy had minimal experience in these issues; less credibility with internal stakeholders than predecessors (iconic Iger)

2. **Failed to Move Collectively**: Missed opportunity to weigh-in respectfully with others in industry-wide letter

3. **Impersonal Explanation**: Sent internal company-wide email justifying not weighing-in (vs direct discussions with key employee leaders)

4. **Over-Corrected**: Internal backlash led to over-reaction, acting alone & loudly, raising stakes & making it personal

5. **Stakeholder Engagement Miss**: Seemingly no back-channel discussions with critical player clearly eager to fight (and make news)

6. **Misjudged Risk & Leverage**: Overestimated its power & under-appreciated its vulnerability... can’t move Disney World!

7. **Picked Wrong Hill to Die On**: Fought popular legislation (70% support for bill incl. 55% Dem voters in FL)

8. **Focused on Words > Actions**: Disney engaged in the broader battle on early-education policy rather than what it was doing for internal stakeholders (a lot!)
Mehlman Castagnetti
— Rosen & Thomas —

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