KNOWNS & UNKNOWNWS

Hunting Black Swans in the Age of Disruption
# HUNTING BLACK SWANS*

**Underappreciated Political Possibilities in 2020**

<table>
<thead>
<tr>
<th>KEOWN</th>
<th>UNKNOWN</th>
</tr>
</thead>
<tbody>
<tr>
<td>CONGRESS</td>
<td>Impeachment Congress</td>
</tr>
<tr>
<td>ELECTIONS</td>
<td>Close Election</td>
</tr>
<tr>
<td>TURNOUT</td>
<td>Turnout Tsunami</td>
</tr>
<tr>
<td>TRADE</td>
<td>China Trade War</td>
</tr>
<tr>
<td>MARKETS</td>
<td>Strong Economy</td>
</tr>
<tr>
<td>PARTY LEADERS</td>
<td>GOP: Disruptor in Chief</td>
</tr>
<tr>
<td>SCOTUS</td>
<td>Hot Button Issues</td>
</tr>
<tr>
<td>TECH</td>
<td>Global Techlash</td>
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<tr>
<td>GEOPOLITICS</td>
<td>Populism Rising</td>
</tr>
<tr>
<td>NEW POWERS RISING</td>
<td>States Leading</td>
</tr>
<tr>
<td>PARTISANSHIP</td>
<td>Partisan Divide</td>
</tr>
<tr>
<td>DISPUTED OUTCOMES</td>
<td>Disinformation Election</td>
</tr>
</tbody>
</table>

* Black Swan: /n/ an unpredictable or unforeseen event, typically with extreme consequences
KNOWN: AN IMPEACHMENT CONGRESS

Overwhelmingly Party Line Vote in House; Same Expected in the Senate
**UNKNOWN: A PRODUCTIVE CONGRESS?**

*What If Infrastructure Week Really Is Infrastructure Week?*
*(Post-Impeachment Incentive to Get More Done)*

### MUST-DO
- Foreign Intelligence Surveillance Act Authorities (expire 3/15)
- Health Extenders (expire 5/22)
- Government FY21 Funding (or shutdown 9/30)
- Nat’l Flood Insurance program (expires 9/30)
- Surface Transportation (expires 9/30)
- Water Resources Development Act (expires 12/31)

### LIKELY
- Confirm Federal Judges & Administration Nominees
- USMCA (new NAFTA)
- 5G Wireless bills
- Election Security legislation

### POSSIBLE
- Huge Infrastructure bill (Pres. Trump, Speaker Pelosi & swing state unions all want to invest trillions to fix U.S. infrastructure)
- Rx Drug Pricing bill
- “Surprise” Medical Billing
- Federal Privacy legislation
- Cannabis Banking bill
- Autonomous Vehicle bill
- New Liability for Internet Platforms (amend §230)
- Sanctions on Turkey; Russia; Iran; China; Venezuela
- Anti-Money Laundering bill
- New Tax bill (extenders, technical fixes & cuts)
- Pipeline Safety Authorization *(expired 9/19)*

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**More Laws** Pass in 4th Years

<table>
<thead>
<tr>
<th>Year</th>
<th>Clinton</th>
<th>W.Bush</th>
<th>Obama</th>
<th>Trump</th>
</tr>
</thead>
<tbody>
<tr>
<td>3rd</td>
<td>80</td>
<td>161</td>
<td>96</td>
<td>114</td>
</tr>
<tr>
<td>4th</td>
<td>224</td>
<td>245</td>
<td>123</td>
<td>??</td>
</tr>
</tbody>
</table>

*Not including Bills “to designate” (i.e. ceremonial). Source: National Journal*
1. **MAKE IT A CHOICE:**
   - If Biden: Agent of Change vs. Establishment Insider
   - If Sanders/Warren: Capitalism vs. Socialism
   - If Buttigieg/Bloomberg: Populists vs. Elitists

2. **HIGHLIGHT THE ECONOMY:**
   - 52% economy job approval (end 3rd year) > HW Bush (31%), Clinton (42%), W Bush (50%) & Obama (40%)
   - 80% say 2020 will be better for their families

3. **RALLY THE BASE:**
   - Hold 89% GOP approval via “promises kept” re taxes, NAFTA, China, judges, guns, dereg. & immigration
   - Run superior digital campaign via Facebook
   - Dominate discussion, dictate narrative via Twitter

4. **RUN SMARTER:**
   - Raise more $$; Spend early to define Dem nominee
   - Focus on Electoral College; 2016 non-voters
   - Provoke the Woke... politically-correct overreactions from media & left-wing

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**HOW A DEM WINS**

1. **MAKE IT A REFERENDUM:**
   - Avoid culture wars & class wars... make it all about Trump, the only President to never reach 50% job approval at any point (Gallup)
   - Underwater in MI -15, WI -10, PA -6, AZ -3, GA -2

2. **TAILOR MESSAGING:**
   - Win back swing voters via macro-message (Restore Decency, Dignity & Stability)
   - Turn out base via micro-messaging (Climate, Guns, Civil Rights, Immigration, Inequality, Health Care, etc.)

3. **RALLY THE RESISTANCE:**
   - Trump net-disapproved by women (-24%), African Americans (-70%), Latinos (-36%), White college grads (-20%) & youth (-28%) (WSJ/NBC)

4. **RUN SMARTER:**
   - Double Trump’s spending (Bloomberg’s billions)
   - Resist the “condescension of the elite” (e.g. “deplorables”... don’t take Trump’s bait)

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Sources: WSJ/NBC (economic & net resistance approval); Suffolk (80%); Morning Consult (state approval)
UNKNOWN: A TIED ELECTION?

269-269 TIED ELECTORAL COLLEGE
(64 Tie Combos, e.g. Dems flip PA, MI & ME-2 from 2016)

NEITHER PARTY HAS 26 DELEGATIONS IN NEW HOUSE (Net 1 change from 2020)

SENATE TIED 50-50, CANNOT DECIDE
(GOP defending 4 toss-ups, D’s 1 lean-R in 2020)

SPEAKER OF THE HOUSE NEXT IN LINE...
President Pelosi??

Sources: UVA Sabato; UVA; 270toWin; Time Magazine
Highest “Extremely Enthusiastic” to Vote Ever Recorded by CNN

Source: CNN polling (last in that year).
## Eligible Citizens Who Didn’t Vote in 2016

<table>
<thead>
<tr>
<th>State/2016</th>
<th>Non-College White</th>
<th>College White</th>
<th>Non-White</th>
</tr>
</thead>
<tbody>
<tr>
<td>MI</td>
<td>1,563,809</td>
<td>412,191</td>
<td>643,000</td>
</tr>
<tr>
<td>MN</td>
<td>786,284</td>
<td>210,716</td>
<td>259,000</td>
</tr>
<tr>
<td>NH</td>
<td>220,282</td>
<td>68,924</td>
<td>24,795</td>
</tr>
<tr>
<td>PA</td>
<td>2,289,875</td>
<td>603,125</td>
<td>695,000</td>
</tr>
<tr>
<td>WI</td>
<td>819,356</td>
<td>160,644</td>
<td>306,000</td>
</tr>
<tr>
<td>AZ</td>
<td>683,831</td>
<td>228,169</td>
<td>904,000</td>
</tr>
<tr>
<td>FL</td>
<td>2,565,664</td>
<td>719,336</td>
<td>2,565,000</td>
</tr>
<tr>
<td>GA</td>
<td>1,171,614</td>
<td>327,386</td>
<td>1,303,000</td>
</tr>
<tr>
<td>NC</td>
<td>1,105,431</td>
<td>320,569</td>
<td>834,000</td>
</tr>
<tr>
<td>TX</td>
<td>2,665,119</td>
<td>812,881</td>
<td>4,274,000</td>
</tr>
</tbody>
</table>

Source: Dave Wasserman, Cook Report
**KNOW: US-CHINA TRADE WAR IS HERE**

*Despite U.S.-China Phase One Deal, Tensions Will Grow Driven By...*

- New U.S. Export Controls, Tougher CFIUS & ICT Supply Chain Regulations
- Made in China 2025 Campaign & Competing National Champions
- Many Frictions Remain
  - $370B in U.S. tariffs remain
  - $110B in Chinese tariffs remain
  - Extradition of Huawei CFO sought
- Human Rights & Regional Risks
  - Persistent Cyber attacks

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*WHAT IS ‘MADE IN CHINA 2025’?*

- Strategic plan to turn China into a high-quality, high-tech powerhouse in 10 key sectors
- Agricultural machinery
- High-speed railway
- Shipbuilding
- Aircraft
- Semi-conductor equipment
- Key materials
- Medical equipment
- Manufacturing equipment
- High-end equipment

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*Spheres of Influence (eg Belt & Road)*

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*Persistent Cyber attacks*
UNKNOWN: IS A US-EU TRADE WAR UNAVOIDABLE?

REGULATION

- U.S. Demands no Huawei in EU 5G networks
- EU Drive for “Technological Sovereignty” risks new rules on AI, Cloud, etc.

TAX

- Digital Services Taxes / ~$2B U.S. Retaliation (France, Italy, Austria, Norway?)
- EU Climate Change Tariffs threatened

TRADE

- U.S. tariffing EU steel & aluminum
- U.S. Auto Tariffs threatened

SUBSIDIES

- U.S. retaliation vs. illegal EU subsidies
- Fights Over Iran Sanctions, NATO Dues & WTO Rules
**KNOWN: ECONOMIC GROWTH HAS BEEN STRONG**

- **80%** of families believe their lives will improve in 2020
- **3.9%** Lowest Unemployment (avg rate) in first 35 months for any President
- **117** New All-Time Highs for the DJIA in Trump’s first three years
- **13** year-high predicted for new home sales in 2020
- **110%** of families believe their lives will improve in 2020
- **Lowest “Misery Index” since the 1950s**
- **Highest Homebuilder Optimism since June 1999**
- **Highest Consumer Sentiment in Year-Before-Reelect Since 1963**
- **Fastest Wage Growth for lowest-earning 25% since Jan. 2008**

### Economic Indicators

<table>
<thead>
<tr>
<th>President</th>
<th>First 35 Months</th>
<th>Avg Unemployment Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eisenhower</td>
<td>Feb. 1953-Dec. 1955</td>
<td>4.3</td>
</tr>
<tr>
<td>JFK*</td>
<td>Feb. 1961-Nov. 1963</td>
<td>6.2</td>
</tr>
<tr>
<td>Bush II</td>
<td>Feb. 2001-Dec. 2007</td>
<td>5.5</td>
</tr>
</tbody>
</table>

*Assassination occurred after 34 months

Sources: Suffolk (80%); (Misery); NAHB; U. Mich.; Wash. Examiner (unemployment); 25%; Forbes; FRED (prime age employment); PwC (VC); NAR (homes)
Economy Propped-Up by Ongoing & Extraordinary Stimulus:

- 3 Fed Rate Cuts in 2019
- $1.02 Trillion in deficit spending in 2019
- $300B in Fed asset purchases (QE4) since Sept. 2019
- Highest farm subsidies in 14 years ($22.4B)

ISM Manufacturing Index at 10-Year Low
(Readings below 50 = Recession)

Over $1T in Leveraged Loans Outstanding
(Search for higher yield spreads higher risks)

Sources: Market Watch (ISM index); WSJ (deficit); NPR (Farms); Balance (Fed cuts); The Telegraph (Leveraged Loans)
KNOWN: GOP LED BY THE DISRUPTOR IN CHIEF

**Breaking News via Twitter**

@RealDonaldTrump tweets per month

**High Cabinet Turnover**

*Presidential Cabinet Turnover by Year, 1st Term*

- Year 1
- Year 2
- Year 3
- Year 4

**Unshakable GOP Support**

*Job Approval: Republicans*

**Intentional Political Incorrectness**

Sources: Twitter; Brookings; Gallup
### What the Betting Markets Say About the Likely Democratic Nominee

<table>
<thead>
<tr>
<th>Feature</th>
<th>Odds Dem Nominee is:</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>Is white</em></td>
<td>95%</td>
</tr>
<tr>
<td><em>Is a millionaire+</em></td>
<td>92%</td>
</tr>
<tr>
<td><em>Is male</em></td>
<td>85%</td>
</tr>
<tr>
<td><em>Is 70+ years old</em></td>
<td>84%</td>
</tr>
<tr>
<td><em>Supports carbon pricing</em></td>
<td>70%</td>
</tr>
<tr>
<td><em>Favors wealth tax</em></td>
<td>50%</td>
</tr>
<tr>
<td><em>Would re-join TPP trade deal</em></td>
<td>48%</td>
</tr>
<tr>
<td><em>Would outlaw private health ins.</em></td>
<td>41%</td>
</tr>
<tr>
<td><em>Is a billionaire</em></td>
<td>13%</td>
</tr>
</tbody>
</table>

Sources: RealClearPolitics Betting Markets as of 1/17/20 9am (excluding non-candidates; based to 100%); WaPo 1/14/20 re Issue Positions; Forbes (Wealth)
Culture War’s “Greatest Hits” are on the 2020 Docket
**Current Justices Older Than / Near Recent Average Departure Age (80.4)**

<table>
<thead>
<tr>
<th>Age of Justices Upon Retirement or Death Since 1990</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Stevens</td>
<td>90</td>
</tr>
<tr>
<td><strong>Ginsburg</strong></td>
<td>86</td>
</tr>
<tr>
<td>Blackmun</td>
<td>85</td>
</tr>
<tr>
<td>Brennan</td>
<td>84</td>
</tr>
<tr>
<td>Marshall</td>
<td>83</td>
</tr>
<tr>
<td>Kennedy</td>
<td>82</td>
</tr>
<tr>
<td><strong>Rehnquist</strong></td>
<td>81</td>
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<tr>
<td>Breyer</td>
<td>81</td>
</tr>
<tr>
<td>Scalia*</td>
<td>79</td>
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<tr>
<td>White</td>
<td>76</td>
</tr>
<tr>
<td>O'Connor</td>
<td>75</td>
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<tr>
<td>Thomas</td>
<td>71</td>
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<td>Souter</td>
<td>69</td>
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<tr>
<td>Alito</td>
<td>69</td>
</tr>
</tbody>
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Modern Avg. 80.4

* Died while in office

Sources: Wikipedia; 2016 Exit Poll; 2018 Exit Poll
KNOWN: GLOBAL TECHLASH ACCELERATING

Growing Global Policy Challenges:

<table>
<thead>
<tr>
<th>MARKET POWER</th>
<th>CONSUMER PROTECTION</th>
<th>PLATFORM LIABILITY</th>
<th>SECURITY &amp; NATIONALISM</th>
<th>SOCIAL COMPACT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Antitrust</td>
<td>Privacy</td>
<td>Hate Speech</td>
<td>Trade</td>
<td>Taxation</td>
</tr>
<tr>
<td>“Efficient” IP Infringement</td>
<td>Digital Addictions</td>
<td>Censorship &amp; Bias</td>
<td>Supply Chain Integrity</td>
<td>Automation &amp; Inequality</td>
</tr>
<tr>
<td>Data Portability</td>
<td>Data Security</td>
<td>Contraband</td>
<td>Encryption</td>
<td>Gig Workers</td>
</tr>
</tbody>
</table>
UNKNOWN: ARE ANTITRUST SUITS COMING?

Platforms accused of abusing dominance, competing unfairly

**U.S. vs. Google**
- 88% Share of Search
- 76% Share of Smart Phone OS

**U.S. vs. Amazon**
- 47% Share of E-Commerce

**U.S. vs. Facebook**
- 64% Share of Social Media

Antitrust investigations by:

<table>
<thead>
<tr>
<th>Investigation</th>
<th>GOOG</th>
<th>AMZN</th>
<th>FB</th>
</tr>
</thead>
<tbody>
<tr>
<td>State attorneys general</td>
<td>√</td>
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<td>√</td>
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<tr>
<td>US Dept. of Justice</td>
<td>√</td>
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<td>√</td>
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<tr>
<td>Federal Trade Commission</td>
<td>√</td>
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<tr>
<td>House Judiciary Committee</td>
<td>√</td>
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<tr>
<td>European Union</td>
<td>√</td>
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</table>

Sources: Search: Android; eCommerce: Social Media
KNOWN: POPULISM IS RISING
UNKNOWN: IS MULTILATERALISM FAILING?

What we are currently experiencing is the brain death of NATO... You have no coordination whatsoever of strategic decision-making between the United States and its NATO allies. None.

President Emmanuel Macron speaking to The Economist
KNOWN: STATES ARE NOT WAITING FOR WASHINGTON

Unprecedented # of Multi-State Lawsuits vs Trump Administration

Nearly 20 states considering new data privacy laws, while CA’s law takes effect

...And California Shall Lead Them

NY, NJ, IL considering laws like CA’s AB-5 to limit gig economy work (so far)

Source: Prof. Paul Nolette (AG lawsuits); Privacy; WaPo (Gig)
UNKNOWN: IS “WOKE CAPITALISM” RISING?

Growing Denial of Business Services for Ideological Reasons

- **De-Platforming** (kicking off the Internet)
- **De-Banking** (restricting partners)
- **De-Investing** (no $$$ for coal co’s)
- **De-Fleece-ing** (no branded vests for WS)
- **De-Sponsoring** (cutting ads for TV hosts)
- **De-Discounting** (no affinity deals)
- **De-Scriminating** (refusing services)
- **De-DOD-ing** (not working with USG)
KNOWN: INTENSE PARTISANSHIP PERSISTS

“The Democratic Party Has Been Taken Over by Socialists”

- Republicans: 82%
- Independents: 46%
- All Americans: 44%
- Democrats: 15%

“The Republican Party Has Been Taken Over by Racists”

- Republicans: 5%
- Independents: 48%
- All Americans: 48%
- Democrats: 80%

Source: PRRI, Oct. 2019
UNKNOWN: ARE OUR PARTIES REALIGNING?

EDUCATION

Voters With College Degrees: Party ID

GENDER

Women: Congressional Control Preference

GEOGRAPHY

Democrats’ Share of Rural vs Urban/Suburban Counties

Sources: Pew (Education); WSJ / NBC (gender); Dave Wasserman, Cook Rpt (Geography)
We’re Preparing for the Last War

Phishing attacks on campaigns

Foreign IP addresses behind “U.S.” voices

Social media ads paid for via foreign currency

Fake news travels faster, further than truth

We’re Facing New Combatants, New Weapons & New Tactics

“Deepfake” videos will be deployed to portray candidates saying and doing things they never said or did.

Digital voter suppression will again be one of the main goals of partisan disinformation.

Unwitting Americans could be manipulated into participating in real-world rallies and protests.

For-profit firms based in the U.S. and abroad will be hired to generate disinformation.

Iran and China may join Russia as sources of disinformation.

Domestic disinformation will prove more prevalent than false content from foreign sources.

WhatsApp, the Facebook-owned messaging service, may be misused to provide a vector for false content.

Instagram, more than its parent, Facebook, will be the vehicle of choice for people who wish to disseminate meme-based disinformation.

Sources: NYT (“Chaos is the point”); NYU Stern
UNKNOWN: WHO’LL REFEREE A CONTESTED 2020?

Few Institutions Trusted by All Sides

“A Great Deal” of Trust in:

- FBI: Republicans: 21%, Democrats 31% (25)
- CIA: Republicans: 20%, Democrats 30% (24)
- TRUMP: Republicans: 51%, Democrats 4% (24)
- SCOTUS: Republicans: 30%, Democrats 17% (22)
- NEWS MEDIA: R: 6%, D: 26% (16)
- CONGRESS: R: 8%, D: 11% (9)

Source: Fox News poll, Oct. 2019
2020 Recommendations

For Leaders & Investors
Navigating the Age of Disruption
1. Disruption Is Accelerating
   ➢ Understand what new innovations are coming and the challenges & opportunities they present for you, your stakeholders & competitors.

2. Political Risk Is Growing
   ➢ Conduct scenario planning to identify and mitigate risks in a deglobalizing world; include experts in politics and policy in business considerations.

3. Traditional Gatekeepers Are Losing Power
   ➢ Expand stakeholder outreach to those who can validate your brand locally and partner on your priorities because you supported theirs.

4. A Reform Era Is Coming
   ➢ Identify and support policy reforms that meaningfully expand opportunity... global populism will continue rising until more citizens feel “dealt-in”.

5. Expect to See More Black Swans
   ➢ Prepare for a greater number of high-impact, formerly-low-probability events to protect your license to operate and anticipate opportunities.
Mehlman Castagnetti
Rosen & Thomas

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