

Macro Focus

US Election 2020: Prepare for a change in the White House

- ▶ Our base case is a Joe Biden victory and a Democratic clean sweep...
- ▶ ...but much can still happen, and absentee voting will increase a lot
- ▶ Likelihood of major political turbulence is low, but would affect financial markets most

The US election is coming up and trusting polls and betting markets it looks like Joe Biden will become the 46th US President. Much can still happen in the run up to November 3, but without major surprises, we see a Biden-victory and even a Democratic clean sweep, i.e. majority in Congress, as the most likely outcome.

With that said, both the election and its aftermath can still be nasty. Because of the pandemic, absentee voting will increase much. This brings the attention to some challenges. Some states don't have robust systems for in-mail ballots, the United State Postal Service (USPS) is in crisis and rejection rates tend to be high from time to time, the New York City's primary election is one example. All this pose risks to a delayed result and a dragged-out process.

On top of this, there have been discussions that President Trump won't respect the election result and commit to a peaceful transfer of power. Some GOP lawmakers have, however, dismissed this. We see low likelihood of major political turbulence, but a disputed election result would cause turbulence on the financial markets where safe-haven assets may be favoured.

Read more about the US election in our Q&A, [here](#) (only in Swedish), which focusses on the politics of the election. In an upcoming analysis we'll dig further into the economic consequences of the election.

Analyst:

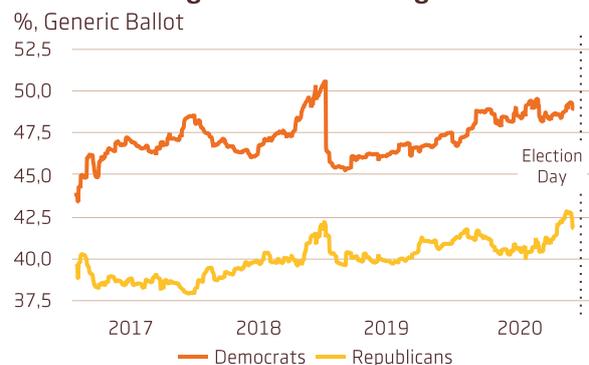
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Trump Approval Rating, All Polls



Sources: Swedbank Research & Macrobond

Who is winning the race for Congress?



Sources: FiveThirtyEight, Swedbank Research & Macrobond

Opinion polls, betting markets and our expectations

Going into the US election we illustrate four scenarios. They're based on expectations from opinion polls and betting markets as well as historical outcomes. The scenarios have also incorporated statements by the candidates.

In the post-war era there have only been two [majority changes in the House of Representatives](#) in a presidential election year, in 1948 and 1952. (Usually changes occur during a midterm). Consequently, the likelihood of a majority change in the House is tiny. This is also confirmed by the betting market. Hence, our scenarios are:

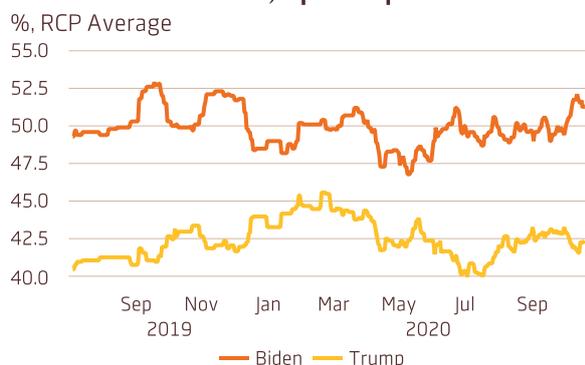
- i) Democratic clean sweep (Joe Biden + Congress)
- ii) Joe Biden victory + split Congress
- iii) Donald Trump victory + split Congress
- iv) Disputed result with no accepted winner and a refusal to step down

Most likely Joe Biden will become the next president either under scenario (i) or (ii). According to [Pew Research Center](#), most regular and special senate elections held since 2012 show that the senate race go the same way as state presidential votes, i.e. scenario (i) above. **Taken together, scenario (i) is our base case.**

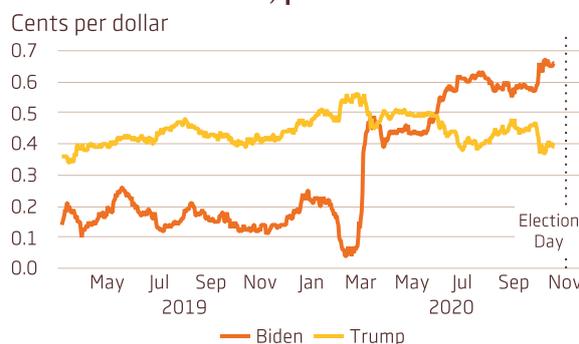
The current opinion polls and betting predictions show that Biden has a solid lead on Trump. [In the 2016 election](#), the national polls performed decently on the popular vote but performed worse at the state level, where the presidential elections are determined. The final RealClearPolitics (RCP) poll average in the swing states had the slimmest lead in the Electoral College for Clinton. Currently, RealClearPolitics gives Biden support from 375 electors while Trump gets support from 163 electors when not allowing toss ups states. The conclusion from FiveThirtyEight's model is the same where Biden wins 87 times of 100. As seen by the chart on p.3, Biden's lead over Trump is also larger than Clinton's back in 2016 (looking at RCP average).

Regarding the Congress, both polls and the betting market point to a blue wave. Again, when no toss ups states are allowed RealClearPolitics shows a Democratic lead (51 senators) on the Republicans (49 senators). This implies that Democrats pick-ups five states while the Republicans only pick-ups one. According to FiveThirtyEight there is also an 80% likelihood that Democrats will hold between 48 to 55 seats in the Senate.

Presidential election, opinion polls

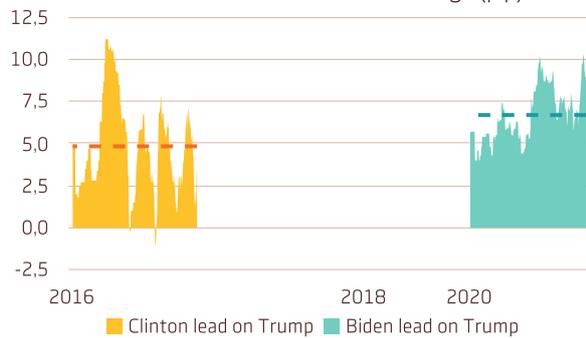


Presidential election, prediction market



Presidential election, RCP opinion polls

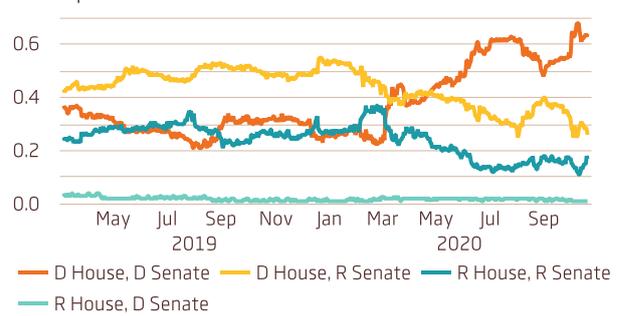
Difference between the candidates & average (p.p)



Sources: Swedbank Research & Macrobond

Balance of power after election

Cents per dollar



Note: Price per contract. Winning outcome receives \$1.

Sources: PredictIt, Swedbank Research & Macrobond

The US election system: Irrelevant to win most votes, but crucial to win the right ones

The US election system consists of 51 indirect elections, one in each state and one in District of Columbia. It's indirect because voters are voting for electors, not the President and Vice-President themselves. The electors are then in turn voting according to the state's preferences.

The system is a *winner takes it all*, except for Main and Nebraska, meaning that the winning party gets all elector votes in that voting district. The number of electors per district differ and should reflect the relative population in the state. Since some districts never change colour (red or blue) all focus is on the uncertain ones, the so-called swing (purple) states that usually determine the election. Looking at FiveThirtyEight's list of states to watch the 192 electoral votes cited below will decide who's becoming America's next president. **We note that Florida and Ohio have an exceptionally strong track-record since the 90s.** The candidate first receiving 270 electoral votes out of the 538 possible wins the election.

States to watch according to FiveThirtyEight

Presidential voting history

State (electoral votes)	1996	2000	2004	2008	2012	2016	2020 f
Arizona (11)	D	R	R	R	R	R	D (slightly favored)
Colorado (9)	R	R	R	D	D	D	D
Florida (29)	D	R	R	D	D	R	D
Georgia (16)	R	R	R	R	R	R	Toss-up
Iowa (6)	D	D	R	D	D	R	R (slightly favored)
Maine (statewide) (4)	D	D	D	D	D	D	D
Michigan (16)	D	D	D	D	D	R	D
Minnesota (10)	D	D	D	D	D	D	D
Nevada (6)	D	R	R	D	D	D	D
New Hampshire (4)	D	R	D	D	D	D	D
New Mexico (5)	D	D	R	D	D	D	D
North Carolina (15)	R	R	R	D	R	R	D (slightly favored)
Ohio (18)	D	R	R	D	D	R	Toss-up
Pennsylvania (20)	D	D	D	D	D	R	D
Virginia (13)	R	R	R	D	D	D	D
Wisconsin (10)	D	D	D	D	D	R	D
President	Bill Clinton	George W Bush	George W Bush	Barack Obama	Barack Obama	Donald Trump	

Note: Bold indicates that the state voted in line with the overall presidential result. Forecast for 2020 is based on FiveThirtyEight

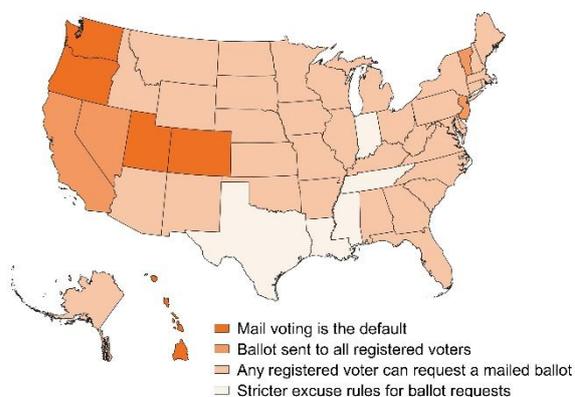
Source: FiveThirtyEight, 270towin & Swedbank Research

Election to the Congress as important as the presidential election

US politics are mainly set by the Congress (foreign policy and being the officer in charge for military forces being some exceptions). For example, it holds the legislative power and determines taxes as well as public spending. Thus, the outcome of the Capitol is as crucial for the economy as the presidential election.

The Congress consists of the House of Representatives (435) and the Senate (100). This year 35 seats in the [Senate](#) are up for grabs of which 23 belong to Republicans and 12 to Democrats. **If each party would get 50 seats in the Senate, the party holding the vice-presidency gets the power.** Hence, a Joe Biden victory would imply that Democrats only need 3 additional seats to regain control (currently they're 45 senators plus 2 independent caucusing as Democrats). The Democrats are also in control of the House of Representatives (D: 235 seats vs. R: 199, at the opening of the [116th Congress](#), initially lacking a seat from North Carolina). On November 3, the biennial election for all seats in the House will take place. To get majority 218 seats are needed (when no vacancies occur).

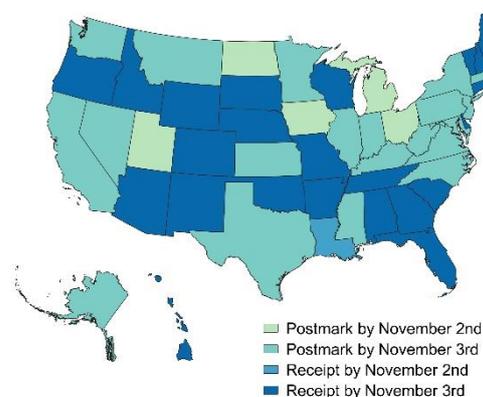
Most states allow everyone to vote by mail



Note: The map was updated on Oct. 14

Source: Tim Ryan Williams/Vox & Swedbank Research

Mail ballot deadlines differ across the country



Note: The map was updated on Oct. 14

Source: Tim Ryan Williams/Vox & Swedbank Research

Risk for dragged-out or disputed result

A dragged-out or a disputed result cannot be ruled out. This would likely cause market turbulence for a while. As the presidential and Congress elections will see many more votes by mail, we might not have an idea of the results on the election night (possibly not even on the morning after). However, it may be possible to see what direction the sentiment is tilting to, not least if one of the presidential candidates is heading to a landslide victory. **But don't count your chickens before they hatch.**

The Democrats share of the votes tend to increase after the election night as more votes are being counted, i.e., there is a so called "[blue shift](#)". Usually this doesn't matter for the overall results, but if there are small margins in some states it may play a role. This year there are [speculations that the blue shift will be larger](#) than in the past as Democrats tend to be more prone to vote by mail than Republicans. To complicate the matter further the [timing when states count the mail-in ballots differs](#), so results in some states will be delayed.

Besides a rise in absentee voting (possibly [doubled](#) from 2016), [Vox](#) states that the United State Postal Service (USPS) is undergoing a series of cost-cutting measures, which have caused mail delays. The changes e.g. include reducing the number of sorting machines from postal facilities, where swing states like Pennsylvania, Michigan and Florida are affected. The USPS' changes have, however, now been put on-hold until after the election and the Postmaster General has guaranteed that the November election is "*the number one priority*". But prior that, **the Postal Service in late July informed 46 states and Washington DC that it can't promise that their mail-in ballots would be delivered in time to be**

counted. The USPS should though have capacity to handle surges in mailing and even if the election will bring a spike in mailing, it's expected to be lower volumes than during the holidays (see [here](#)). But some states don't have robust absentee voting systems, meaning that they haven't experienced such volumes of mail-in ballots before. This poses yet another risk for a time lag.

There are also different laws for how mail-in ballots work in different states. Some states, including some battleground states, require that the election authorities receive ballots on November 3, while others require a postmark before or by that date. Some states with postmark rules have tight deadlines for receipt close to November 3. **Consequently, there is a risk that several votes will be uncounted if there is a delay in the mail.** For example, [half a million mail-in ballots were rejected in the primary elections](#) due to voter error and delays, according to the Washington Post which Vox cites. And in the 2016 election states [rejected 1% of returned ballots](#) due to errors or delays – in some states the figure was as high as 5%.

All this just sets the ground without taking notice of factors like creating a perception of a problematic postal service, the possibly reduced confidence in mail-in voting and the [filed lawsuits](#) on state and local governments over mail-in ballot rules. Increased ballot fraud, which has been brought up as a risk factor with mail-in voting, is however rare in the US, see [here](#).

President Trump and Vice-president Pence have also hinted that they won't commit to a peaceful transfer of power if the Republicans lose the presidential election. Trump's remarks have, however, been dismissed by some GOP lawmakers where the Senate Majority Leader Mitch McConnell is one of them (see [here](#)).

Not the first time a result is disputed

Recall the [2000 election](#) between Al Gore and George W Bush. On the election night, the TV networks declared Gore as winner, which they later withdrew before withdrawing that too. The result in Florida was too close to call and in December the Supreme Court controversially had to decide the matter. The [Supreme Court ordered to stay of the recount](#), which led to a Bush-victory.

In the 2020 election, however, we believe that the likelihood is low of a perfect political storm where the vote count is so close in a state that it could alter the presidential outcome.

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