

Power Shifts: 2019 in Review, 2020 U.S. Election Outlook



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Power shifts remain a cyclical challenge for risk management professionals. Political transitions can increase country risk and disrupt investment, lending and insurance, while directional swings in public policy, international relations and/or social attitudes impact market sentiment and shape real business environments. In 2019, major emerging markets in Africa, Asia and Latin America hosted national elections. A late snap vote in the United Kingdom ended a year of hyper-partisanship and legislative gridlock. With the exception of Argentina, the returns in each case favoured incumbent leaders, with noteworthy changes to vote share and distribution.

Looking to 2020, the presidential and legislative elections in the United States will seize global attention, as the results could prove a significant tipping point in macro trends. President Donald J. Trump will seek a second term in office, after four years of ideological polarization and significant reorientation in American foreign and domestic policy. Mr. Trump faces a crowded field of Democratic challengers, split between competing progressive and moderate party factions. On Capitol Hill, Republicans will seek to win back control of the House of Representatives after losing ground in the 2018 midterm elections, all while keeping their majority in the Senate. Subject to partisan divides between chambers and branches of government, the new Congress could serve to constrain or further empower the next President.

2019 IN REVIEW

EUROPEAN UNION

Election Date: May 23-26, 2019

Result: Loss of majority for two largest parties in Parliament, as the centre-right European People's Party (EPP) win 182 (↓34 from 2014) and the centre-left Socialists and Democrats (S&D) wins 154 (↓31) out of 751 seats total; strong gains for Green parties and modest gains for far-right/populist parties.

The rise of Euroscepticism was echoed to some extent in the European parliamentary elections, although centrist parties remain the most significant political blocs. Both the European People's Party (EPP) and Socialists and Democrats (S&D) won the most seats, but lost their majority status in the legislature. Far-right/populist parties

did increase their vote share, but fell short of some pre-election forecasts. The Green coalition made among the most significant gains, increasing its seat count from 52 to 69.¹

The persistence of establishment politics also reflected in the top EU executive appointments. Ursula von der Leyen, former German defence minister and ally of Chancellor Angela Merkel, replaced Jean Claude Juncker as the new President of the EU Commission; and Christine Lagarde, Director of the International Monetary Fund (IMF) and former French Finance Minister, took over as President of the European Central Bank (ECB). Both von der Leyen and Lagarde represent a more centrist, liberal internationalist segment of the political spectrum.

INDIA

Election Date: April/May, 2019

Result: Bhartiya Janata Party (BJP) wins landslide, with 303 (↑21 from 2014) seats out of 545 total in the Lok Sabha; Narendra Modi re-claims premiership. Prime Minister Narendra Modi and his Bhartiya Janata Party (BJP) won a decisive mandate in the Indian general elections, securing an even larger majority than in 2014. With the victory serving to endorse his own public persona, Modi now has near uncontested political control with a strong majority and little internal party opposition.²

The BJP secured an election victory despite poor economic fundamentals, from low growth to job losses.³ Modi re-committed to and even expanded upon the economic reform plan he first espoused in the 2014 campaign;⁴ a pledge that reflected in market expectations for the coming years.⁵ The PM's appeal to socio-cultural and nationalist politics, however, helped to insulate his party from the political costs of suboptimal economic performance and so played a definitive role in swaying the electorate.⁶ Since its return to power, the Modi Government has taken bold steps in line with its appeals to Hindu nationalist sentiment, defying India's secular tradition. New Delhi revoked the special constitutional status of Muslim-majority Kashmir in August, reclassifying the region as a "union territory."⁷ And in December, the Indian parliament passed the Citizenship Amendment Act, providing a pathway to citizenship for illegal residents from religious minorities while excluding Islam. This couples with proposals for a new National Register of Citizens.⁸

UNITED KINGDOM

Election Date: December 12, 2019

Result: Conservative landslide – 365 seats (↑48 from 2017) of 650 total in the House of Commons with an 80-seat majority; Boris Johnson re-claims premiership.

The Conservative Party secured a definitive majority, with strong cohesion around Brexit. Freshly empowered, Prime Minister Boris Johnson now has a clear path to lead the UK out of the European Union by the January 31, 2020 deadline.⁹ In contrast to the Conservatives' success, results across the aisle were mixed. In total, the Labour Party lost 8% of its vote share, constituting its worst electoral defeat since 1935.¹⁰ While the Tories managed to make significant gains in traditional Labour strongholds in Wales and Northern England – winning in regions that voted for Brexit – Labour lost ground in both solidly Remain and Leave constituencies.¹¹ Opposition Leader Jeremy Corbyn and Shadow Chancellor John McDonnell accepted responsibility for the defeat and both announced their intention to step down in 2020.¹² The Scottish Nationalist Party (SNP) came out as big winners on the opposition bench, securing 48 of the 59 Scottish seats in the House of Commons. First Minister Nicola Sturgeon has cited the gains as justification for a second referendum on Scottish independence. The Conservatives have rejected the proposal, however, the SNP contingent could amount to the biggest political obstacle the Conservatives will face in the next parliament.¹³

INDONESIA

Election Date: April 17, 2019

Result: Democratic Party of Struggle (PDIP) candidate Joko Widodo re-elected president; PDIP wins most seats, with 128 of 575 total in House of Representatives (DPR).

In line with pre-election polling,¹⁴ incumbent President Joko Widodo or “Jokowi” managed to re-claim the executive office with 55.5% of the vote, overcoming challenger Prabowo Subianto at 44.5%. Subianto rejected the result on the grounds of widespread election fraud, and accused Jokowi of compromising state institutions to service his political objectives. Subianto filed a formal legal challenge to the outcome, but the Constitutional Court ultimately rejected his petition in June.¹⁵

The election marks a sustained liberal course in Indonesian politics and a rebuff of religious factionalism. Jokowi campaigned on a platform of inclusive nationalism, building a coalition between his more pluralist party and the Islamic Nahdlatul Ulama (NU).¹⁶ Sworn into office in October 2019, Jokowi has also committed to further open the economy to foreign investment, loosen rules on labour and accelerate trade negotiations.¹⁷

ARGENTINA

Election Date: October 27, 2019

Result: Frente de Todos candidate Alberto Fernández elected president, former president Cristina Fernández de Kirchner wins vice-presidency; Frente secures most seats in the Chamber of Deputies by one-seat margin, with slim majority in the Senate.

Although President Mauricio Macri entered office on a pro-market liberalization agenda in 2015, an economic downturn and subsequent political backlash allowed for a resurgence of Peronism in 2019.¹⁸ The nominee to lead this leftist revival defied initial expectations. In a surprising move, former president Cristina Fernández De Kirchner chose to run for the vice-presidency alongside former Chief of Staff Alberto Fernández,¹⁹ although analysts viewed De Kirchner as wielding the greater political influence within the Frente coalition.²⁰

Although more of a moderate than his running mate, Fernández favours a turn towards greater economic protectionism.²¹ In the August 11th presidential primary, he outperformed the incumbent by 16 points, scoring 47.8% of the vote to Macri’s 31.8%.²² Investors retreated from the Argentine market in the wake of the primary and the value of the peso dropped precipitously, upon which Macri re-imposed capital controls and announced a sovereign debt “reprofiling” considered synonymous with default.²³ Macri halved the disparity in vote share by the October general election, yet his gains proved insufficient to ensure a victory. Fernández secured 48% support to Macri’s 40%, more than the minimum 45% share required to win after the first round of voting. The result hinged on the various Peronist factions uniting behind Fernández and De Kirchner; internal divisions within the leftist movement had given Macri’s Cambiemos a pathway to victory in 2015.²⁴ However, the Frente could not secure a majority in the Chamber of Deputies,²⁵ thus providing some balance against the opposition. Relative to the August primary returns, the market reacted mildly to the final vote tally.²⁶

SOUTH AFRICA

Election Date: May 8, 2019

Result: African National Congress (ANC) maintains majority in parliament, but with a reduced vote share, losing 19 seats. ANC now holds 230 out of 400 total seats in parliament and ANC candidate Cyril Ramaphosa re-elected president by legislature.

South Africans returned the long dominate African National Congress (ANC) to power in May elections. The ANC secured 57.50% support, while its primary opposition, the Democratic Alliance (DA), won 20.77%. For both parties, these returns fell below their performance in the 2014 election. The far-left Economic Freedom Fighters (EFF) made impressive relative gains, winning 10.79% of the vote, almost four and a half points higher than in 2014.²⁷ In total, the election set a new precedent for ideological diversity, with 14 different parties represented in the National Assembly.²⁸ Partisan variety was less pronounced at the sub-national level, however, where the ANC won 8 of 9 provinces.²⁹ With a new mandate, President Cyril Ramaphosa and his party have committed to tackling economic growth and anti-corruption.³⁰

2020 US ELECTIONS

Election Date: November 3, 2020

Contested Offices: President/Vice-President; House of Rep. (all seats); Senate (approx. 1/3 seats)

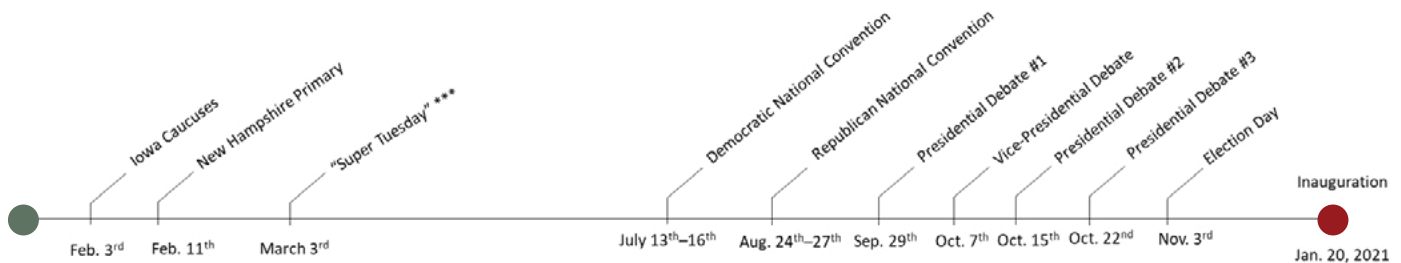
Presidency: Donald Trump will likely campaign for re-election with a strong focus on economic performance. Market fundamentals have strengthened throughout much of his first term. Wages have risen and unemployment in 2019 fell below 4%, reaching a 50-year low. However, as a possible hindrance to the Trump/Pence ticket, market conditions are projected to weaken over the next year, as the U.S.-China trade conflict exacerbates other vulnerabilities like corporate debt accumulation.³¹

Perhaps even more salient in the minds of voters than economic conditions, Trump’s re-election could hinge on character and personal conduct. Compared to George W. Bush and Barack Obama, the current president has been markedly less popular among voters otherwise satisfied with the economy.³² In any event, Trump does benefit from a near unified Republican base. This dominance has reflected in the GOP’s nominating process, as states including Kansas, South Carolina, Nevada and Arizona have all moved to cancel their primaries,³³ blocking any challenger to the incumbent from winning state delegates to the national convention in August.

Across the aisle, the contest for the Democratic ticket remains fluid and competitive. Discernable from the list of frontrunners, the Democratic race echoes a mild but real ideological divide between progressive and moderate wings of the party. In particular, Senators Elizabeth Warren (Massachusetts) and Bernie Sanders (Vermont) have run on more hardline platforms than their centrist peers. This progressive surge has met with some concern among Democratic leaders: former President Barack Obama has cautioned against a swing too far to the ideological left, warning that “ordinary” American voters do not want to “completely tear down the system.”³⁴ For whichever candidate is ultimately selected to run against President Trump, key electoral college votes in the Midwest may prove critical: Specifically, wins in Michigan, Pennsylvania and Wisconsin may serve as the optimal path to victory.³⁵

On December 18th 2019, the House of Representatives voted to impeach President Trump. The next procedural step will be a trial in the Senate, where the GOP majority is expected to vote for acquittal in early 2020.³⁶ Beyond the stark partisan divide in public opinion over the President’s removal from office,³⁷ the extent to which the impeachment process or its end result actually influences the election may depend on a range of additional variables, including voter turnout, the disparity between the popular and electoral college vote, and the degree to which current sentiments about Mr. Trump and his alleged abuses of power in office actually influence final voter decisions come November.

Election Timeline 2020



*** The date with the greatest number of scheduled state primaries/caucuses

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