

## US Elections Season (Part one): Explaining the process and reviewing polls

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- **With US election season underway and set to conclude on 3-November-2020, we provide a detailed overview of the process and implications for the markets via two reports**
- **In this edition (part one), we highlight the election procedure and what polls are showing**
- **While focus remains squarely on the US Presidential elections, the outcome of the House and Senate needs to be watched very carefully as well. The ability of the next President to drive policy will to a greater extent also depend on whether his political party will be able to take control of Congress**
- **US President Trump was able to drive through his policy agenda when he won elections in 2016 as the Republican Party also had control of the House and the Senate**
- **Since 2018 when the Democratic Party took control of the House, his ability to push forward with reforms has proven difficult. The only notable legislation that received 'bipartisan support' was the fiscal stimulus program that was passed in March in response to the COVID-19**
- **In a run-up to the elections, the main focus will be on the outcome of 'battleground states' as that will in all likelihood determine the outcome as has been the case in several previous Presidential elections**
- **Most polls assign a higher probability of a Biden victory and the Democratic Party retaining the House of Representatives. The Senate could be a closer race but a higher probability is being assigned to the Democratic Party taking control**
- **In our next edition, we will examine the policy implications of each possible political configuration along with the market impact for both the near-term and medium-term**

**US election season: A lot to play for:** Global markets are entering a fairly volatile period with the US election season set to commence in less than a month's time. The importance of the outcome of this election season cannot be understated given that global output has been hit sharply by a pandemic in 2020. US policy making with regards to fiscal policy, trade policy, financial regulation and protectionist stance will have important implications for the outlook of the US Economy and the Global Economy. In this regard, the election outcome will work as an important tipping point for the market given that the direction in each area of policy will be dictated by the new leadership. The elections are due to conclude on 3-November-2020. However, the road ahead may still prove to be highly uncertain even after 'election day'.

**It is not just about the Presidential elections:** While the main focus is on the outcome of the Presidential elections, election results of the House of Representatives and the Senate will also need to be monitored very carefully.

- **House of Representatives:** Each member serves a two-year term with all 435 seats up for re-election in 2020. The seats allocated are divided among the 50 states on proportion of the population of each district in a specific state. The precise district-wise classification is based on the decade-wise census. The current configuration is based on census that was completed in 2010. After each election, the speaker of the House is elected who is the presiding officer of the chamber. The speaker is the third in line to lead the country after the President and the Vice President. **The exclusive powers that are related to the House are on: (a) initiating revenue bills and all other matters related to public finances, (b) impeaching federal officials, including the President and (c) electing the President in case there is a tie.**
- **The Senate:** The structure is a bit different to the House. There are a total of 100 members in the Senate with 2 members elected from each state. Each member of the Senate serves a six-year term. However, the term of the members is staggered with about one-third of the members up for re-election every two years. In 2020, 35 seats are up for re-election. The Vice President serves as the Head or the President of the Senate. In case of a tied vote, the Vice President is allowed to cast the deciding vote in the Senate. **The exclusive powers of the Senate are: (a) confirm the President's appointments, (b) ratify treaties, although the House still needs approve any treaty that is related to foreign trade and (c) while the House takes the decision to impeach federal officials, the Senate conducts a trial for the impeached officers.**

**The importance for a political party to control Congress and the President's seat:** Any bill must pass both Houses of Congress before it goes to the President for final approval. At times, bills can be introduced in Congress on behalf of the US President. Once approved by the President, the bill becomes a law. The President can also choose to send a bill back to Congress for re-consideration. After going back to Congress, each chamber needs to pass it by two-thirds majority. If the bill gets passed again, it is sent back to the President to be passed in to law. **The President can pass 'Executive Orders' but these orders are still subject to judicial review and interpretation.**

Back in 2016, Mr Trump won the Presidential election and his party—the Republican Party—won the Senate and retained control of the House. **A Republican Controlled Congress allowed the US President to move forward with his agenda.** He subsequently passed the Tax Cuts and Jobs Act (TCJA) of 2017 that has become the flagship policy achievement of his tenure so far. The phase one trade deal with China has also passed but COVID-19 has played spoilsport diluting its overall effect. **However, the Republican Party lost control of the House in the 2018 elections that has subsequently made it difficult for the US President to push forward with his policy agenda.** The Republicans still have control over the Senate. Since 2018, the only major bi-partisan agreement that was reached was on the Coronavirus Aid, Relief, and Economics Security (CARES) Act that was passed in March-2020 in response to COVID-19. The passage of this bill was considered essential to support the economy as lockdowns were being imposed. Other legislation has not been passed. **Hence, it is not just the Presidential elections that are important but the entire landscape of the US House of Congress.**

**Presidential elections: Understanding the process:** The elections to the House of Representatives and Senate are fairly straightforward contingent on which candidate wins the popular vote in that district for the former and state for the latter. However, the Presidential elections is based on a 'Electoral College' (EC) vote. The key features are as follows:

- **The make-up of the EC:** The electoral college is convened every four years in a run-up to the Presidential elections and then dissolved after the elections. Members are selected by the state legislatures. None of the selected members can be a member of the US Congress and neither can they be public sector employees. Typically, the members tend to be well known figures or personal within the district/state. These members serve as representatives for voters who vote for their Presidential/Vice-Presidential combination candidates. The final submission of the district-wise results is made by the members of the EC. The number of electoral votes that are given to each state are based on the latest census that at this time is 2010. The least number of seats allocated to a state is 3 while the highest is 55. The total number of electoral college seats are 538. The threshold of 270 electoral college seats is considered as the required amount as the winning margin.
- **The process of electing a winner:** In the US, 48 states and the district of Columbia use what is referred to as the 'general ticket' system whereas two states Maine and Nebraska use the 'direct system'.

The general ticket system is a bit different and works in the following manner. Assume that a particular state has 10 EC seats for which voting takes place. After the votes have been placed, assume that one candidate A gets 50.1% of the share of votes in that state and the other candidate B gets 49.9% share of votes in the state. Based on the laws and rules, irrespective of the vote share, candidate A will get all 10 seats of that state at one shot. **In short, the presidential candidate receiving the plurality of the vote in each state wins all the electoral votes.** The adoption of the 'general ticket system' has at times resulted in a candidate winning the 'Electoral College' but losing the popular vote. This has happened on four occasions in the past—1876, 1888, 2000 and 2016.

The other system that is used in Maine and Nebraska is the 'district' system. In both these states, two votes are assigned based on the 'general ticket system' while the remainder is based on the popular vote at the 'district level'. Maine has about 4 electoral seats while Nebraska has about 5. The system in these two states allows for both Presidential candidates to win seats in both states.

- **Focus is more on the 'battleground states':** In the US, several states are associated as being primarily Democratic and primarily Republican given the historic voting patterns. **However, there are few states that tend to alternate that are referred to as the 'swing states' or 'battleground states'.** Hence, each candidate assumes a certain minimum support and then tries to win these 'battleground states' to win the elections. These battleground states are: (a) Colorado (9 seats), Florida (29 seats), Iowa (6 seats), Michigan (16 seats), Minnesota (10 seats), Nevada (6 seats), New Hampshire (4 seats), North Carolina (15 seats), Ohio (18 seats), Pennsylvania (20 seats), Virginia (13 seats) and Wisconsin (10 seats). In total, 156 electoral seats of the 538 are often tracked very closely by the market that will in turn influence the final outcome.

**An interesting observation is that Florida and Ohio have a strong record of predicting the outcome of the Presidential elections.** The state of Ohio has voted for the President in every election since 1964 while Florida has voted for the President since 1996. Records are often broken and it is possible that these two states may not be able to correct predict the winner this time. However, the fortunes of these two states will tracked very closely.

**Will mail-in ballots create a problem?:** Unlike past elections, the circumstances for this round are a bit different. For one, this election is taking place in the middle of a 'pandemic'. The net result has been a much larger increase in mail-in ballots. This creates problems of possible delays in computing the final tally that might result in possible delays.

**However, a key point to note is that mail-in ballots are not a new concept in the US. It has been steadily increasing from ~25 mn in 2004 to ~57 mn in 2016 as 16 states provided mail-in ballots for their citizens.** In 2018 election season, as much as 20% of total votes came via mail-in ballots while the remainder came from in-person voting. This time around that ratio could change considerably with 50%-70% of total votes forecasted to come via mail-in ballots votes. Concerns also remain about whether the mail-in ballots will have the correct protocol maintained and ensure that there are no signature mismatches. In the 2016 elections, ~300,000 mail-in ballots were rejected because of signature mismatches. In a close election that could have important implications for the final outcome and can be used a basis for one entity to question the veracity of the final verdict. **The US President has already indicated that he might consider challenging the outcome of the verdict that could mean eventual delays to the final outcome and some uncertainty going forward.**

**Key-dates:** While the Presidential elections are due to conclude by 3-November-2020 with several rounds of early voting also likely to take place across a number of states, the onus will be on the responses from Trump and Biden. Neither candidate might seek to conceded the elections on election night itself given that counting of ballot votes might take a bit of time. Most polls also show that a higher percentage of Republican voters have shown a greater preference to vote in-person whereas a higher percentage of democratic candidates have shown a preference to vote via mail-in ballots. In this regard, several key dates stand out:

- **'Safe-Harbour' Deadline (8-December-2020):** After election day, votes are tallied by each states and any disputes are resolved by this period. Assuming that all procedures are followed appropriately, the results announced on this date are considered to be 'conclusive'.
- **The Electoral College Meeting (14-December-2020):** All the members of the EC meet in each state and sign off on the 'certificate to vote'. These certificates are then sent to the Head of the Senate, the respective district courts and the Secretary of State.
- **Delivering documents (23-December-2020):** By this date, all the relevant documents will be required to be sent to the designated officials, including election officials. This is considered as the final tally from the 'Electoral College'.

- **The House of Congress ratifies the outcome (6-January-2021):** The newly elected House and Senate meet in a joint session to count the votes and announce the President and Vice President respectively.
- **The inauguration ceremony (20-January-2021):** The new President and Vice President are inaugurated.

**What will happen if the results are challenged?:** The main concern for investors will be the possibility of a ‘challenged elections’ or if the margin of victory is fairly small or if there is a tie. Although several scenarios are possible in terms of how events might unfold, we suspect that there could be a protracted legal dispute if the elections are challenged. However, a final verdict is to be expected by at least 23-December-2020. The matter might also be sent to the Supreme Court. Of the total of nine members of justices in the supreme court, only eight are currently in office with a vacancy of one post. The nomination process for the vacant post in the Supreme Court of Justice is still ongoing. However, it remains unclear on whether the process will be completed in time prior to the Presidential elections. Hence, it is quite possible that there could a tied vote within the Supreme Court itself if the challenge is raised and the matter taken to it for a resolution.

The last time an election result was challenged was back in 2000 that pertained to the results in Florida state. The outcome of the election was fairly close with then Presidential Candidate George W Bush leading by around 400 votes. Given the margin of victory, Florida law demands a recount. After much legal deliberation, the Supreme Court Ruled 5-4 to reverse the decision of the Florida state Supreme Court of a recount that subsequently handed the victory to Mr. George Bush.

We suspect that only if there is a close election will concerns arise. However, the upshot is that some uncertainty about the outcome could linger for a while depending on the actions taken by both candidates. In case of a tied vote, the House of Representatives will decide on the next President-- such a situation has happened on two occasions—1800 and 1824.

**What are the polls saying?:** Most polls show that the former Vice President Democratic Candidate Biden to be in the lead at the national level as well as in several battleground states. He had maintained a fairly steady lead right throughout the last six months. The polls for 2020 also show a lesser degree of volatility than what was seen during 2016. Another important take-away is that all the major battleground states that were lost by the Democratic Party nominee—Ms. Clinton in 2016 are showing greater support for Biden’s nomination. The Democratic Party also do not appear to be losing ground on the states that they won in 2016. The latest poll that was conducted by Washington Post/ABC News gives Biden a 12-point lead at the national level over President Trump.

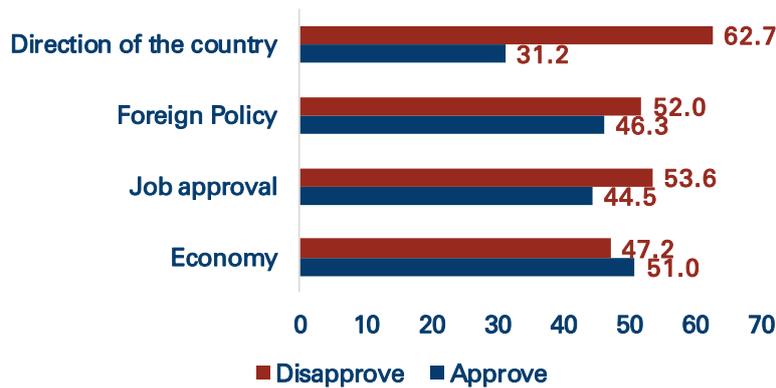
**Chart 1:** Biden appears to be in the lead to take back the ‘Battleground States’ that were lost in 2016

<b>Electoral College: The message from the polls on Battleground States</b>				
<b>State</b>	<b>No. of seats</b>	<b>Voting in 2016</b>	<b>Polling in 2020</b>	<b>Spread of victory 2020 in ppt: Polls</b>
Arizona	11	Trump	Biden	2.7
Florida	29	Trump	Biden	3.7
Michigan	16	Trump	Biden	6.7
North Carolina	15	Trump	Biden	1.4
Ohio	18	Trump	Biden	0.6
Pennsylvania	20	Trump	Biden	7.1
Wisconsin	10	Trump	Biden	5.5

Note: ppt refers to percentage points  
Source: Realclearpolitics.com & ICICI Bank Research

**Chart 2: Based on polls, US President’s popularity remains low**

**Perception of President Trump: National Polls**



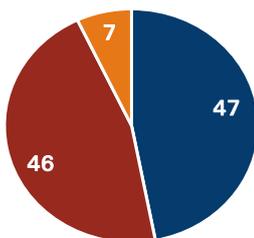
Source: Realclearpolitics.com & ICICI Bank Research

For the House of Representatives, higher odds are being provided to the Democratic Party to retain it. The polls show th at Democratic Party could get a 233-202 lead over the Republican Party with a majority figure set at 218. For the US Senate, at the current juncture Republicans hold a 53-47 lead. Of the total number of seats about 35 are up for re-election in 2020. From the 35, about 23 seats are Republican and 12 are Democrats. To take control of the Senate, Democrats need to retain all its seats and take about 4 Republican seats to get a majority. The polls show that the final outcome could be a close call but a higher probability is being assigned to the Democrats taking the Senate as well. The polls show that the Democrats could take a lead of 51-49. **We list out four possible outcomes:**

- **Democratic sweep:** The Democratic US Presidential Candidate—Biden-- wins the race to become the next President. This is followed by the Democratic Party retaining the House and winning the Senate. The polls seem to be indicating the highest probability for this scenario. (D,D,D)
- **Democratic Breeze:** The Democratic US Presidential Candidate—Biden—wins the race to become the next President. The Democratic Party retains the House but is unable to win the Senate. (D,R,D)
- **Republican Breeze:** The incumbent President Trump of the Republican Party retains power. The Republican Party retains the Senate but is unable to win the House of Representatives. (R,R,D)
- **Republican sweep:** The incumbent President Trump retains power. The Republican Party retains the Senate and is able to win the House. (R,R,R)

**Chart 3: Democrats position in the Senate is estimated to improve**

**Battle for Senate 2020 Polls: No of seats**



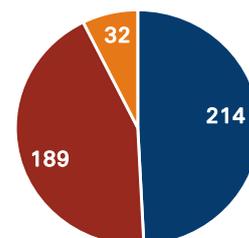
■ Democrats ■ Republicans ■ Uncertain

Note: Of the 7 uncertain seats, four appear to be leaning towards the Democratic Party

Source: Realclearpolitics.com & ICICI Bank Research

**Chart 4: The Democrats are expected to hold the House**

**Battle for the House Polls 2020: No. of seats**



■ Democrats ■ Republicans ■ Uncertain

Note: Of the uncertain seats, nineteen appear to be leaning towards the Democratic Party

Source: Realclearpolitics.com & ICICI Bank Research

**Chart 5: State-wise outcomes forecasted by Polls versus actual outcome in 2016**

<b>Electoral College: Polling outcomes and expectations</b>				
	<b>No. of Electoral college seats</b>	<b>2016: Outcome Trump</b>	<b>2020: Polls</b>	
			<b>Trump</b>	<b>Biden</b>
Alabama	9	Won	Leading	Trailing
Alaska	3	Won	Leading	Trailing
Arizona	11	Won	Trailing	Leading
Arkansas	6	Won	Leading	Trailing
California	55	Lost	Trailing	Leading
Colorado	9	Lost	Trailing	Leading
Connecticut	7	Lost	Trailing	Leading
Delaware	3	Lost	Trailing	Leading
District of Columbia	3	Lost	Trailing	Leading
Florida	29	Won	Trailing	Leading
Georgia	16	Won	Leading	Trailing
Hawaii	4	Lost	Trailing	Leading
Idaho	4	Won	Leading	Trailing
Illinois	20	Lost	Trailing	Leading
Indiana	11	Won	Leading	Trailing
Iowa	6	Won	Leading	Trailing
Kansas	6	Won	Leading	Trailing
Kentucky	8	Won	Leading	Trailing
Louisiana	8	Won	Leading	Trailing
Maine	4	Won	Trailing	Leading
Maryland	10	Lost	Trailing	Leading
Massachusetts	11	Lost	Trailing	Leading
Michigan	16	Won	Trailing	Leading
Minnesota	10	Lost	Trailing	Leading
Mississippi	6	Won	Leading	Trailing
Missouri	10	Won	Leading	Trailing
Montana	3	Won	Leading	Trailing
Nebraska	5	Won	Leading	Trailing
Nevada	6	Lost	Trailing	Leading
New Hampshire	4	Lost	Trailing	Leading
New Jersey	14	Lost	Trailing	Leading
New Mexico	5	Lost	Trailing	Leading
New York	29	Lost	Trailing	Leading
North Carolina	15	Won	Trailing	Leading
North Dakota	3	Won	Leading	Trailing
Ohio	18	Won	Trailing	Leading
Oklahoma	7	Won	Leading	Trailing
Oregon	7	Lost	Trailing	Leading
Pennsylvania	20	Won	Trailing	Leading
Rhode Island	4	Lost	Trailing	Leading
South Carolina	9	Won	Leading	Trailing
South Dakota	3	Won	Leading	Trailing
Tennessee	11	Won	Leading	Trailing
Texas	38	Won	Leading	Trailing
Utah	6	Won	Leading	Trailing
Vermont	3	Lost	Trailing	Leading
Virginia	13	Lost	Trailing	Leading
Washington	12	Lost	Trailing	Leading
West Virginia	5	Won	Leading	Trailing
Wisconsin	10	Won	Trailing	Leading
Wyoming	3	Won	Leading	Trailing
<b>Total</b>	<b>538</b>	<b>304</b>	<b>186</b>	<b>352</b>

Source: Realclearpolitics & ICICI Bank Research

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