

## US Presidential Elections

# Invisible Primaries Coming into Focus

The “invisible” primaries have been well underway for the past three months, as prospective candidates have been securing donors, operatives, and endorsements. With the debates starting this fall, we expect the major candidates to announce their intention to run for president in April, with some waiting until May.

Having lost the popular vote in five of the past six presidential elections, the GOP is very focused on winning back the White House. We expect a very crowded field of GOP contenders, with about a dozen candidates ranging from the moderate center-right to libertarians to evangelical social conservatives. We expect the nomination to boil down to a center-right and a social conservative candidate. If past patterns hold, a center-right candidate is likely to win the GOP nomination.

On the Democratic side, polls suggest that this nomination is Hillary Clinton’s to lose. Given her experience and the Clinton political machine, it will be very difficult for another Democrat to win the nomination. If an issue emerges that can convincingly damage her credibility and Democratic donors and operatives begin to look for an ABC (“Anyone but Clinton”) candidate, then we would change our base case. That has not happened yet, and the other Democrats who have expressed an interest, at this point, do not appear to pose a serious threat.

With the financial crisis in our rearview mirror and annual federal government deficits at a manageable level, this election will likely bring a range of domestic policies with market implications to the forefront, all with possible bipartisan solutions. Under a new president, Congress may be more likely to address housing/GSE policy, comprehensive tax reform, immigration policy, etc. The foreign and defense policy issues – from Russia to non-state terrorists to an increasingly dangerous Middle East – will present challenges, as these issues can easily puncture a candidate’s campaign to be the commander-in-chief.

Last, perhaps the most important person in the primary election process will be Janet Yellen, Chair of the Federal Reserve. As Barclays economists have noted, we expect the Fed to begin the rate hike cycle in September of this year, which would fall at the start of the party debates. Given the increasing political pressure to limit the powers of the Federal Reserve, its decision and the effect on the markets will surely play a role in the 2016 election.

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## Invisible Primaries Coming into Focus

With more than 18 months until the US presidential election on November 8, 2016, the so-called “invisible” primaries are well underway, as prospective candidates are wooing donors, hiring political operatives, and building the foundation for a presidential campaign that will likely exceed the 2008 and 2012 elections for voter turnout (131mn and 129mn, respectively) and fundraising (\$1.68bn and \$1.32bn, respectively).<sup>1</sup>

### Debates and Nomination Calendar

While the Democrats have not announced their debate schedule, the Republicans will begin in August 2015, and we expect the Democrats to follow a similar schedule.

*Debates will begin in August 2015 and the Iowa Caucus is expected to be in early February 2016*

FIGURE 1

#### Republican National Committee Debate Schedule

Date	Debate Location	Media Partner
August 2015	Ohio	Fox News
September 2015	California	CNN
October 2015	Colorado	CNBC
November 2015	Wisconsin	Fox Business
December 2015	Nevada	CNN
January 2016	Iowa	Fox News
February 2016	New Hampshire	ABC News
February 2016	South Carolina	CBS News
February 2016	Florida	NBC/Telemundo
March 2016	To Be Determined	Fox News
March 2016	To Be Determined	CNN

Source: Republican National Committee

In terms of the nomination process, we expect both parties to host the first contest – the Iowa caucuses – in early February 2016, followed by primaries/caucuses in New Hampshire, Nevada, and South Carolina later in the month. The remaining states will follow through June, culminating in the Republican National Convention on July 18-21, 2016, in Cleveland and the Democratic National Convention on July 25-28, 2016, in Philadelphia.

Not surprisingly, political operatives have already begun to propose changes to benefit different prospective candidates. First, some states may change the type of nomination contest (eg, primary, caucus, or convention). While primaries often draw a broader group of voters – and may be better for moderate candidates – caucuses often attract more dedicated (and possibly ideological) voters. Nominating conventions – which a couple of states are considering – draw an even smaller group of eligible voters.<sup>2</sup> Last, for some states that employ a caucus, an incumbent may launch both a presidential campaign and a congressional re-election campaign. For example, Kentucky may host a caucus to provide Senator Rand Paul the flexibility for a Senate re-election campaign in case he loses the race for the GOP nomination.<sup>3</sup>

Second, some states – at times too small or scheduled late in the process to influence the outcome – may band together to form voting coalitions that boost their collective importance. Georgia, Mississippi, Tennessee, Arkansas, and Alabama may align their nominating contests and create the “SEC Primary” (for the non-Americans, the SEC refers to the Southeastern Conference in US college sports). Since evangelical voters represent a significant portion of the GOP primary voters in these states, some socially conservative candidates have been advocating for this change.

<sup>1</sup> Sources: Federal Election Commission and Barclays Research. The fundraising figure includes contributions disclosed to the Federal Election Commission by each Presidential candidate.

<sup>2</sup> Sources: *The Washington Post*, Barclays Research.

<sup>3</sup> Sources: *Politico*, *The Washington Post*, Barclays Research.

*Timing of the Federal Reserve's rate increase may affect the nominations and the general elections*

Last, the timing of the Federal Reserve's decision to increase interest rates and its market effect will garner much attention and might affect the debates. In our opinion, auditing the Fed – an idea gaining traction in Congress – will be a significant topic as debates begin, especially within the GOP, as Senator Rand Paul (Kentucky) has been an ardent supporter of the legislation. Even if he loses the nomination, subjecting the Fed to this type of Congressional oversight may be included in the GOP platform, in our opinion.

*Having lost the popular vote in five out of the past six presidential elections, the GOP is eager to expand its base of support and win back the White House*

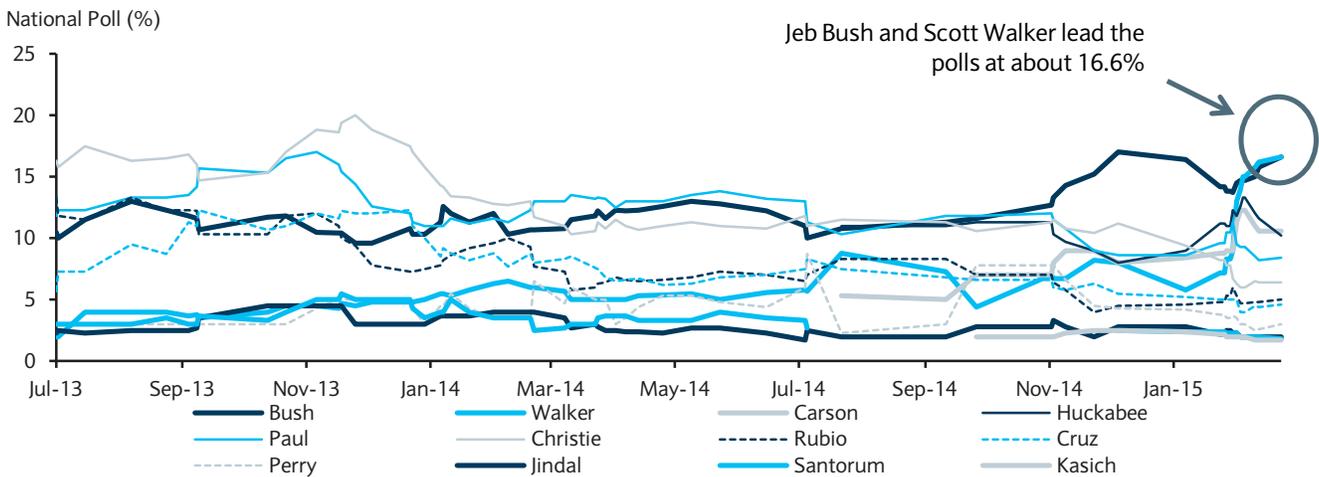
**GOP Nomination: Separating the RINOs from the Elephants**

In our opinion, the present-day GOP nomination whittles down to a center-right and a social conservative candidate who has governing experience. The other candidates are less likely to hold the public's interest, given their lack of governing experience. We expect a bruising battle between moderate conservatives – sometimes derided as RINOs (Republican in Name Only) – and the social, often more religious, conservatives. While the field is expected to grow to a dozen or so candidates, we will quickly be able to separate the wheat – the real contenders who can amass serious financial and operational resources – from the chaff, those whose ultimate goal is to be the vice presidential nominee, promote a particular platform (eg, libertarian, religious right, etc), advocate a key issue (eg, limit powers for the Federal Reserve, reform the tax code, etc), or simply elevate one's brand to the national audience.

Given former Florida Governor Jeb Bush's announcement in December 2014 that he was "exploring a presidential bid" and the reported success of his fundraising efforts, prospective candidates have been pressed to explore a campaign or outright announce their candidacy months ahead of time, and in some cases others have chosen not to run. Early polling data show a crowded field, but Bush and Wisconsin Governor Scott Walker lead the pack. They also lead the polls in the key early voting states of Iowa (Walker +8.0 points; since 1980, the winner went on to secure the GOP nomination 60% of the time), New Hampshire (Bush +0.6 points; 60%), and South Carolina (Bush +1.07 points; 80%).<sup>4</sup>

*Between 2009 and 2014, former Florida Governor Jeb Bush was employed by Barclays as a senior independent advisor, providing perspective on the impact that economic trends, regulations and policies could have on sectors and/or businesses; Governor Bush was not a transactional advisor.*

FIGURE 2  
2016 Republican Presidential Nominee National Poll



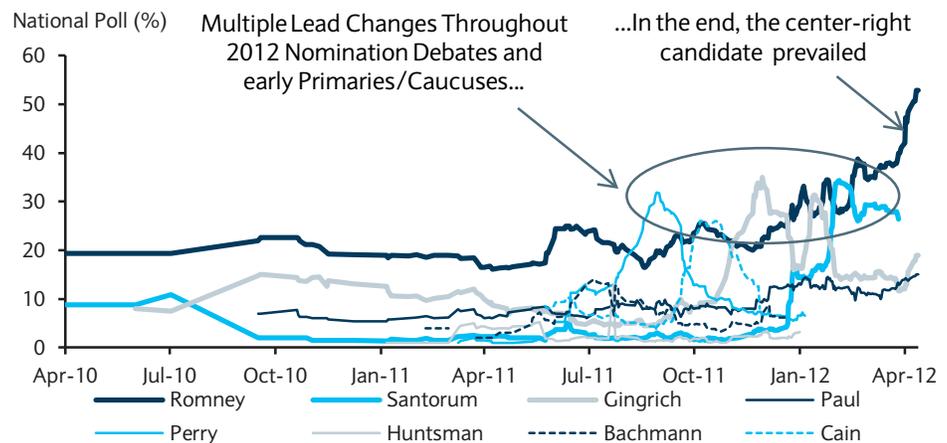
Sources: RealClearPolitics, Barclays Research.

<sup>4</sup> Source: RealClearPolitics.

*While several candidates will lead the GOP field, we expect a center-right Republican to win the nomination*

With such a crowded field, we expect several prospective candidates – potentially Governors Bush and Walker or Senators Rubio or Paul – to lead the polls as the debates begin later this year. There will no shortages of gaffes, botched interviews, and poorly worded policies, as social media tools will broadcast these moments to the public in real-time. For example, in the 2012 GOP debates, Texas Governor Rick Perry forgot the name of the federal department he would shut down as President and support for him plummeted. In that race, Perry, business executive Herman Cain, former Speaker of the House Newt Gingrich (Georgia), former Pennsylvania Governor Rick Santorum, and former Massachusetts Governor Mitt Romney all led the polls at one point, but in the end, Romney – one of the moderate GOP candidates – won the nomination. We expect 2016 to follow the same pattern, as many of the candidates will get their moment on top of the polls, but in the end, a center-right Republican will likely win the nomination. Investors should be patient and keep a close watch on the nomination as candidates and their issues gain traction that could severely affect the markets.

**FIGURE 3**  
**2012 Republican Presidential Nomination National Poll**



Sources: RealClearPolitics, Barclays Research.

As we have seen in the past in both parties, primary candidates run to the extremes of their party to win the nomination and then trend back to the middle for the general election. This has proven problematic for the GOP as once moderate Republicans adopt more conservative policies to win the nomination, alienate general election voters, and lose the White House to Democrats. In a famous exchange during a GOP debate for the 2012 nomination, all the candidates were asked if they would accept a fiscal compromise that included a ratio of \$10 of spending cuts for \$1 in tax increases. All the candidates rejected the compromise because a tax increase is an anathema to some in the GOP.

To reiterate, Democrats have won the popular vote in five of the past six presidential elections and the electoral vote in four of the past six. In Congressional elections, the GOP may have lost otherwise winnable elections, as more extreme candidates – some affiliated with the Tea Party – have been on the ballot for the Republican Party. Rather than evaluate each prospective candidate at this early stage, our general questions for the GOP are: (1) How does a moderate candidate appeal to the base and not alienate general election voters? 2) Can a Republican focus on the general election during the primaries/caucuses by claiming to be the most electable and win the GOP nomination? 3) Regardless of the proposed SEC primary, can one of the social conservatives rally the base – namely evangelical voters – and secure the nomination? If so, can that nominee win a general election? 4) Are there any relatively unknown candidates that could surprise the GOP, such as Ohio Governor John Kasich or New Mexico Governor Susana Martinez? 5) Will

prospective candidates, such as Senator Rand Paul (Kentucky), elevate key economic issues (eg, auditing the Federal Reserve, etc) into the GOP platform?

**Democratic Nomination: Hillary vs. Hillary**

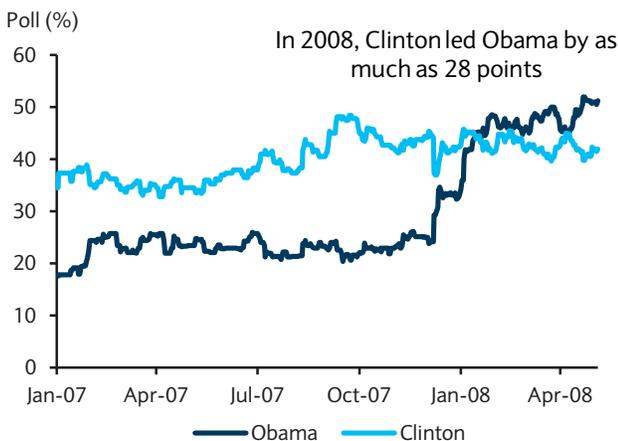
While the GOP has been torn by different factions, the Democratic Party has a similar struggle between moderate centrists and populist liberals, most notably Senator Elizabeth Warren (Massachusetts). We have seen flashes of this clash before, notably Senator Warren’s successful high-profile opposition to one of President Obama’s Treasury nominees – Lazard’s Antonio Weiss – but the friction has been minor compared with the GOP’s issues over the past eight years.

We expect Hillary Clinton to announce her candidacy (or intent to run) in the first half of April, in order to maximize her second-quarter fundraising. Clinton’s lead over 2016 prospective rivals in the Democratic Party is extremely large. In 2008, she led then Senator Barack Obama by as much as 28 points, only to watch that once thought-to-be insurmountable lead dissolve as Obama surpassed her during the primaries in February 2008.

*Leading the other candidates by over 50 points, Hillary Clinton is very likely to win the Democratic nomination, absent a major scandal or a shift in Democratic sentiment*

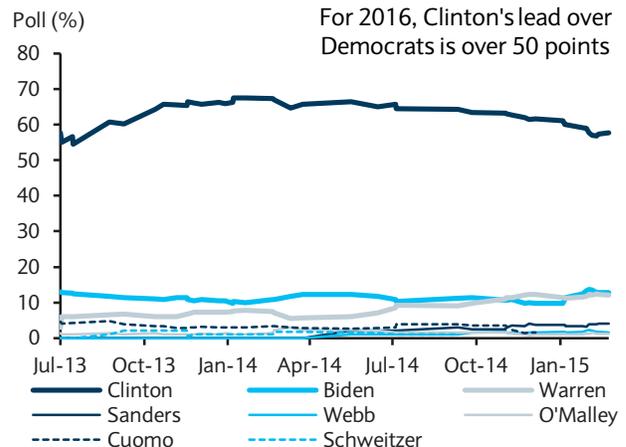
This time, she has led by about 52 points over her next closest rival, currently Vice President Joe Biden and Senator Warren. While others will join the field, barring any major scandal or a shift in sentiment among Democratic donors or operatives, we think she has the least challenging path to win the nomination of nearly any politician in decades. While it appears to us now that she will be the likely nominee, given her experience, a potentially weak Democratic field, her fundraising abilities, the countless endorsements from colleagues and political operatives, and her husband’s retail political (and oratory) skills, as Defense Secretary Rumsfeld famously said, we know there are “unknown unknowns...things...we don’t know we don’t know.” While there is no Iraq war authorization vote as in 2008 that damaged her electability with Democrats, Clinton may stumble, given the intra-party conflict between the moderates and more liberal members and the public fatigue with her long history in politics. Rather than evaluate her potential candidacy at this early stage, our general questions for the Democratic Party are: 1) How does Clinton balance the moderate, pro-business wing of the Democratic party with the more liberal base? 2) How closely will the candidates run on President Obama’s economic and foreign policy record? 3) Will the Democratic Party follow the president and reject the audit the Fed legislation, support trade promotion authority, and major fiscal reform policies, including corporate tax reform? 4) If major donors and operatives begin to question Clinton’s credibility, who else would run for President (eg, Vice President Biden, Senator Warren, etc)?

FIGURE 4  
2008 Democratic Presidential Nominee National Poll



Sources: RealClearPolitics, Barclays Research.

FIGURE 5  
2016 Democratic Presidential Nominee National Poll



Sources: RealClearPolitics, Barclays Research.

### Legislative opportunities under the next administration

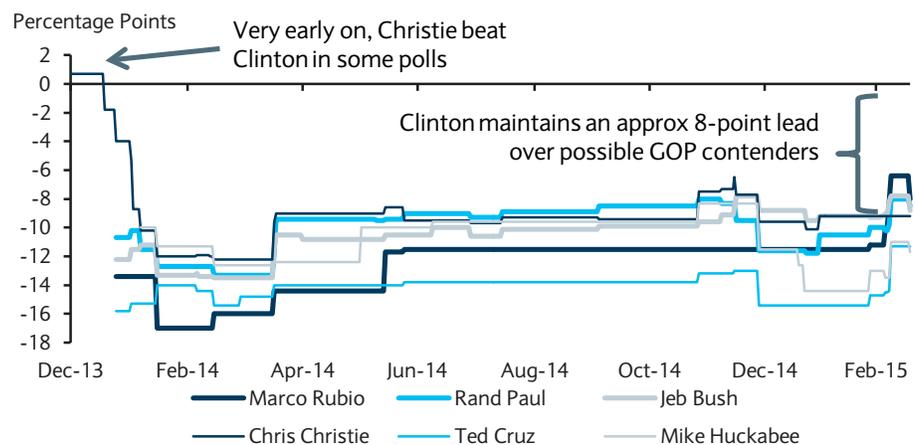
The 2016 elections will focus on a host of major policy issues, including income inequality, how best to create jobs, and America’s role in the world. While none of these issues is new, the election – from the debates to the candidates to party platforms – will provide both major parties and the candidates the opportunity to test major policy initiatives and lay out claims to broaden their bases.

Early polling data show Clinton maintaining a fairly consistent lead over possible Republican contenders. In our opinion, while this is not surprising, given her name recognition and other factors, this polling advantage will surely narrow, as we expect a competitive 2016 election. Interestingly, Governor Chris Christie (New Jersey) led Clinton in very early polls, but that was short-lived, as his support has eroded.

While it is inconceivable for the 2016 Democratic and Republican nominees to agree on a course of action – if any – on some issues such as gay marriage and climate change, there is much overlap on others. While prospects for substantial legislation in the next two years are slim, the outlook for the next administration is more positive, as the following issues, among others, will be on the table:

- Foreign policy, defense policy, & terrorism: There is no shortage of issues, with Russia, Syria, P5+1 negotiations, Iraq, Afghanistan, China non-state actors, etc
- Corporate tax reform: Lowering corporate rates, transitioning to a territorial system, repatriation of foreign earnings, stemming the tide of tax inversions, etc
- Housing and the GSEs: Reforming the federal government’s role in housing finance
- Trade: Providing the president with trade promotion authority for TTIP (Transatlantic Trade and Investment Partnership) and TPP (Trans-Pacific Partnership).
- Immigration: Developing a comprehensive plan for high-skilled foreign labor, as well as the undocumented immigrants residing in the US.
- Healthcare: Amending the reform package, popularly referred to as Obamacare.

FIGURE 6  
**GOP’s Early Polling Deficit vs. Hillary Clinton**



Sources: RealClearPolitics, Barclays Research.

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