

The US Election: A Business Risk Assessment

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In the final days of the election season, a number of crisis scenarios have persisted in discussions of politics in the US. This brief applies an emerging market political risk assessment framework to the US and outlines implications for businesses. The analysis explores a full range of possible outcomes to reduce the potential for surprise—a need highlighted by the advent of COVID.

Key takeaways

- The extreme and stacked nature of political risks creates the **potential for crisis cascades** that overwhelm traditional understandings of the US as a stable, institution-based democracy. Rather, the US is experiencing political volatility and uncertainty familiar to observers of politics in Eurasia and Latin America.
- At this point, **the most probable are low or moderate risk scenarios** entailing a strong Democratic performance at the federal and state levels. But even then, the US could suffer near-term clashes and long-term residual volatility characterized by truth decay, low trust, political extremism, and intermittent violence.
- **That said, business leaders and investors should be prepared for civil unrest**—including politically motivated violence in major cities—business interruption, and market volatility. In a crisis scenario, business leaders will be expected to take a stand. ►

Risk	Scenario	Near-term risks	Longer-term risks
Lower 65-70% probability	Big Biden victory called by officials and Fox News within a day (Blue Wave Scenario).	Scattered tensions by self-appointed poll watchers. Rocky transition.	Conspiracy advocates and right-wing militias are angry but partially de-energized; chronic, sporadic violence. Biden spends considerable energy rebooting governance.
Higher 14-21%	Biden appears to win, but slow counting delays official confirmation for days (Red Mirage Scenario).	People converge on election offices and statehouses, threaten to turn violent over "stolen election"; Police struggle to maintain order. Very rocky transition.	Trump, right wing, and conspiracy advocates remain highly mobilized; intermittent violent extremism; gridlock in Congress.
High 9%	Trump wins Electoral College but loses popular vote (2016 Scenario).	Big protests in Blue cities; right-wing vigilantes defend "law-and-order"; burning and looting with potential for shooting. Police in middle; military may be called in.	Institutions and trust seriously degraded; Congress paralyzed. State and local governments must contend with chronic nihilist violence.
Highest 5%	Outcome hinges on technicalities that take weeks to resolve (2000 Scenario).	Massive protests, march on Washington; burning, looting, shooting. Candidates, courts, and Congress cannot defuse the crisis. Trump deploys heavy military response.	Left and right extremists engage in political disruption and violence. It takes several election cycles to rebuild trust in the political system.

Known risk factors

There are multiple, stacked risk factors across a broad field of play. Their number, multiplicity, and unprecedented nature are contributing to macropolitical volatility, uncertainty, complexity, and ambiguity (VUCA) in the US.

- Polling shows **close races** in key swing states such as Florida, North Carolina, Ohio, and Nevada. Moreover, concerns about the accuracy of polling persist from 2016 (which undercounted voters in favor of Donald Trump) and 2018 (which undercounted support for Congressional Democrats). Joe Biden's rapid emergence as the overwhelming consensus candidate in spring 2020 was also not widely forecasted.
- The **trajectory of COVID** in the weeks before the election creates uncertainties in voter sentiment and behavior—regarding, for example, views of the Trump administration's handling of the pandemic and preferences for in-person versus mail-in voting.
- The **Supreme Court** justice confirmation mobilized the populace even more at this late stage of the race. The last-minute push to confirm also calls into question the legitimacy of the Supreme Court in resolving a contested election scenario as it did in December 2000.
- An expected massive **mail-in vote** adds new dynamics to the vote counting and reporting processes. Voting has already begun, with very large early turnouts, in a number of states—such as North Carolina and Virginia. In the "red mirage" scenario, Trump voters will predominate in in-person voting, leading to the appearance of an early victory for the president, while mail-in votes, expected to favor Democrats, take days, if not weeks to count. To reduce delays, cities and states have been making last-minute adjustments to their processes, which adds potential uncertainties and legal flashpoints.
- **President Donald Trump's statements have gone** far outside the norm of US political discourse, including asserting that mail-in voting is fraudulent and not committing to leaving office if he does not view the vote as fair, therein expanding the boundaries of potential crisis scenarios. Such statements are also politicizing federal law enforcement, including the Secret Service, which guards the president and the White House.
- **Progressive and left-wing activists** are well organized and mobilized as a result of this summer's Black Lives Matter demonstrations and anger over COVID and economic hardships. Taking lessons from Florida in 2000, Democratic and progressive groups are also organizing to monitor and contest the vote-counting process in swing states, pursue aggressive remedies in the courts, and make sure they are a force in the streets countering expected pro-Trump demonstrators.
- **White supremacists and right-wing vigilantes**, too, are mobilized in response to the Black Lives Matter movement and statements by Trump. They are shadowing progressive protests and social media chatter is encouraging them to show up at polling places.
- **Truth decay** has become entrenched, and Facebook and other social media platforms have shown that they are unable or unwilling to moderate or thwart false and incendiary discourse, conspiracy theories such as QAnon, and Russian and Chinese agitation.
- Extreme political polarization; the 2000, 2008, and 2016 elections; and **widespread belief that the American political system is broken** have reduced trust in governing institutions. ►



US politics experts have examined these risk factors, but often in isolation and without examining how they may generate a political crisis cascade that is intellectually and operationally painful to contemplate. Yet, this VUCA environment (which is familiar to experts on weak democracies in Eurasia, Latin America, and North Africa) suggests that a persistent belief in American exceptionalism and the enduring age, strength, and resilience of American institutions creates a bias in favor of believing that a political crisis and conflict will somehow be averted or resolved.

Political risk scenarios

In this context, speaking with any assurance of a particular political outcome is difficult. To reduce the potential for surprise, business leaders should contemplate a range of outcomes, including a full-blown political crisis without a peaceful offramp.

Lower risk

- The election is called by major news organizations within 48 hours, with Biden winning in key swing states by large margins that do not trigger complex recounts or investigations. (The polling analysis organization FiveThirtyEight rated a Biden landslide as a 30-in-100 probability as of October 26. The group rated the probability of both a Biden victory and a Democratic take-over of the Senate as a 65% probability. And, these probabilities increased steadily over the month of October adding credence to these assessments.
- Fox News, which Trump relies on for political cues, confirms Biden's victory, forcing the president to concede and initiate a rocky transition, albeit not without continuing to call into question the legitimacy of the election.
- Longer-term, political risks persist, with 30% of the population angry, white nationalists and conspiracy advocates mobilized, and a Trump out of office who is unable to accept the results. In addition to quickly addressing COVID and economic stimulus, the Biden administration will be forced to spend significant time and energy trying to reboot governance at home and the US's standing abroad.
- Should the GOP also lose control of the Senate, perhaps as part of a Democratic blowout, a significant share of political energy on the right in the coming years will be diverted to battles over the future of conservatism, the Republican Party, and political strategy.

Higher risk

- Biden appears to win more narrowly, but the count is disputed by Trump and Republicans in some key states. Counts of late mail-in ballots drag on amid significant Democratic-Republican acrimony on broadcast and social media. (According to FiveThirtyEight, a less-than-landslide Biden victory had up to a 14–21% probability as of October 26.)
- Both sides mobilize in massive demonstrations and blockades around ballot-counting and state government offices—with pressure targeted at election officials and volunteers. The potential for violence rises over time, shaped by the president's angry messaging. Attempts by Facebook to restrict inflammatory posts are decried by the right as antidemocratic.
- Within a week, the crisis eases when Fox News calls the election for Biden, and Trump, who has lost a key mouthpiece, is forced to accept the situation on the ground. ►

- Longer-term, political risks persist with a pro-Trump populace that remains angry and highly mobilized over a stolen election. Conspiracy theories continue to roil the narrative, accompanied by intermittent right-wing extremism.
- Should the GOP retain control of the Senate, blocking the Biden agenda will ensue under the pretext of upholding the will of the people for divided government—an echo of 2010 when Democrats lost control of the House.

High risk

- In a repeat of 2016, Trump wins the Electoral College but loses the popular vote by a significant margin. (FiveThirtyEight rated this a 9-in-100 probability.) The election is called within 1–2 days, but consternation ensues around legal challenges, recounts of recounts, faithless electors, etc.
- Progressive and left-wing groups protest in largely Democratic-run cities, and nihilistic opportunists engage in looting and property destruction, with major clashes with police. There is then a potential for right-wing vigilantes and militias to mobilize to “defend” property, law and order, and democracy. Trump calls in federal law enforcement to restore order and affirm the “will of voters” and the constitution.
- In the longer term, state and local governments must contend with chronic low-grade nihilist urban violence and left-right agitation and skirmishes.
- Should the GOP also retain control of the Senate, internecine battles for the future of the Democratic Party will be fierce. Centrism and compromise will be decried, and progressives and Democratic Socialists could take control of the party’s agenda.

Highest risk

- In a repeat of Florida in 2000, the announcement of a definitive election outcome is delayed for weeks as a result of large numbers of late mail-in ballots, recounts, disputes about postal service handling, court battles over all aspects of the process, and recounts of recounts. (FiveThirtyEight rated this a 5-in-100 probability.)
- Within days, both sides have mobilized massive demonstrations and blockades around ballot-counting offices and statehouses. Marches on Washington, DC, ensue. Street protests escalate, and police find themselves trapped between competing camps. Large-scale burning and looting with potential for shooting ensue, concentrated in Blue cities.
- There is no clear offramp from the crisis, as neither Trump nor Biden can or will mollify protestors, and both Congress and the Supreme Court are divided and seen as illegitimate. Despite the lessons learned in summer 2020, the deployment of federal law enforcement, the National Guard, and possibly the military are ultimately seen as the only way to restore order, which is interpreted on the left as quashing lawful protestors and defending Trump and the status quo. These institutions, too, become highly politicized and potentially divided. Eventually, the Constitutional process limps to the announcement of the next president.
- The ultimate winner will be seen as installed by force and severely handicapped but they must find a way to restore civil order and governance. Both the far left (in big cities) and the far right (in small cities and towns) have become entrenched in political violence. It may take several election cycles over the coming decade to rebuild confidence in the American political system. ►



It should be noted that, as risk perceptions in the US escalate, compensating mechanisms are also in play to ease those risks: Money is flooding into Democratic coffers (Wall Street is throwing its support behind Biden), the number of Democratic voters willing to vote in person despite COVID to thwart a red mirage appears to be increasing, and election officials are continuing to find ways to accelerate and assure vote counting.

Near-term risks for US businesses and investors

The timing of the announcement of winner will shape the risk environment for businesses. Should this be delayed for a few days beyond November 3, a number of risks will escalate sharply.

- **Operations are disrupted.** This includes business interruptions from civil unrest in major cities, lower worker productivity while attention is riveted on the political impasse, and management preoccupation with near-term uncertainty—on top of already existing COVID- and recession-induced challenges.
- **Pressure on business leaders to take a stand.** Business leaders will not be expected to declare a winner, but they will be expected to comment on the impasse or civil unrest and thus align themselves with one side of the dispute or the other. In many companies, that pressure will come from within—a trend Longview has labeled "social unionization"—and, as in Hong Kong recently, business leaders may also be expected to address the political activities of their employees. As a result of recent mobilizations for racial and social justice, expectations and corporate pressure campaigns are now well established.
- **Anger or retaliation for taking a position.** Given political polarization and the criticality of the issues at hand, any public statement by a business leader is likely to generate blowback from customers, workers, investors, and politicians.
- **Market volatility.** Rising political tensions over the summer did not seem to deter the market's sharp recovery, which was fueled by the Federal Reserve monetary policy. Widespread and sustained unrest may exacerbate stock market volatility, which, historically, is elevated in the run-up to an election. Volatility is driven by uncertainty, and uncertainty is exceedingly high this year. According to Bloomberg, the 2020 election in late September was the most expensive event risk on record, with insurance bets on implied volatility (the VIX index) six times their average level. In 2000, the S&P 500 fell ten percent in the month following the election. ■