

COVID-19 and its Potential Impact on the November Election

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The novel coronavirus (COVID-19) has had a dramatic impact on everyday life, ranging from the institution of widespread “stay-at-home” orders to the cancellation of high-profile events, such as the summer Olympic Games. But what impact might the pandemic have on the U.S. presidential election in November?

Our Thoughts

The political arena is not immune to societal changes. In fact, the need for social distancing has had a marked impact on the process already. As evidence, earlier this year, several primary elections were delayed and the Democratic National Convention was officially postponed, which in and of itself is historic. Not to mention that campaigns and fundraisers have been largely relegated to online events, rather than the traditional in-person affairs that we have all become accustomed to.

Despite the tumultuousness of the last few months, as of the timing of this publication, on November 3, 2020, voters are scheduled to cast their ballots in the 59th presidential election. The Republican nominee is incumbent President Donald Trump. The presumptive Democratic nominee is former Vice President Joe Biden.

What makes this election cycle particularly interesting, and in some ways unique, is that unlike many previous elections, where the economy has generally taken center stage, this election will also focus very heavily on issues revolving around public health. Specifically, COVID-19 and our nation’s response to the pandemic will be at the forefront of this election.

Although the focus of this paper is COVID-19’s impact on the upcoming election, we would be remiss if we did not acknowledge that an additional important non-economic issue could dramatically impact the election. The struggle for racial equality that has currently enmeshed the country in passionate debate, protest, and, in some cases, rioting will undoubtedly have an impact on this and future election cycles. It is a critically important issue for all of us, but particularly for our friends that toil outside positions of power. We do not ignore the existence of this important issue, but are focusing on the unique health issue that has gripped the country since late February in this paper.

Few Elections Have Turned on Non-Economic Events

The last time an incumbent president from either party lost an election, due in large part to a non-economic issue, was 40 years ago. In 1980, Ronald Reagan defeated the Democratic incumbent, Jimmy Carter, as voters thought that he would be better suited to manage the Iranian hostage crisis. Of course, the hostage situation wasn’t the only contentious issue in that election year. But that, combined with job losses, low economic growth, and high inflation (stagflation) proved too much for Carter to overcome.

1980

Iranian Hostage Crisis

Reagan won over incumbent Carter

1968

Vietnam War

Incumbent Johnson didn’t seek re-election

1952

Korean War

Incumbent Truman didn’t seek re-election



Looking back a bit further, in 1968, Lyndon Johnson did not seek re-election, in large part because of public dissatisfaction with the Vietnam War. Also, in 1952, Democratic incumbent Harry Truman did not seek re-election, and the Korean War was thought to have played a major role in his decision. Interestingly, the economy was generally strong ahead of both of these elections. Yet again, the incumbent lost (or did not seek to participate in) the general election because they couldn't win the hearts and minds of the public when it came to these significant non-economic issues.

What does this mean for 2020?

History suggests that Donald Trump and/or Joe Biden will need to prove to the American public that they are the most qualified candidate to deal with issues related to COVID-19. The problem with that, however, is that convincing the public over these next crucial months might not be so easy. After all, there remains a great deal of uncertainty surrounding the current health crisis.

For example:

- Will a vaccine be developed, and, if so, when can it be properly distributed to the masses?
- What are the longer-term health implications (and associated costs) of the disease?
- How can we, as a nation, prevent or at least mitigate the possibility of this happening again at a later date?
- Can either of the candidates put voters' minds at ease concerning this crisis?

All of this also begs the question, is there a period throughout history that might better compare with events that are transpiring today? And if so, is there any helpful information that we might glean through a comparative analysis?

Enter the Spanish Flu of 1918

In some sense, the Spanish Flu bears an uncanny resemblance to the current pandemic, in that it ultimately led to the death of thousands of people and took a heavy toll on the psyche of the American populace in the lead-up to the November 1918 midterm election. In response to the disease, public health officials at the time tried to limit its spread by quarantining large swaths of the public. Again, that is similar to actions being taken today.

However, one thing that is markedly different is how political campaigns looked and took shape and how mitigation policies affected those campaigns. During the 1918 election, raucous public speeches and rallies were few and far between. In addition, mediums of communication including television (did not exist) and radio (not in wide-spread use until the 1920s) were not utilized. Instead, candidates made their case to the public by way of newspaper editorials and mailings. Quite different than today, where radio, TV and public rallies are the norm.

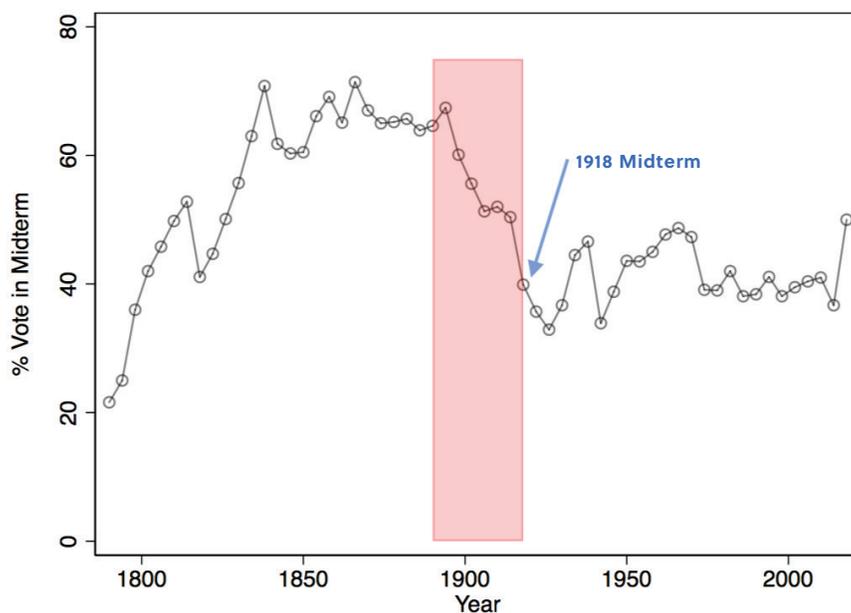




So, what transpired on Election Day in 1918?

Many surmise that the Spanish Flu likely contributed to a low turnout on the day votes were counted. Though to be fair, World War I surely had an impact as well. About 40% of the voting-eligible population cast ballots during the election, which was down sharply from the 50% to 52% that voted in the previous two midterms.¹

It is also worth noting that three waves of the Spanish Flu had little impact on the Dow Jones Industrial Average (DJIA). In fact, the first wave in the summer of 1918 was a relatively mild one compared to the other two, and the DJIA's performance during that time was essentially flat, as it never declined more than 3%. Even when the mortality rate spiked in the fall of 1918, the DJIA never fell more than 11% from peak to trough.²



Source: <http://promarket.org/wp-content/uploads/2020/03/virus-turnout-1918.png>.

Will 2020 resemble 1918? How might the candidates be impacted?

Those questions are hard to answer with any degree of certainty at this point.

The major indexes have indeed bounced off of their (so far) pandemic lows. However, many are skeptical that they will test historic highs in the near-term. One big issue is that the global economic shutdown has had a significant impact, and some fear potentially long-lasting effects, on global supply chains. This, when coupled with muted earnings expectations and high unemployment, not to mention the lingering uncertainty about the development and/or effectiveness of a viable vaccine, could also have a negative impact on the electorate's psyche, thus impacting their choice of a particular candidate.

On the campaign front, 2020 will likely look much different than in 1918. Even with the pandemic, it is possible that the candidates may be crisscrossing the country ahead of the November election to meet with donors and attend rallies where possible. Moreover, the campaigns are likely to adjust to the "new normal" by intensifying their outreach on Twitter, Facebook and other applications that were not in existence in 1918.

Meanwhile, on the turnout front, it is possible that there could be similarities to 1918. This is particularly the case if social distancing continues and consumers/voters are nervous to get back to "business as usual." In fact, elderly voters and/or those that have serious health concerns may be extremely reluctant to head to the polls.

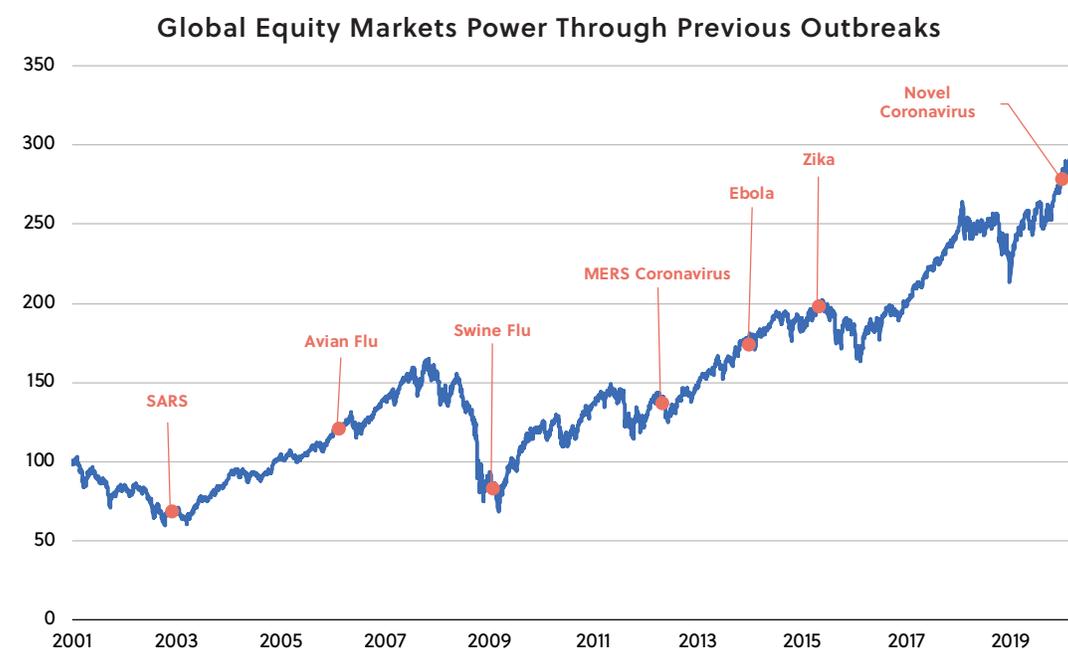
¹ <https://www.history.com/news/1918-pandemic-midterm-elections>.

² https://www.bespokepremium.com/think-big-blog/how-markets-performed-during-the-spanish-flu/?mod=article_inline.



A caveat to keep in mind, however, is that, if voting by mail becomes a more utilized/wide-spread and viable alternative for the American populace (in time for the November election), it might render physical turnout numbers to be moot. Keep in mind that, at present, roughly one-third of the country votes by mail, so this isn't some far-fetched idea. Every state in America has some sort of absentee option, including the six swing states that will likely determine the 2020 presidential election.

For what it is worth, this scenario has already played out to some degree. As evidence, Wisconsin held its primary election on April 7 and voters were left with a difficult decision: utilize mail-in ballots or face potential exposure to the virus and exercise their right to vote in person. The result: close to 70% of voters chose to mail in their ballots, while the balance waited, often for hours in long lines, six feet apart at the few polling stations that were in operation. Again, how this might play out on a national level and what impact it might have on each of the candidates remains to be seen.



Source: Bloomberg, MSCI ACWI Total Return Index (January 2001 – May 2020). Center for Disease Control and Prevention.

Other Factors to Consider

The economy does not operate in a vacuum. Several other factors could have a material impact on the election as well — for example, falling oil prices. In one sense, lower prices at the gas pump are a boon to many, though some might question their value if the broader economy remains closed. Also, to the many states and workers that are dependent upon the health of the U.S. oil industry, falling prices are a negative.

The nationwide protests over the death of Minnesota resident George Floyd must not be overlooked. How long might they persist? What will the state and/or federal response to unrest be? These are important questions and it is impossible to determine how this issue might impact the general election.

How long states keep their economies shuttered is another issue to consider. If stay-at-home or other restrictive orders persist or are reinstated and social distancing becomes the norm, severe impacts to the travel and leisure industries, which employ large numbers of people, as well as additional bankruptcies, could occur. Who will those parties hold responsible — their locally elected officials or the federal government?



One final thing to consider is that the economy was in fairly good shape before the pandemic hit. While some may argue that this could be beneficial for the incumbent in 2020, voters might weight that quite heavily when heading to the ballot box in November. To put things in perspective, before the World Health Organization (WHO) officially declared the COVID-19 outbreak a pandemic in early March, the U.S. economy had just experienced 10 full years of job growth and the unemployment rate was at 3.5%, its lowest level in 50 years. In addition, wages were also rising by nearly 4% per annum.³

This Too Shall Pass

The good news is that many of the unknowns will eventually fade, and markets are likely to recover at some point. The chart on the previous page shows previous global viral outbreaks and subsequent stock market performance.

When it comes to impact, it should be noted that previous outbreaks did not lead to a broad shutdown of the global economy, which is what is currently happening. In short, previous occurrences/outbreaks may provide some useful insight, but given the unprecedented nature of the novel coronavirus, it is far from certain that history will be repeated.

Conclusion

COVID-19 and its impact on both public health and the broader economy has dominated the news cycle. It has also created a multitude of risks and opportunities for both candidates as they seek to demonstrate to the American public that they are the person best suited to lead our nation through the current crisis. While some may argue that incumbency may provide an advantage, the fact is that it can be a double-edged sword, particularly during periods of extreme national stress.

November 3 is less than 200 days away and determining precisely what impact the pandemic will have on the race remains difficult, if not impossible. But again, it has been approximately 40 years since a presidential election turned on a non-economic issue, and the process will certainly be interesting to watch.

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³ Source: Bloomberg.

ADDITIONAL SOURCES:

<https://www.nytimes.com/interactive/2020/us/coronavirus-stay-at-home-order.html>.

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