

The Democratic race to nomination and implications for markets



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- **Key takeaways from Super Tuesday:** The race to Democratic nomination has boiled down to two candidates now, Joe Biden and Bernie Sanders with **Biden being the new frontrunner based on delegate count, market expectations and national polls**. The turnout continued to be heavy in a number of states, most notably in Virginia, which saw turnout surge 52.5%. **Arguably, Trump is the best turnout operation for the Democrats**. Our analysis of exit polls shows that 35% of Super Tuesday voters want to vote for a candidate that agrees with them on issues, versus an overwhelming 61% that want to vote for a candidate that can defeat Trump. This trend continued in March 10 primaries. **Consolidation of moderate candidates also seems to have benefitted Biden**. It appears the dropping out of Pete Buttigieg and Amy Klobuchar and their endorsement was an important factor behind the late-Biden surge in Maine, Massachusetts, Minnesota, Texas and Virginia.
- **Risks of a contested and brokered convention:** A contested convention is when a candidate has a lead but not a majority after the first ballot in the nomination race whereas a brokered convention is when a candidate fails to win a majority of the delegates after several rounds of voting for the nomination. **Candidates need 1,991 delegates to win the nomination at the convention**. In addition, there are 771 “superdelegates” who are not committed to a specific candidate. **A convention becomes contested if no candidate receives 1,991 votes on the first ballot**. In that case, the superdelegates can participate in the voting, and voting continues until a candidate is finally selected.
- **Biden or Sanders:** After the performance in March 10 primaries, **Biden’s chances of winning more than half of the pledged delegates has now risen over 50%, greatly reducing the risks of a contested convention**. We project Sanders will have around 1,200-1,400 delegates by 6 June.
- **The upcoming contests:** On March 17, Florida will be the most important state race followed by the Acela Primary on April 28 when Connecticut, Delaware, Maryland, New York, Pennsylvania and Rhode Island hold their elections.
- **Implications for markets:** After Biden’s Super Tuesday win, equity markets rose, particularly in the health care sector. **Going forward, we believe Biden has a stronger path and we expect political risk premia to continue to decline**. However, we do not rule out increased election-related volatility if Sanders outperforms in the upcoming contests. **We also believe that markets are under-appreciating the risks of a new party winning elections, given that the focus at the moment is on COVID-19, probability of global recession, and the damage to the US energy sector**. If these concerns gain precedence for voters, the narrative for change in government will build and this would increase the likelihood of a reversal of pro-market initiatives. This, in-turn, would pressurise markets.

The democratic race enters its final phase

In the most recent contest on March 10, the Biden steamroller continues with decisive wins in Idaho, Mississippi, Missouri and Michigan – Tuesday’s most important prize. Sanders won the North Dakota caucus while both candidates remain tied in Washington State with 67% of the vote counted. So far, Biden picked up 153 delegates last night versus 89 for Sanders. Overall, Biden continues to stretch his delegate lead over Sanders 823 vs 663. Biden’s victories were also broad based winning geographically and ethnically and there were signs he was rebuilding Obama’s old coalition with rural voters. Before that, Biden’s Super Tuesday victory may well be a decisive turning point in the Democratic race. He **came from behind to dominate Super Tuesday**, winning 10 of 14 states. The breadth of his victories were impressive and deep,

winning geographically, ethnically and ideologically diverse states. We outline below the **key takeaways from Super Tuesday**:

“Now, Biden’s chances of winning more than half of the pledged delegates has risen over 50% greatly reducing the risks of a contested convention.”

- **Two horse race** – With Biden or Sanders placed first or second in all 14 contests and Mike Bloomberg and Elizabeth Warren both dropped out, it is clear that the race has now boiled down to two-persons, Biden and Sanders. **Joe is now the new frontrunner based on delegate count, market expectations and national polls.** According to political betting site PredictIt, Biden’s odds of winning the Democratic nomination surged from 7% on February 11 to 70% on March 4, while Sanders’ probabilities collapsed from 47% to 19%. In national polls, Biden has regained the lead at 27.5% just slipping past Sanders whose support is at 26.0%.
- **Democratic base is energized** – Turnout continued to be heavy in a number of states. **Most states saw an increase in the 2020 turnout compared to 2016, most notably Virginia, which saw turnout surge 52.5%. The turnout also rose in Missouri, Mississippi and Michigan by 5.6%, 15.5% and 30.6% respectively from the 2016 primaries.** During the last month, Biden was heavily outspent and out organized. In California, Biden had only one campaign office while Sanders had a few dozen. The same goes through much of the Deep South. **Arguably, Trump is the best turnout operation for the Democrats.** Biden will now benefit from Bloomberg’s campaign staff, which he is continuing to pay to support Biden.
- **Electability vs. Issues** – We have highlighted this as a key determinant factor for the Democratic nomination. In our analysis of exit polls, **35% of Super Tuesday voters want to vote for a candidate that agrees with them on issues, versus an overwhelming 61% that want to vote for a candidate that can defeat Trump.** These voters thought Biden was more electable than Sanders by a 43%-23% margin. This is consistent with national surveys that indicated a certain pragmatism with Democratic voters. The trend continues, with the analysis of March 10 exit polls revealing that electability remains the key motivating factor among Democratic primary voters with 59% of voters choosing electability. Those voters overwhelmingly chose Biden over Sanders.
- **Consolidation of moderate candidates** – **It appears the dropping out of Pete Buttigieg and Amy Klobuchar and their endorsement was an important factor behind the late-Biden surge in Maine, Massachusetts, Minnesota, Texas and Virginia.** Biden was not favoured to win any of those states with the exception of Virginia. In fact, Biden did little to no campaigning in Massachusetts or Minnesota. We analyse from exit polls that 40% of voters waited until the last few days to decide whom they voted for and on average, Biden won a majority of those voters.

Risks of a contested and brokered convention

A **contested convention is when a candidate has a lead but not a majority** after the first ballot in the nomination race. A **brokered convention is when a candidate fails to win a majority** of the delegates after several rounds of voting for the nomination. Brokered convention has not occurred in either the GOP (Republican Party) or Democratic Party since 1952. Here is a **quick primer on the convention process** and what is required to win the nomination:

- **Candidates need 1,991 delegates to win the nomination** at the convention. Following the primaries or caucuses in all 50 states, there will be 3,979 delegates who are committed to vote for a specific candidate based on the latter’s performance in a caucus or primary. In addition, there are 771 “superdelegates” who are not committed to a specific candidate. Pledged delegates are eligible to participate in the first round of voting at the convention.
- **A convention becomes contested if no candidate receives 1,991 votes on the first ballot.** In that case, the superdelegates can participate in the voting, and voting continues until a candidate is finally selected. In between votes, horse-trading takes place where battling candidates make deals to help secure the nomination. The chief

concern over a contested or brokered convention is the party is not able to unify from the trauma of the nomination process.

- After another sweep of victories on March 10, **Biden's chances of winning more than half of the pledged delegates has now risen over 50%, greatly reducing the risks of a contested convention. His probability of winning the nomination has hit a new high of 89%.** We estimate Sanders will be in a range of 1,200-1,400 delegates by June 6. Given Biden's strong outperformance in delegates on Super Tuesday, he should be able to maintain a steadily growing delegate tally against Sanders as the calendar now turns more favourable for Biden.

The Next Contests

Looking ahead, the calendar still has some important primaries in March and April. **We highlight the most important primaries in the table below:**

“Among the key upcoming primaries, Florida will be the most important state on March 17, and Acela Primary on April 28.”

March 17	April 28
Arizona	Connecticut
Florida	Delaware
Illinois	Maryland
Ohio	New York
	Pennsylvania
	Rhode Island

Source: Amundi.

- Next week on **March 17, Florida will be the coveted prize** to win due to its battleground status and it has the largest amount of delegates up for grabs on that day. Following the March 17 primaries, 62% of delegates will have been awarded and we should have a better indication if we are having a clear nominee or heading to a contested convention.
- Finally, **the largest group of delegates (663) following Super Tuesday is on April 28 otherwise known as the Acela Primary** where Connecticut, Delaware, Maryland, New York, Pennsylvania and Rhode Island hold their elections. Given Biden's strength among the African American community, he should win Illinois, Florida and Mississippi handily. Sanders has his best opportunities in traditional blue-collar states like Michigan and Ohio.

Financial Market Implications

Following Biden's big win on Super Tuesday, equity markets rallied over 2%, buoyed by the declining prospects of a Sanders nomination. There was a sharp rally in the managed healthcare sector, which surged 11.6% on March 4. Underperforming on the day were the energy and financial sectors. **Given our outlook that Biden has a stronger path forward, we expect political risk premia to decline**, although we would not rule out increased election-related volatility if Sanders outperforms in the upcoming contests. But we would not expect that to be sustained.

Overall, the risk of a new party leading the country next year is likely underappreciated by the market as the market focus is overwhelmingly driven by COVID-19, the high probability of a global recession, and the damage to the US energy sector from the collapse in oil prices. Should these concerns begin to weigh on voters, the narrative for change in government will build and would increase the likelihood of a reversal of pro-market initiatives, such as tax cuts and de-regulation policies, that could crimp US growth further and add to pressure on markets.

“We expect political risk premium to decline, given that Biden has a stronger path forward, but we do not rule out higher volatility if Sanders outperforms.”

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