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Economics Group

Special Commentary

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The 2020 Presidential Election: A Summer Update

Executive Summary

The 2020 U.S. Presidential election is scheduled for November 3, and there are some key dates on the horizon that signal the heart of campaign season will soon be upon us. The Democratic and Republican National Conventions are scheduled for August 17-20 and August 24-27, respectively, and Democratic candidate Joe Biden has suggested that a Vice President pick will likely take place sometime around August 1. In this report, we take stock of where the races for the White House and Congress stand. At present, Joe Biden has a sizable lead in the national polls, nearly three times bigger than the lead Hillary Clinton had in mid-July 2016. Polling at the Congressional level looks equally as robust for the Democrats. This strength in recent polling data is reflected in betting markets, which are increasingly priced for a Democratic sweep. If the election were held today, we suspect Joe Biden would rightly be considered a healthy favorite going into the vote tally.

But elections and campaigns are fluid, with twists and turns and inflection points even in normal times. In 2020, with a historic pandemic raging and significant uncertainty about what the world will look like come November, we believe it is even more important than usual to remain attentive to changes in the election landscape. As such, we will be updating this report periodically as new data/trends emerge.

State of the 2020 Race for the U.S. Presidency

President Trump's approval ratings have deteriorated somewhat over the past couple months. The Real Clear Politics (RCP) polling average of President's Trump's approval ratings stand at 42% approve/56% disapprove, roughly a five percentage point decline from the average in February (Figure 1). Another poll aggregator produced by FiveThirtyEight, which adjusts and weights the polls based on factors such as past accuracy and partisan lean, has a similar split at 40%/55%.

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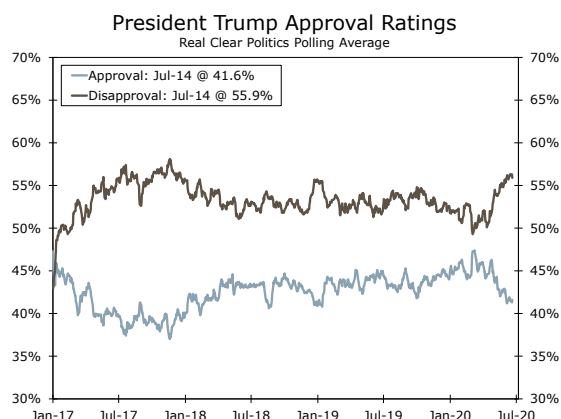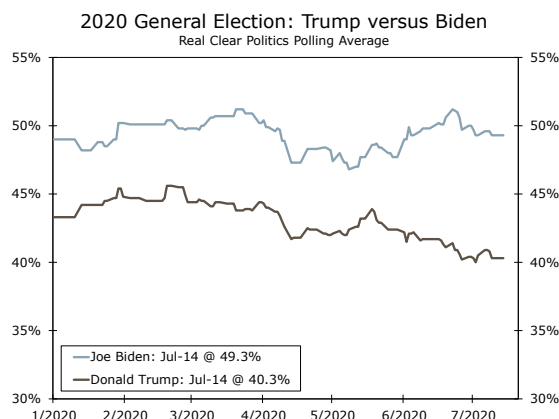
Figure 1

Figure 2

Source: Real Clear Politics and Wells Fargo Securities

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The story is similar when looking at head-to-head matchups of President Trump and Joe Biden. President Trump's position in the polls have slipped of late, and at present he trails Joe Biden on a national basis by about nine percentage points (Figure 2), roughly double what the gap was two months ago. FiveThirtyEight's poll aggregator once again yields similar results, with Biden up also nine percentage points. Betting markets have moved accordingly. On May 14, PredictIt had President Trump as a slight favorite in the race, but the odds have now swung in Joe Biden's favor such that the implied probability of him winning the race is roughly 60%.

If Joe Biden's lead at the national level really is around nine percentage points, this would be an especially big lead. The last candidate to win the popular vote by nine or more percentage points was Ronald Regan in 1984, who won the popular vote that year by roughly 18 percentage points and the Electoral College in a 525 to 13 landslide. Of course, as we have already mentioned, there is a long way to go until November 3, and while this caveat applies in every election cycle, this year it applies even more than usual given the uncertainty around COVID-19 and the economic fallout that has come with it. But even setting aside these inherent uncertainties, how much can we really trust the polls? Weren't the polls wildly off in 2016?

A Brief Look at How the Polling Today Compares to Past Races

At the national level, the Real Clear Politics polling average was actually more accurate in 2016 than it had been in the previous few elections.

To some extent, the surprise election of Donald Trump in 2016 was the result of polling issues.[1] But in speaking with clients, we have come to believe that some financial market participants tend to overweight the role played by polling errors. At the national level, the Real Clear Politics polling average was actually more accurate in 2016 than it had been in the previous few elections (Figure 3). The polling average on Election Day was Clinton +3.2, which was extremely close to the actual result. In the three previous elections, the average absolute error was about 3 percentage points.

Figure 3

Comparing Today's Polling with Past Elections		
	RCP Polling Average as of July 14	**Actual Popular Vote Result**
2020	Biden +9.0	???
2016	Clinton +3.1	Clinton +3.2
2012	Obama +2.4	Obama +3.9
2008	Obama +4.0	Obama +7.3
2004	Kerry +2.5	Bush +2.4

Source: Real Clear Politics and Wells Fargo Securities

In our view, the 2016 elections highlights the risks posed by pre-judging the outcomes of an election this far out.
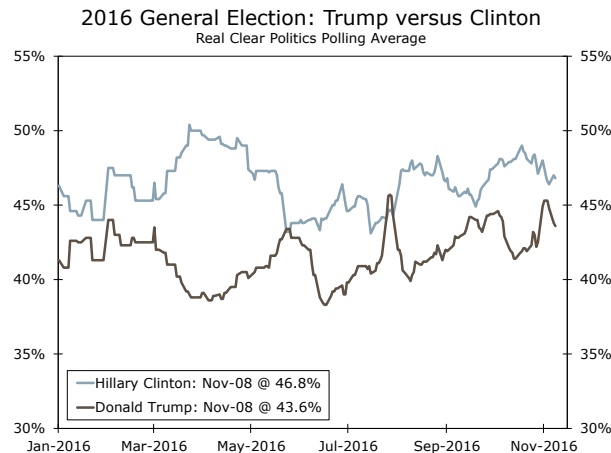
So what happened? One major factor was that in the final few weeks Donald Trump made up ground: on October 17, 2016, the RCP polling average was Clinton +7.0 (Figure 4). Exit polls provide additional evidence that President Trump performed well among late deciding voters. This late in the game momentum may feed the belief that polls were wrong when in fact it appears that the polls may have been sending an important signal that got missed towards the very end. Some election pundits even highlighted this issue, with FiveThirtyEight publishing an article on November 4, 2016 noting that President Trump had moved to within the margin of error. In our view, this highlights the risks posed by pre-judging the outcomes of an election this far out, particularly given the increased uncertainty headed into this election. That said, it is striking how much more stable the head-to-head polling has been in 2020 compared to 2016 (refer back to Figure 2 on the first page for reference and compare it to Figure 4 below).

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[1] **For example, the American Association for Public Opinion Research assembled a committee to do a deep dive on 2016 election polling. Its report can be found here.**

Figure 4

2016 General Election: Trump versus Clinton
Real Clear Politics Polling Average

Hillary Clinton: Nov-08 @ 46.8%
Donald Trump: Nov-08 @ 43.6%

Source: Real Clear Politics and Wells Fargo Securities

At the state level, there were more polling issues, particularly given how Donald Trump shook up the electoral map. No Republican presidential candidate had won Pennsylvania or Michigan since 1988, and a Republican win in Wisconsin had not occurred since 1984, but Donald Trump won all three in 2016. In Wisconsin, for instance, the polling average on Election Day was Clinton +6.5, but the final results was Trump +0.7. But that said, not every swing state yielded a big surprise. In Pennsylvania, the polling average was just Clinton +2.1, signaling a close race, and Donald Trump actually had a very slight polling lead in perennial swing state Florida. In the four states won by Donald Trump with the smallest margins (Michigan, Wisconsin, Pennsylvania and Florida), the RCP polling average understated Trump's support by an average of 3.7 percentage points. But at present, Biden's lead in those states ranges from +5.2 in Florida to +7.5 in Michigan. In sum, if the election were held today, we suspect Joe Biden would rightly be considered a healthy favorite going into the vote tally. But, the election is not held today, and 2016 election highlights the risk of ignoring fluctuations in the polling data.

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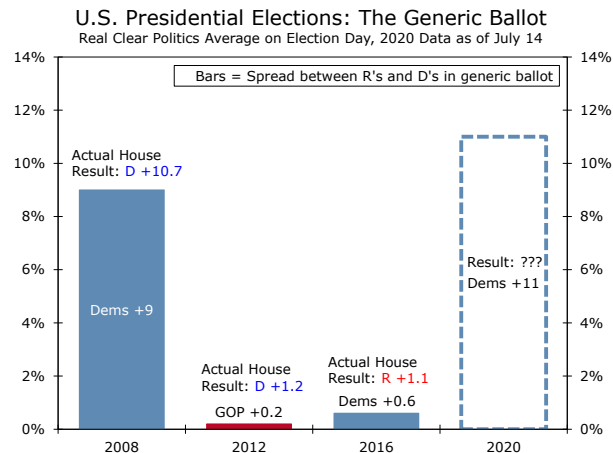## What about the Race for Control of the House and Senate?

What about the race for control of Congress? As we have discussed previously, unified control of Congress is as important to the legislative outlook as who controls the White House. At present, the House of Representatives is comprised of 233 Democrats, 197 Republicans, one Libertarian and four vacancies. The vacancies are split evenly between two previously Democrat-held seats and two Republican-held seats. Depending on whether you count these seats, Republicans need to net either 19 or 21 seats in the House to gain the 218 seats needed for a majority. While this is certainly doable (Democrats picked up a net 40 seats in the 2018 midterms), the net change in House seats is usually smaller in presidential election years than it is in midterms. The average net change in House seats over the last six presidential elections is seven, and majority control of the House of Representatives has not switched parties in a presidential election year since 1952.

One tool utilized by political analysts to measure the general state of the race for control of the House is generic ballot polling. Generic ballot polling asks respondents whether they would vote for a Republican or Democratic for Congress, without actually using specific candidates. Figure 5 shows the RCP generic ballot polling average as of July 14, as well as the average position on Election Day in the past three presidential cycles. As can be seen, the generic ballot polling average has come within a couple percentage points of the actual House popular vote margin in the past few presidential elections. Note once again that the 2016 generic ballot polling signaled a very tight national race, with Democrats up just +0.6 in the polls on Election Day. At the moment, Democrats have a significantly more favorable spread than they did in 2016, and even a bit bigger than they did in 2008. At +11, the current spread is roughly double where it was on November 25, when we started our three part series on the 2020 election outlook. Perhaps unsurprisingly, PredictIt

At the moment, Democrats have a significantly more favorable spread in generic ballot polling than they did in 2016.

markets have the implied probability of Democrats maintaining control of the House of Representatives at roughly 85%.

Figure 5

U.S. Presidential Elections: The Generic Ballot
Real Clear Politics Average on Election Day, 2020 Data as of July 14

Bars = Spread between R's and D's in generic ballot

Actual House Result: D +10.7
Dems +9

Actual House Result: D +1.2
GOP +0.2

Actual House Result: R +1.1
Dems +0.6

Result: ???
Dems +11

Source: Real Clear Politics and Wells Fargo Securities

What about the Senate? At present, Republicans maintain a majority in the Senate, with a split of 53 Republicans, 45 Democrats and two Independents. Both of the Senate Independents caucus with the Democrats, making the de facto split in the Senate 53-47. Thus, if the Democrats were to win the White House, they would need to net at least three Senate seats to win control of the upper chamber (when the Senate is split 50-50, the Vice President casts the deciding vote).

As it currently stands, control of the Senate appears to be tightly contested.

As it currently stands, control of the Senate appears to be tightly contested. Political analyst Larry Sabato's widely followed [*Crystal Ball* projections](#) currently rate the Senate at 50-48, with two states (North Carolina and Maine) considered toss-ups. This projection assumes Colorado and Arizona flip to the Democrats, but Alabama flips to the Republicans. But even in such a favorable Democratic environment, the path to a majority is still an uphill climb. If North Carolina and Maine both flip, that would be enough for control of the Senate so long as Joe Biden wins the presidency. But if he does not, or if there is a slip up somewhere else, the next three most likely Republican Senate seats to flip according to the *Crystal Ball* are Georgia (Trump +5.1 in 2016), Iowa (Trump +9.4 in 2016) and Montana (Trump +20.5 in 2016). While possible, flipping Republican Senate seats in Iowa or Montana in a presidential election year is far from a given. PredictIt markets have the implied probability of Democrats taking control of the Senate at roughly 63%, which strikes us a bit high.

Conclusion: Favorable Dem Environment, but Still a Long Way to Go

At present, the polling data have deteriorated for President Trump and Congressional Republicans, and the deterioration is such that betting markets and political pundits have begun to acknowledge the increasing possibility of a Democratic sweep. But elections and campaigns are fluid, with twists and turns and inflection points even in normal times. In 2020, with a historic pandemic raging and significant uncertainty about what the world will look like come November, we believe it is even more important than usual to remain attentive to changes in the election landscape. As such, we will be updating this report periodically as new data/trends emerge.

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