The Democratic Race Enters Its Final Phase

After a topsy-turvy race with Bernie Sanders capturing the first three contests, Super Tuesday may have been a decisive turning point in the Democratic race. Joe Biden came from behind to dominate the day, winning 10 of 14 states. The breadth of his victories were impressive and deep, as he won geographically, ethnically and ideologically diverse states.

Here are some key takeaways from Super Tuesday.

1. Two horse race - Biden or Sanders placed first or second in all 14 contests, and Mike Bloomberg and Elizabeth Warren both dropped out.

   Biden 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 Feb.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%.

2. 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%.

   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 for much of the Deep South. Arguably, intense opposition to Trump among Democrats will be the key driver for voter turnout.

   Biden will now benefit from Bloomberg’s campaign staff, which he is continuing to pay to support Biden.

3. Electability vs. Issues - We have highlighted this as a key determining 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.

   Our analysis of exit polls indicates that 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.

4. Consolidation of moderate candidates

   It appears the departure of Pete Buttigieg and Amy Klobuchar from the race and their endorsement was an important factor behind the late Biden surge in Maine, Massachusetts, Minnesota, Texas and Virginia. Biden was not favored to win any of those states, with the exception of Virginia. In fact, Biden did little to no campaigning in Massachusetts or Minnesota.

   Our analysis of the exit polls revealed that 40% of voters waited until the last few days to decide who to vote for and on average, Biden won a majority of those voters.

What are the risks of contested and brokered conventions?

A contested convention occurs when a candidate has a lead but not a majority after the first ballot in the nomination race.

A brokered convention occurs when a candidate fails to win a majority of the delegates after several rounds of voting for the nomination. A brokered convention has not occurred in either the GOP 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 (pledged) to vote for a specific candidate based on their 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.

Getting to the Convention Floor

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
potential inability of a party to unify after the trauma of the nomination process.

- We believe neither candidate is likely to achieve a majority of the delegates before June; therefore the risk of a contested convention is high.
- We are projecting Biden will have the plurality of delegates by June 6, the final day of primaries, with a range of 1,600-1,800 delegates, short of the 1,991 needed to clinch the nomination.
- We estimate Sanders will be in a range of 1,200-1,400 delegates by June 6.

While Biden falls short of a majority, after factoring in super delegates, the odds for Biden winning the nomination rise above 50%, thereby clinching the nomination either in the second or third round.

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 favorable 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.

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<th>March 10</th>
<th>March 17</th>
<th>April 28</th>
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<td>Idaho</td>
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On March 10, Michigan will be the most important state race given its position as a battleground state in November. Sanders showed surprising strength in his win against Clinton in 2016 displaying strength among blue-collar voters.

Next week on March 17, Florida will be the coveted prize to win due to its battleground status. It also 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 of whether we have a clear nominee or are 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 (referring to the major East Coast passenger train, the Acela), 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, equity markets rallied over 2% buoyed by the declining prospects of a Sanders nomination. This was most notable in the managed healthcare sector that surged 12.4% on March 4.

Underperforming on that day was the energy and financial sector. Given our outlook that Biden has a stronger path forward, we expect political risk premia to continue to decline, though we would not rule out any volatility if Sanders outperforms in the coming contests but do not expect them to be sustained.

Overall, the risk of a new party leading the country next year is likely underappreciated by the market. The reversal of the current administration’s tax cuts and de-regulation would serve as a headwind for US economic growth, with an expectation for weaker consumer spending, business investment and margins.

Currently, market volatility is overwhelmingly driven by low $30s oil prices and broadening reaction to the Coronavirus. The deterioration of oil prices below the cost of extraction could have severe consequences for the US energy sector, particularly those in the business of exploration and production. At the same time, the market is trying to quantify the impact to economic growth of the demand destruction from containment measures relative to COVID-19, as well as the evolving supply chain disruptions.
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