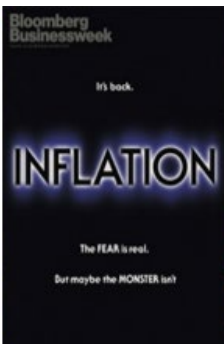


# Living in Limbo



*Anticipating the Top 2022 Risks in Politics & Policy*

## LIVING IN LIMBO... TOP 2022 RISKS

- ❖ **Uncertainty, volatility & disruption are the new normal.**
- ❖ **2022 will neither be the best of times nor worst of times:**
  - COVID won't magically go away nor kill us all.
  - The economy won't return 1970's stagflation nor the 1990's boom.
  - U.S.-China tension neither ends in WWII nor in Chimerica 2.0.
- ❖ **Reality will prove more nuanced & complicated. Leaders need to reassess approaches to risk analysis & preparation:**
  - Understand macro trends driving technology, geopolitics & culture.
  - Adapt strategies to survive / benefit from accelerating change.
  - Engage stakeholders proactively to maximize intelligence & alliances.

## Anticipating the Top 2022 Risks in Politics & Policy

### EXISTENTIAL RISKS

1. Extreme Expectations Obscure Common Ground
2. COVID: The Third Wave
3. Infrastructure: Cyber Insecurity
4. Insurers: Extreme Weather Events
5. Multilateralism: Wars, Refugees, Economic Nationalism

### ECONOMIC RISKS

6. Manufacturers (short-term): Shortages
7. Consumers: Inflation
8. Manufacturers (long-term): Supply Chain Headwinds Rising
9. Markets: Irrational Exuberance
10. Networks: Space, the Fragile Frontier



### POLITICAL RISKS

11. Biden: Perceived “Softness”
12. Democrats: Wave Election Likely
13. Senate GOP: Primary Failures
14. House GOP: An “Off-Year, Off-Year”
15. Voters: One Zillion Election Ads Coming
16. Moderates: Swing Seats Disappearing
17. Incumbents: Restless Electorate

### BUSINESS RISKS

18. Business: Bureaucracy Rising
  19. Multinationals: U.S.-China Decoupling
  20. CEOs: Political Homelessness
  21. Brands: Employee Pressure to Act
- \*\* Recommendations for Leaders

# EXISTENTIAL RISKS

# #1 RISK: EXTREME EXPECTATIONS OBSCURE COMMON GROUND

## 2022 Will Neither Be the Best of Times Nor the Worst of Times

	<i>Maximum Chaos</i>		<i>Return to Normalcy</i>
<b>COVID</b>	The Andromeda Strain	→	← Magically Goes Away
<b>ECONOMY</b>	1970's Stagflation	→	← 1990's Boom
<b>US-CHINA</b>	World War III	→	← Chimerica 2.0
<b>POLITICS</b>	New Rules After Every Election	→	← Durable Majorities Bringing Certainty
<b>BRANDS</b>	Consumed by Culture Wars	→	← Everyone Always Satisfied
<b>MARKETS</b>	1929	→	← 1999

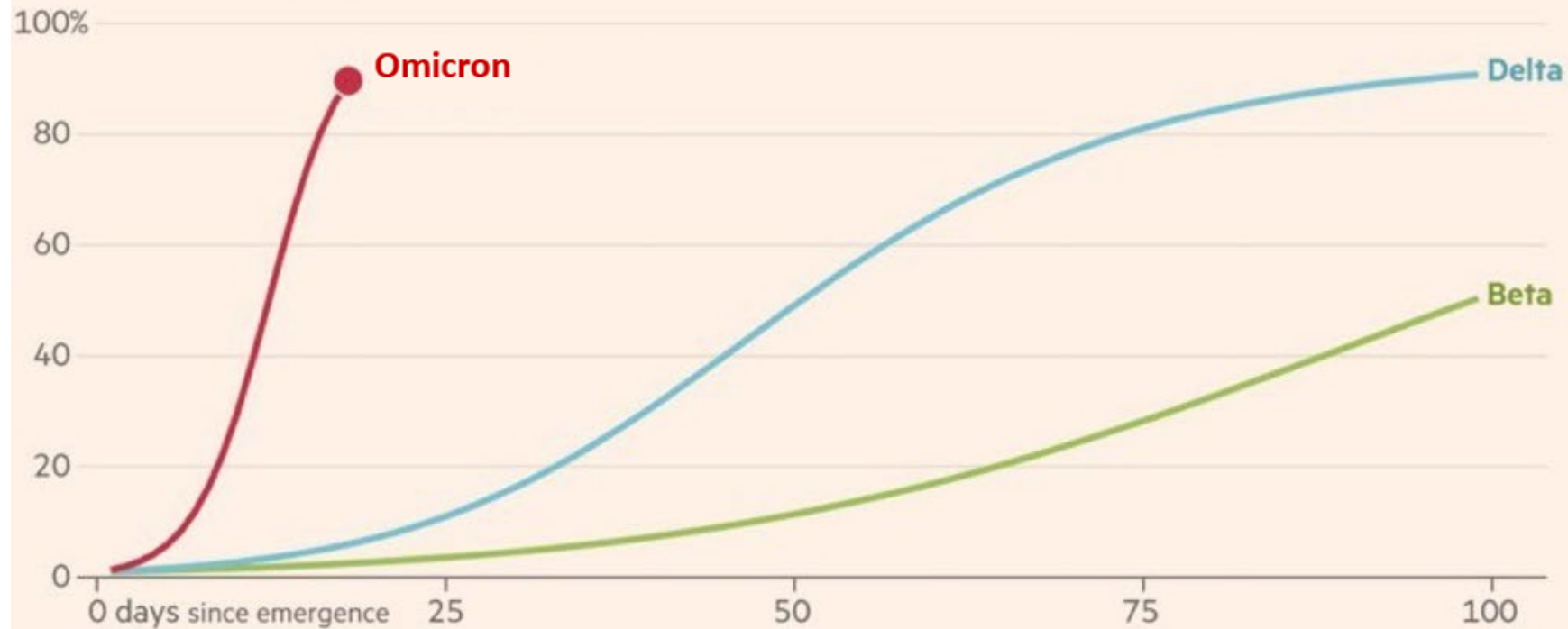
YOU ARE  
HERE

## #2. COVID: THE THIRD WAVE

### How Long Will We Remain on “Pandemic Footing” vs an Endemic Disease ?



Share of all sequenced cases\* in South Africa accounted for by each variant, by number of days since it passed 1%



\*Growth of B.1.1.529 is modelled from SGTF data rather than full genomic sequences  
Source: FT analysis of data from GISAID and the South African National Health Laboratory Service  
© FT

#### Too Few Vaccinated

- U.S. 61% fully-vaxed (*not boosters*)
- Globally 45% fully-vaxed

#### Virus Keeps Evolving

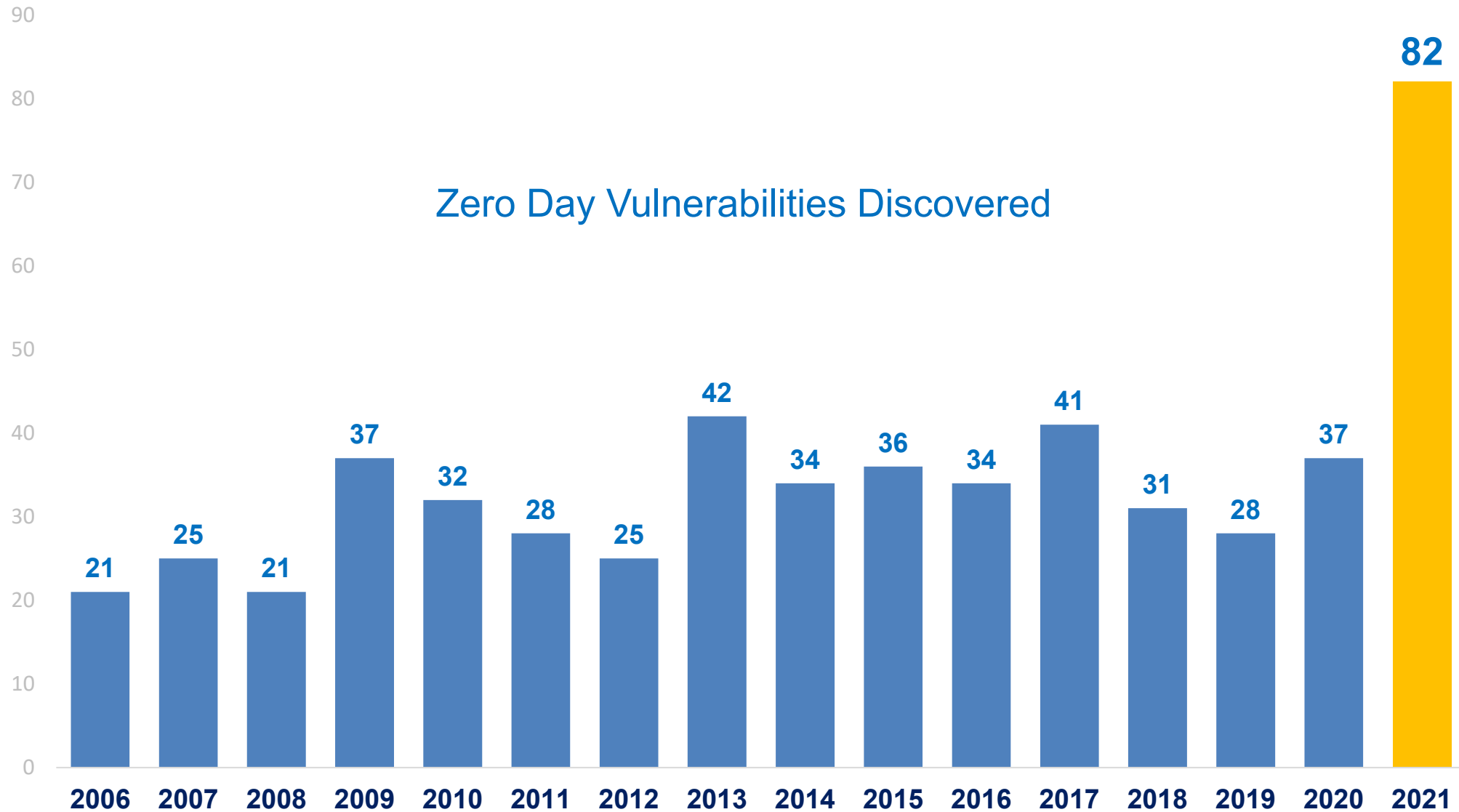
- WHO monitored >27 variants in 2021
- More coming in 2022 (& '23, '24...)

#### Unprepared for Endemic

- Risks over-hyped
- Preventions under-embraced
- “Zero COVID” won’t work forever
- “Independence Day” never coming

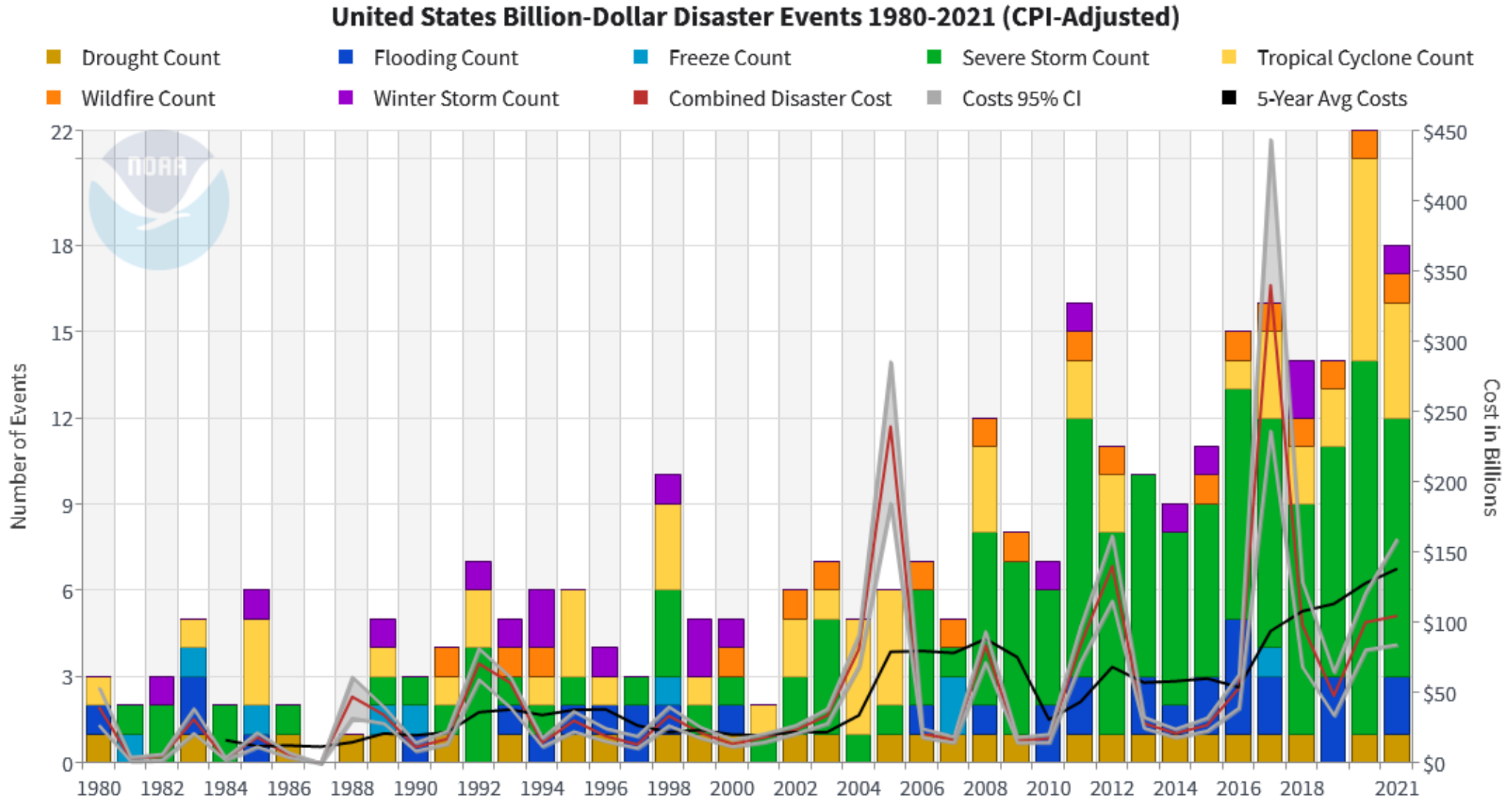
# #3. INFRASTRUCTURE: CYBER INSECURITY

## Accelerating Pace of Cyber Attacks Breaching Increasingly Sensitive Systems



# #4. INSURERS: EXTREME WEATHER DISASTERS

## Disasters Increasing Costs, Challenging Supply Chains & Driving Policy

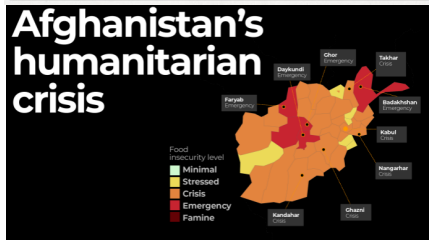




# #5. MULTILATERALISM: WARS, REFUGEES, NATIONALISM

Is Global Community Still Willing to Speak Out, Impose Sanctions or Actively Intervene Amidst the COVID, Energy & Supply Chain Crises?

## REFUGEE / HUMAN RIGHTS CRISES



## RISK OF WAR



MEHLMAN CASTAGNETTI  
ROSEN & THOMAS

## ECONOMIC NATIONALISM



# ECONOMIC RISKS

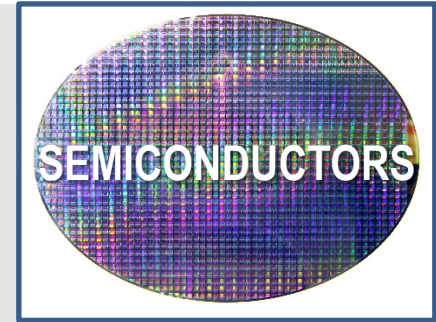
# #6. MANUFACTURERS (SHORT TERM): ONGOING SHORTAGES

## COVID + Politics = New Mindsets



- **COVID:** Demand & supply shocks (*fear of COVID + childcare + robust stimulus \$ + epic demand for goods*)
- **POLITICS:** Not working pays (*Dems subsidize those who quit for fear of virus, R's those who fear vaccine*)
- **MINDSET:** Workers flush, empowered & choosy (*Great Resignation, faster retirements, record start-ups*)

- **COVID:** Accelerated digitization + shift from services to goods + flush consumers
- **POLITICS:** U.S. vs China (*tariffs + export bans = under-investment + hoarding + low inventories; Taiwan risk*)
- **MINDSET:** Governments prioritizing decoupling & domestic manufacturing



- **COVID:** Unexpectedly robust economic recovery & logistics snafus
- **POLITICS:** Policymakers discouraged investment (*fossil fuels disfavored, inventories run low*)
- **MINDSET:** Greens leveraging crisis to accelerate decarbonization

# #7. CONSUMERS: INFLATION

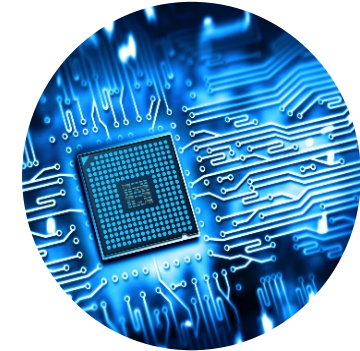
## Inflation Raises Multiple Public Policy Battles



**Tighter monetary policy or prioritize jobs?**



**Investigate big players or encourage productivity?**



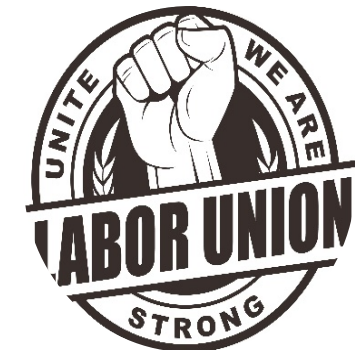
**Leverage global supply chains or deny tech to adversaries?**



**Tighter fiscal policy or prioritize domestic spending / defense?**



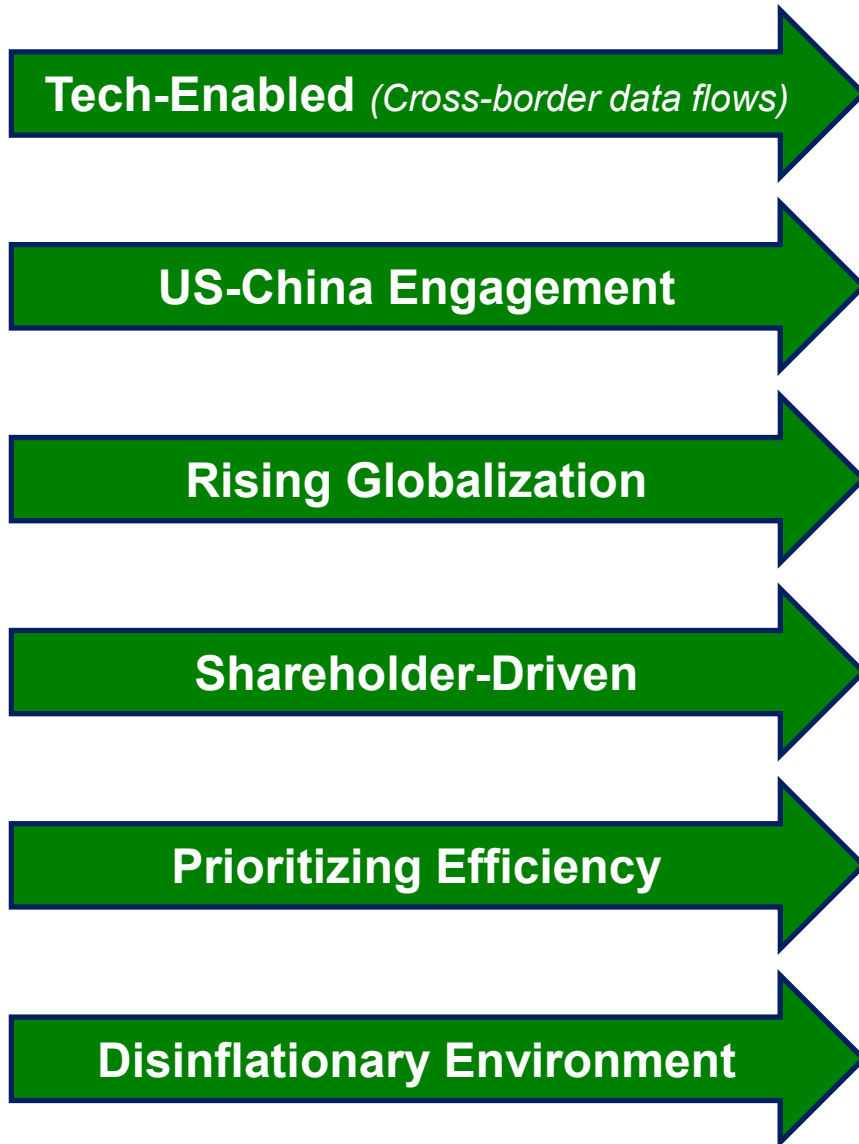
**Subsidize fossil fuels and/or renewables?**



**Encourage union strikes or expand labor force?**

# #8. MANUFACTURERS (LONGER-TERM): SUPPLY CHAIN HEADWINDS RISING

## 1989-2019: Tailwinds Prevailed



## 2020- : Headwinds Rising



# #9. MARKETS: IRRATIONAL EXUBERANCE

## What Happens When the Fed Starts Tightening?

### 2021 investments into equities exceed combined inflow of previous 19 years



Source: BofA Global Investment Strategy, EPFR

BofA GLOBAL RESEARCH

### S&P500 more concentrated in the 5 largest stocks now than ever



Source: BofA Global Investment Strategy, Bloomberg

- **75% of companies going public in 2021 were unprofitable** (up from 25% of IPOs in 1980)
  - Total cryptocurrency markets up **>300%** over 1 year (12/4/20-12/3/21)
  - Total U.S. household wealth up **19.6%** (\$118.5T (Q2 '20) → \$141.7T (Q2 '21))
    - U.S. home prices up **>20%** (in 2021 vs. ~3.5% long-term avg./yr)

# #10. NETWORKS: SPACE, THE FRAGILE FRONTIER

## Odds of Incidents or Accidents Grow as Traffic Explodes (sometimes literally) Few Rules Currently Exist to Manage Low Earth Orbit (LEO) Satellite Traffic

### >7,500 ACTIVE SATELLITES IN LEO

Over 65,000 additional satellites planned by SpaceX, Amazon, OneWeb & StarNet/GW (China) over next 5 years

### >8,800 TONS OF ORBITAL DEBRIS

Over 128,000,000 pieces of debris in LEO

Collisions likely to beget more collisions in a “cascade waterfall” threatening GPS, communications & weather systems, among others

### ANTI-SATELLITE WEAPONS

To-date 4 countries displayed A-SAT capabilities: US, Russia, China, India

Russia’s Nov. 2021 A-SAT test created 1,500 pieces of debris, threatening the International Space Station

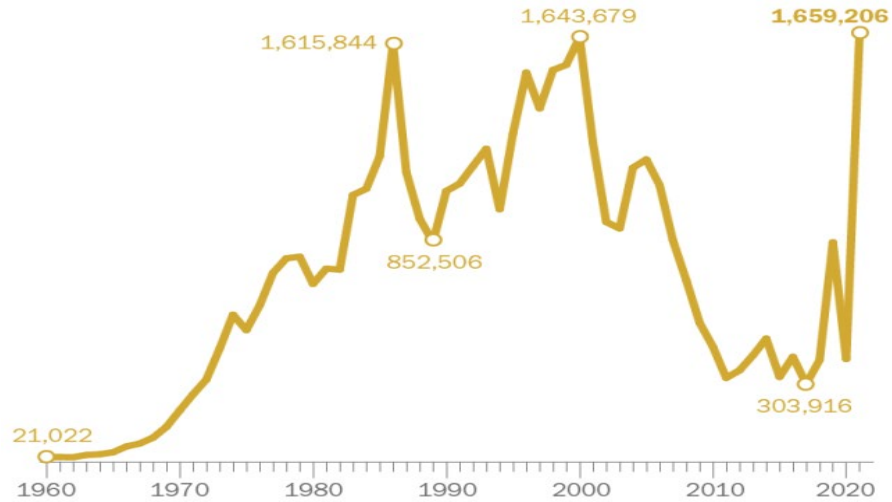
# POLITICAL RISKS



# #11. BIDEN: PERCEIVED "SOFTNESS"

## Soft on the Border

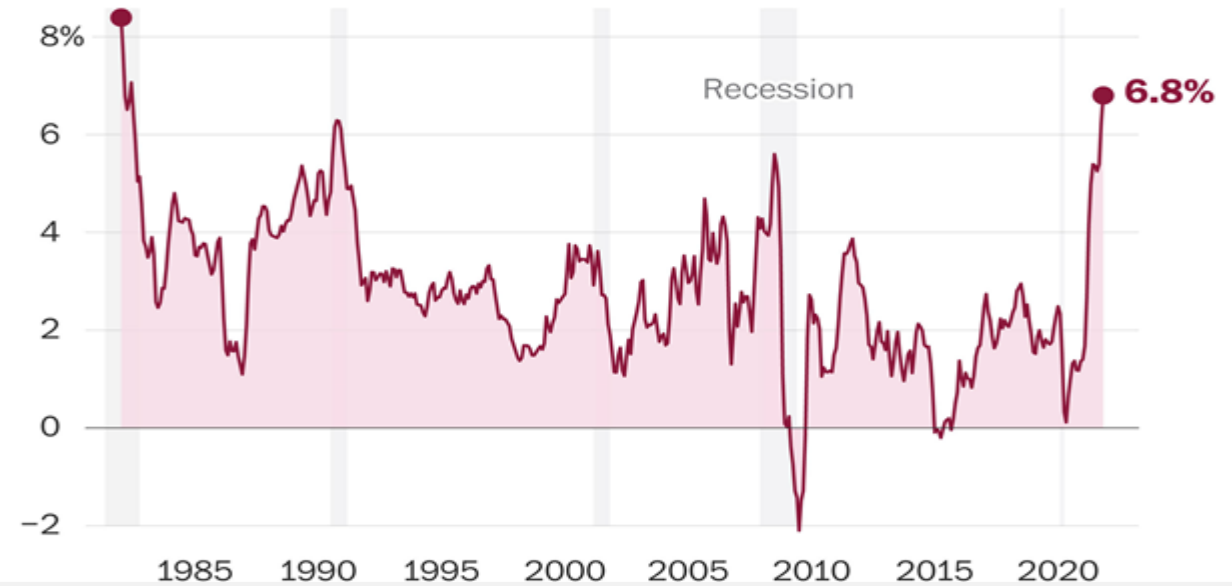
Migrant encounters at U.S.-Mexico border, by fiscal year



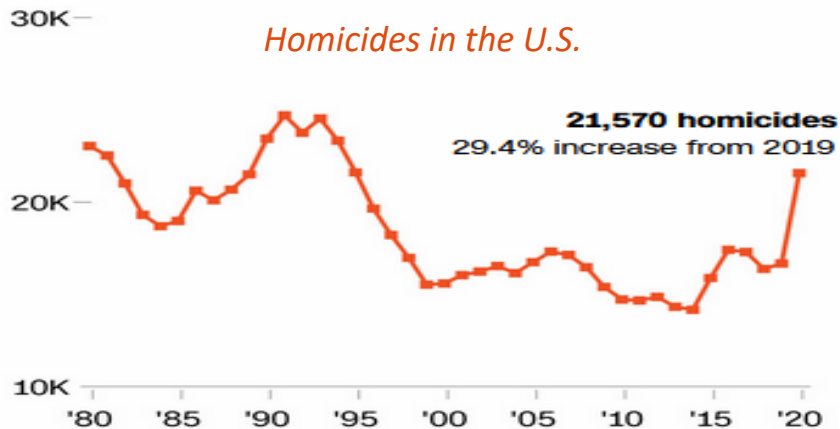
Source: Pew. Nov. 2021

## Soft on Inflation

U.S. consumer price index, change from a year earlier



## Soft on Crime



Source: FBI data via CNN chart

## Soft on Foreign Policy



# #12. DEMOCRATS: GOP WAVE ELECTION LOOKING LIKELY

## Senate Dems

(-1 seat flips control)

SENATE

Toss-Up / Lean seats:  
4 Dem, 5 GOP

HOUSE

Toss-Up / Lean seats:  
13 Dem, 3 GOP

## House Dems

(-5 seats flips control)

# GOP WAVE

## GOP Wave Coming...

Generic Ballot (R+3.1% *per RCP*)

House Retirements (19D, 12R)

POTUS Net Approval (-9.9% *per RCP*)

Satisfaction with "Way Things Going" (23% *per Gallup*)

History (WH party losses avg. 26.8 seats *in 1<sup>st</sup> midterm since 1946*)

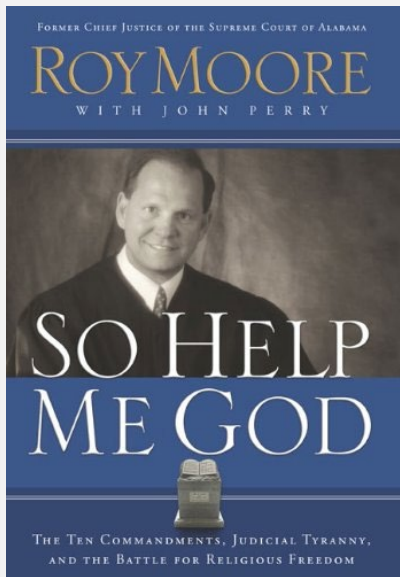
## Will it be big enough to win the Senate?



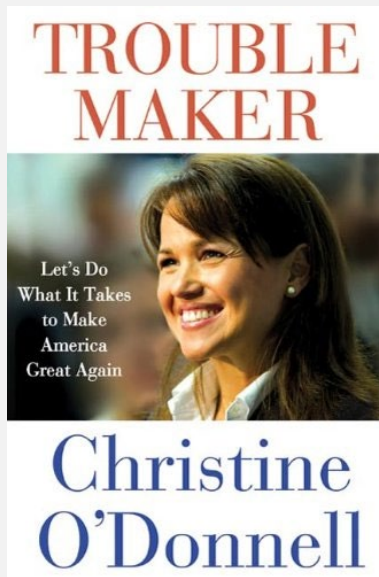
# #13. SENATE GOP: AVOIDING PRIMARY FAILURES

2022: “Secure the Senate” or “Stop the Steal”?

## Weak Candidates Lose Winnable Races, Even in Red States



2018 Alabama



2010 Delaware



2010 Nevada



2012 Missouri

Will Top-Tier Candidates Pass...



... or will Fealty > Electability?



# #14. HOUSE GOP: AVOIDING AN “OFF-YEAR, OFF-YEAR”

## Why Previous Years’ Voters Stuck With Incumbents (and/or Rejected the GOP)

### 1998

To Maintain a Roaring Economy



Because Other Guys Worse



### 2002

To Support a Wartime Leader

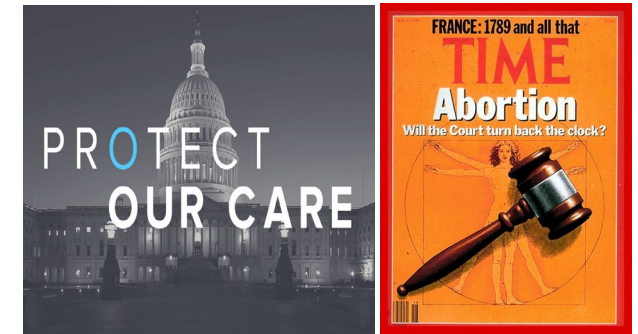


To Rally vs External Threats



### 2018

To Protect Health Care



It's a Referendum on Trump

Oct. '18  
42% Approve  
51% Disapprove



Oct. '21  
38% Approve  
50% Disapprove

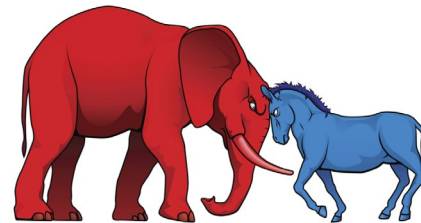
# #15. VOTERS: ONE ZILLION ATTACK ADS



## 2022 Will Be the Most Expensive Midterms in U.S. History, Historic Volume of TV, Print & Digital Ads

### GOP 2022 Election Themes

- Biden “Mismanagement”:**
  - Economy: Inflation & Debt
  - Domestic failures: The Border & Crime
  - COVID: Intrusive mandates
  - Foreign failures: Afghanistan, Russia, China
  
- Too Much Political Correctness (WokeLash):**
  - Education / Schools
  - Media
  - Workplace (mandates)

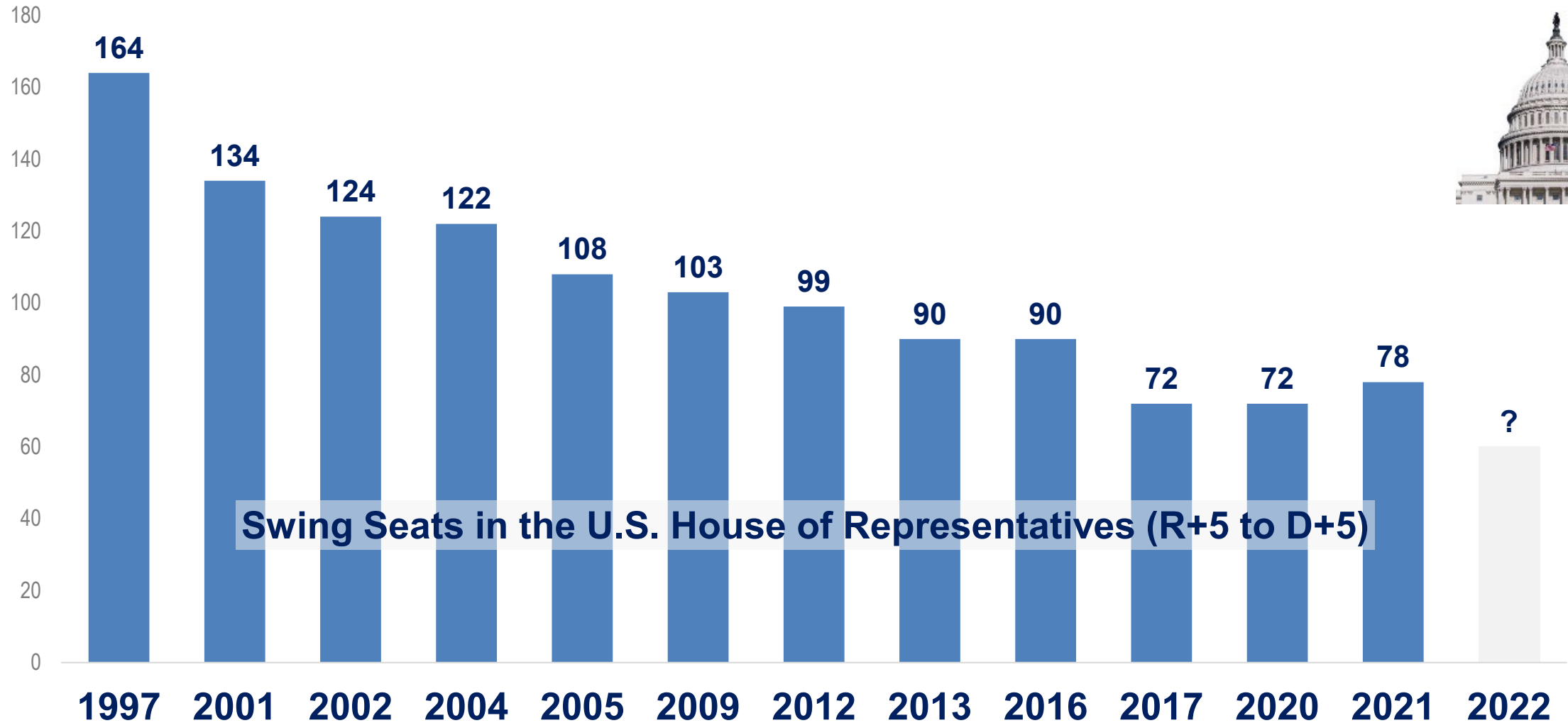


### DEM 2022 Election Themes

- Republicans “Too Dangerous”:**
  - GOP ending Right to Abortion?
  - Anti-civil rights (voting & immigration)
  - Anti-vax, gun control, climate
  - Republicans = Trump = Jan. 6<sup>th</sup>
  
- Democrats are Succeeding:**
  - “Morning in America” economy
  - Winning COVID war
  - Rebuilding better (infrastructure, green, safety nets)

# #16. MODERATES: SWING SEATS DISAPPEARING

## Redistricting Killing Competitive Seats, Intensifies Partisanship



# #17. INCUMBENTS: RESTLESS ELECTORATE VOTING FOR CHANGE

**Change in Control** of House, Senate and/or White House

1952 1954 1956 1958 1960 1962 1964 1966 1968 1970 1972 1974

1976 1978 1980 1982 1984 1986 1988 1990 1992 1994 1996 1998

2000 2002 2004 2006 2008 2010 2012 2014 2016 2018 2020 2022

You are here

# BUSINESS RISKS



# #18. BUSINESS: BUREAUCRACY RISING

## Activist Government Is Back (“Phone & Pen” 2.0)

### OVERSIGHT



Consumer Financial  
Protection Bureau



### REGULATION



### ENFORCEMENT



# #19. MULTINATIONALS: U.S.-CHINA DECOUPLING

## Both Leaders Trying to Balance Assertiveness & Accommodation

<b>Do enough to...</b>	 <p>Midterm elections Nov. 2022</p>  <p>20<sup>th</sup> Party Congress votes Oct. 2022</p>	<b>But don't do so much that you...</b>
------------------------	---	---

...demonstrate your toughness before your Fall (s)elections

**National Politics**

...provoke a war or an economic downturn

...reduce domestic inequality & check Big Tech power

**Tech & Innovation**

...weaken your nation's innovation capacity

...shrink global dependencies in strategic sectors

**Trade & Geopolitics**

...lose access to markets or alienate friends

...leverage the crisis for big systemic change

**COVID & Change**

...erode trust in your leadership due to mismanagement

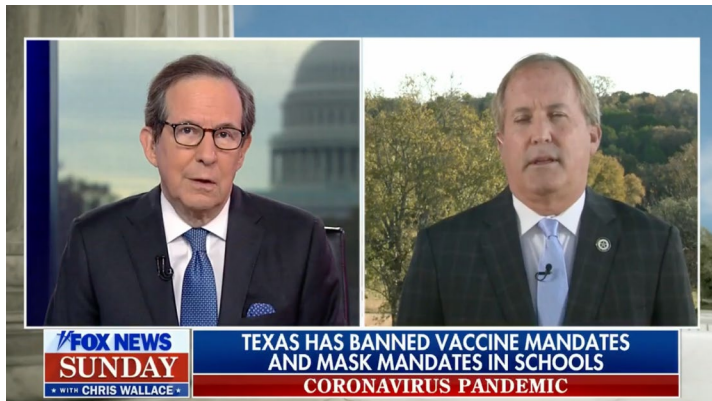
# #20. CEOs: POLITICAL HOMELESSNESS

## Republican Criticisms

### Too "Woke"



### Too Paternalistic



## Bipartisan Criticisms

### Too Cozy with China



### Abusing Market Power



## Democratic Criticisms

### Excessive CEO Comp



### Share Buybacks



# #21. BRANDS: EMPLOYEE PRESSURE TO ACT

## Employees Will Demand Action in 2022... But on What Issues?

### KNOWN KNOWN RISKS

*(on the calendar)*

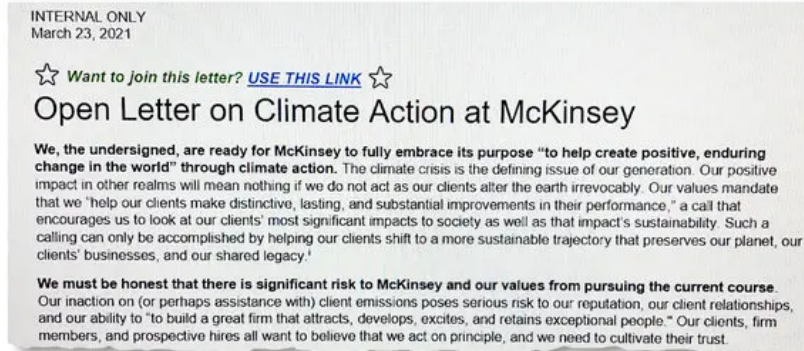
1. Beijing Olympics (Feb)
2. Mask / Vax mandates (Now)
3. Abortion decision (June/July)
4. Qatar World Cup (Nov)
5. Election disputes (Primaries, Nov)



### KNOWN UNKNOWN RISKS

*(always occur, don't know when)*

1. Mass / school shootings
2. Police violence on video
3. Disputed judicial verdicts
4. Voting rights laws (in states or U.S. Senate)
5. Disfavored clients



### UNKNOWN UNKNOWN RISKS

*(may happen or may not)*

1. Rogue executive misdeeds
2. Client corruption or scandal
3. Divestment campaigns
4. New flexibility/WFH demands?
5. Ill-advised comment (Dimon; Dalio)



## Volatility & Disruption are the New Normal

*Macro trends are reshaping your industry. Reforms will disrupt your business.*

### #1. UNDERSTAND

How are you tracking tech, geopolitics & cultural trends?

How are broader changes impacting you, competitors & your markets?

### #2. ADAPT

What are your digital, global & ESG strategies?

How do you assess political risk, plan for contingencies & pressure-test your plans?

### #3. ENGAGE

Do you hear from a broad range of sources or echo chamber?

Which stakeholders will have your back when you need allies?

Are you at the table with policymakers (or on the menu)?

To join our list for future reports: [bruce@mc-dc.com](mailto:bruce@mc-dc.com)

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