

Episode 101

Election 2024—Biden withdraws: What's next in politics and markets?

[00:00:00] **Andrew Korz:** This is a remarkable situation, right. A candidate for president dropping out of the race mere weeks prior to the convention, in which he was supposed to be officially nominated, months before the actual election takes place. And not just a candidate, but the actual President of the United States.

[00:00:17] **Andrew Korz:** Welcome to FireSide, a podcast from FS investments. I'm Andrew Korz, Executive Director of Investment Research.

President Joe Biden's decision to drop out of the 2024 presidential race, which occurred via tweet or via X at 1:46 PM yesterday, Sunday, July 21. Clearly this is a political earthquake. Occurring just as the market is really starting to kind of look toward the election as the most important event of the second half of the year.

I'm joined today by our in-house expert—which we are incredibly lucky to have here at FS—Jason Cole. He is our Head of Public Policy. Jason, thanks so much for making the time. I know you're running around like your hair is on fire right now, so thanks for making the time.

[00:00:58] **Jason Cole:** Pleasure to be here, Andrew.

[00:01:00] **Andrew Korz:** So let's just jump right in. The news was dropped yesterday, Sunday afternoon.

This is a remarkable situation, right. A candidate for president dropping out of the race weeks prior to the convention, in which he was supposed to be officially nominated, months before the actual election takes place. And not just a candidate, but the actual President of the United States. Is there anything that can help us understand the ways in which this might play out, any historical analogs, or is this truly unprecedented?

[00:01:27] **Jason Cole:** This is truly unprecedented. And it's a word that I feel like we've overused. Especially the last four years, the last four or even eight years.

And if you even consider the last few months, right, on May 30, you had a former president convicted on 34 counts in a court in New York City; you had, in the last eight days, an assassination attempt; you had a historically poor debate performance by a major party nominee. And then finally you have that nominee drop out, and in just eight days.

It's truly remarkable. And I don't know that there's any historical analog to this. I mean, you had Lyndon Johnson in 1968, step out of the race, interestingly, for a convention that was going to be held in Chicago, just like this year's convention. But Johnson stepped out in March, many months before that.

[00:02:19] **Andrew Korz:** So the primary was still going on?

[00:02:21] **Jason Cole:** The primary back then hadn't really started. This notion where we have these extended primary seasons that last over a year is a fairly new phenomenon. So, nothing had really started in 1968. You had Truman in '52, also decide not to run for reelection.

But again, that was well before any nominating convention. And again, in 1952, those conventions looked much different than they do today. So this is really unprecedented and

there's no roadmap for how things are going to unfold. I think we all have a pretty good idea. You've seen literally in the last—where are we, at 10:42 AM on Monday. So, less than 24 hours since President Biden said he's not running for reelection, there's been a swift, convergence around the Vice President Kamala Harris on her being the nominee, right. Over half the House Democrats, 153, at this count have endorsed her. Nearly half of the U.S. Senators have endorsed her, more than half of governors have endorsed her.

And importantly, most people who were considered to be potential nominees—if Biden stepped down—have all come out. Some of the governors, some of the senators have all come out and endorsed her. So this looks like, I don't want to use the word coronation, but this looks like she's going to be the nominee moving into the Democratic convention starting on August 19. And I think the question now is who's her running mate.

[00:03:53] **Andrew Korz:** Sure. So, you kind of ticked through the things, so much uncertainty kind of bubbling up right now, less than 24 hours after the news came out, the things we do know. As you said, just to reiterate, Joe Biden will not be the running mate. He has endorsed his Vice President Kamala Harris.

She's already gotten endorsements from a wide swath of politicians, of congressmen and women, party leaders. Yet to endorse, and I think we talked about this earlier, Barack Obama. You know, nobody has come out to actually challenge her yet.

Again, it's only 24 hours since the news came out. Do you see any potential July surprises or I guess really another July surprise? Or is this the party rallying behind her in the coming days to shore up, and really present that unity that the Republican party's been showing over the past couple weeks?

[00:04:43] **Jason Cole:** I think it's going to be the latter. I think in the last 24 hours you've seen...and my phone's lit up and I've talked to a lot of people and there's a remarkable resurgence of energy in the Democratic party, at least among elected officials. They were pretty demoralized over the last three weeks, post-debate, and sort of out in the wilderness trying to figure out what to do with the President's poor debate performance. And this really was a bolt of lightning for Democratic-elected officials. You saw the Vice President—or the Harris for President campaign—raise over \$50 million in less than 12 hours. And so those are all indicators that there's going to be this convergence around her candidacy for president. On Obama, he's never endorsed in a primary. He's made that very clear over the years that he won't endorse in primaries, but I expect he'll give a full-throated endorsement, once this is settled at the convention in Chicago in August.

[00:05:43] **Andrew Korz:** Sure. So let's assume then, just for the sake of this podcast, that Kamala Harris probably will become the nominee for the Democratic party. What do we know about how she polls relative to Joe Biden in a race with Donald Trump, not only nationally, but also in these key battleground states, like the Midwest, like places like Georgia, Arizona?

[00:06:06] **Jason Cole:** There's been a dearth of polling and understandably so. She wasn't the nominee. She still isn't the nominee. But there have been 11 polls post-debate that queried Vice President Harris in a head-to-head matchup with Donald Trump. I think pollsters were beginning to see that this is a possibility, let's test it. They tested other candidates, but in those 11 post-debate polls, the average was around Harris losing by about a point-and-a-half.

By the way, that's almost identical to...it's actually a little better than where Biden was, post-debate. And so this race really is where it was in June, neck and neck within the margin of error at a national level. We've talked about this with Lara and others on these podcasts.

We don't elect presidents with a national vote, and so those polls aren't necessarily indicative of how things are going to turn out. We elect presidents on state-by-state votes. I expect the same sort of map will play out, and will be looked at as Biden is the nominee. And that's six states—Georgia, Arizona, Nevada, down on the Sun Belt and then Great Lakes states of Pennsylvania,

Michigan and Wisconsin—I think will be critical to winning this race and the race to 270 electoral votes.

[00:07:31] **Andrew Korz:** On that point, clearly there is a lot for the Democratic Party to sift through, to work through, to decide on between now August 19—the Democratic National Convention. Among the most important of those is the selection of a vice presidential nominee. Obviously, it would make sense—given that there are six or so states that will decide this election—for a potential running mate to have a connection or an appeal to some of those states. First of all, you hear differing viewpoints on how important a VP, or a running mate is really to ultimately what happens in the election. I think it's fair to say it's probably pretty important, just given some of her weaknesses. She's from California. That's not necessarily a state that's in play. So, how do you view that selection process right now? Who's at the top of the list? Who is she vetting probably, as we speak right now?

[00:08:25] **Jason Cole:** I would say number one, it's interestingly, less important. Vice presidents have never really been determinative of presidential elections. And I actually think it's less important with Kamala Harris at the top of the ticket than Joe Biden at the top of the ticket. Given age issues and whatnot. So that's number one. That said, you're absolutely right, Andrew, this is going to be very critical. And I think there's going to be a lot of focus on how do we win. What's the path to 270? And how do we best get there? And so it's no surprise that among the candidates being considered for Vice President right now are Governor Josh Shapiro, right here in Pennsylvania. Pennsylvania is the Keystone State and I actually believe key to winning this election. Governor Gretchen Whitmer of Michigan. It's another one of those so called blue wall states that Democrats absolutely have to win in order to get to 270. And so she's on the short list for consideration.

[00:09:26] **Andrew Korz:** Both have already endorsed Harris.

[00:09:27] **Jason Cole:** Both have come out and endorsed Harris. I think a third is Senator Mark Kelly from Arizona. Ten important electoral votes. I think Arizona, prior to yesterday, was slipping away. Biden won it very narrowly in 2020. It's among the six battlegrounds that I think I've been watching over the last year or so, but it was beginning to really slip away from the Democrats and Biden. If Kelly's on the ticket, that could put it back in play in a very meaningful way. Senator Kelly, he's a former Navy fighter pilot. He's an astronaut. He's been in space four times. And so there's a compelling story that he could bring to the table, to exude strength, which was a huge theme last week in the Republican National Convention on Thursday night. You had Hulk Hogan and Kid Rock and a whole bunch of others sending the implicit message that we're a strong party and that Donald Trump is a strong candidate. And you had the very explicit message with the placards that were being shown throughout the convention hall—Trump equals strength, Biden equals weakness.

And so, Kelly presents an opportunity to counter that narrative, in an interesting way. So those are three. They all hail from really important battleground states. There are a few other folks that are kicking around out there, but I think, among those three, you may end up finding the vice presidential candidate. Governor Beshear from Kentucky, Governor Roy Cooper from North Carolina, they're also on the short list. Cooper brings Carolina, which is sitting on the edge of battleground status, potentially into play. I'm not candidly sure what Beshear brings to the table in terms of, Democrats can't win Kentucky. And I'm not sure what he brings to the table from an electoral standpoint. And so of those on the short list, probably put him at the bottom.

[00:11:24] **Andrew Korz:** Yeah. Well, I saw Hulk Hogan rip a T-shirt on the stage at the RNC. So we'll have to see which of those candidates maybe can do the same. Obviously, there's another party involved in this and they're going to have to react. What are the Republicans thinking right now?

Obviously, the Democrats are rushing around trying to get their ducks in a row. What are the Republicans doing right now to answer this probably relatively surprising development?

[00:11:48] **Jason Cole:** Yeah. Look, what's reflected in the polling is that the public hasn't totally formed an opinion of her. One of the polls asked: How do you feel about Kamala Harris? Her favorability rating wasn't great. It was 29% versus 49% unfavorable. By the way, that unfavorable is better than Biden's, but there's 22% of people that just didn't have an opinion or didn't know her name. And so for a period here, there's a bit of an empty vessel for both Democrats and Republicans to seek to define her. And I think you're going to see efforts by both parties, in the next 10 days to two weeks, with advertising and whatnot, peppering the airwaves in efforts to define her. Democrats obviously in a positive light, Republicans in a not so positive light, and to try to seal ideas and impressions around her candidacy. I would also say at the end of the day that I firmly believe that we're a 46-46 country, and you're going to see those favorability numbers tick up a little bit, revert to the mean, and the unfavorability numbers may stay around where they are right now. I mean, you're at 49%. Those are probably dyed-in-the-wool Republicans that have already said, oh, you're a Harris, you're a Democrat, we don't like you. And so, we'll see over the next couple of weeks. I'm really interested to watch polls over the next couple of weeks, I'm going to be watching Independents. Where do they go vis-à-vis where Biden was? I'm going to be watching women. Where do they go vis-à-vis where Biden was? And I'm going to be watching the African American vote. Where do they go vis-à-vis where Biden was? I think those are going to be three really important demographics to pay attention to over the next couple of weeks as things sort out, as both parties begin to define Kamala Harris.

[00:13:35] **Andrew Korz:** Yeah. So, we talked a lot about the political implications. Obviously, the polls coming out are going to be incredibly interesting and important. How about some of the more boring logistical questions? Can you just kind of walk us through the next couple, call it weeks, month?

Obviously, the official nomination will occur at the Democratic National Convention in the third week of August. What will the process leading up to that point look like logistically? I know there's thousands of delegates across the country who can cast their vote for who they please at this point.

There may be some kind of rules around that, I don't know. But ultimately, what does that process look like? I've heard ideas about Republicans potentially looking to put forth lawsuits. Is there any merit to those? I know you're not a lawyer, so you probably can't totally opine. But what does that look like?

[00:14:24] **Jason Cole:** Yeah. So there's 39-ish, 3,900-ish delegates, that until yesterday were pledged to President Biden that technically were required to vote for him in a nominating contest. There were rumors that Democrats were going to accelerate that process and do a virtual roll-call vote prior to the convention beginning on August 19. The sort of public reason for that was there was one state, Ohio, who needed a nominee prior to the 19th, I think it was August 7. Ohio has subsequently changed their law around that, and so there's no need to accelerate a vote. And I would guess, I don't know this, but my guess is that now Democrats need the time to vet potential vice presidential candidates and nominees, and so it wouldn't surprise me if this planned pre-vote gets delayed and they actually have delegates vote at the convention in Chicago, later in August. None of those 3,900 delegates are pledged to anyone right now, but given what we've already talked about, the 153 members of Congress, the 23 senators, the 20-plus governors that have already endorsed the vice president, I think it's probably safe to say that most, if not all of those 3,900 delegates, will cast their vote for Vice President Harris to be the nominee.

Will there be lawsuits? Yeah, probably, I think I would do anything if I'm the opposing party and my opponent...to throw sand in the gears...sure, of efforts to hotline this. It creates a nice distraction. Do they have validity? You're right. I'm not a lawyer. I don't know. I don't think that they probably do. At least not pre...had this happened August 24, after the Democratic convention and after there's a nominee, absolutely. I think there's validity. You start getting into ballot access things and whatnot, but at this point in time, this is a process ultimately controlled

by the Democratic Party, not state election offices. And so I think that ballot challenges and whatnot will have some difficulty, but I expect that they'll probably occur.

[00:16:36] **Andrew Korz:** So, most of our discussion and again—less than 24 hours after this news came out—has been around how this affects the likelihood of each party winning the White House in November.

As of right now, it's probably still safe to say, Donald Trump is the favorite to win the presidency. But this does kind of throw a lot of uncertainty into the election in November. There's a lot that can happen between now and then. Let's kind of look ahead. You and Lara previously had talked a lot about the differences on the policy positions and what a President Biden's second term or a President Trump's second term would mean for different parts of the economy. Let's play this out and Kamala Harris ends up winning in November. There's a lot we don't know about her policy positions yet. I'm sure we'll learn those things in the coming weeks.

Is there anything we can say about how she might differ from a President Biden? Would this be tantamount to a Biden second term or are there certain things where she and President Biden differ?

[00:17:40] **Jason Cole:** Yeah. I think it's probably closer to a Biden second term than a radical reset. You're right, we don't know a lot about her policies from a federal standpoint, and she's been in an elective office a long time, but as an attorney, right. As a prosecutor in the San Francisco Bay area in Alameda County, as an attorney general in the state of California, and she was only a senator...remember she was elected in 2016, took office in 2017 and then began running for president in 2019. So she was only a senator really for two, two-and-a-half years prior to becoming vice president. And she was on the Judiciary Committee. She prosecuted many of then President Trump's nominees for the courts, in a fairly effective manner and so she's got some pretty clear views on judicial matters and whatnot, but in terms of other policies, it's unclear.

What we know from when she ran for president, she was a firm supporter of the so-called Green New Deal, she supported publicly Medicare for all. But those are really only the two big positions she's taken on financial services where I spend most of my time and energy—kind of a blank slate as was Biden. You know, he didn't really care about financial services and banking when he was a senator and he really outsourced a lot of that policy to the regulators he appointed.

And if she does more of the same, I think we can expect more of the same, with respect to financial services and regulatory policy in that space; though, that becomes a little more constrained and difficult with the Supreme Court decision in Chevron. I think we're going to learn more in the coming months, but my expectation is probably, a more or less through line from Biden into a Harris worldview.

[00:19:28] **Andrew Korz:** Sure. Well, it sounds like a lot of uncertainty. There was already so much uncertainty around this election, it was always likely to be a relatively close race between two people with vastly different views and policy positions. Now you inject a lesser-known candidate into the race, into a situation that was already, I'll use the word, unprecedented. And the uncertainty meter, I think, has probably just gone through the roof and we're going to learn a lot in the coming weeks.

And all of this is to say we will be continuing to lean on you, Jason, for your expertise, from a market perspective. We've already seen the recent yield curve steepening, the equity rotation toward higher beta, small caps, in the equity market. And our view that the Fed is probably going to start cutting rates—this just throws some more uncertainty onto that.

[00:20:12] **Jason Cole:** Yeah. Look, and on that, I'm no trader. I'm not a markets guy, but I would expect more volatility in the markets, and particularly in the near term. The Trump trade may be off a little bit now. You know, I think that was fully on, post-debate. It began emerging, but I

think that may be off a little bit now. And you start seeing a little more volatility in the markets and at least in the near term until we start getting a little more certainty. The markets and other participants start seeing some polling and we get some ideas and indications of what the electoral environment is going to look like.

[00:20:44] **Andrew Korz:** We just started seeing the market really honing in on the election as an event to look toward and as a driver of market pricing. And just as that started, we get a whole new wave of uncertainty coming in. So, Jason, thank you so much for your time.

[00:20:58] **Jason Cole:** Thanks, Andrew. This was great.

[00:20:58] **Andrew Korz:** I'm sure you've got a million places to be, so we'll talk to you again very soon.

[00:21:02] **Jason Cole:** Absolutely. Take care.

[00:21:02] **Andrew Korz:** Thanks. Thanks. Bye.