Morgan Stanley Government Relations Election Outlook Report

September 6, 2016

General Election in Full Swing

With the Labor Day holiday behind us, election season now enters its final phase – a two month sprint to November that will undoubtedly be highlighted by an increasingly acrimonious battle between Donald Trump and Hillary Clinton. There was no August recess for the candidates or their campaigns, and no shortage of headline grabbing developments on both sides.

The standard post-convention bounces that each candidate fleetingly enjoyed have now receded, allowing a more accurate picture of where the candidates stand in the eyes of voters. Clinton continues to dominate the polls in most of the battleground states, though holding slim margins in some, in her quest for the 270 electoral votes upon which the presidency is awarded.

Trump's primary obstacle, aside from deep favorability issues among certain demographics, is winning amid a mountain of states that have voted Democrat in all of the last six presidential elections – 18 of them in fact, and the District of Columbia, which account for 242 electoral votes. Trump has hinged his campaign strategy on flipping a number of these in his favor, most notably by shaking up the traditional voting dynamics that have characterized these six previous elections and appealing to constituencies that have tended to vote Democrat over this period. Failure to flip a handful of these states would likely mean that Trump would have to win a strong majority of the 10 to 12 swing states that are in close contention, a heavy challenge.

Nationally, Clinton leads by 6 percent in an average of recent polls, a spread that has stayed more or less consistent for the past month. Breaking down the polling in the most critical swing states reveals a more accurate view of where things stand from an electoral college perspective. Clinton continues to hold leads in the following "toss up" or "leans" (either way) battlegrounds: Florida (Clinton +3% in an average of the August's polls), Ohio (Clinton +5%), Virginia (Clinton +13%), North Carolina (Clinton +2%), Iowa (Clinton +1.5%), Nevada (Clinton +2%), New Hampshire (Clinton +9%), and Colorado (Clinton +11%).

Clinton maintains solid leads in the three historically Democratic states that Trump has most targeted as potential flips: Pennsylvania (Clinton +9%), Michigan (Clinton +7%), and Wisconsin (Clinton +9%). While these are head-to-head matchups, the numbers are largely consistent when third party candidates Gary Johnson (Libertarian) and Jill Stein (Green) are included. Adding to his challenge, Trump must be mindful of securing a few historically Republican states where polling suggests new vulnerability, including Georgia (virtual tie) and Arizona (Trump +1.5%).

While voter preferences are typically hardening by now, especially for well-known candidates like Clinton and Trump, there are a number of variables that could influence the outcome from here. First, a series of three presidential debates will start on September 26 and conclude on October 19. The debates offer an opportunity for both candidates to reinforce campaign themes and go on the offensive against the myriad high-profile vulnerabilities that swirl around each of them. It remains to be seen whether either candidate can use the debates to distance herself or himself from the other. Without question, there will be tremendous public interest in watching these televised events.

The second variable that continues to loom over this race is the lingering prospect of “black swan” revelations about either candidate. Thus far, character attacks and negative publicity have produced merely headwinds on each candidate’s polling numbers rather than mortal wounds to their candidacy, yet the prospect for a game-changing development seems more relevant here than in any recent presidential election. In a political cycle that continues to surprise, we cannot fully discount this low-probability, but potentially high-impact variable.

In the remaining months, we expect Clinton and Trump to make their case for the presidency ever more vigorously, perhaps most often by negatively portraying their opponent than by promoting their own coherent visions for the next four years. And while traditional party alliances may not necessarily apply to this election cycle, it is worth noting how politically divided the country remains, as evidenced by President Obama’s relatively narrow 4 percent popular vote margin in 2012.

Control of Congress Hangs in the Balance

The Senate continues to present a muddled picture, as individual races in key states seesaw with the undulations of a presidential contest that may have a big impact on “down ticket” Senate, House and statewide races. As we have previously covered, the Republicans’ four-seat majority in the upper chamber is under considerable threat, as the party contends with the need to defend 24 seats to the Democrats’ 10, with many of those 24 in “purple” states over which neither party has a firm hold.

The states that will tip the balance of Senate control look a lot like the presidential swing states noted above, including: New Hampshire, Ohio, Pennsylvania, Florida, North Carolina, Wisconsin, Illinois, Arizona, Missouri, Iowa, Indiana, Nevada and Colorado, most of which involve incumbent Republicans defending in very tight races. Many of the most respected political pundits argue that it will be difficult to accurately predict majority control until election night itself. One of the most likely scenarios involves a four-seat Democratic gain to split the chamber at 50-50, thereby conferring Senate control to the winner of the White House.

Democrats are salivating at strong flip opportunities in Wisconsin, Illinois and Indiana. Assuming for the moment that comes to fruition, Senate control will then hinge on a more narrow subset of the states listed above, most notably New Hampshire, where incumbent Senator Kelly Ayotte (R) is in a close race with Governor Maggie Hassan; Pennsylvania, where current Senator Pat Toomey (R) is battling former state and federal official Katie McGinty; Nevada, where an open seat has been created by Minority Leader Harry Reid’s (D) retirement; and North Carolina, where Senator Richard Burr (R) has watched his race against former state legislator Deborah Ross narrow of late. All of these races currently have average polling numbers residing within or close to the margin of error. When you consider the several other states like Ohio, Missouri, Arizona and Iowa where incumbent Republicans hold single-digit polling leads, the stage is set for a November nail biter.

In the House of Representatives, members in closely divided congressional districts are keenly aware of the impact that specific presidential candidates can have in turning out voters on Election Day. Accordingly, much has been made of the threat to vulnerable House members from a Trump ticket that could depress Republican turnout. The extent of this threat is difficult to model in a political environment characterized by a strong anti-establishment sentiment and where accurate poling can sometimes be elusive. However, after a 2014 cycle that gave House Republicans their largest majority since the Great Depression, there is plenty of cushion for the party to absorb deep losses and still maintain control. With that in mind, most respected pundits are predicting net losses for Republicans, but not enough to truly threaten their hold on the chamber.

Disclaimer

This report has been prepared solely for information purposes. The information herein is based on or derived from information generally available to the public and/or from sources believed to be reliable. No representation or warranty can be given with respect to the accuracy or completeness of the information. Morgan Stanley disclaims any and all liability relating to this report, including without limitation any express or implied representations or warranties for statements contained in, and omissions from, the report. Nothing contained herein is intended to be or should be read as any regulatory, legal, tax, accounting or other advice and Morgan Stanley does not provide such advice. The views expressed herein are those of the author(s) and do not necessarily reflect the views of Morgan Stanley or its affiliates. All opinions are subject to change without notice. Morgan Stanley makes no representation regarding the accuracy of any statements regarding any references to the laws, statutes or regulations of any state are those of the author(s). Past performance is no guarantee of future results.

Morgan Stanley & Co. LLC and Morgan Stanley Smith Barney LLC, Members SIPC.

CRC 1583211 09/2016