

Morgan Stanley Government Relations Election Outlook Report

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This is the inaugural submission of Morgan Stanley Government Relations (MSGR) Election Outlook, the first in a series of reports covering the 2016 election. Through periodic reports running up to the November election, MSGR will provide insight and analysis on developing trends in the presidential and congressional elections.

New Hampshire Primary Results

Democrats: As the early polls indicated, Vermont Senator Bernie Sanders handily won the New Hampshire primary by over 20 points. Sanders came into New Hampshire with a strong New England advantage, but what was most impressive about his victory was the support he received from the state's young voters and female voters.

Republicans: Donald Trump also proved the early polls correct and won impressively in New Hampshire. Like Iowa, the big surprises in New Hampshire came with the candidates jockeying for traction behind the primary's winner: Ohio Governor John Kasich rose to take second place and Florida Senator Marco Rubio, failing to build on his strong Iowa finish, faded to fifth place.

The New Hampshire results may confer only a small handful of actual delegate votes for both party's winners, but can go a long way toward setting the tone and building narratives that may come to define the contest through the summer and, for the ultimate nominees, into the fall.

So What Do We Make of the Results Coming Out of Iowa and New Hampshire?

As the Iowa and New Hampshire results demonstrate, the 2016 primary season is evolving in atypical ways. The most notable factor is the clear anti-establishment fervor of the electorate. It has completely defined the race to this point, propelling seemingly outsider candidates into the mainstream. Also noteworthy is how this dynamic interacts with a newly-condensed primary schedule and the emergence of a wide Republican field. These variables produce a range of plausible outcomes, and reliable predictions are nearly impossible at this stage.

Underscoring this point are the rumors that former NYC mayor Michael Bloomberg may enter the race, pending certain primary outcomes. Bloomberg, himself, confirmed these rumors this week. In a cycle dominated by the unpredictable, this would be a game-changing variable that cannot yet be fully discounted. Initial projections suggest that his insertion into the race would siphon votes from Democrats more than Republicans, but as we have witnessed thus far, this is an unpredictable electorate.

Iowa and New Hampshire have very different electorates, and accordingly it is rare that a single candidate runs the table in these initial contests. The former is largely driven by traditionally more evangelical voters, providing a friendly venue for more conservative candidates like last week's winner, Texas Senator Ted Cruz. In contrast, the Granite State's reputation for independence typically translates into stronger performances from the more

maverick candidate. Still, though only two contests into the primary season, a number of trends are beginning to form.

With Trump winning handily, Trump is here for the long haul, with both strong finances and core support that should assure that he at least contends in most of the upcoming contests. The Republican establishment candidates, closely packed in behind Trump in New Hampshire, will all look to make the case that they have new momentum which they will take to the next primary contests. Governor Kasich's second place finish will certainly energize his campaign, while Senator Cruz and Senator Rubio seem poised to remain relevant going forward as the alternative to Trump. Coming out of a promising Iowa finish but a disappointing New Hampshire result, Senator Rubio will look to regain credibility and traction with the voters in next week's South Carolina contest.

The import of the February contests is positioning, as candidates seek to augment support among donors and undecided voters. From here, the primary schedule heats up quickly and floundering campaigns quickly lose viability, making the vote and endorsement chase important for those that remain.

The Primary Landscape Ahead

One of the interesting and potentially defining aspects of this year's race is the truncated and front-loaded primary schedule, consisting mainly of states that will award delegates on a proportional, rather than winner-take-all, basis. Almost all of the early states award their share of delegates proportionally.

With a historically large Republican field, the lack of early winner-take-all contests potentially sets the stage for a drawn-out nomination process in which no single candidate achieves the requisite majority of delegates until late. Should the field fail to narrow, or should it narrow without catalyzing votes to a single front-runner, the Republican nomination could conceivably drag into the summer. A brokered convention is not out of the realm.

The four February contests (Iowa, New Hampshire, South Carolina, Nevada) should begin to define parameters and reduce the field. February's symbolic value exceeds its tangible delegate haul (only South Carolina has a significant winner-take-all delegate count), and beating expectations can be more important than winning actual primaries.

The first half of March is important for building delegate counts and legitimacy, though under the proportional voting rules, is unlikely to be dispositive. Large, multi-state primaries during this period, especially March 1st (the biggest one-day delegate haul involving 12 mostly-southern states, with 624 delegates awarded of 2,470 total), could produce a clear road to the nomination. On the other hand, proportional vote allocations shared among numerous candidates could perpetuate a muddled delegate count and preclude a Republican front-runner from emerging.

To illustrate this point, Iowa winner Cruz received eight pledged delegates toward his nomination, while Trump and Rubio each received seven. Despite the declaration of "winners" and "losers" in the days after Iowa, the impact of the proportional allocation produced no true numerical (i.e., delegate) winner. To be sure, strong results translate into momentum and donations that are the lifeblood of a campaign. But the crucial point is the proportional delegation allocation, in a 3-plus candidate race, could prevent any single candidate from building an insurmountable lead. It can also encourage the also-rans to stay in the race longer, creating a self-fulfilling prophecy that delays consolidation of support for leading candidates.

March 15th ushers in the next phase of voting, not only because it is the second largest delegate haul (five states, 357 delegates awarded), but it is the first day, with the exception of South Carolina, that the Republican National Committee allows winner-take-all contests, though many proportional states remain and will continue to fragment votes.

Florida (99 delegates) and Ohio (66) become critical battlegrounds for Rubio/Bush and Kasich, respectively, and each is likely to remain in the contest until then. After several more mid-March

contests, the nomination process slows considerably into April, with only about 5 percent of delegates bound between March 23rd and April 25th. The Republican field, likely winnowed but potentially without an identifiable winner, should continue to bruise each other during this period, assuming at least several viable candidates remain. On the Democratic side, Sanders could be in a position to have amassed a large war chest that could allow him to pull Clinton leftward into this latter stage, even if he is losing the delegate count.

From April 26th through early June, a handful of large states dot the calendar. Many of these are winner-take-all, likely tipping the balance if the Republican nomination is still up for grabs. The final primary day, June 7th, is the third largest delegate amount (294 bound delegates). The Republican convention in Cleveland begins on July 18th, and the Democratic convention starts a week later on July 25th in Philadelphia.

The Next Two Weeks: What to Expect

Having cleared the first two hurdles, the candidates move onward to close out the February calendar in

South Carolina and Nevada. Most of the polling to date from South Carolina has Trump leading (averaging 30%-plus), followed by Cruz (around 20%), Rubio (12-13%) and Bush (around 10%), though obviously subject to change after New Hampshire and the next debate in South Carolina on February 13th. On the Democratic side, Clinton holds a healthy 30%-plus lead that Sanders will seek to erode with momentum gained in New Hampshire. In Nevada, early polling suggests similar outcomes in both contests, but this cycle has been nothing if not fluid and unpredictable.

Though the presidential race has seemingly gone on forever already, we are still in the infancy of a campaign that will continue to shift, maybe dramatically, in the coming weeks. MSGR Election Outlook will return in two weeks to recap developments in the presidential race, to preview a torrid March schedule, and to continue to examine the defining aspects of the 2016 election.

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