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WASHINGTON POLICY STRATEGY

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Previously, we thought the 2024 presidential race would feature a replay of 2020. A Special Counsel's report, however, calls this view into question. While we expected a Biden versus Trump rematch, we acknowledged a roughly 15%-20% chance that Mr. Biden might drop out. The report paints a devastating picture of Mr. Biden's mental state and, as a result, we increase the odds that Mr. Biden will drop out. We now think there is a 40% chance that someone other than Mr. Biden will be the Democratic nominee. Any decision could be weeks away in order to avoid lame duck status for as long as possible.

SPECIAL COUNSEL REPORT COULD SHAKE UP PRESIDENTIAL RACE

A report from the Special Counsel's Office investigating President Joe Biden's possession of classified documents could shake up the 2024 presidential race. The report concluded that Mr. Biden did not commit chargeable offenses, however, its description of Mr. Biden's mental state was devastating. We believe that this portrayal increases the odds that Mr. Biden will decide that he will not run in 2024. Prior to the report, we thought there was a roughly 15%-20% chance that Biden would change his mind about running. We now think there is a roughly 40% chance Mr. Biden drops out.

According to the Special Counsel's report:

In his interview with our office, Mr. Biden's memory was worse. He did not remember when he was vice president, forgetting on the first day of the interview when his term ended ("if it was 2013 - when did I stop being Vice President?"), and forgetting on the second day of the interview when his term began ("in 2009, am I still Vice President?"). He did not remember, even within several years, when his son Beau died. And his memory appeared hazy when describing the Afghanistan debate that was once so important to him. Among other things, he mistakenly said he "had a real difference" of opinion with General Karl Eikenberry, when, in fact, Eikenberry was an ally whom Mr. Biden cited approvingly in his Thanksgiving memo to President Obama.

We expect this section of the report will prompt Democrats, especially those close to Mr. Biden, to ask him to reconsider his candidacy. Mr. Biden has, in our view, seen himself as Democrats' best chance at beating Donald Trump. The report might change his view.

There is little Democrats can do other than try to persuade Mr. Biden to drop out, and if Mr. Biden insists on running, Democrats are unlikely to replace him. If Mr. Biden remains convinced that he is the best Democratic nominee, he will be his party's presidential candidate. We think, however, the assessment of the President's memory contained in Special Counsel's report increases the chances that Mr. Biden will ultimately change his mind on running.

The filing deadline to appear on the ballot in Democratic primaries has lapsed in at least 80 percent of the states, so it is too late for another candidate to enter the race. It is highly likely that regardless of his decision on running, Mr. Biden will have the clear majority of delegates by the time of the Democratic National Convention in August. If Biden decides to drop out before the convention, his delegates would become uncommitted, and the convention would pick the Democratic nominee. We will leave the discussion of dropping out after the convention for another day.

If Mr. Biden changes his mind on running, we expect he will wait as long as possible to announce his decision – maybe just before the August convention. This would delay becoming a lame duck president for as long as possible. It would also freeze the field. Other Democrats would be restrained from organizing and raising money, which would give Vice President Kamala Harris an advantage, although not an insurmountable one. If Mr. Biden drops out, Democratic governors such as Gavin Newsome (California), Gretchen Whitmer (Michigan), and J.B. Pritzker (Illinois – the host governor for the convention) and Democratic members of Congress will also consider running.

There is no immediate market takeaway from the Special Counsel’s report. There could be repercussions down the road if Mr. Biden changes his mind on running. We would expect an increase in volatility and perhaps a risk off sentiment as investors weigh the political chaos that could ensue. The equity market could take a little longer to react as it evaluates the possible replacement of Mr. Biden as the Democratic nominee and what that means for the outcome of the 2024 election and, ultimately, policy changes in 2025.

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