



BACKLASH



The Counter-Revolutions Driving Politics & Policy

SUMMARY



Politics and policy move in cycles. The pendulum swings from growing government to conservative retrenchment, less regulation to stronger oversight, Democratic leadership to Republican. Momentum is shifting again. **There are four key backlashes to recent trends that businesses and investors must understand and navigate to succeed in 2023-24.**

- **Political Cycle**: After 2 years of Democrats' unified control in Washington (their first since 2010), the **GOP is poised to recapture one or both houses of Congress.**
- **Culture Cycle**: After a decade of advancing environmental & social issues through C-suites when stymied by courts or legislatures, **the ESG movement faces mounting headwinds.**
- **Market Cycle**: **The era of easy money is over**, with rising global inflation forcing the tightest monetary (and potentially fiscal) policy in decades.
- **Technology Cycle**: **Longstanding tech business models are being upended** by rising U.S.-China tensions, the expansion of EU tech regulation and its imitation by U.S. states, regulatory agencies and Congress.

THE COUNTER-REVOLUTIONS DRIVING POLITICS & POLICY

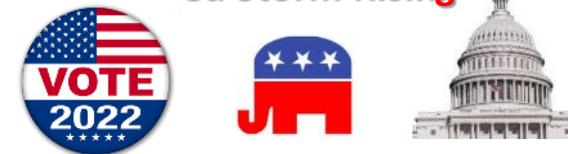
Unified Control



U.S. POLITICS

Slides 4-15

Red Storm Rising



CULTURE

Slides 16-21



Easy Money
GAME

MARKETS

Slides 22-28

INFLATION



TECHNOLOGY

Slides 29-35



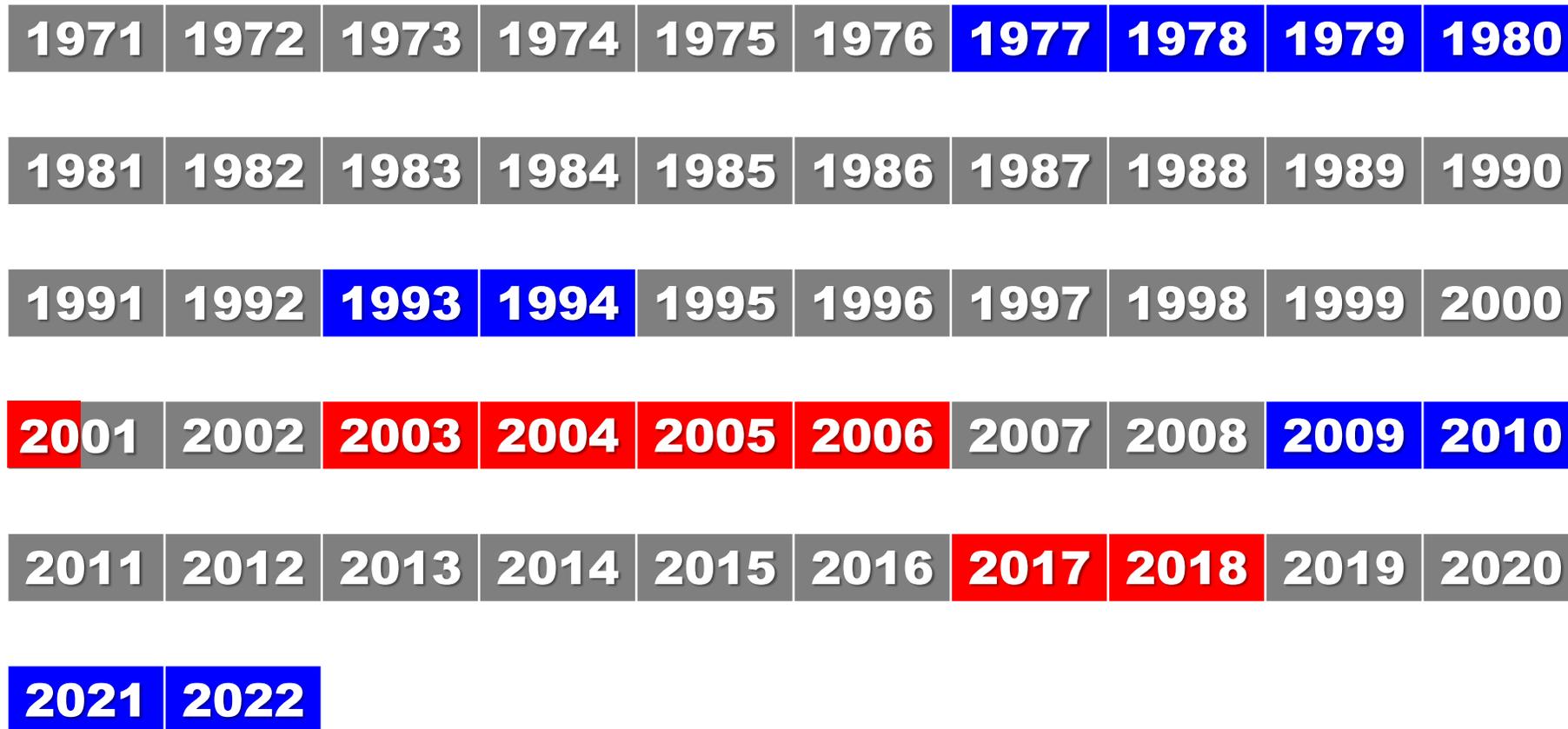
THE U.S. POLITICAL CYCLE

Red Storm Rising



THE PENDULUM ALWAYS SWINGS BACK

Unified One-Party Control* of Washington is Fleeting



* Unified Control = House + Senate + White House

“WAVE INDICATOR” #1: REPUBLICANS MORE EAGER TO RUN

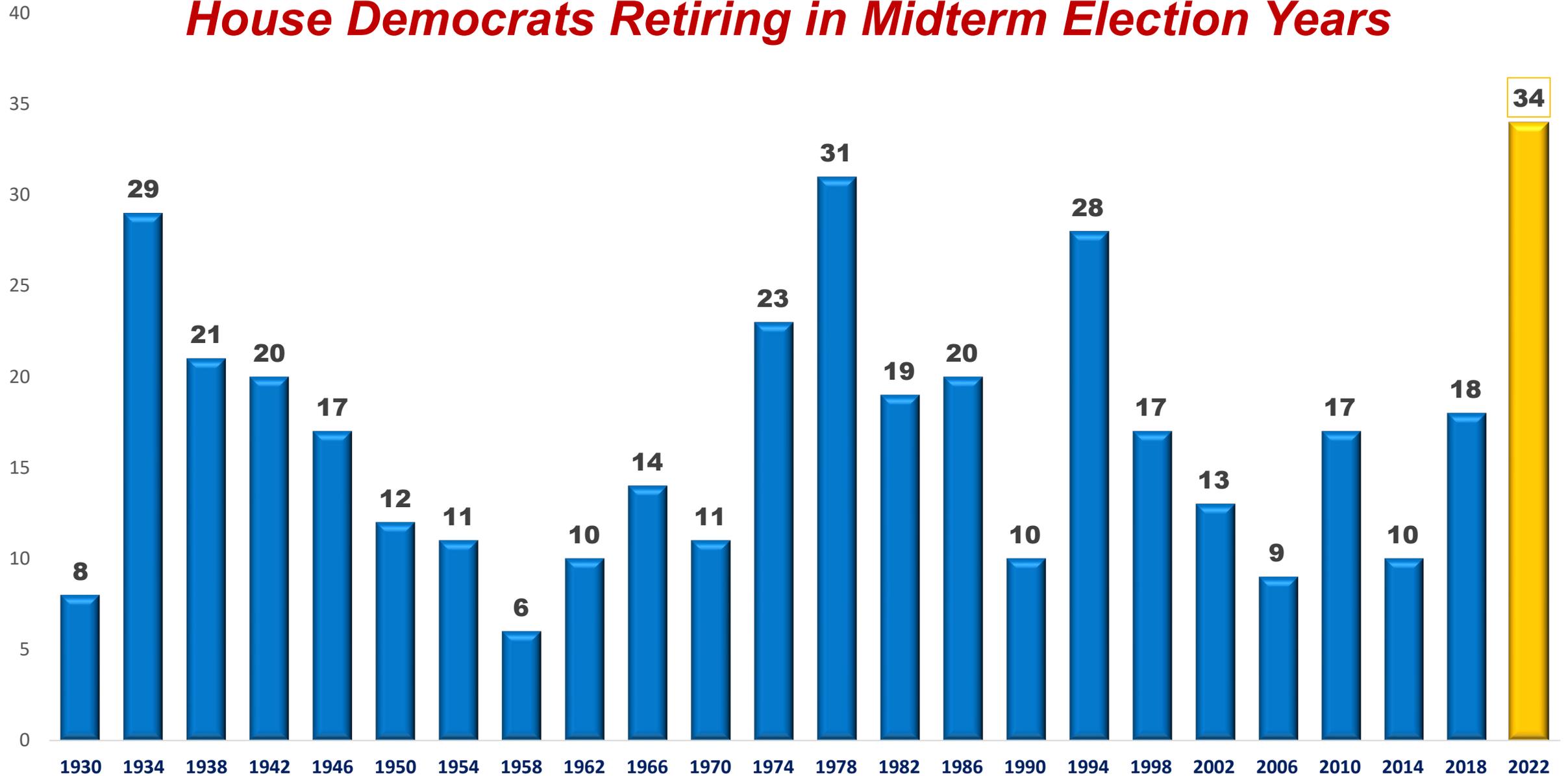


of Candidates Running (FEC)

	GOP	DEM	YEAR	GAP in Number of Candidates running for U.S. House, by Party	OUTCOME
NO WAVE	981	971	1998	10	D+5
	940	901	2002	39	R+8
DEM WAVE	844	948	2006	104	D+31
	1220	1511	2018	291	D+41
GOP WAVE	1224	1104	1994	120	R+54
	1370	909	2010	461	R+63
	1678	1294	2022	384	?

“WAVE INDICATOR” #2: DEMOCRATS MORE EAGER TO QUIT

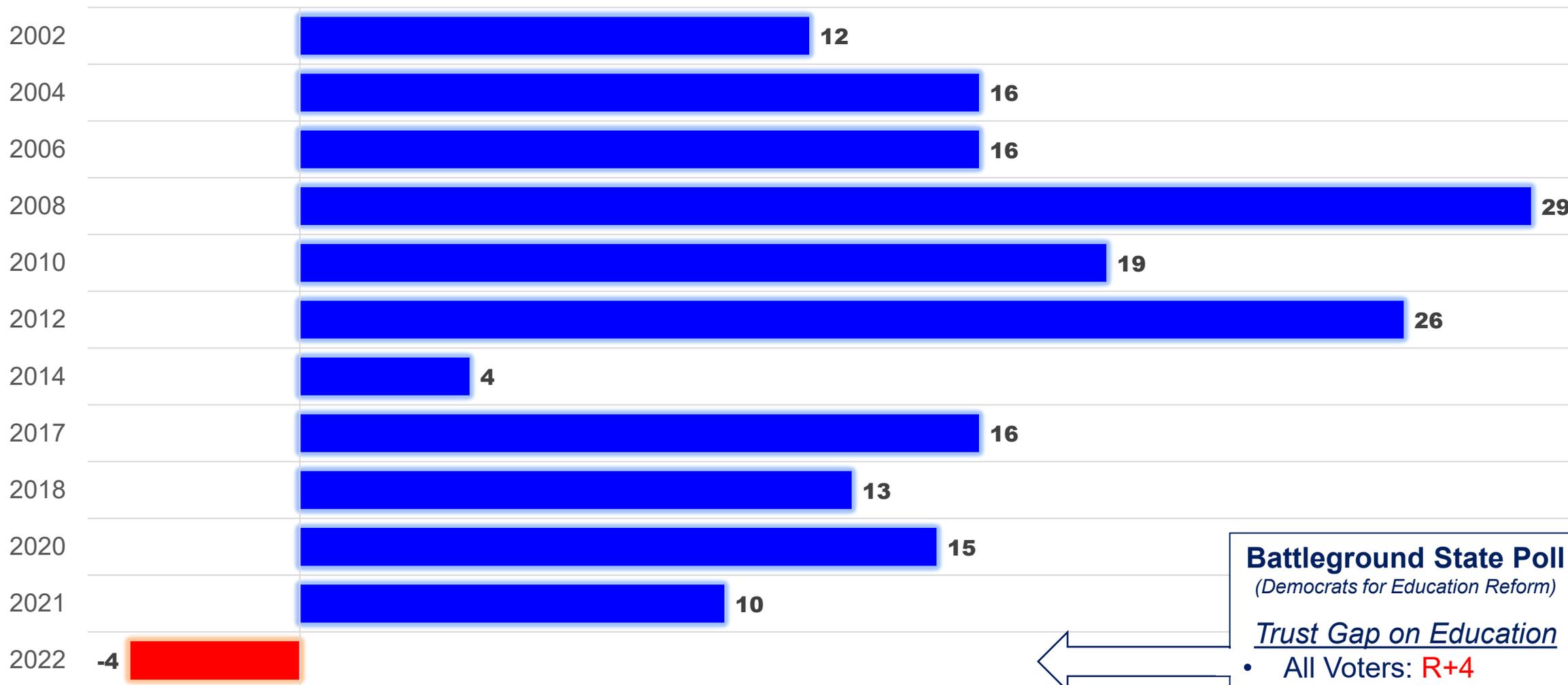
House Democrats Retiring in Midterm Election Years



“WAVE INDICATOR” #3: REPUBLICANS LEAD ON... EDUCATION!!

Democratic Advantage on Education

(Whom do you trust to do a better job?)



Battleground State Poll
(Democrats for Education Reform)

Trust Gap on Education

- All Voters: **R+4**
- Parents: **R+9**
- Voters of color: **R+10**

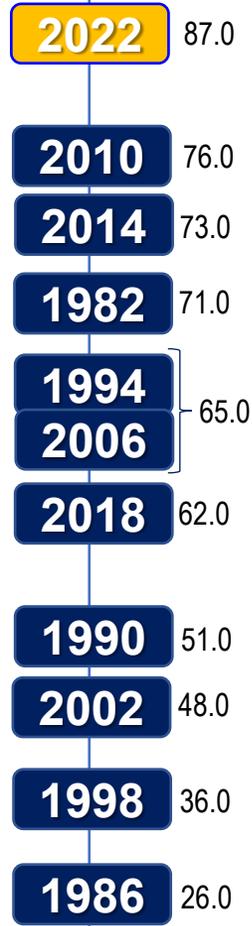
"WAVE INDICATORS" #4-9: HISTORIC GOP TAILWINDS

BIGGER WAVE

Consumer Sentiment



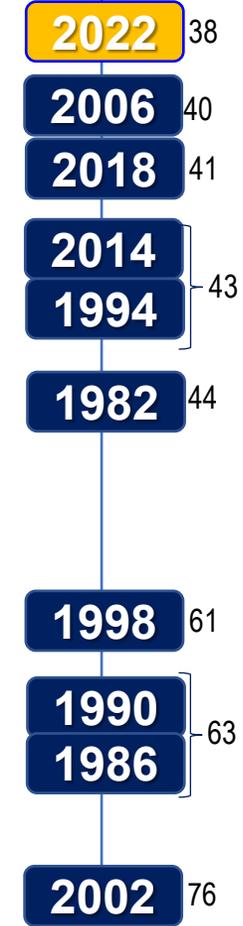
Direction (% Dissatisfied)



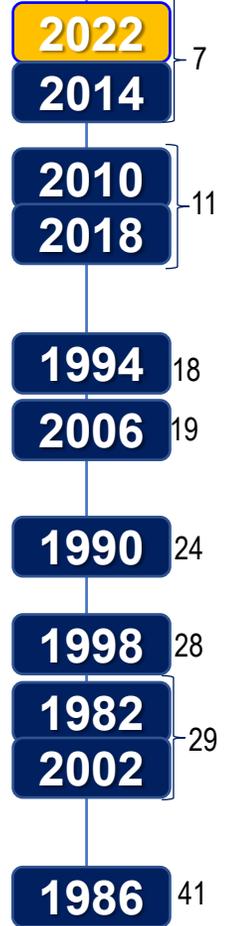
Inflation (June)



POTUS (% Job Approval)



Congress (% Trust)



SMALLER RIPPLE

THE CASE FOR THE GOP: IT'S STILL THE ECONOMY, STUPID

Fastest Pace of Real Hourly Earnings Decline in 40 Years



Worst First Half S&P 500 Returns Since 1970



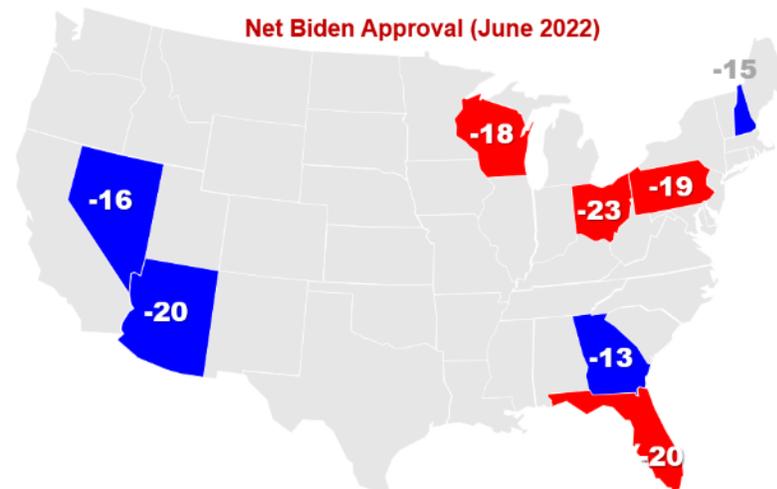
Lowest Consumer Sentiment Index #... Ever (U. Mich, since 1951)



Nearly 9 in 10 Americans say we're on the "Wrong Track"



Biden Under Water in All Key Senate Battlegrounds



Republicans More Eager to Vote in 2022



THE CASE FOR THE DEMS: IT'S RESPONSIBILITY, STUPID

Abortion Fights Rally Dem Base & Sway Swing Voters



On the 2022 ballot in AZ, GA, KS, MI, NC, PA & WI, among others

Source: "Where Abortion Is on the Ballot," [NYT](#), 7/20/22

~2 Job Openings for Every Job-Seeker



'22 Becomes Referendum on Trump '24



Many First-Time GOP Senate Candidates Unseasoned, Gaffe-Prone



MEHLMAN CASTAGNETTI
ROSEN & THOMAS

Jan. 6 Hearings Highlight GOP Leadership Failure



Democratic Senate Candidates Better Funded

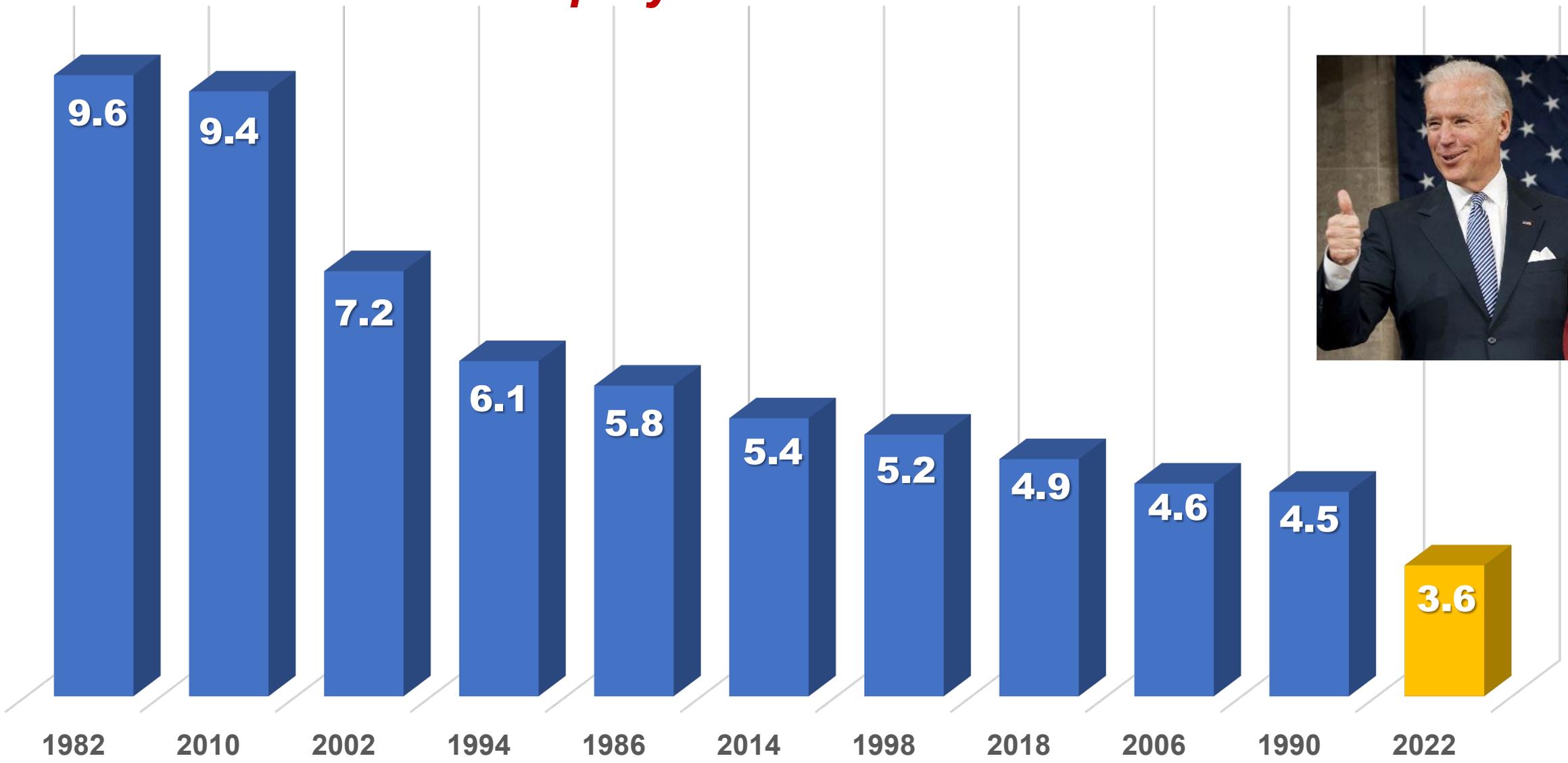
Cash on Hand 6/30/22, Key Races

DEM	STATE	REP
\$24.9M	AZ	\$1.58M <i>(Masters)</i>
\$22.2M	GA	\$6.80M
\$7.37M	NH	\$0.98M <i>(Morse)</i>
\$9.85M	NV	\$2.15M
\$3.57M	OH	\$0.63M
\$5.50M	PA	\$1.13M

Source: FEC

COUNTER-INDICATOR: HISTORICALLY-LOW UNEMPLOYMENT

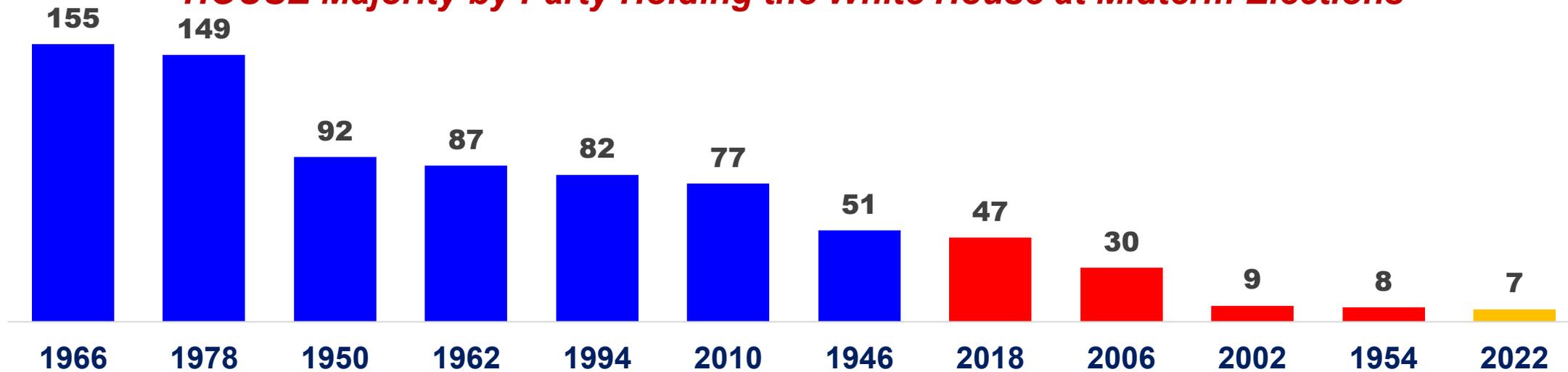
Unemployment June Midterm Year



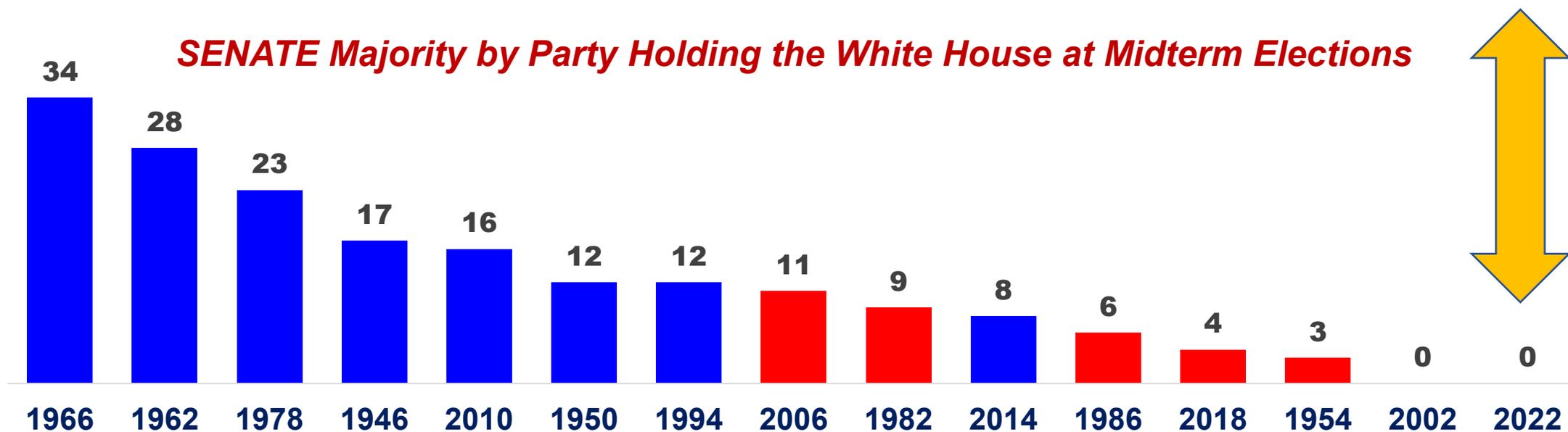
Source: [BLS](#) (lowest in a midterm year since 1948... tied with Nov. 1966 (also 3.6%))

TINY MARGINS OF CONTROL MAKE FLIPS MORE LIKELY

HOUSE Majority by Party Holding the White House at Midterm Elections

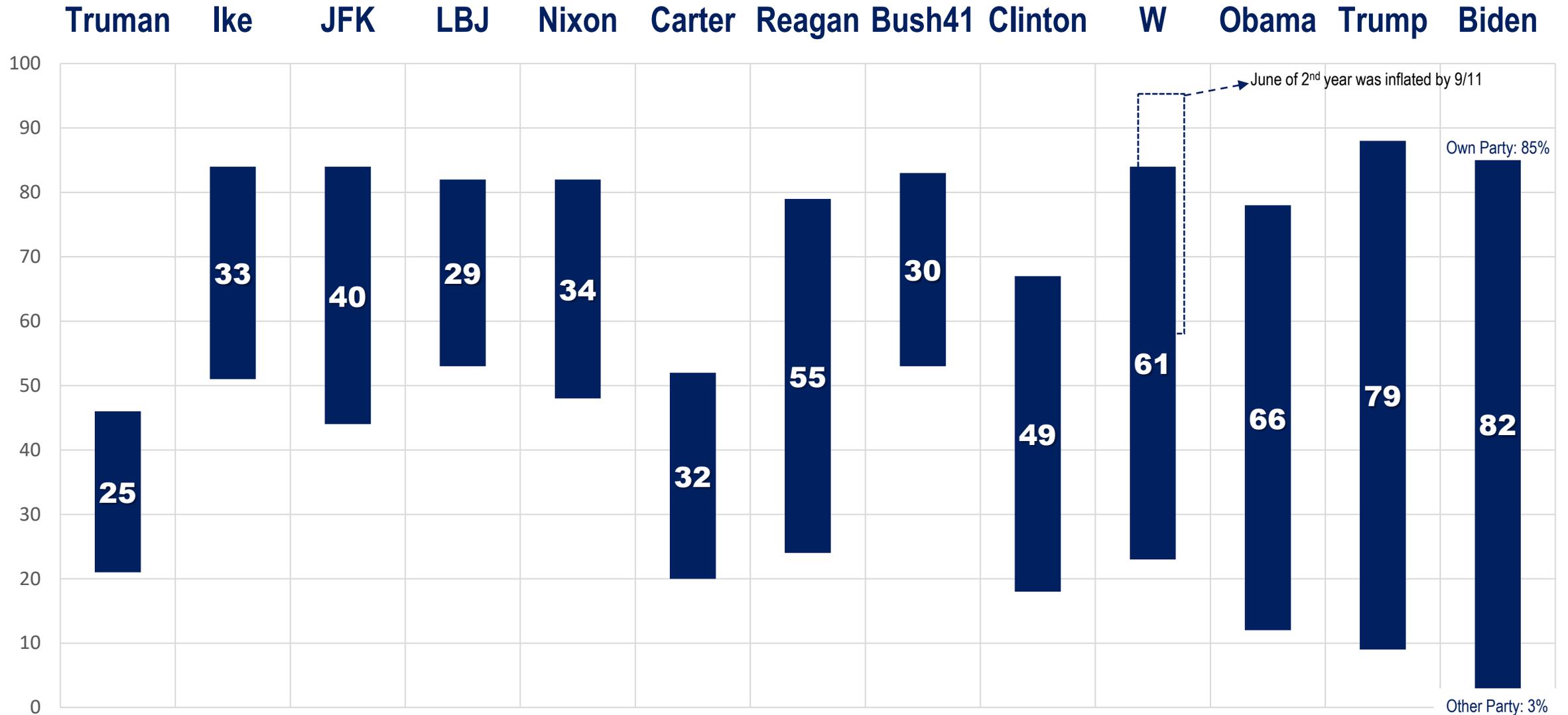


SENATE Majority by Party Holding the White House at Midterm Elections



FEWER "PERSUADABLE VOTERS" IN THE MIDDLE

Approval Gap Keeps Growing *(Own – Other Party, June of 2nd Year*)*



Source: Gallup June of 2nd year except W/Bush 43 where overall avg show solid & June of 2002 in dashed lines)

SO WHAT?... BACKLASH IS BAKED-IN

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



THE CULTURE (WAR) CYCLE



HOW WE GOT HERE: RISE OF ESG

Business Leaders Started Taking Stands on Social & Cultural Issues

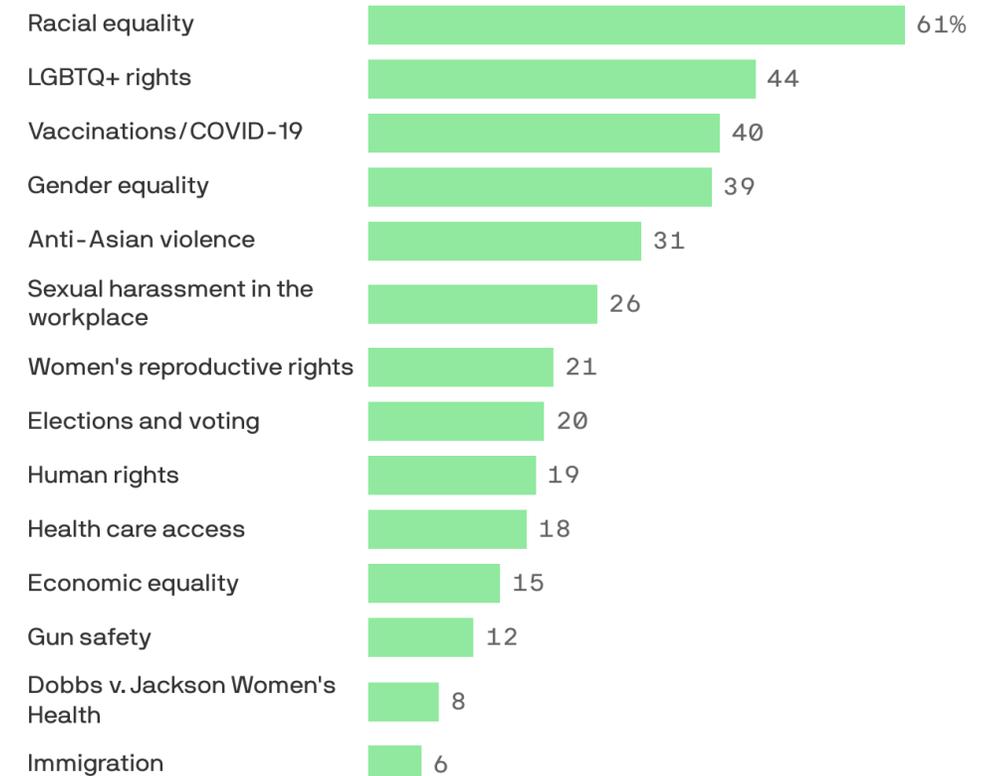


WHY CEOs ENGAGED

- ❑ **Generational:** Younger workers & consumers want employers who “care”
- ❑ **Activist-Driven:** Agents of change leveraging new tools & venues to push brands
- ❑ **Investor-Embraced:** Managers favoring ESG assets & wielding proxy power
- ❑ **Problems Persist:** Same failures animating global populism are pushing business leaders to offer solutions

WHERE COMPANIES ENGAGED

(Share taken a public stance since 2020)

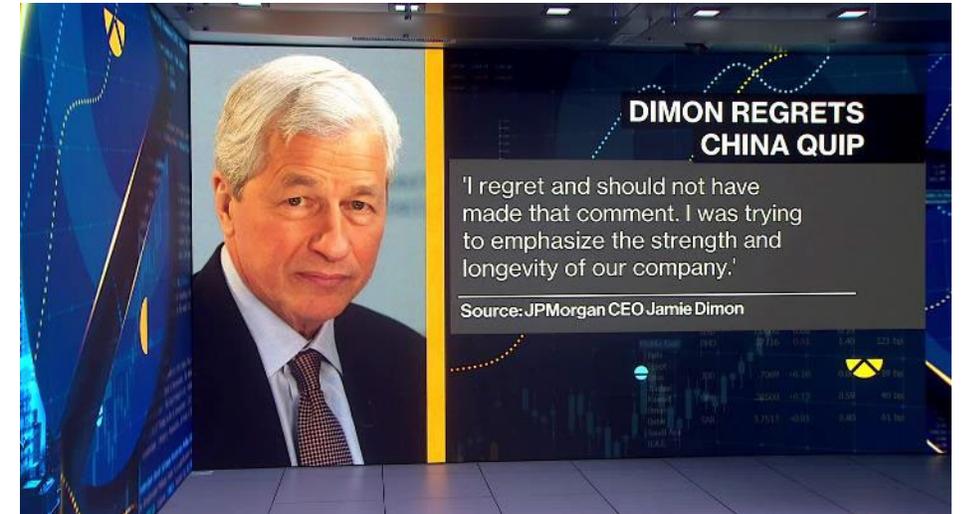


GROWING BACKLASH AGAINST THOSE SPEAKING OUT ON SOCIAL ISSUES

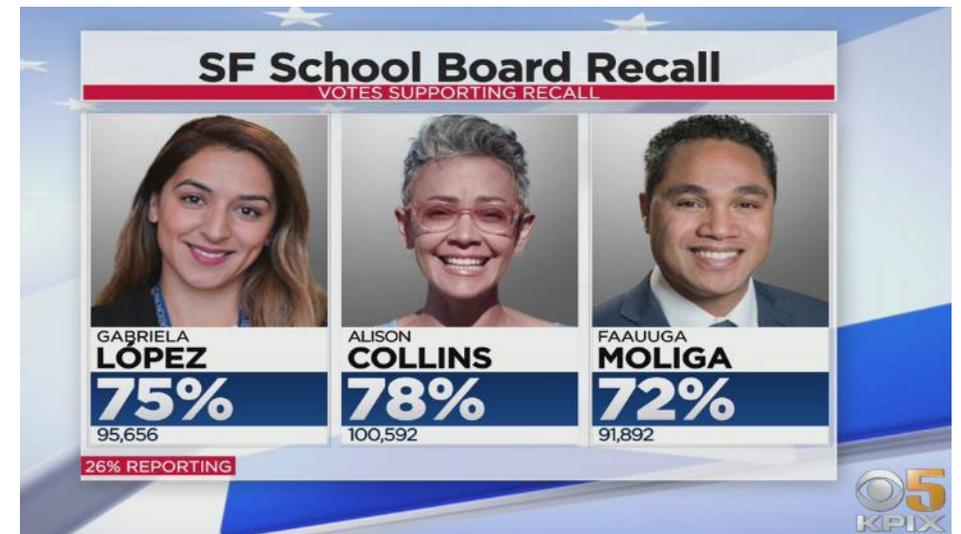
Don't Take a Stand if You Can't Take a Punch



GOP Politicians Are Spoiling to Fight...



... But So Is President Xi & Even SF Voters



WHY ESG MAY GET HARDER

GEOPOLITICS

ENVIRONMENTAL



LEGAL



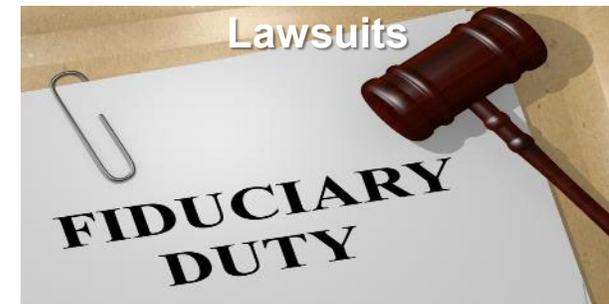
ECONOMICS



SOCIAL



GOVERNANCE



POLITICS

LEGAL

ECONOMICS

UGLY STATE LEGISLATIVE FIGHTS AHEAD

Culture War Battles Facing Businesses in 2022-23



- **New state laws** (ban abortion/ IVF/ birth ctrl/ other) with **liability for “abetting”**
- **Bans on doing business with / lost tax credits** in states
- **Law enforcement subpoenas** / demands for data, internal communications
- *Issue may be unavoidable... every co has health benefits & data privacy policies*



- **State bans on teaching gender identity** issues in schools
- **State bans on medical interventions for trans** minors
- **State bans on diversity training** based on race or LGBTQ
- SCOTUS may **upend affirmative action** in 2023 (SFA v Harvard)



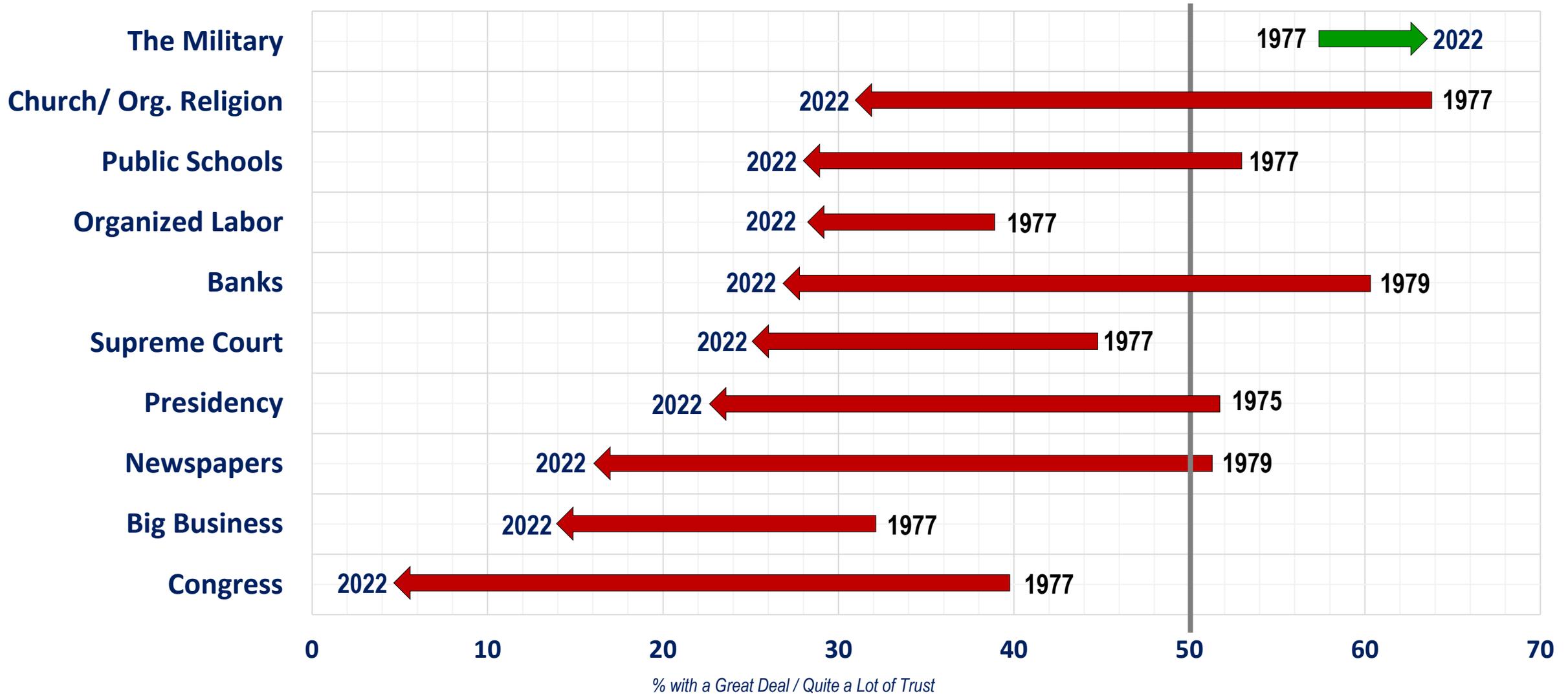
- State bans on **investing state \$\$ in ESG** funds
- **Lawsuits** / laws claiming ESG practices violate fiduciary duties
- Federal & state efforts to limit or **disallow proxy voting of shares** by fund managers



- State **anti-discrimination laws** (eg SB13) extended to gun industry
- States updating gun control laws post-Bruen decision

SO WHAT?... CULTURE WARS WILL FURTHER ERODE TRUST

Voters with a Great Deal / Quite a Lot of TRUST (1977 → 2022)



% with a Great Deal / Quite a Lot of Trust

MEHLMAN CASTAGNETTI
ROSEN & THOMAS

THE MARKET CYCLE

The Era of Easy Money is Over



The Extraordinary Economics of 2020-2021

40.6%

**U.S. Money
Supply (M2)
2020-2021**

Monetary
Policy

56.3%

**U.S. Federal
Spending
(2020-21 vs 2018-19)**

Fiscal
Policy

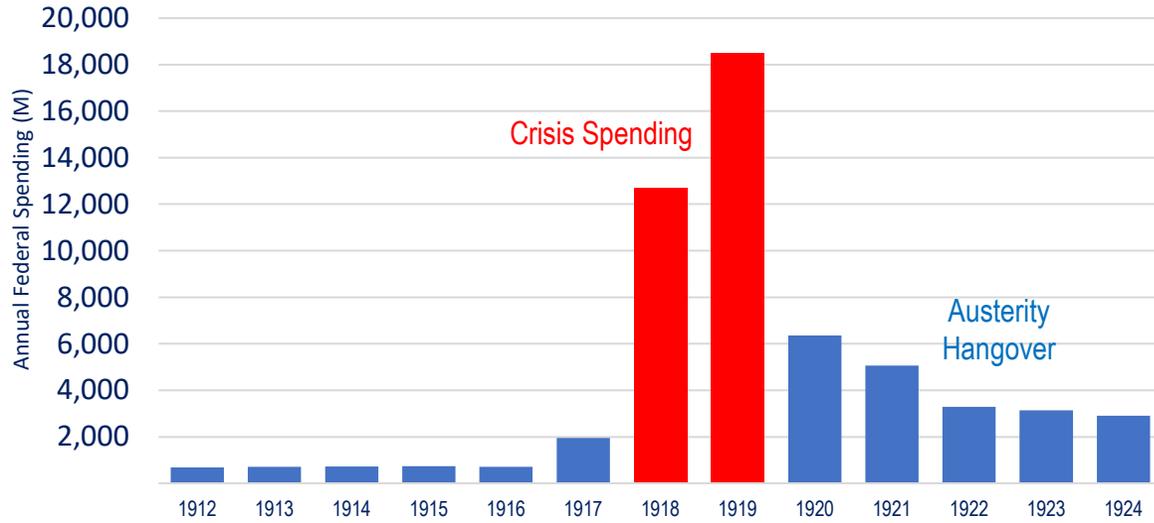
47.3%

**S&P 500
2020-2021**

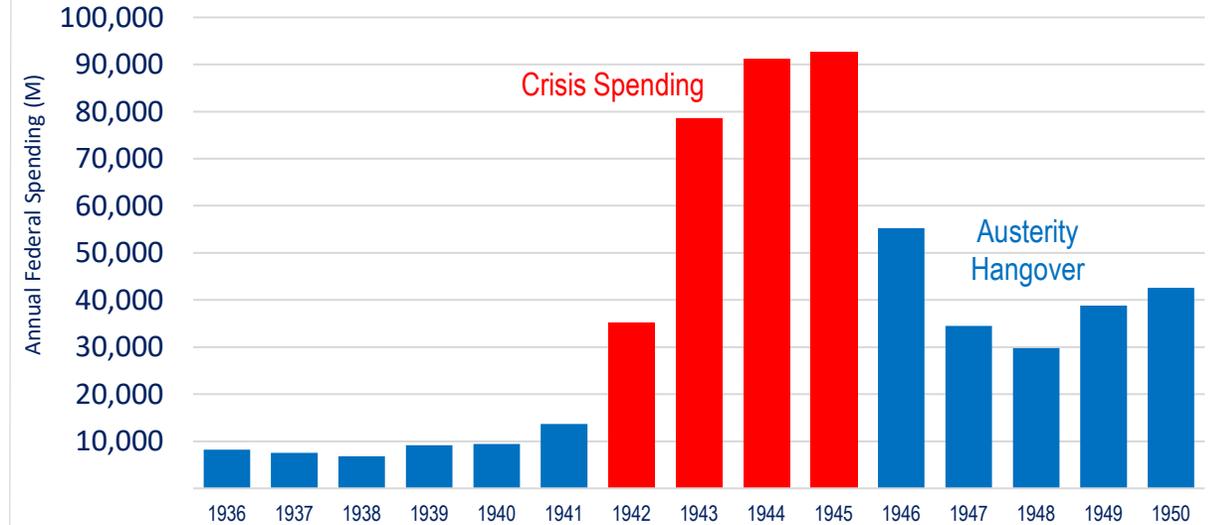
Market
Mania

FISCAL BACKLASH: AUSTERITY HANGOVERS FOLLOW CRISIS SPENDING

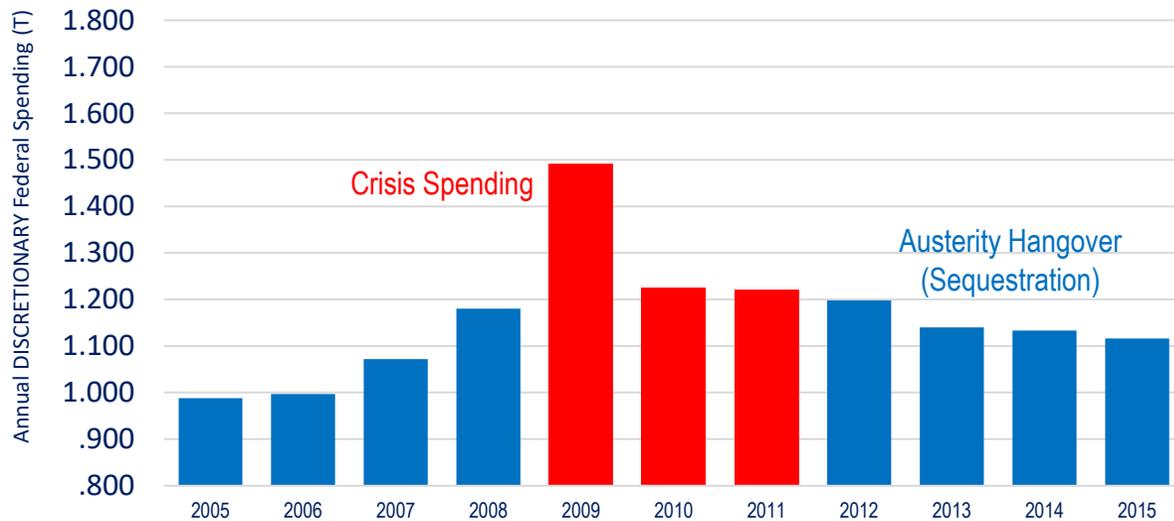
WWI & Spanish Flu



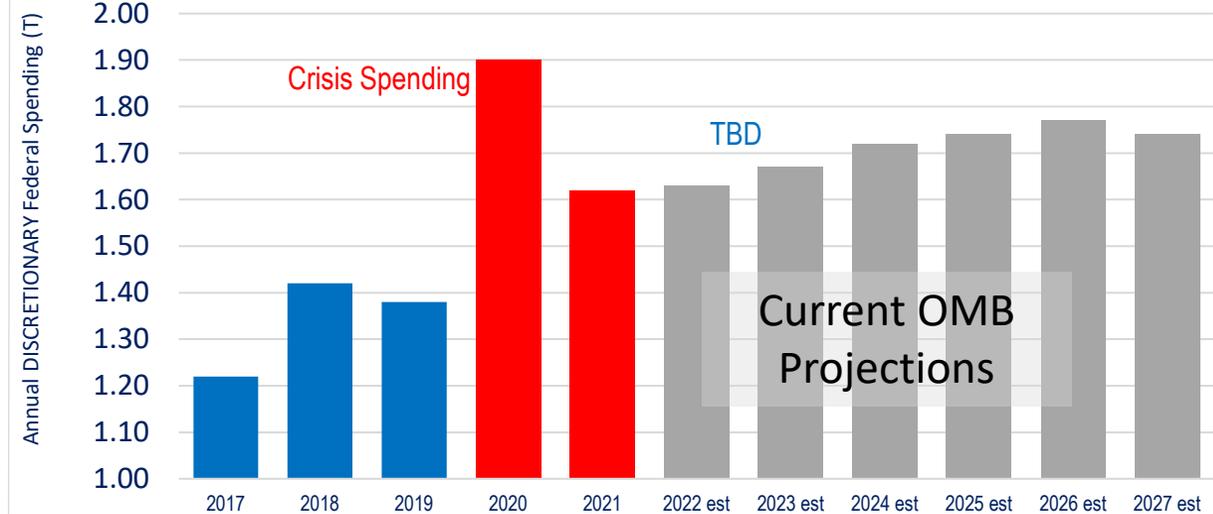
World War II



Global Financial Crisis



COVID Pandemic

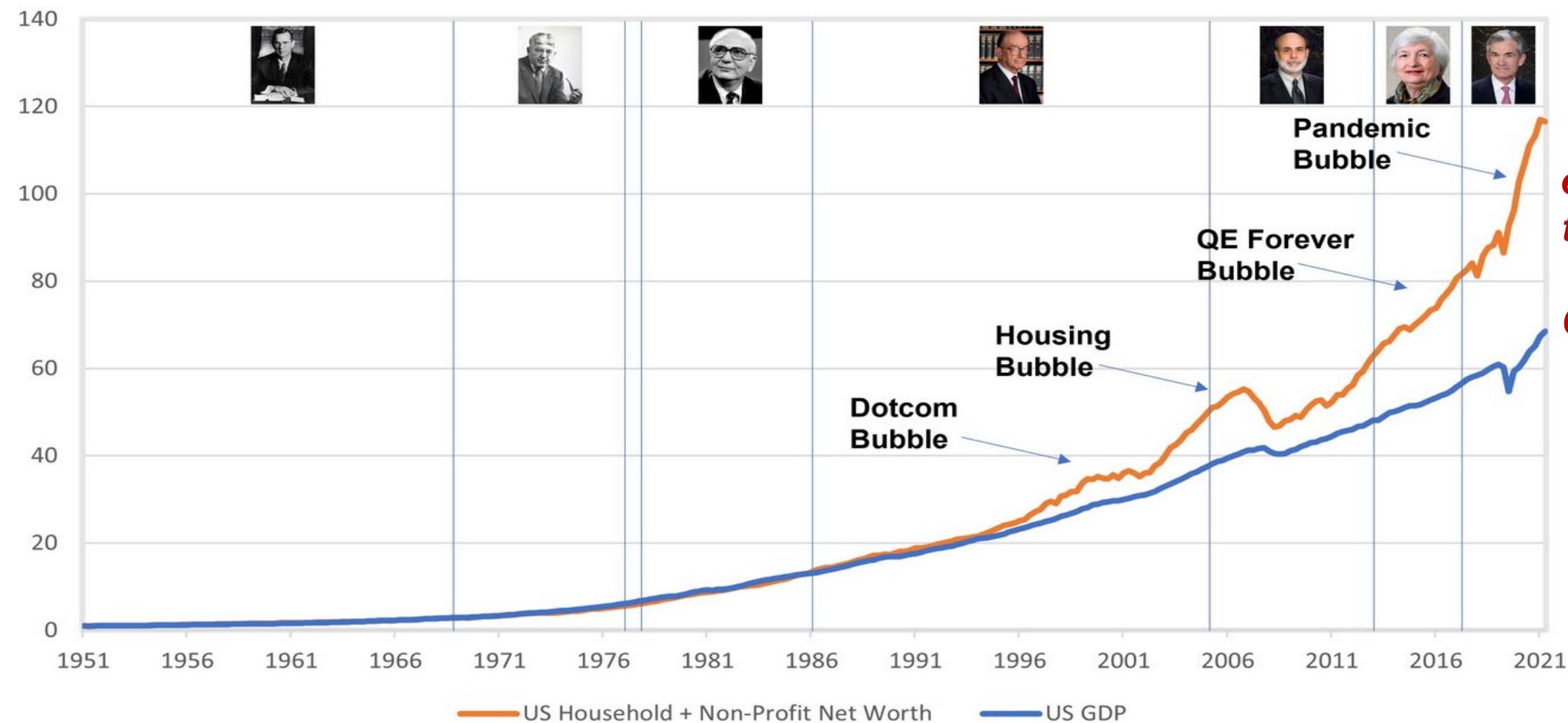


MONETARY BACKLASH: END TO FED-FUELED ASSET BUBBLES LIKELY

US Wealth Growth vs. US GDP Growth

Oct. 1951 - Jan. 2022

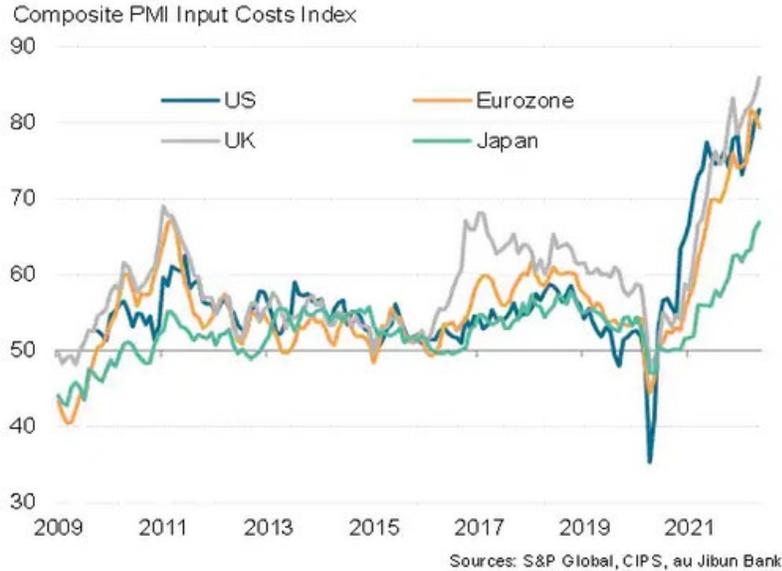
Nominal USD, Oct. 1951 = 1



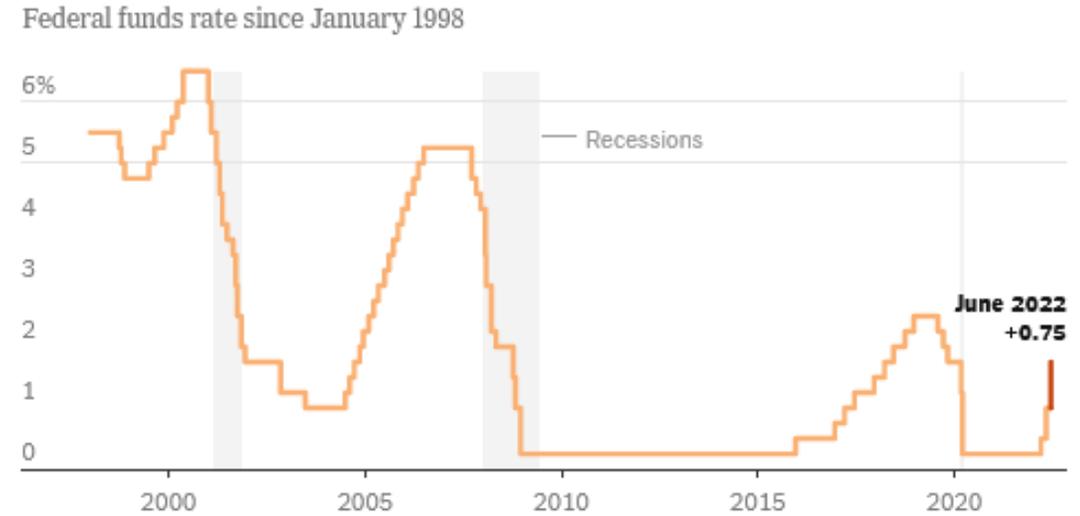
“We need a wealth-destruction event equivalent to the 2008-2009 Great Financial Crisis just to get the ratio of wealth to GDP back to pre-pandemic levels.”
-Ben Hunt

INFLATIONARY BACKLASH: RISING COSTS MAY BE THE NEW NORMAL

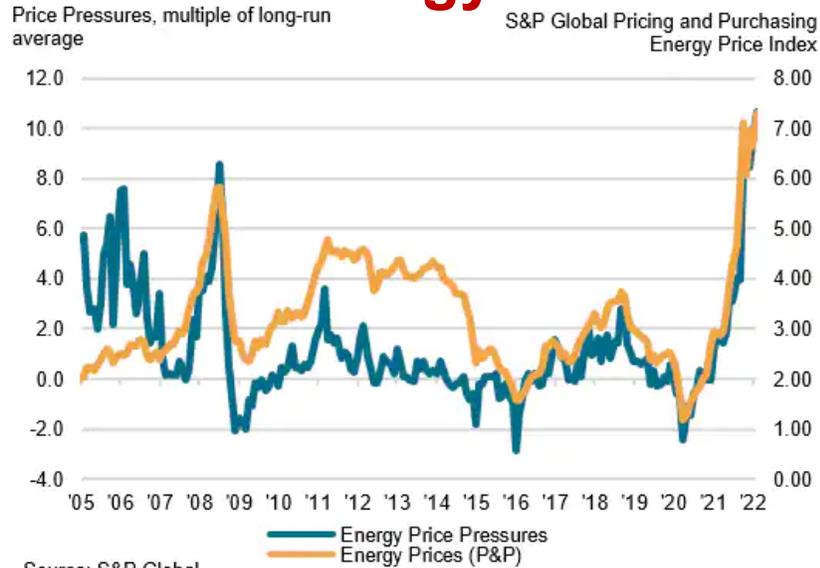
Cost of Inputs: RISING



Cost of Capital: RISING



Cost of Energy: RISING

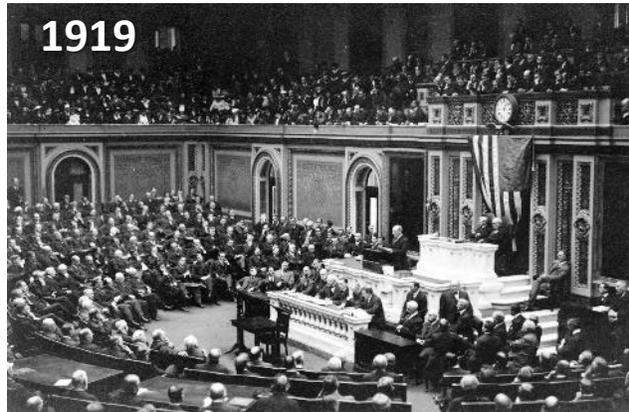


Cost of Compliance: RISING



POLITICAL BACKLASH: COMING FIGHTS OVER SPENDING & TAX CUTS

Last 4 Times GOP Captured Congress During a Dem Presidency...



1919

66th Congress vs. President Wilson

Congress established a GAO Comptroller who couldn't be removed by the President (Wilson vetoed); Passed five tax cuts from 1921-1928.



1947

80th Congress vs. President Truman

Congress demanded big cuts (8%-12%) to Truman's budget; passed tax cuts over Truman's 3rd veto.



1995

104th+ Congress vs. President Clinton

Government shutdowns in 1995 & 1996; Balanced Budget Act of 1997; Tax cuts in 1995 & 1997.



2011

112th+ Congress vs. President Obama

Budget Control Act of 2011 created the "Supercommittee" & Sequester cuts; Shutdown in 2013; made most "Bush Tax cuts" permanent in 2013.

**The Debt Ceiling returns in 2023
Trump individual tax cuts expire in 2025**

SO WHAT?... TIGHT MONEY HAS A LONG TAIL

SHIFTING POWER & PRIORITIES

Funders > Founders

Profitability > Scale

M&A > Zombification

Debt Service > Buybacks

Salaries > Stock Options

Value Investing > Growth

LESS \$\$\$ AVAILABLE FOR OTHER CRISES



Long COVID: ~15M Americans could have long Covid, potentially costing the economy more than \$2.6T.



Learning Loss: By 2040 education lost to school closures could reduce global GDP by 0.9% (\$1.6T).



Food Insecurity: 1.92B people globally will face food insecurity by November 2022.



Energy Transition: Coal consumption up 12% in the EU & 17% in the U.S. in 2021, with more increases in 2022.

THE TECH CYCLE

Global, National & Local Techlash, Accelerated by Geopolitics

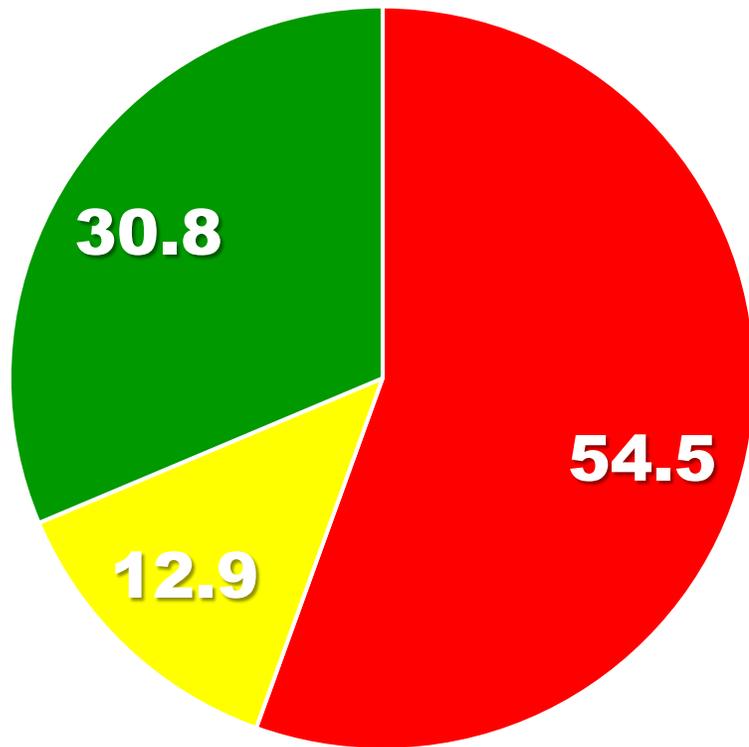


HOW WE GOT HERE #1: SUPPLY CHAIN DEPENDENCIES GREW EXISTENTIAL

Energy

Majority of fossil fuels produced in non-free nations *(Per Freedom House's Rankings)*

■ Not Free ■ Partially Free ■ Free



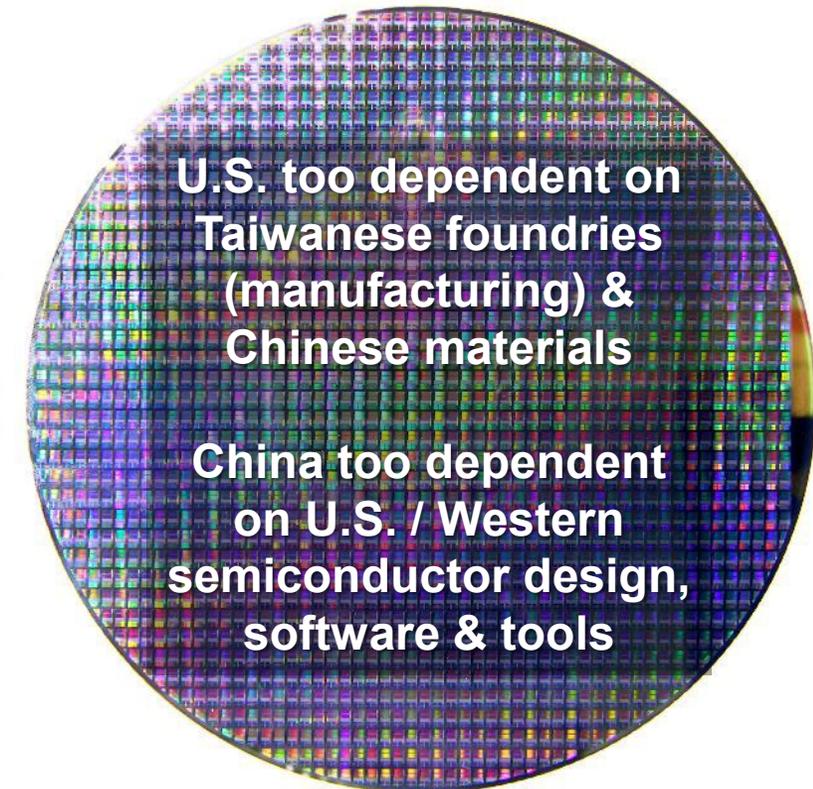
Critical Minerals

U.S. dangerously-dependent on imports

MINERAL	% US Import
Cesium	100%
Fluorspar	100%
Gallium	100%
Graphite	100%
Manganese	100%
Rare Earths	100%
Tantalum	100%
Titanium	91%
Tellurium	75%
Cobalt	72%
Germanium	50%
Lithium	50%

Semiconductors

Global supply chains leave both East & West dependent & vulnerable

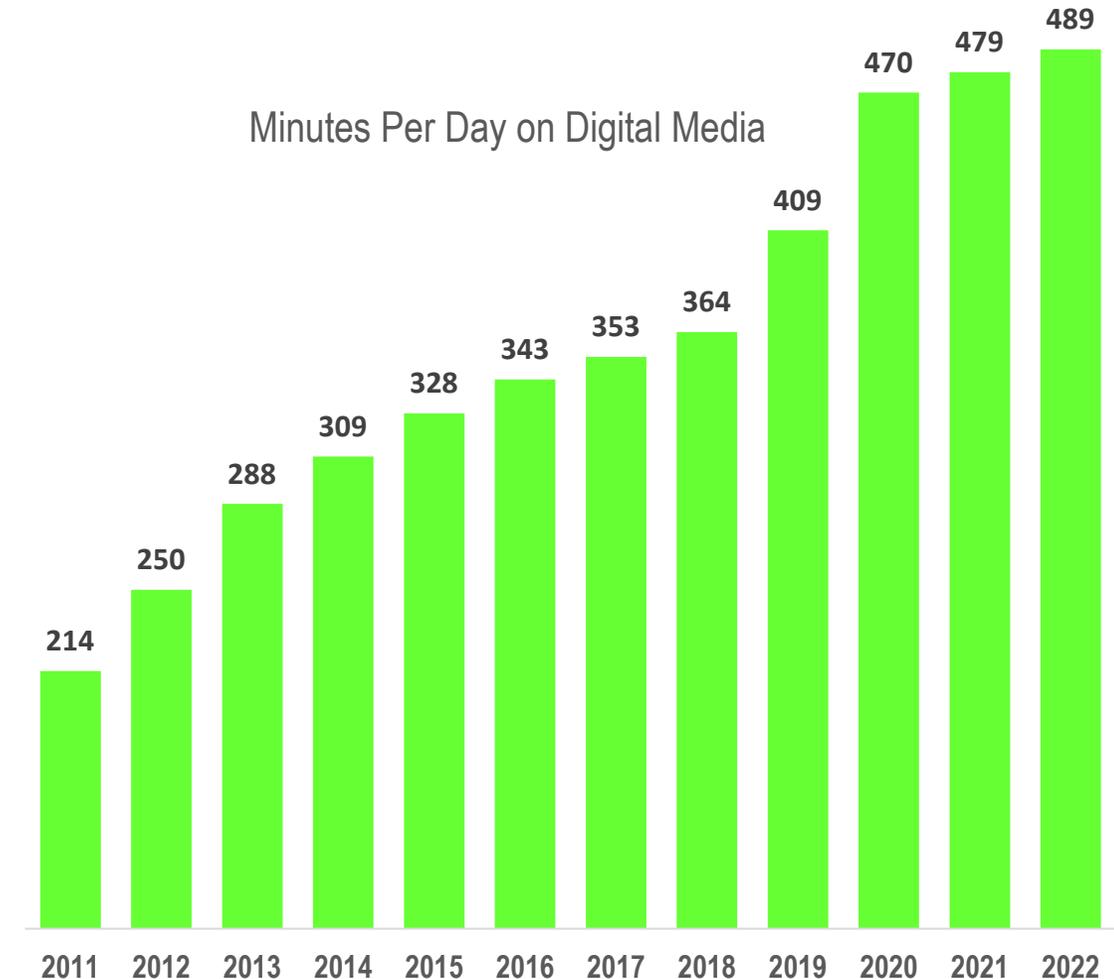


HOW WE GOT HERE #2: SOFTWARE ATE THE WORLD

Tech Companies Dominated Markets

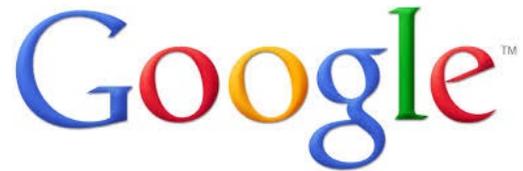
2007 Market Cap Leaders	2022 Market Cap Leaders
Exxon	Apple
GE	Saudi Aramco
Total S.A.	Microsoft
Microsoft	Google
R.D. Shell	Amazon
PetroChina	Tesla
AT&T	Berkshire Hthwy
Citigroup	United Health
BP	Meta
Bank of America	J&J
China Mobile	Visa
Toyota	TSMC
Walmart	NVIDIA
P&G	Tencent

Tech Products Dominated Our Lives

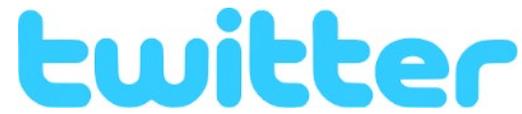


GLOBAL TECHLASH: DOMINANT PLATFORMS UNDER FIRE

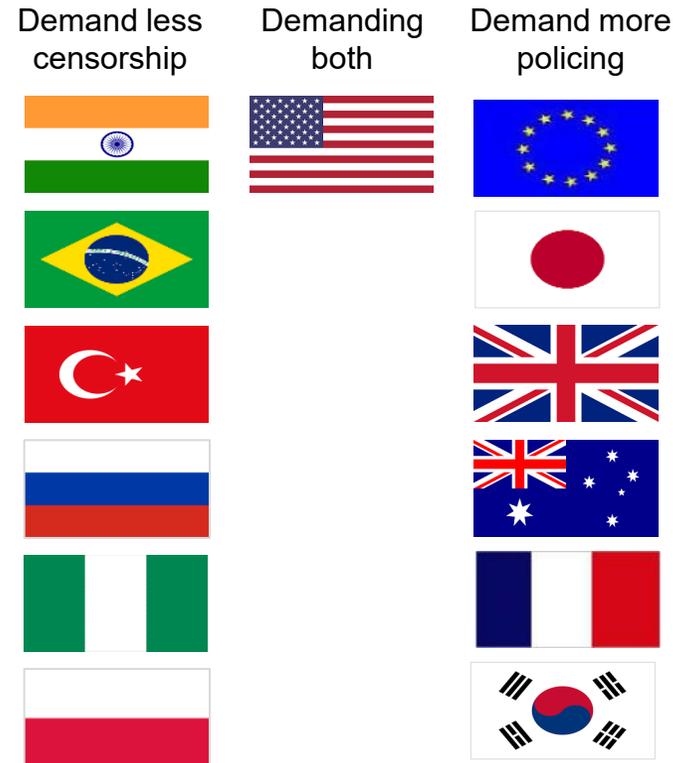
(Some of the) Nations Pursuing “Big Tech”



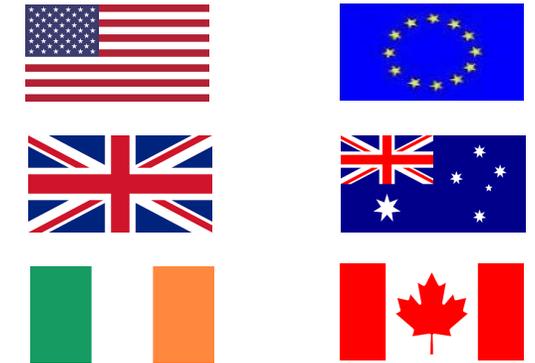
Antitrust Actions



Content Controversies



Privacy Proceedings



NATIONAL TECHLASH: U.S. POLICYMAKERS WILL BE AGGRESSIVE IN 2023

Consumer Protection



Crypto Regulation



Protecting Children



Competition Policy



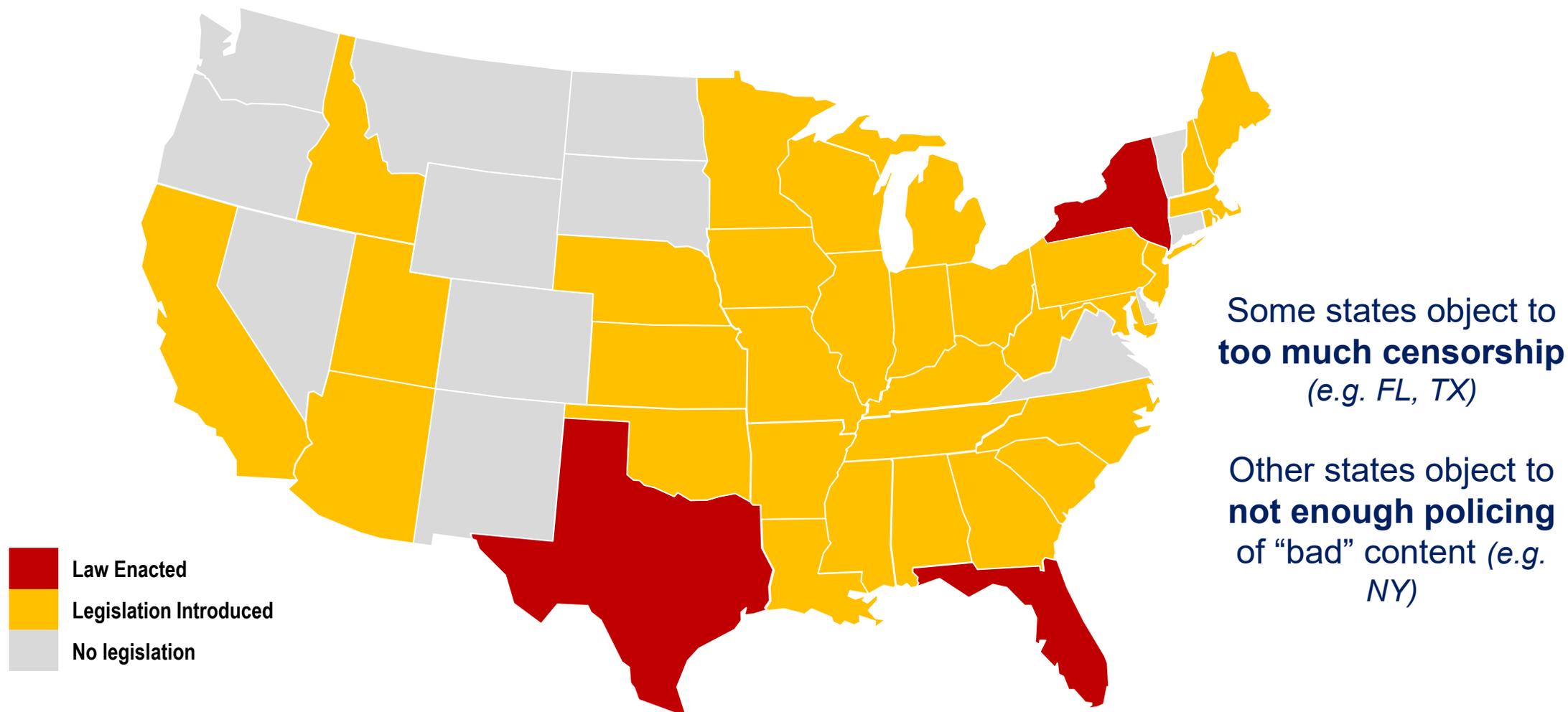
National Security



Social Compact



Bills Aimed at Tech Platforms' Content Moderation in 34 States



SO WHAT?... TECH COMPANIES FACE HISTORIC POLICY RISKS, QUESTIONS



- Will new EU regulations change tech products globally or lead to regional offerings?



- Will aggressive actions expected from FTC, SEC & CFPB survive judicial scrutiny?



- Will new merger review standards undermine startups or undo prior deals?



- Will increasing transparency, investment & export restrictions hurt U.S. or China more?



- Will increasingly-conflicting state laws around privacy, content & benefits be navigable?



- How will GOP hostility to “big tech” impact existing bipartisan bills & amp-up oversight next Congress?

LESSONS & RECOMMENDATIONS

How To Navigate an Age of Disruption

#1. STAY ENGAGED: CONGRESS IS MORE PRODUCTIVE THAN YOU THINK

Reports of the Death of Bipartisanship are ~~Greatly~~ Somewhat Exaggerated

HOUSE VOTE	SELECTED LEGISLATION IN 117 th CONGRESS	SENATE VOTE
221-201	INFRASTRUCTURE: II&JA	69-30
243-193	GUNS: BSCA	65-33
363-70	DEFENSE: FY '22 NDAA	88-11
342-92	POSTAL REFORM: PSRA	79-19
369-40	CIVIL RIGHTS: Anti-lynching law	Unanimous
243-187	CHINA: Chips & Science Act	64-33
267-157	CIVIL RIGHTS: Respect for Marriage Act	<i>tbd</i>
<i>tbd</i>	ELECTIONS: Electoral Count Act Reform	<i>tbd</i>

#2. THINK LONG-TERM: BROADER TRENDS OUTLAST BACKLASHES



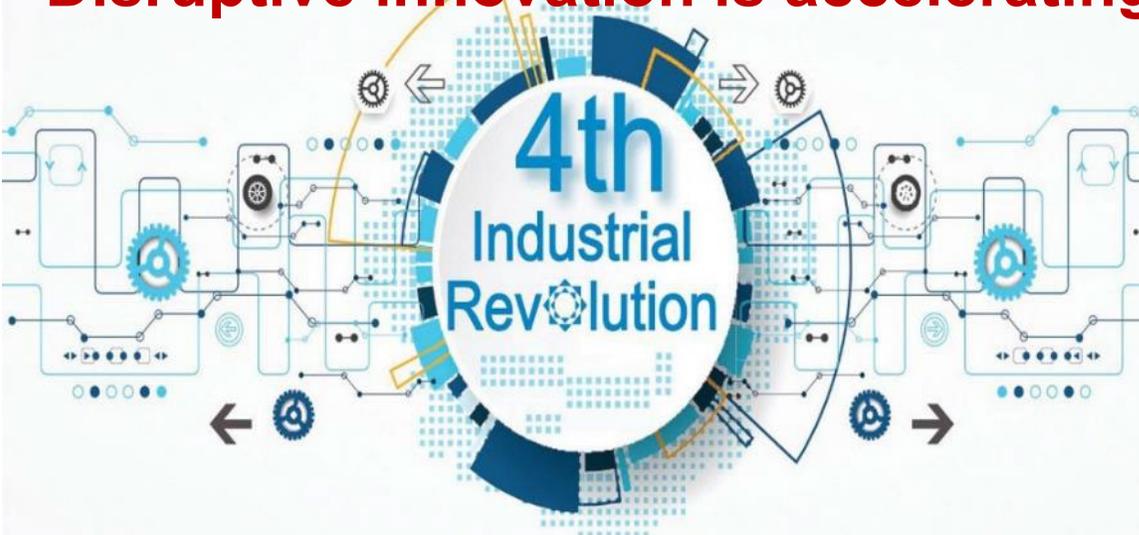
U.S.-China competition is growing



new world order loading...



Disruptive innovation is accelerating



#3. LEARN & IMPROVE: LESSONS FROM DISNEY vs. DESANTIS

1. Under-prepared: New **CEO & key deputy had minimal experience** in these issues; less credibility with internal stakeholders than predecessors (iconic Iger)
2. Failed to Move Collectively: **Missed opportunity** to weigh-in respectfully with others in industry-wide letter
3. Impersonal Explanation: Sent **internal company-wide email** justifying not weighing-in (vs direct discussions with key employee leaders)
4. Over-Corrected: Internal backlash led to **over-reaction, acting alone & loudly**, raising stakes & making it personal
5. Stakeholder Engagement Miss: Seemingly **no back-channel discussions** with critical player clearly eager to fight (and make news)
6. Misjudged Risk & Leverage: **Overestimated its power & under-appreciated its vulnerability**... can't move Disney World!
7. Picked Wrong Hill to Die On: **Fought popular legislation** (70% support for bill incl. 55% Dem voters in FL)
8. Focused on Words > Actions: Disney engaged in the broader battle on early-education policy rather than what it was doing for internal stakeholders (a lot!)



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<https://bit.ly/Mehlman-Infographics>

MEHLMAN CASTAGNETTI
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