

President Trump's positive COVID-19 test shakes up election, markets



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President Trump announced in a tweet shortly before 1:00 a.m. on Friday October 2nd that he and the First Lady of the United States (FLOTUS) tested positive for COVID-19. We look at the potential repercussions from this dramatic news in this Q&A.

What does this mean in the near term?

A central issue is how severely Trump is affected by the virus. Medical experts say the 10- to 14-day period following a positive COVID-19 test is the most critical. We should know within 10 days whether he is incapacitated. A mild case would have less impact on the election and markets.

Joe Biden and his wife reported testing negative for the virus on October 2.

Trump will halt live campaign rallies for the next 14 days. He may choose to hold virtual rallies based on the state of his health. There are doubts as to whether the second presidential debates will take place on October 15th. Next on the schedule is the vice presidential debate on October 7th and the third and final presidential debate is planned for October 22nd. This elevates COVID-19 as the most important issue in the campaign. **Most polls have COVID-19 in the top 5 of the most important issues, but this will likely push it to the top.**

The Horse Race: Does this change the dynamics of the race?

Given that Trump has been skeptical over COVID-19 and even mocked Biden for always wearing a mask at the Tuesday debate, we believe any "sympathy bump" will fade quickly. Public approval of Trump's handling of COVID-19 was at 42.5% approval and 56.2% disapproval (RealClearPolitics, as of October 2, 2020).

Polls show Americans believe that Biden would do a better job handling the response to COVID-19 than Trump by 55%-39% (Quinnipiac poll taken on September 17, 2020). The pool of undecided voters is just under 5% and unlikely to be moved by the President's illness.

Overall, following the raucous first debate, two national polls taken after the debate reveal a movement towards Biden, with a YouGov poll showing Biden leading Trump by 8% (+1% from prior poll) and a CNBC poll showing Biden leading Trump by 13% (+4% from prior poll).

What happens if Trump is temporarily incapacitated?

If Trump is unable to discharge his duties, Section 3 of the 25th Amendment to the Constitution temporarily hands over power to the Vice President Mike Pence. This Amendment was last invoked by President George W. Bush twice in 2002 and 2007 when he underwent a minor medical procedure that required general anesthesia. The line of succession is clear in the Constitution. If Vice President Pence were incapacitated for whatever reason, next in line to be acting President would be Speaker Nancy Pelosi, then President pro tempore of the Senate Chuck Grassley.

What happens if Trump dies or suddenly resigns before Election Day?

The Republican National Committee (RNC) will choose a replacement and that would most likely be Vice President Pence. The RNC will then find a replacement candidate for vice president and some of those front-runners are former UN Ambassador Nikki Haley, Secretary of State Mike Pompeo, or Arkansas Senator Tom Cotton. This scenario has the potential to tighten the race dramatically to a 50/50 contest.

What happens if Biden tests positive and is unable or unwilling to run before Election Day?

The Democratic National Committee (DNC) will select a new candidate for president and vice president. It is most likely to choose Kamala Harris as the presidential candidate since she has already been vetted and voted on by delegates from last summer's convention.

She would probably have a big say on who her running mate should be. She would most likely look to balance the ticket by choosing a white male with strong national security credentials.

Can the election be delayed?

No. Federal law sets the election and changing the date would require legislation from Congress. The House of Representatives simply needs a majority vote, while the Senate would need 60 votes – a tall order.

What are the market implications?

Financial markets dislike uncertainty, so Trump's health situation is likely to cause some volatility in the next 14 days and perhaps beyond. In the case that the markets enter a deep period of volatility or a bear market, the odds of a fiscal stimulus will rise dramatically. This should help settle markets. In addition, we would anticipate the Fed to step in with more asset purchases and a more formalized forward guidance to help anchor long-term interest rates should it need it.

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Definitions

- **Volatility:** A statistical measure of the dispersion of returns for a given security or market index. Usually, the higher the volatility, the riskier the security/market.

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