

## U.S. Municipal Bond Market

# The Republican Convention, Position of Strength Since Executive Actions, and What This Could Mean for State and Local Government Relief

### Republican National Convention

The Republican National Convention is now underway in Charlotte, N.C. We are not expecting any surprises as far as the final outcome this week, as Republican delegates are anticipated to re-nominate President Donald Trump and Vice President Mike Pence. The content along the way is another story. It will be interesting to see the general theme during the convention and observe if Republicans can rally behind a coherent political message. There are numerous questions that exist still, most notably whether the general polling that shows former Vice President Biden still ahead by about 10 points really matters, how the Republicans plan to battle COVID-19 and the stumbling economy, and whether state and local government fiscal relief is on its way.

The Republicans could be happy about the fact that candidate Biden did not pick up ground in the polls following last week's Democratic convention. Although the Democrats' virtual convention seemed to operate without error, it also did not provide much, if any, boost in the polls. Former President Barack Obama and former First Lady Michelle Obama received praise for their speeches, but otherwise not much else occurred during the convention to change opinions one way or the other.

A new poll puts Biden still in front of Trump by a 52% to 42% margin among likely voters.<sup>1</sup> Let's examine why this lead is likely not as powerful as it initially seems and also consider why the stalemate in relief talks are likely to continue.

### Polling Much Closer in Battleground States

One of the most important parts of the 2016 election was President Trump's attention to and performance in the key battleground states. The president was outvoted in the national popular vote, as former Secretary of State/ Senator Hillary Clinton earned three million more votes than President Trump, but the Trump campaign strategically won the battleground states required to pull out an electoral college victory. Republicans could come away with wins in key battleground states again in 2020. Among polling in the battleground states Biden is only edging out Trump 49% to 48%.<sup>2</sup> This could prove to be an important differentiator in November.

### Trump Better at Dealing with the Economy

Better Dealing With the Economy		
Donald Trump	Republican	48%
Joe Biden	Democrat	38%

Source: [NBC News/WSJ Poll \(Aug. 9-12\)](#)

Another differentiator, this time one that is squarely on the side of the president, is the fact that voters believe that President Trump is "Better at Dealing With the Economy" compared to former Vice President Biden, according to a recent poll. Therefore, Republicans may believe it is their favor to continue to hold their ground over a

Please see disclosure starting on page 3.

Tom Kozlik

Head of Municipal Strategy & Credit  
214.859.9439  
tom.kozlik@hilltopsecurities.com

*A new poll puts Biden still in front of Trump by a 52% to 42% margin among likely voters. Let's examine why this lead is likely not as powerful as it initially seems and also consider why the stalemate in relief talks are likely to continue.*

fifth phase of COVID-19 relief. After all, we are now entering the fourth week after expanded unemployment benefits expired. The labor market continues to weaken. However, the Republicans may feel as though they received a boost from the White House executive actions.<sup>3</sup> And soon the \$300 per week of additional unemployment benefits will kick in, illustrating to some that the White House was able to accomplish what Congress was not in a time of severe need.

#### **Biden on the Economy: "I would shut it down."**

Another item not bound to play well for Biden and the Democrats regarding the economy is an exclamation the former vice president made about steps he would take to combat COVID-19. The Democratic candidate said he would shut down the economy if that course of action was recommended to him by scientists. "I would shut it down; I would listen to the scientists," said Biden in an interview last week.<sup>4</sup> This comment, without the proper context, may be viewed by some voters as out of touch at a time of extremely elevated unemployment and when jobless claims continue well above levels seen during the wake of the last recession.

#### **What Does This All Mean for Potential Aid for State and Local Governments?**

At this point it does not seem anything could occur on a fifth phase of COVID-19 relief until at least Tuesday, Sept. 8 when Congress is scheduled to return to Washington. This means the economy is going to depend upon the \$300 per week of expanded benefits provided by the White House until the funds run out. It also means that state and local governments will probably continue to make the most fiscally conservative budget plans going forward. It is not likely that House Democrats or Senate Republicans are going to move now. The Democrats are sticking to the compromise they feel they already made related to their original \$3 trillion ask, and the Republicans are not willing to go much above \$1 trillion. To change the mindset in Washington will likely require introducing a differentiating factor that adjusts the landscape. That potential change could be a drop in the equity market, an economic situation that meaningfully declines, or something else not yet on our radar.

Until a differentiating factor is introduced that changes the landscape, we believe political risk will remain high, the stalemate in Washington will continue, and there will be no state and local government relief.

*Biden said he would shut down the economy if that course of action was recommended to him by scientists, which may be viewed by some voters as out of touch at a time of extremely elevated unemployment and when jobless claims continue well above levels seen during the wake of the last recession.*

*To change the mindset in Washington will likely require introducing a differentiating factor that adjusts the landscape.*

---

<sup>1</sup> Enten, Harry; [Biden Gains Popularity in Post-Convention Polling](#); CNN; August 23, 2020.

<sup>2</sup> Agiesta, Jennifer; [CNN Poll: Biden and Trump matchup tightens as enthusiasm hits new high](#); CNN; August 17, 2020.

<sup>3</sup> Kozlik, Tom; [Something is Better than Nothing As President Attempts to Assist But Offer No Adequate Alternative to Congressional Action](#); HilltopSecurities; Aug. 10, 2020.

<sup>4</sup> Verhovek, John; [Biden to ABC's David Muir: 'I would shut \[country\] down' to prevent spread of COVID-19 is scientists recommended](#); ABC News; August 21, 2020.

### Recent HilltopSecurities Municipal Commentary

- [Contemplating Infrastructure, Chances Bond-Friendly Elements are Included](#), August 20, 2020
- [The Fed Backstops \\$451 Million of NY MTA Notes Despite Efficient Market Conditions](#), August 19, 2020
- [Politics and the Democratic Convention, Polls Narrowing](#), August 17, 2020
- [If Taxes Go Higher, Demand for Municipals Will Also Rise](#), August 14, 2020
- [Public Finance Downgrades to Outpace Upgrades, Probably for Years](#), August 13, 2020
- [Fed Drops Municipal Backstop Pricing by 50 Basis Points, Still Very High](#), August 12, 2020
- ["This is Not a Game," Leader McConnell Said; Relief Talks Have Stopped, Not Stalled](#), August 11, 2020
- [Something is Better than Nothing As President Attempts to Assist But Offers No Adequate Alternative to Congressional Action](#), August 10, 2020

Readers may view all of the HilltopSecurities Municipal Commentary [here](#).

*The paper/commentary was prepared by Hilltop Securities (HTS). It is intended for informational purposes only and does not constitute legal or investment advice, nor is it an offer or a solicitation of an offer to buy or sell any investment or other specific product. Information provided in this paper was obtained from sources that are believed to be reliable; however, it is not guaranteed to be correct, complete, or current, and is not intended to imply or establish standards of care applicable to any attorney or advisor in any particular circumstances. The statements within constitute the views of HTS as of the date of the document and may differ from the views of other divisions/departments of affiliate Hilltop Securities Inc. In addition, the views are subject to change without notice. This paper represents historical information only and is not an indication of future performance. This material has not been prepared in accordance with the guidelines or requirements to promote investment research, it is not a research report and is not intended as such. Sources available upon request.*

*Hilltop Securities Inc. is a registered broker-dealer, registered investment adviser and municipal advisor firm that does not provide tax or legal advice. HTS are wholly owned subsidiaries of Hilltop Holdings, Inc. (NYSE: HTH) located at 1201 Elm Street, Suite 3500, Dallas, Texas 75270, (214) 859-1800, 833-4HILLTOP*