The Year Ahead  /  2020
Data-Driven Predictions
for Global Investors
is an AI-driven political risk intelligence platform that measures, analyzes, and forecasts political risks in real time.

All risk indicators are assessed on a 0-100 scale. Data are generated via a political science-infused machine learning algorithm that combines low-frequency, structural country-level data with high-frequency data derived from news media.
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Global Political Risk in the Year Ahead

**DESPITE A RECENT SPIKE, GLOBAL POLITICAL RISK IS FORECAST TO FALL IN 2020**

Despite a recent spike, Global Political Risk is forecast to decline through the first half of 2020, re-accelerating in the second half but remaining subdued relative to the tumultuous period beginning in 2016. While certainly multifaceted -- our global measure of Political Risk is a GDP-weighted aggregate of 20 distinct fundamental political risks1 across 51 countries, all measured daily -- this outlook is driven by three major themes. First, a relative paucity of elections in key emerging and frontier markets will keep a structural lid on global political volatility; second, a more benign outlook for global trade risks and policy risks more broadly; and third, our persistent prediction (since 2017) of a soft Brexit, along with a projected retreat from recent peaks in topline U.S. political risk despite uncertainty surrounding the 2020 election.

Our 2019 Global Political Risk projection2 accurately anticipated both this year’s early decline in risk and its subsequent acceleration after Q1/2019. However, it did not anticipate the extent by which global risks would rise -- particularly in Q3 -- making clear our current forecast’s limitations. In particular, we did not predict the start of a global wave of violent social protests, the timing/nature of the U.S. impeachment drama, or yet another bout of “hard Brexit” fears in the UK. By contrast, the coterminous increase in Middle East geopolitical risks, concerns around EU instability and deteriorating conditions in the U.S.-China trade dispute for the bulk of 2019 were forecast explicitly.

Our 2019 Year Ahead also successfully predicted 78.6% of all election outcomes in 2019, missing Argentina and Australia outright and requiring updated data to correctly call Nigeria and Ukraine. A full review of our 2019 election predictions is included below, as are our forecasts for elections in 2020.

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1 Including Governance Risks (i.e. government/regime stability and policy risks), Security Risks (both domestic and geopolitical), and Social Risks.

2 Note that the 2019 Year Ahead prediction was based on only 30 countries and was not GDP-weighted.
Political Risk Trends in Emerging and Developed Markets

POLITICAL RISK IN EMs AND DMs TO CONVERGE ON SOCIAL RISK, DIVERGE ON GOVERNANCE

Aggregate Political Risk converged sharply between developed markets (DMs) and emerging markets (EMs) over much of the past decade, with DM political risks rising and EM political risks falling through most of the 2010’s -- a mirror image of the oft-cited period of economic convergence (fueled by EM growth relative to DMs) which preceded it.

EM Political Risk snapped back up in 2017 and did not begin to decline again until late 2018, while DM Political Risk remained elevated and volatile. In 2019, Year Ahead we forecast that political risk in both DMs and EMs would increase after Q1/2019, driven by a slew of contentious elections and social unrest. Ultimately, however, both EM and DM 2019 trends were more volatile than anticipated, ending up without a clear direction for the year as a whole.

Our 2020 forecast again indicates DM/EM Political Risk convergence will resume, albeit modestly. Per our third feature below, projected trends in Social Instability Risk are the main drivers of aggregate EM and DM convergence this year. In EMs, a decline in social unrest back to pre-2019 trend helps bring political risk down, while in DMs renewed social instabilities are back in play as a U.S. election, Brexit, and assorted weak governments across the EU should push risk higher.

Our data tells a different story for Governance Risk, for which EM and DM trends are projected to diverge, with EM risks increasing but DM risks staying lower. This trend is driven in large part by projected increases in both Government Risk and Institutional Risk in EMs, whereas Policy Risk poses less of a concern in the year ahead (NB: Governance Risk is a weighted aggregate of Government Risk, Institutional Risk, and Policy Risk). This speaks to an evolving EM equilibrium whereby more orthodox positive policy behavior -- specifically fiscal restraint and increasing market orientation -- is putting pressure on governments and institutions, a dynamic that will likely intensify as the global economy slows. Indeed, a persistent “de-coupling” of Institutional Risk and Policy Risk in EMs would be positive for EM investors, weakening a core driver of policy uncertainty in less developed political economies and undermining

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the stability premium of more institutionally robust DMs.

Meanwhile in DMs, net Governance Risk is expected to fall, reflecting corresponding declines in Government Risk and Policy Risk. We forecast that DM Institutional Risk will rise again in 2020, but the shift is small and unlikely to indicate a sustained shift in regime instability, despite the headwinds of Brexit in UK/Europe and impeachment plus contentious elections in the US.

Indeed, at this point, both reflect a status quo in which change is more likely to reinforce existing institutions than undermine them. After all, the Brexit divorce is priced in and the next step -- the UK’s future trade relationship with the EU -- will be a lower hurdle to surmount as the UK’s preference for an open economy remains (so to speak). At the same time, impeachment and upcoming presidential elections in U.S. provide institutional mechanisms for the processing and eventual resolution of heightened political conflicts, even while heightening social polarization. This dynamic should limit economic and market downside from DM institutional stresses which have been clear and well known for at least the past three years.
Global Social Instability Risk in the Year Ahead

RISK WILL REMAIN ELEVATED BY HISTORICAL STANDARDS, RISING IN DEVELOPED MARKETS AND FALLING IN EMERGING MARKETS

A genuinely global wave of often violent social unrest in 2H/2019 has brought normally secondary (or at least more diffuse) concerns around social stability front and center for global investors in 2020. Our aggregate measures of global Social Instability Risk help put these developments in perspective: while the second part of 2019 saw Social Instability Risk clearly increase in both developed markets and emerging markets, in neither sub-group did risk surpass other recent peaks (NB: both DM and EM risk indicators are GDP-weighted). Within the EM set of countries, however, the region of Latin America did reach a new peak in 2019 (relative to our seven-year daily dataset).

Globally, we forecast that Social Instability Risk will decline from recent peaks in 2020, although the decline will be more stable in emerging markets than developed markets -- a counterintuitive forecast given that the latter are generally more socially stable than the former.

The relatively light 2020 EM election schedule is likely at play here, as are the demonstrably socially-polarizing effects of key upcoming DM events like Brexit, French pension system reform, and the U.S. presidential election. Even in Japan, social tension is rising as politically marginalized groups such as women, LGBTQ, and immigrant communities have been pushing for common social and legal treatment, and pacifist groups oppose Prime Minister Shinzo Abe’s effort to expand the military’s capacity and activities abroad.

Looking at projected Social Instability Risk by country over 2020, we note the uniformly positive outlooks for the largest economies in Latin America -- a good global bet and a welcome respite from 2019 -- alongside the set of negative forecasts in Asia, including a markedly negative outlook for China on account of ongoing tensions in Hong Kong and Xinjiang.
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U.S. Contingent International Relations Risk

WORSENING GEOPOLITICAL RISKS UNDER TRUMP TO PERSIST IN 2020

Launched last year, GeoQuant’s “Contingent Risks” functionality provides bilateral assessments that summarize the direction and magnitude of geopolitical risks between any given pair of countries in real-time. The resulting Contingent Risk score is designed to help answer the following questions: (i) Are geopolitical risks in one country linked to geopolitical risks in another?; and (ii) what is the direction and magnitude in which “contingent” risks are moving?

Under the Trump presidency, trends in these Contingent Risks for the U.S. have been striking: while risk has risen significantly between the U.S. and many traditional allies since 1 Jan 2017, it has has been cut in half with long-time adversary Russia. At the same time, Contingent Risk between the U.S. and its main geopolitical rival China has grown by 6x, while U.S.-Iran Contingent Risk has increased by more than for any other country over the same period.

Per the figures below, on Trump’s inauguration U.S. Contingent Risks were negative with most major allies -- unsurprising given the state of the world -- but were mildly negative at worst. For example, U.S. Contingent Risk with the UK was highest among major allies, but still only at +2.8 (positive scores imply higher risk relative to negative scores). By contrast, Contingent Risk vis-à-vis Russia was an order of magnitude higher at +27.7, which was the highest risk bilateral relationship the U.S. had to manage.
Nearly three years later U.S. Contingent Risks are up nearly across the board -- but have fallen by half against Russia. Most interestingly, the consistent rise in risk across most bilateral relationships has deteriorated the most vis-à-vis traditional allies. In particular, note that U.S. bilateral (contingent) risk with the UK and South Korea now both exceed bilateral risk with Russia. Moreover, U.S. bilateral risk is also elevated with France, Germany, and Japan. Mexico offers an interesting contrast, as bilateral risk before Trump took office was higher than at present, reflecting the fact that Trump’s campaign rhetoric vis-à-vis Mexico was arguably worse than relations have been during his time in office.

The most economically-meaningful increases in U.S. Contingent Risk over Trump’s tenure has been the steady rise in risk vis-à-vis China. Though volatile, the trend is clear and forecast to rise into 2020, signaling both continued uncertainty over economic relations (including the terms/mechanics of the “Phase 1” trade deal) and greater diplomatic/military tensions surrounding Taiwan (Province of China), Hong Kong, the South China Sea, and so on.

Meanwhile, events in 2019 and very early 2020--including Iranian attacks on the US military in Iraq and the U.S.’s killing of Iran military chief Qasem Soleimani on 3 January -- have seen U.S.-Iran Contingent Risk increase more than for any other country. Risk is currently forecast to remain elevated through 2020, although the relatively flat slope of that projection argues against further escalation into outright war. Instead, a continuation of tit-for-tat exchanges is more likely.
Our recently released currency market white paper outlines a simple trading methodology that shows how incorporating our political risk indicators into Fx trading strategies can help out-perform markets.

Looking to the year ahead, the table below presents correlations between selected GeoQuant Risk indicators and currency pairs from mid-2016 to year-end 2019 for country-risk pairs where long-term relationships are strong and political factors appear volatile in 2020. We also include a secondary set of relationships where risk and markets are tightly related from 2018/2019 onwards, and offer our take on where political risk will influence currency markets in 2020.

Among other countries to watch, our data currently suggests politics in India and the UK will weigh on national currencies in 2020 (see figures below), while we are more bullish on Turkish geopolitics (!) and the TRY, at least in 1H.

See table below for risk-Fx market relationships for these (and other) countries and risk indicators of interest, with a brief explanation of underlying political drivers for the year ahead.
### The Year Ahead 2020

#### Key Issues to Watch

<table>
<thead>
<tr>
<th>Country</th>
<th>Sector</th>
<th>Trend</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BRAZIL</strong></td>
<td><strong>Sovereign Risk</strong></td>
<td>Mostly Bullish</td>
<td>+.74</td>
</tr>
<tr>
<td><strong>HUNGARY</strong></td>
<td><strong>Sovereign Risk</strong></td>
<td>Mostly Bearish</td>
<td>+.73</td>
</tr>
<tr>
<td><strong>INDIA</strong></td>
<td><strong>Governance Risk, Policy Risk</strong></td>
<td>Bearish</td>
<td>+.70</td>
</tr>
<tr>
<td><strong>JAPAN</strong></td>
<td><strong>Institutional Stability Risk</strong></td>
<td>Mostly Bearish</td>
<td>+.55</td>
</tr>
<tr>
<td><strong>MALAYSIA</strong></td>
<td><strong>Policy Risk</strong></td>
<td>Mostly Bearish</td>
<td>+.63</td>
</tr>
<tr>
<td><strong>SOUTH AFRICA</strong></td>
<td><strong>Macro-Economic Policy Risk</strong></td>
<td>Mostly Bearish</td>
<td>+.74</td>
</tr>
</tbody>
</table>

### Longer-Term Trends: 2016-2019

- **BRAZIL**: Mostly Bullish: Modestly lower Macro Policy Risk in 2020 reflects positive expectations for pension reform, but higher Rule of Law Risk is potential headwind.
- **HUNGARY**: Mostly Bearish: Conflicts with the EU over rule of law will place EU transfer programs like the Common Agriculture Policy (CAP) at risk, underpinning rising Sovereign Risk in Q1 and Q3 2020 (decline forecast in Q2).
- **INDIA**: Bearish: A large uptick in Governance Risk is forecast for 2H/2020 on account of a broad basket of economic policymaking challenges exacerbated by growing ethno-religious tensions and declining popular support for Modi.
- **JAPAN**: Mostly Bearish: Infighting within PKR and Pakatan Harapan and uncertainty over Mahathir’s successor sees Institutional Stability Risk reach peak (since 2013), although direct policy risks remain muted.
- **MALAYSIA**: Mostly Bearish: End 1H/2020 presidential election will reflect poorly on policy as the ruling Law and Justice Party champions divisive policies to drive its base to the polls.
- **SOUTH AFRICA**: Mostly Bearish: Despite decline in Q1, risk forecast to increase in 2020 given slow/halting reforms, especially to parastatals.

### Near-Term Trends: 2018 onwards

- **SOUTH KOREA**
  - Geopolitical Risk: Bullish: Geopolitical Risk remains in check after volatile 2019, while declining Macro Policy Risk forecast (from a high base) indicates respite from more unorthodox policymaking.
  - Macro-Economic Policy Risk: Bearish: Rising geopolitical tensions involving North Korea will drive risk upwards, albeit with risk levels remaining relatively subdued by historical standards.

- **TURKEY**
  - Geopolitical Risk: Bearish: Falling in early 2020 as the Brexit divorce is executed on 31 January; but Sovereign Risk rises over the remainder of 2020 as uncertainty over the post-divorce EU trade relationships lingers.

### Short-Term Trends: 2019 YTD

- **CHILE**
  - Populism Risk: Mixed: Social risks stabilize and Populism Risk declines through 3H/2020, but sharply rising risk through 2H/2020 suggests a tumultuous path lies ahead.
  - Social Instability Risk: Bearish: Rising geopolitical tensions involving North Korea will drive risk upwards, albeit with risk levels remaining relatively subdued by historical standards.
Our model’s prognosis for the 2020 U.S. presidential election is simple: without knowing the Democratic challenger, the incumbent Trump administration is on track for re-election in November 2020. Although U.S. Government Instability Risk hit a historic peak around Trump’s impeachment by the Democratic-led House of Representatives in December 2019, by 3 November 2020 the indicator is currently projected to retreat below levels surrounding the 2016 presidential election -- when incumbent Democrats lost the presidency to the GOP/Trump -- as well as the 2018 midterms, when Trump’s GOP lost control of the House but held the Senate. This suggests government turnover is unlikely in the 2020 election. That said, two large large caveats are in order.

First, and most importantly, we do not know the identity of Trump’s Democratic challenger, depriving our model of critical data for gauging opposition strength and weakening any projection of incumbent survival. Second, and more obviously, the election itself is over ten months away, a very long time in a “normal” U.S. election cycle, nevermind one marked by such unorthodox institutional (i.e. impeachment, major party fragmentation) and personal (i.e. Trump) dynamics.
The unique institutional dynamics are summarized by our Institutional Support Risk indicator, a key component of wider Government Instability Risk which isolates risks to the incumbent from other political, legal and administrative institutions -- including opposition parties. Note that a stark increase in Institutional Support Risk to the Trump administration since the 2018 midterms is matched by an almost equal (and almost linear) decline in risk going into November 2020, a clearly programmatic projection driven by a combination of the aforementioned lack of data and the model’s mean-reverting tendencies. Note further that the resulting risk projection on election day (3 November) is almost precisely level with that from 8 November 2016, when Trump/GOP took the White House from the Democrats.

If subsequent events -- a likely swift acquittal in the Senate, a divisive Democratic candidate -- push Institutional Support Risk well below that from the 2016 election, that will be another strong signal for Trump’s re-election. If Institutional Support Risk gets pushed up -- a damaging legal ruling, a unifying Democratic candidate -- the incumbent will be more likely to lose.
Despite facing higher Mass Support Risk than her KMT opponent did in 2016, incumbent President Tsai Ing-wen is a clear favorite to win re-election for another four-year term, revealing both the popularity and polarizing effect of her support for an independent Taiwanese state.

Supporting this argument, Taiwanese Institutional Support Risk -- which serves as a proxy for opposition strength -- has been down over much of Tsai’s first term, reflecting divisions within the long dominant KMT over how to reconcile its one-China position with a population that increasingly supports efforts to formally establish Taiwan as a state independent of China.

During Tsai’s tenure, that tension has (unsurprisingly) corresponded with a significant rise in Geopolitical Risk as Beijing has vigorously expressed its displeasure with Taiwan’s nation-state trajectory. As a result, Beijing has oddly found itself aligned with its historical nemesis, the KMT, likely harming KMT popularity given rising concerns over mainland China’s hegemonic aspirations.

**DPP-LEADER TSAI WILL WIN THE PRESIDENTIAL RACE** [forecast 15 December 2019]

Tsai wins 2016 presidential election

2020 presidential election

Tsai wins 2016 presidential election

2020 presidential election
DIVIDED GOVERNMENT INCREASINGLY LIKELY IN 2020

Though President Moon’s Democratic Party had been much better positioned as recently as mid-2018, as our Government Instability Risk indicator and polling both indicate, the Democratic Party’s one-seat legislative plurality is at risk. With this risk expected to be nearly the same as in 2016, the potential for losing seats is real and would weaken the government.

The Democratic Party has experienced a substantial rise in Mass Support Risk since mid-2018 as subsequent scandals and deteriorating relations with North Korea have kept this risk elevated and volatile.

Geopolitical Risk, low now but forecast to rise mildly in 2020, will be a key indicator to watch ahead of the mid-April election as both North Korea and the U.S.-China trade conflict weigh on the economy and public approval of Moon’s governance.
INCUMBENT PRESIDENT DUDA ON TRACK FOR RE-ELECTION

Incumbent President Andrzej Duda will likely secure re-election in an as yet unscheduled election. Duda is more popular than his party such that despite slightly elevated Mass Support Risk relative to the 2015 election, he remains the favorite.

Duda will face some headwinds as his political allies in the Law and Justice Party have divided the country along religious-secular lines, producing electoral successes, but with declining returns over time. Elevated Ethno-Religious Risk offers a valuable indicator to track as the campaign gets underway.

A second headwind to watch is economic performance as reflected in recently elevated Macro-Economic Policy Risk, which we currently forecast to rise in 2020 as global trade conflicts and deflationary pressures within the EU threaten to become a drag on the incumbent’s popular appeal.
A summary of our election forecasts from the previous year with brief comments on those we got right and (occasionally) those we got wrong.

### Election Roundup

<table>
<thead>
<tr>
<th>Country</th>
<th>Party</th>
<th>Prediction</th>
<th>Outcome</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ARGENTINA</strong></td>
<td>Macri</td>
<td>Incorrect</td>
<td></td>
<td>Poor macroeconomic management doomed incumbent Macri to Peronist Fernandez.</td>
</tr>
<tr>
<td><strong>AUSTRALIA</strong></td>
<td>Labour</td>
<td>Incorrect</td>
<td></td>
<td>Toss-up race stayed with the incumbent Liberal Party</td>
</tr>
<tr>
<td><strong>BELGIUM</strong></td>
<td>New Flemish Alliance</td>
<td>Correct</td>
<td></td>
<td>New Flemish Alliance won a plurality in May but has not yet formed a government.</td>
</tr>
<tr>
<td><strong>CANADA</strong></td>
<td>Liberals</td>
<td>Correct</td>
<td></td>
<td>Incumbent Liberals survived scandals, retained power in minority government.</td>
</tr>
<tr>
<td><strong>INDIA</strong></td>
<td>BJP</td>
<td>Correct</td>
<td></td>
<td>Modi retained power easily, using new leverage to exacerbate polarization.</td>
</tr>
<tr>
<td><strong>INDONESIA</strong></td>
<td>PDI-P</td>
<td>Correct</td>
<td></td>
<td>Jokowi secured re-election and his allies in PDI-P picked up seats.</td>
</tr>
<tr>
<td><strong>ISRAEL</strong></td>
<td>Likud</td>
<td>Correct</td>
<td></td>
<td>Bibi secured a plurality, but proved unable to form a government after two tries; third election in March 2020.</td>
</tr>
<tr>
<td><strong>NIGERIA</strong></td>
<td>Buhari</td>
<td>Updated/Correct 1/27/19</td>
<td>Expected incumbent Buhari to lose, but changed prediction after his institutional interference during campaign helped his victory.</td>
<td></td>
</tr>
<tr>
<td><strong>PHILIPPINES</strong></td>
<td>PDP-Laban</td>
<td>Correct</td>
<td></td>
<td>As forecast, PDP-Laban lost several seats but secured a substantial plurality win.</td>
</tr>
<tr>
<td><strong>POLAND</strong></td>
<td>Law and Justice Party</td>
<td>Correct</td>
<td></td>
<td>Law and Justice Party secured majority, maintained control of government, but fell to plurality leader of Senate.</td>
</tr>
<tr>
<td><strong>ROMANIA</strong></td>
<td>Iohannis</td>
<td>Correct</td>
<td></td>
<td>Iohannis won re-election with a nearly two-thirds supermajority of votes cast.</td>
</tr>
<tr>
<td><strong>SOUTH AFRICA</strong></td>
<td>ANC</td>
<td>Correct</td>
<td></td>
<td>ANC lost a few seats but maintained substantial majority and selected Cyril Ramaphosa as new president.</td>
</tr>
<tr>
<td><strong>UKRAINE</strong></td>
<td>Zelenski</td>
<td>Updated/Correct 3/17/19</td>
<td>Zelenski entered race after GeoQuant’s initial call, usurping the anti-establishment public mood from established candidates.</td>
<td></td>
</tr>
</tbody>
</table>

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