
ELECTION 2020

RESULTS AND IMPACT

November 5, 2020

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AN UNPRECEDENTED ELECTION

- 1** Voter Turnout Highest Since 1900
Projected 160 million voted, approximately 66.8% of eligible voters
- 2** Percentage of Early and Mail in Voting
Over 100 million votes cast before election day – 73.4% of the total votes counted in 2016
- 3** Record Number of Early Votes
First time in history the majority of votes were cast before the election
- 4** Campaign Spending Reaches a Record ~\$14 Billion
Combined presidential and Congressional campaign spending more than doubles since 2016
- 5** Sitting Party Loses Presidency but Maintains Control of Senate
Only second time this has occurred since 1884 and first since 1968.

AN UNPRECEDENTED ELECTION

6 First Democratic President, Republican Senate, and Democratic House
This composition of government hasn't happened since 1900

7 Ohio and Florida Go the Wrong Way
Ohio and Florida had predicted the winner in each election since 1964 and 1996 respectively

8 The Stock Market Got it Wrong
The three-month return before the election had predicted 20 out of the last 24 elections

9 Best Start to an Election Week on Record
The S&P 500 posted the best election week (5.3% through Wednesday) since at least 1928

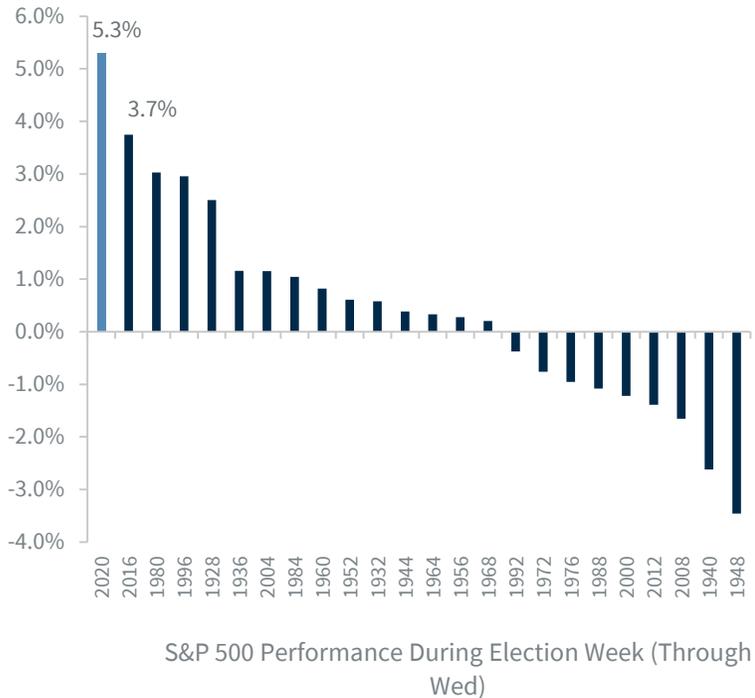
10 10-YR Treasury Posts Largest Percentage Decline
The 10-Yr Treasury yield declined ~10% during election week, the largest on record

SHARP ASSET CLASS RALLY IN ELECTION WEEK

DESPITE UNCERTAINTY IN ELECTION OUTCOME, MARKETS RALLY STRONGLY DURING ELECTION WEEK

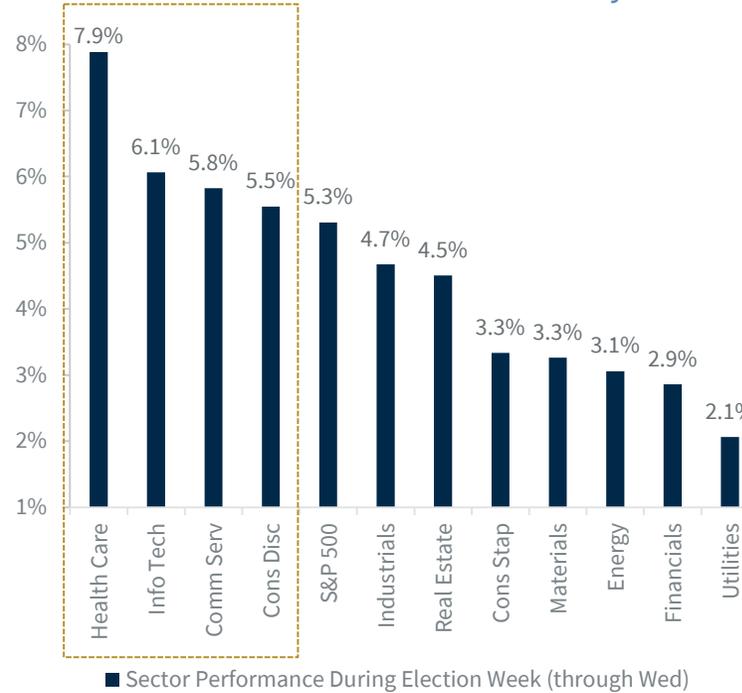
- Through Wednesday, the S&P 500 posted the strongest start to an election week (5.3% on a price return basis) since at least 1928. Additionally, all 11 sectors are in positive territory led by Health Care, Info Tech, Communication Services and Consumer Discretionary.
- Despite the rally in risk assets, 10-year Treasury yields have posted the largest percentage change during an election week (through Wednesday) since at least 1956.

Strong Election Week for Equities



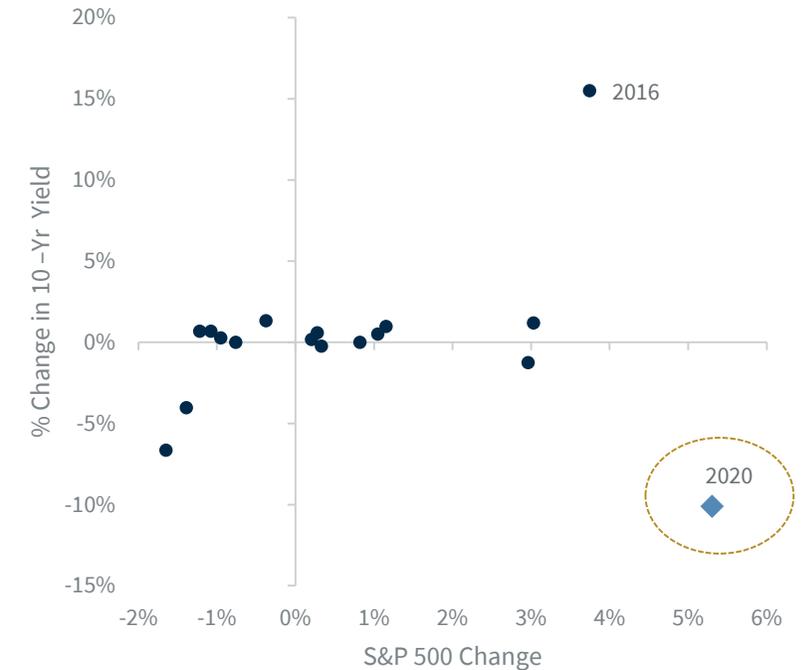
Source: FactSet, as of 11/4/2020

All Sectors in Positive Territory



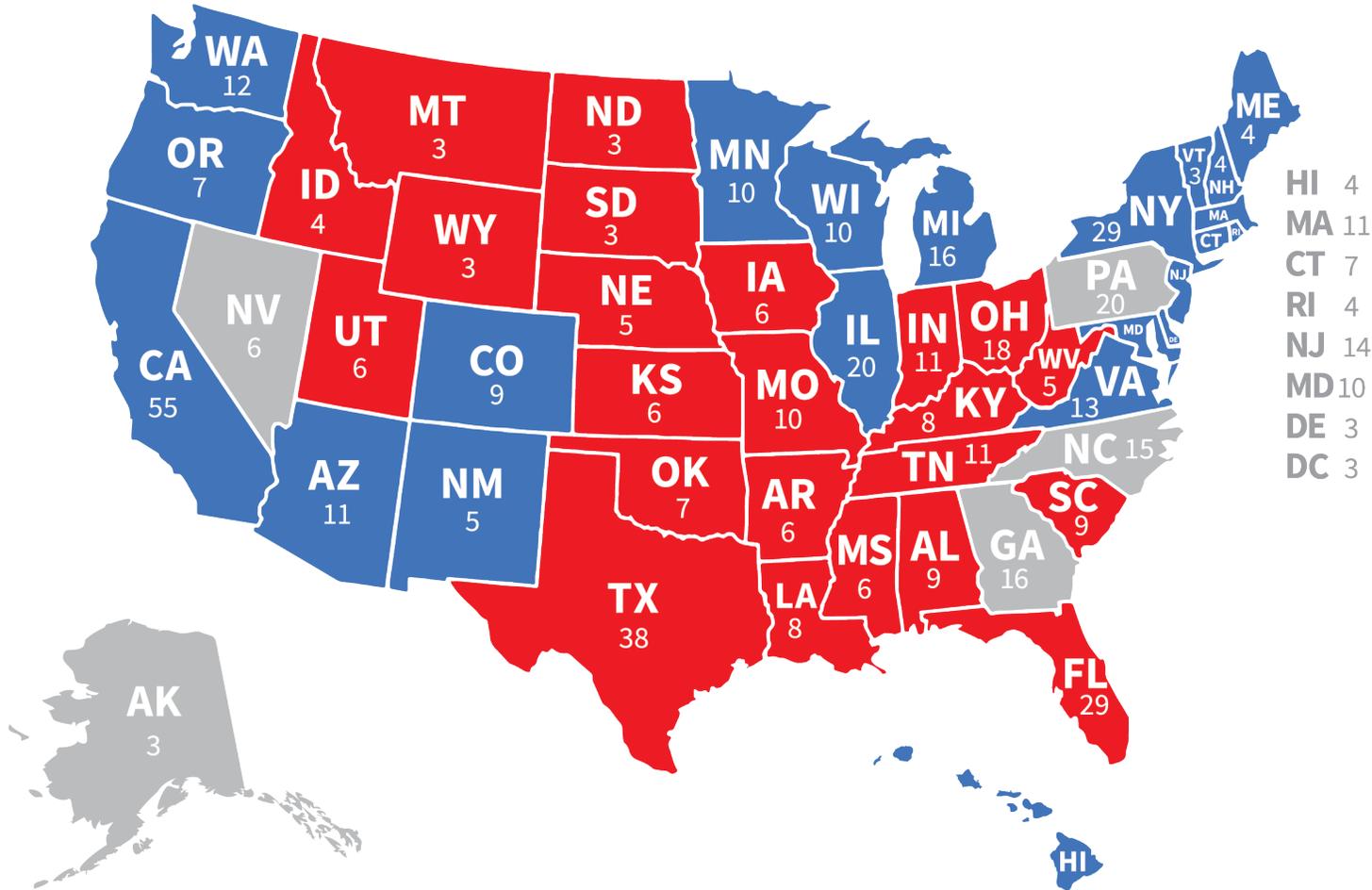
Source: FactSet, as of 11/4/2020

Outlier Equity Performance and Yield Change



Source: FactSet, as of 11/4/2020 dating back to 1956.

UPDATED RESULTS—PRESIDENT



“Arizona is the most controversial of the called states”
- Ed Mills

Presidential Race

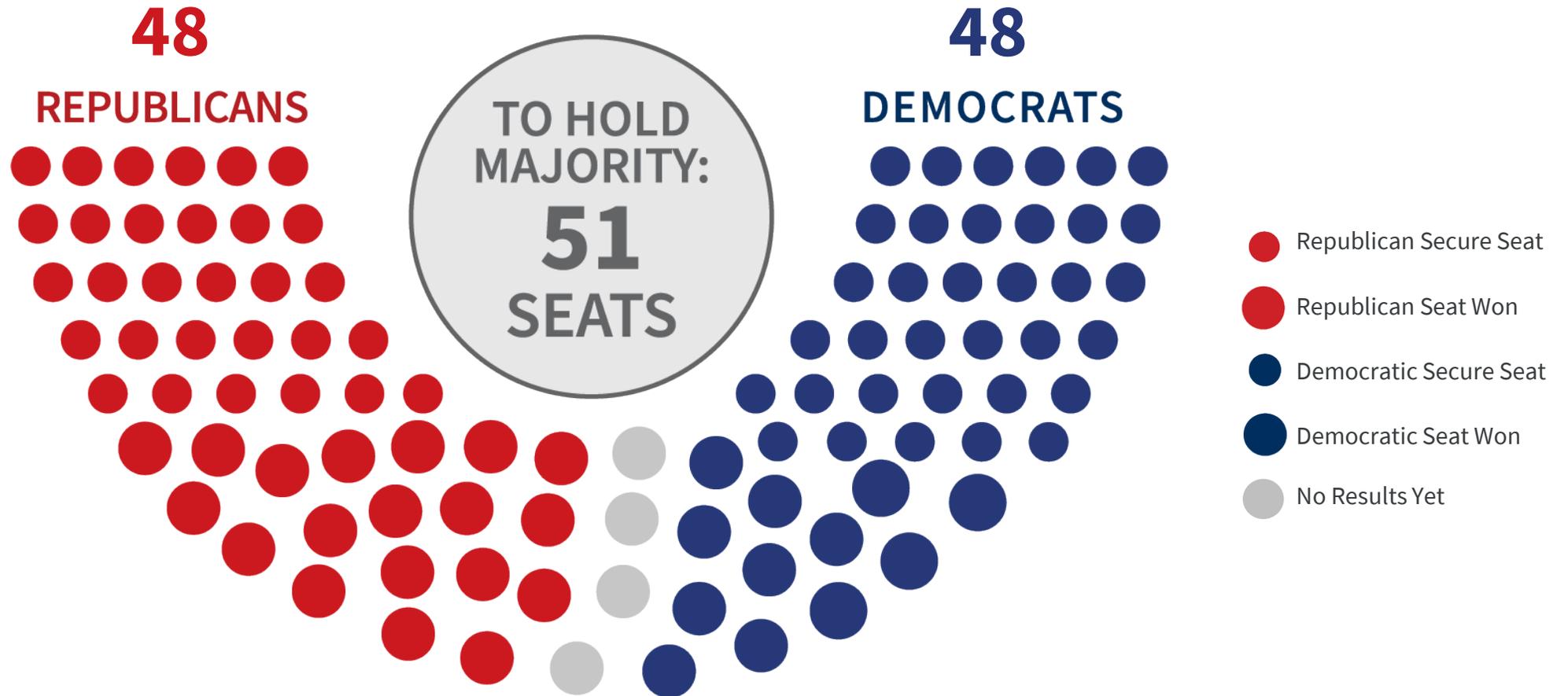
BIDEN
264

TRUMP
214

- Republican Won
- Democratic Won
- Not Called

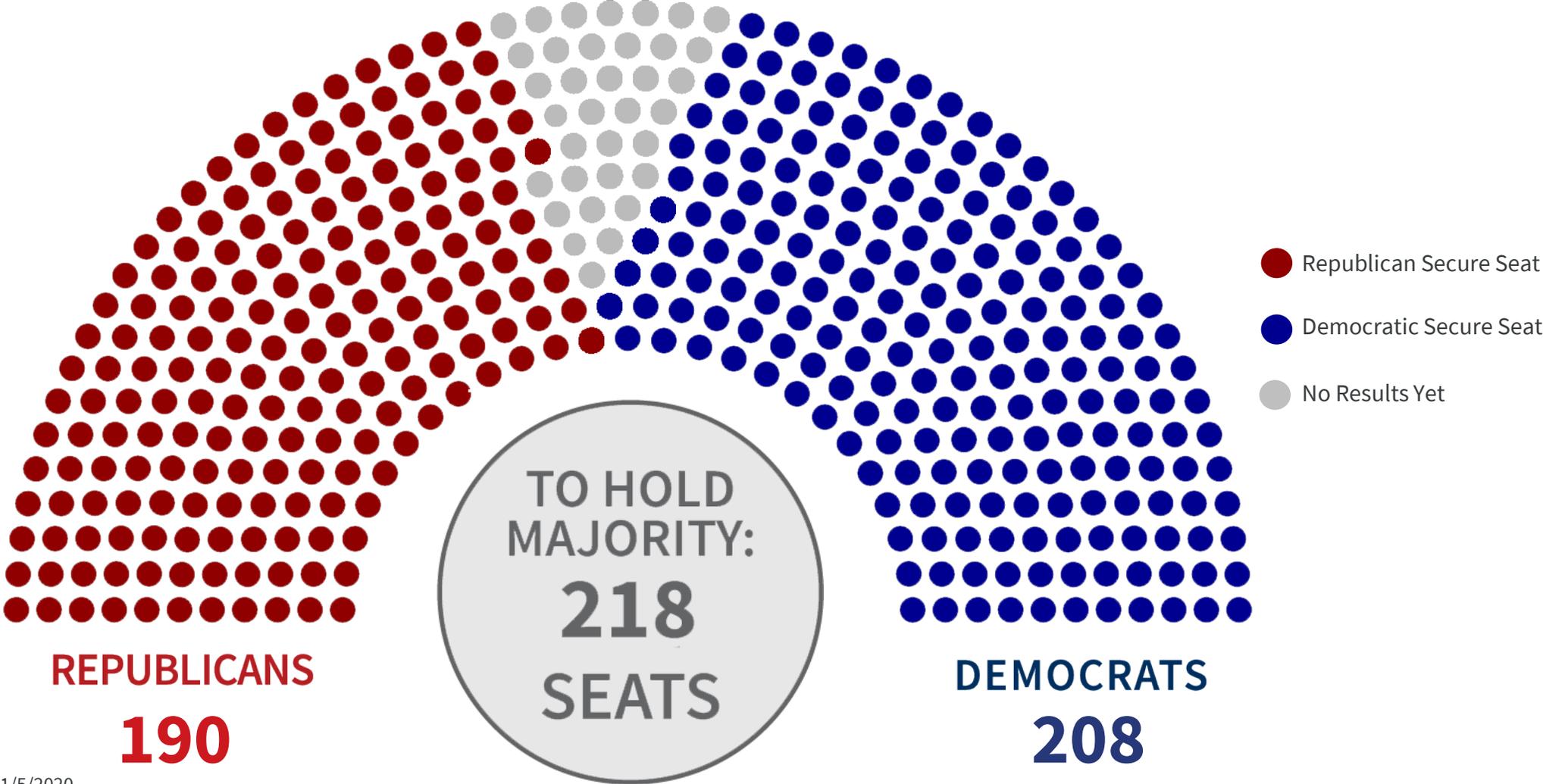
Source: Politico, as of 11/5/2020

UPDATED RESULTS—SENATE



Source: Politico, as of 11/5/2020

UPDATED RESULTS—HOUSE



Source: Politico, as of 11/5/2020

THE 2020 VOTE

- What is the timeline for knowing the results of the presidential election, assuming potential recounts and challenges from the campaigns?
- The Trump campaign has talked about contesting the election if Trump loses. What might that challenge look like?
- What's the timeline for knowing control of the Senate?
- How did the pollsters get it so wrong, again?

INSIDE WASHINGTON POLITICS

- What are the chances and timing of a fiscal stimulus package?
- What are the odds of a ‘skinny’ package and what might that include?
- What does a divided government mean for the Biden legislative agenda?
- Does a Republican Senate take all talk of tax hikes off the table?
- Explain some of the challenges Biden may have building a cabinet.
- What does a Biden presidency/Republican Senate mean for tariffs?
- What are you looking for from an executive action vs. an executive order?
- What are some of the legislative items a divided government can find agreement on?

IMPACT TO OUR MACRO ECONOMIC BASE CASE

LIMITED OVERALL IMPACT TO OUR BASE CASE MACRO ECONOMIC ASSUMPTIONS; COMMON THREAD = SPLIT GOVERNMENT

Trump Victory (Status Quo)

Biden Victory (R Keeps Sen)

US Growth (GDP)

The economic recovery will continue, but the strength of the recovery will remain dependent on the outlook of COVID and additional fiscal stimulus.

The economic recovery will continue, but uncertainty around COVID-19 stimulus will be a headwind. Increased corporate and individual taxes likely off the table.

Fiscal Stimulus

Additional fiscal stimulus will be passed in a more immediate fashion, but the size and magnitude of the total package will likely be smaller.

Given gridlock in Congress, timing and size of package remains uncertain, but a deal will likely be passed. Will Trump try and get it done in lame duck?

Monetary Policy

No change. The Fed will remain accommodative for the foreseeable future.

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COVID Policy

No change. The Trump administration will take a hands-off approach as states and local municipalities decide appropriate policies.

The Biden administration may take more of a heavy hand with the potential for a national mask mandate, but state and local governments decide lockdowns.

US/China Relations

President Trump would likely take an even tougher stance on China, and could institute additional tariffs or other measures.

The Biden administration would likely be firm, but more diplomatic with China (and build support with our allies) and seek to encourage global free trade.

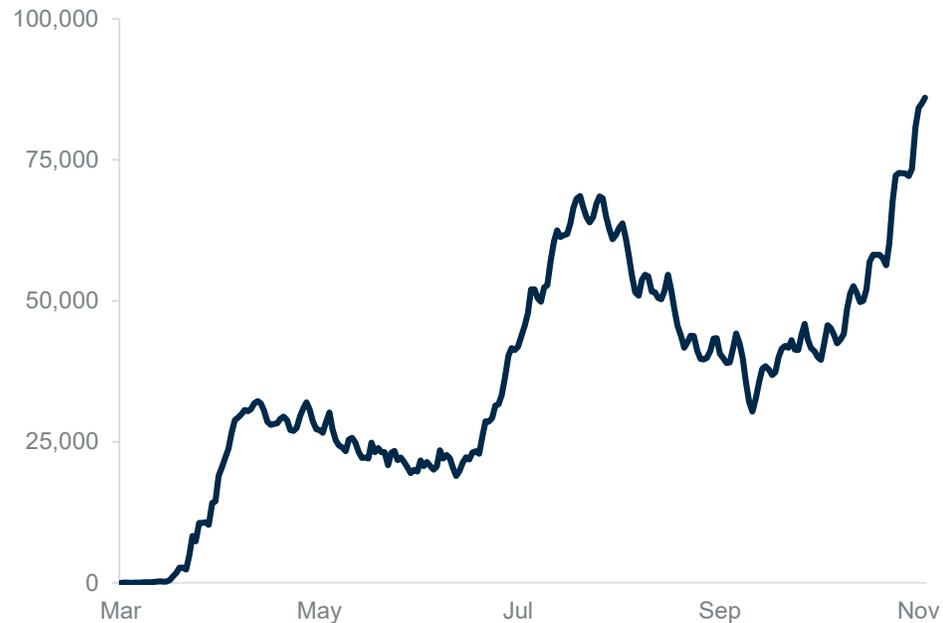
“A divided government makes a large fiscal stimulus package less likely (versus a ‘Blue Wave’) – and in turn, the recovery will be weaker than it would be otherwise. While generally better, economic activity is expected to remain mixed.” – **Dr. Scott Brown**

TOP PRIORITY: CONTAIN COVID-19 & PASS NECESSARY ADDITIONAL FISCAL STIMULUS

WITH THE ELECTION BEHIND US, CONGRESS WILL NOW NEED TO TURN ITS ATTENTION TO FISCAL STIMULUS

- Senator McConnell has stated that he wants to get an additional fiscal stimulus bill by year end, and our view is when, not if, a deal gets done. However, the magnitude of the deal will likely be smaller than under a 'Blue Wave' scenario.
- Additional fiscal stimulus is needed, as a record number of COVID cases and the winter months will likely continue to weigh on economic activity. This is evident as the number of small businesses open remains ~24% off of pre-COVID levels.

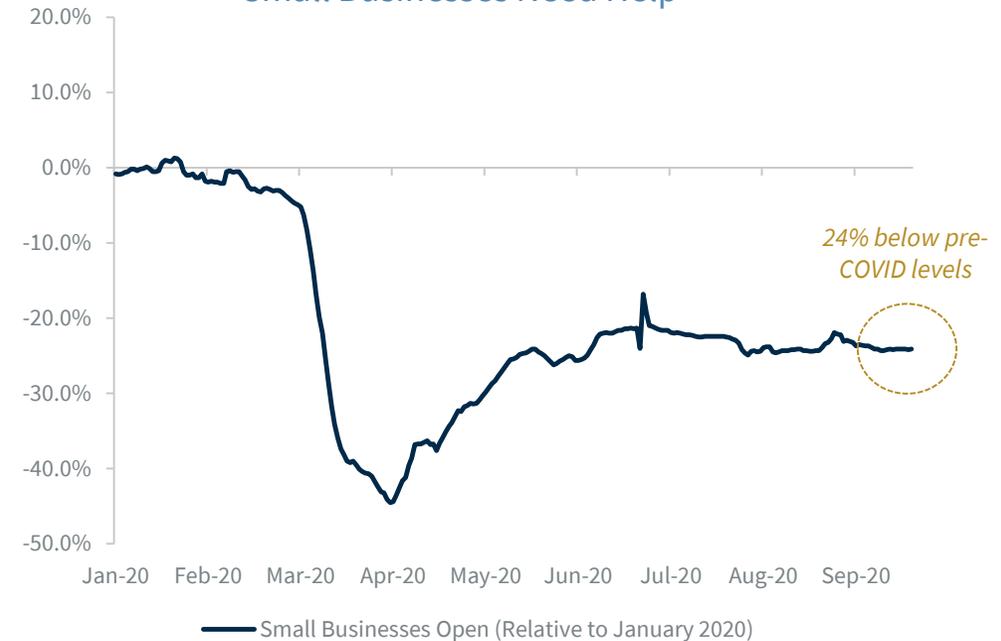
COVID Cases Rising to Record Highs



10

Million Jobs Lost
Since COVID Crisis

Small Businesses Need Help



Source: FactSet, Estimates as of 11/4/2020

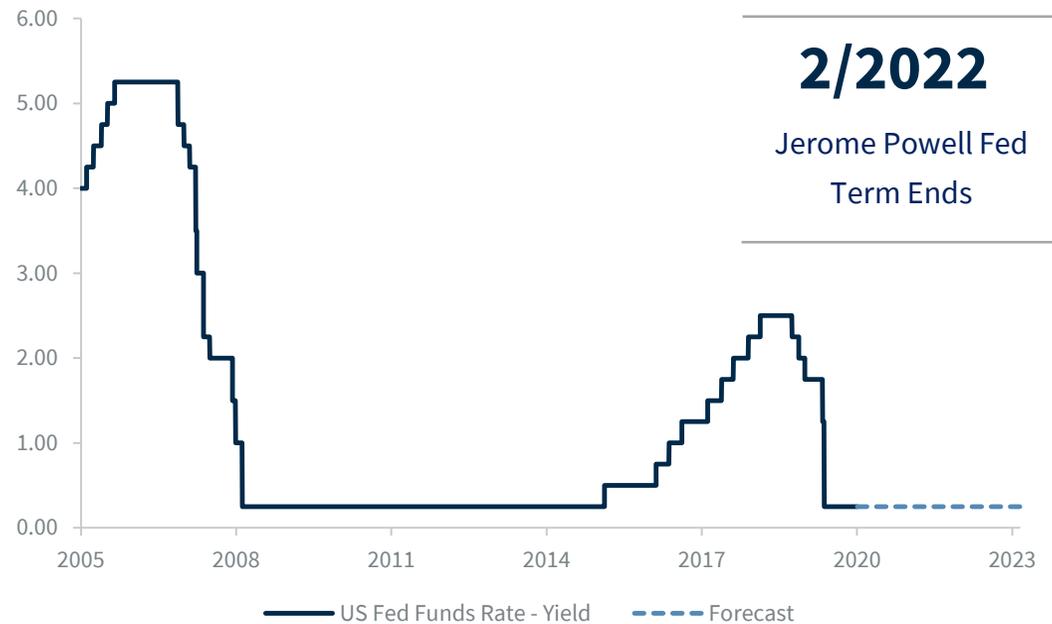
Source: TracktheRecovery, Estimates as of 10/31/2020

FED TO REMAIN ACCOMMODATIVE GOING FORWARD

REGARDLESS OF WHO IS IN OFFICE, THE FED IS GOING TO REMAIN ACCOMMODATIVE GOING FORWARD

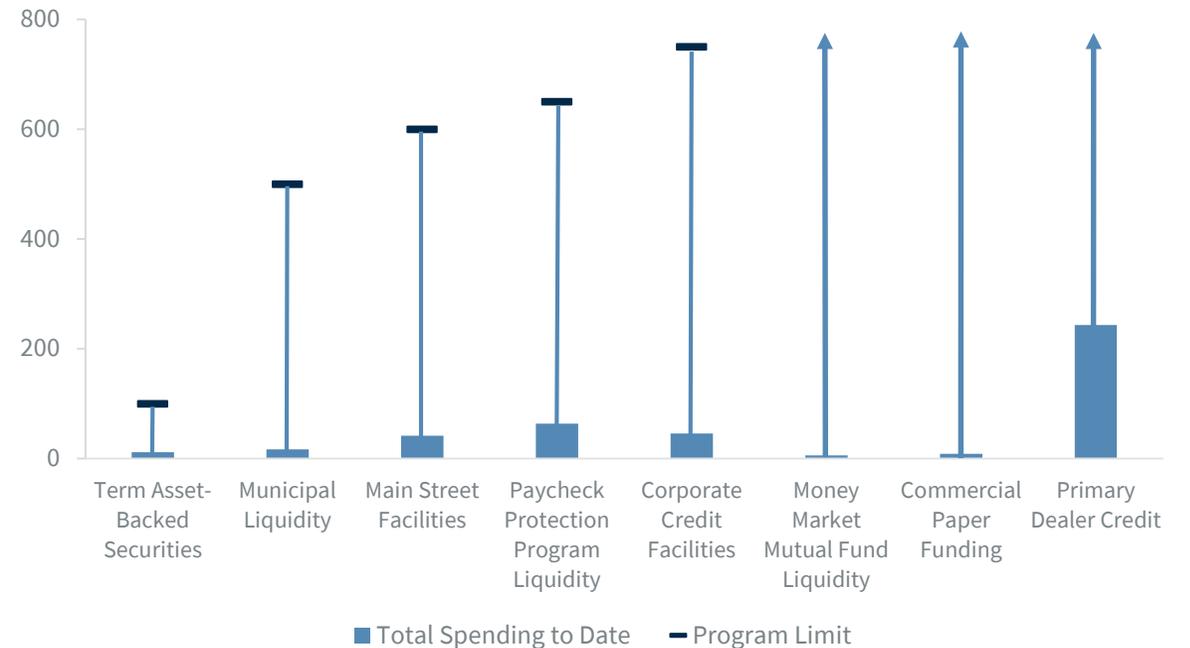
- Given the COVID-driven slowdown, the Fed does not forecast raising interest rates from current levels until 2023 at the earliest. Additionally, the Fed has significant capacity with its other established programs to stimulate economic activity.
- These accommodative monetary policy measures from the Fed will continue to be supportive of both economic growth and risk assets, and also keep any rise in Treasury yields contained.

Fed Likely to Leave Rates at Zero for Foreseeable Future



Source: FactSet, as of 11/4/2020

Plenty of Room in Fed Programs



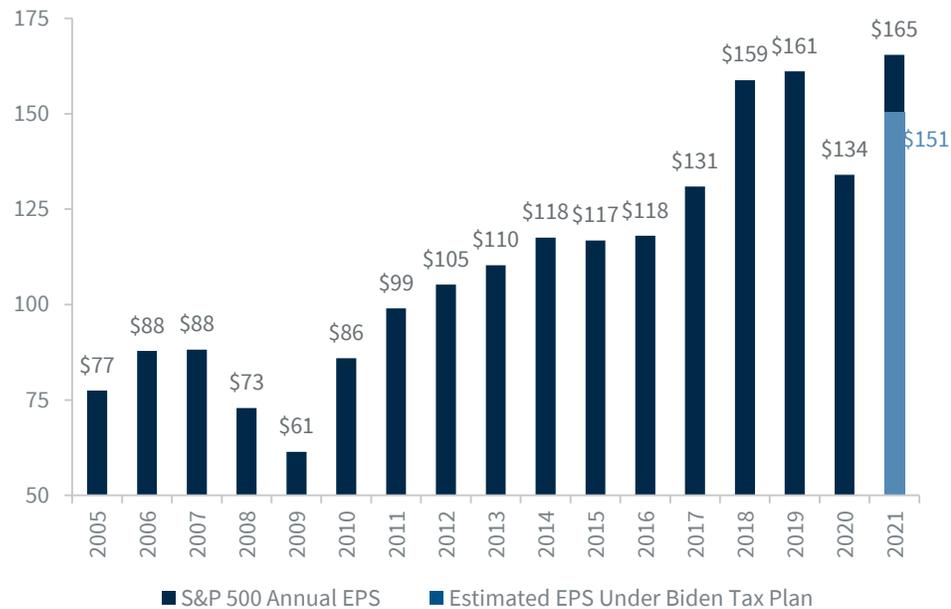
Source: Federal Reserve, as of 11/4/2020

KEY RISKS TAKEN OFF THE TABLE: TAX HIKES

THE EXPECTED OUTCOME (BIDEN PRESIDENT, REPUBLICAN SENATE) TAKES KEY RISKS OFF THE TABLE

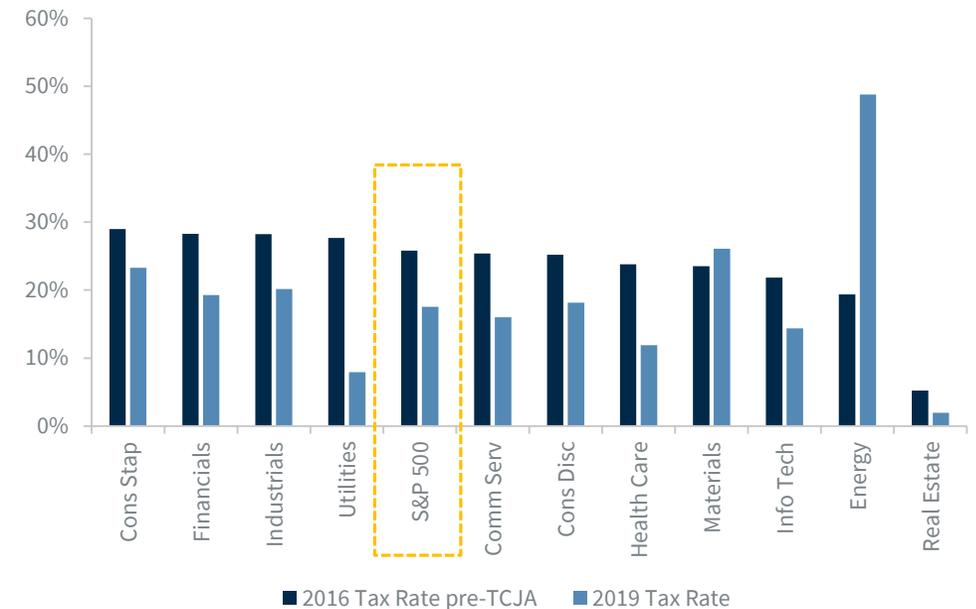
- Tax hikes were likely to be a headwind for equities under a Democratic sweep, as we estimated Biden’s tax plan would reduce 2021 S&P 500 EPS by ~10%.
- In addition, as Biden may take an easier stance on global trade and reduce tariffs on both Europe and China, this would be a tailwind for risk assets going forward.

Tax Hikes No Longer a Market Risk



Limited
Probability of Tax
Hikes Under Split
Government

9 Out of 11 Sectors Saw Lower Corporate Tax Rates



Source: FactSet, Estimates as of 11/2/2020

Source: FactSet, Estimates as of 10/26/2020

KEY RISKS TAKEN OFF THE TABLE: TRADE TENSIONS



Source: FactSet, as of 11/4/2020

KEY RISKS TAKEN OFF THE TABLE: BLUE WAVE POLICIES

POLITICAL RISKS REDUCED GIVEN CURRENT SCENARIOS

- Vice President Biden and Senate Majority Leader McConnell have had a good ‘working relationship’ at getting deals done.
- The absence of a ‘Blue Wave’ reduces some potential for an aggressive Democratic agenda.

Biden and McConnell Relationship

Legislative Item	Compromise
2010 Tax Cut Expiration	In 2010, Joe Biden and Mitch McConnell worked together to avoid a fiscal cliff.
2011 Debt Ceiling	Worked together to come up with a deal after Obama had failed to do so.
2012 Fiscal Cliff	Got a deal to avoid the expiration of tax provisions and spending cuts.

‘Blue Wave’ Policy Items Off the Table

- ~~1. Eliminate the Filibuster~~
- ~~2. Packing the Supreme Court~~
- ~~3. DC and Puerto Rico Statehood~~
- ~~4. Mandates to Climate Change (Green New Deal)~~
- ~~5. Healthcare Public Option~~
- ~~6. Eliminate the Electoral College~~

Source: Strategas Advisors, 11/4/20

IMPACT TO OUR ASSET CLASS VIEWS

MINIMAL IMPACT TO OUR BASE CASE ASSET CLASS ASSUMPTIONS IN THE LONG TERM

Trump Victory (Status Quo)

Biden Win (R Keeps Sen)

Equity Market

Recent tailwinds for the market (improving economic activity and earnings growth) remain. Seasonality a positive. COVID and fiscal stimulus biggest risk.

Recent tailwinds (improving economic activity and earnings) remain. Congressional gridlock (no tax increase) supportive. COVID and fiscal stimulus are risks.

Bond Market

Modest upside for Treasury yields due to further fiscal stimulus and better growth. However, we expect the rise to be muted and less than under a 'Blue Wave.'

Improving economic activity will lead to modest upside in rates, but the rise will be limited due to Fed policy, demographics and a smaller stimulus package.

US Dollar

We expect modest weakening in the US dollar due to accommodative monetary and fiscal policy. We expect the dollar to be less weak under Trump relative to Biden.

Still accommodative fiscal and monetary policy and easing in trade restrictions will lead to a modest weakening in the US dollar.

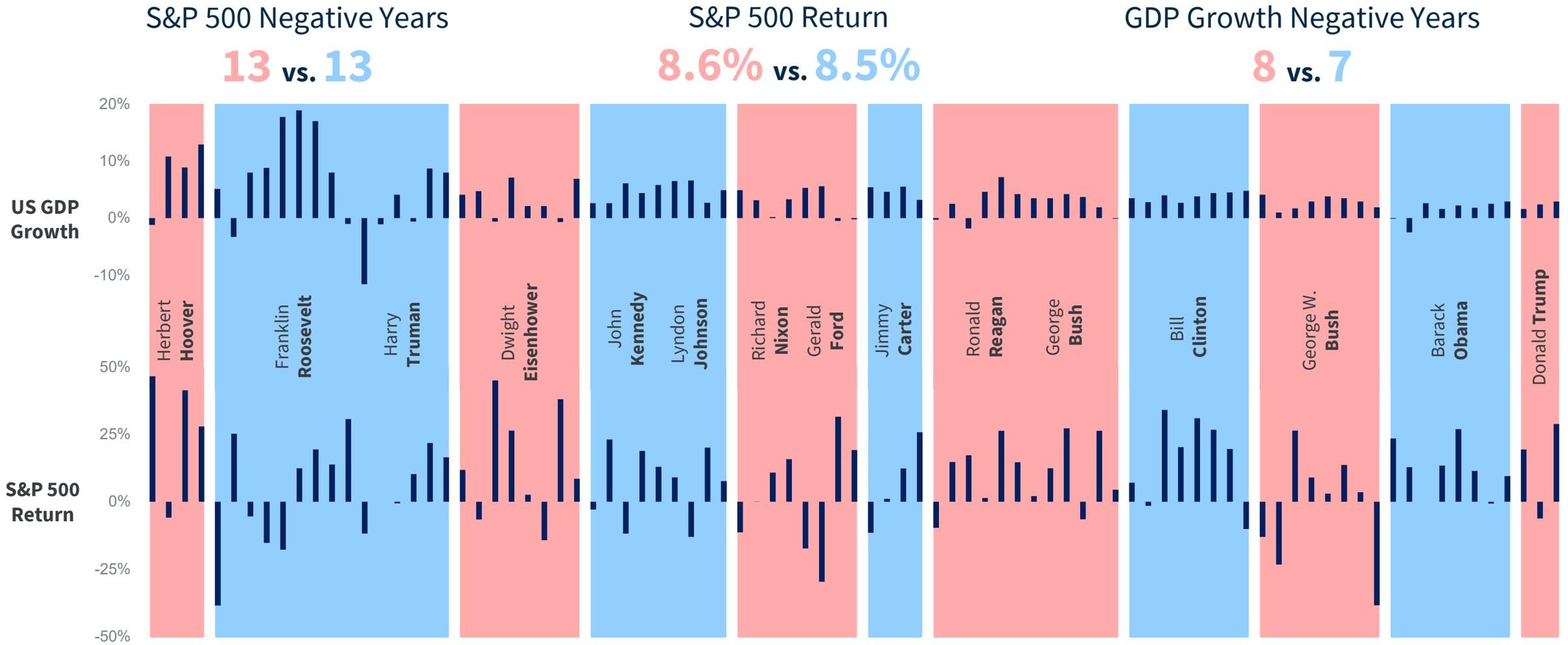
Commodities

Improving global economic activity and a modestly weaker dollar will support commodities. However, hawkish trade policy will be a headwind.

Improving global economic activity, the potential for increased global trade and a weaker dollar will be tailwinds for commodities in aggregate.

"I would think that some stimulus package will get done, but it will likely be smaller, which is why we will only see some steepening of the yield curve, with the 10-year note still on target to reach 1% by the end of the year." – Kevin Giddis

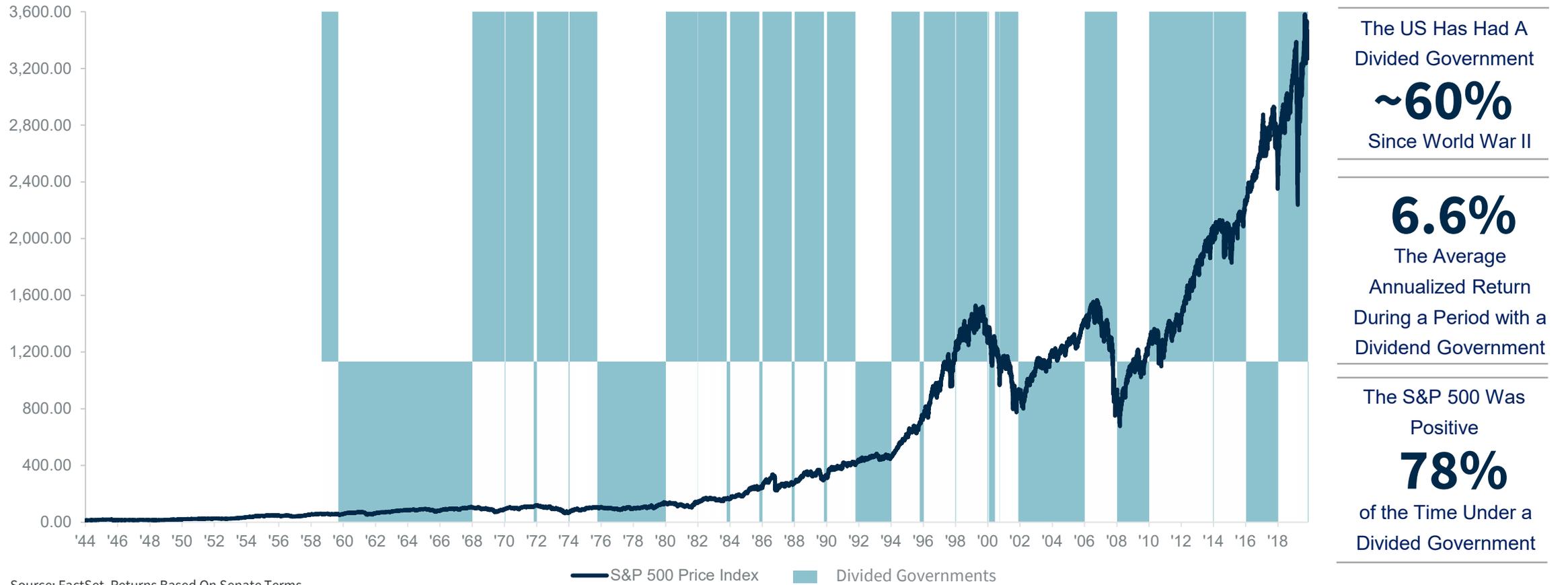
POLITICAL PARTY PERFORMANCE: SINCE 1932



Source: FactSet, as of 12/31/2019

HISTORICAL PERFORMANCE OF THE S&P 500 UNDER DIVIDED GOVERNMENT

THE US HAS NOT HAD A DEMOCRATIC PRESIDENT WITH A REPUBLICAN SENATE AND DEMOCRATIC HOUSE SINCE 1900. HOWEVER, HISTORY SHOWS THAT A DIVIDED GOVERNMENT DOES NOT DICTATE MARKET PERFORMANCE.



The US Has Had A
Divided Government
~60%
Since World War II

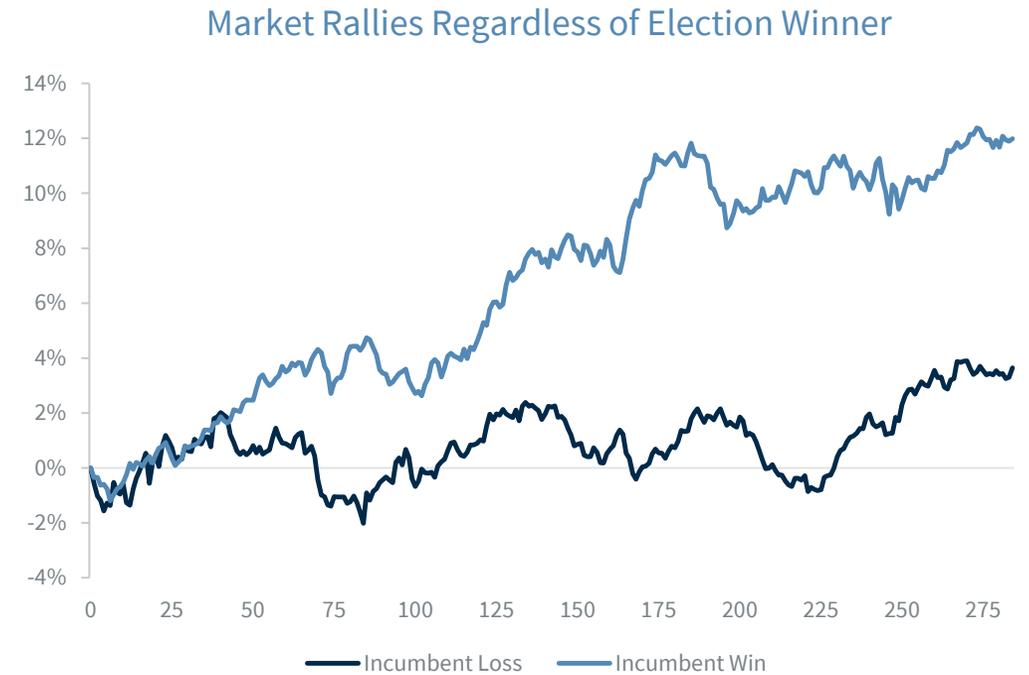
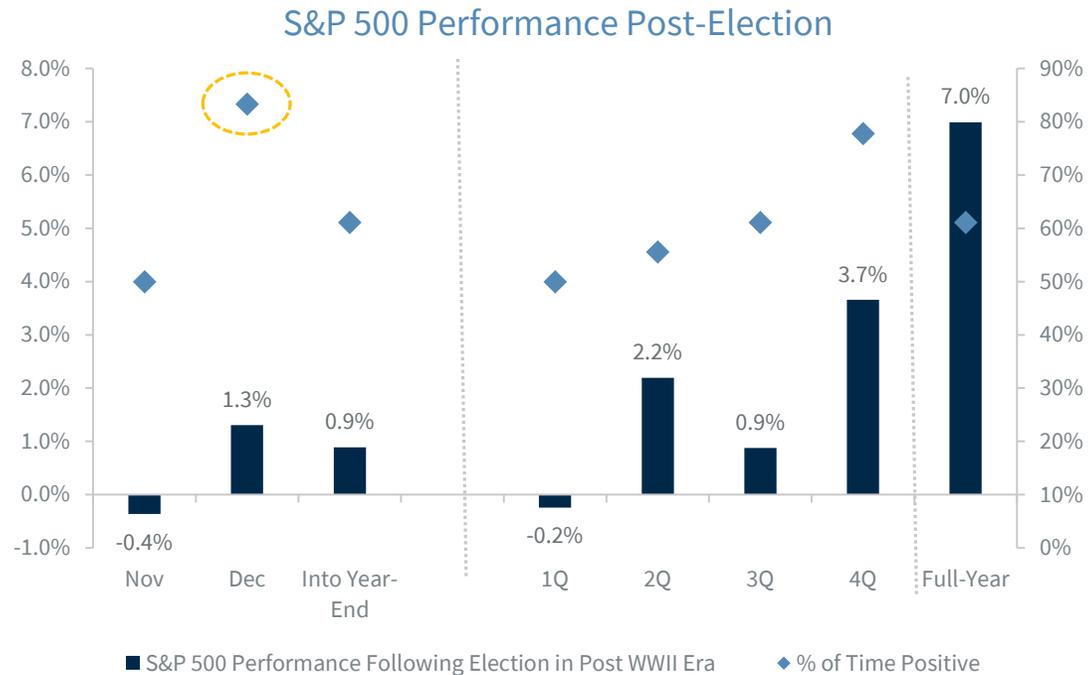
6.6%
The Average
Annualized Return
During a Period with a
Dividend Government

The S&P 500 Was
Positive
78%
of the Time Under a
Divided Government

EQUITY PERFORMANCE FOLLOWING THE ELECTION

DESPITE ELECTION HEADWINDS, THE EQUITY MARKET IS HISTORICALLY UP FOLLOWING THE ELECTION

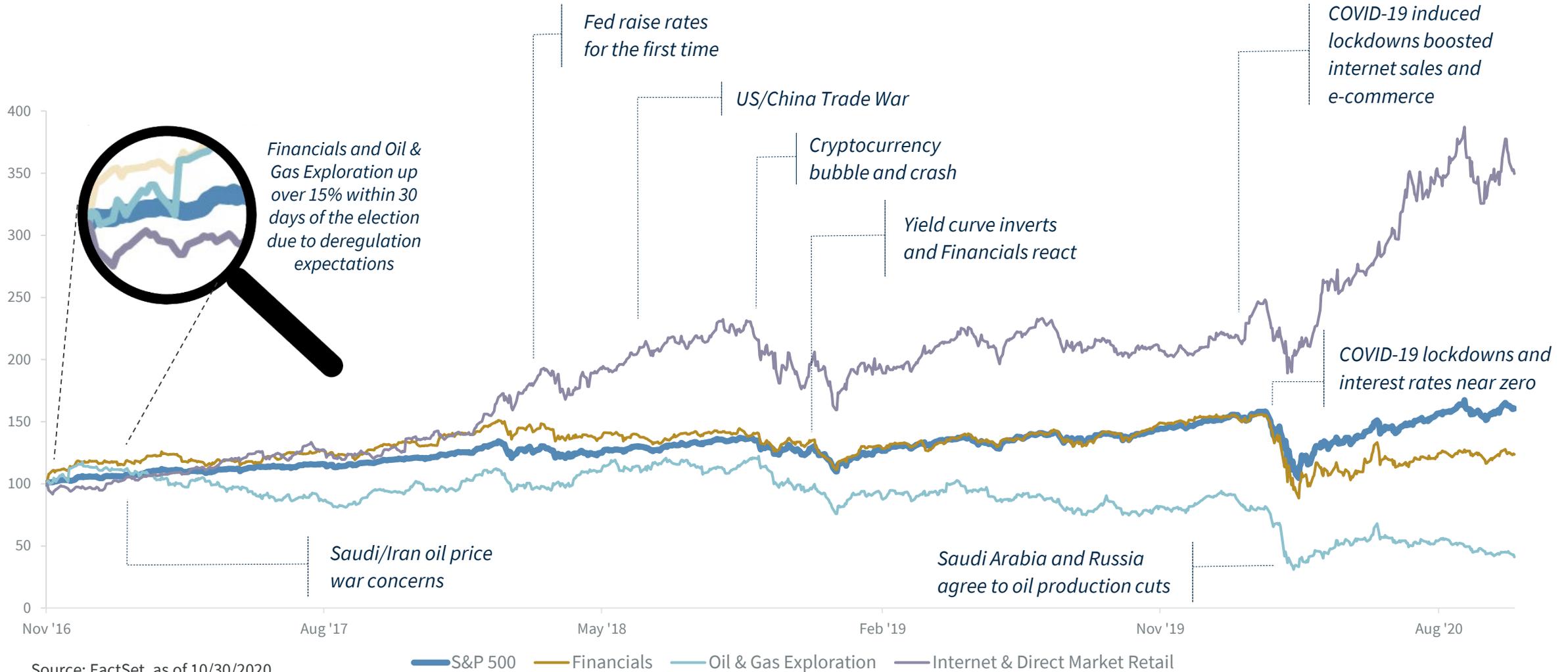
- The Tax Foundation, an independent non-partisan research organization, estimates that Biden’s tax plan will have a negative economic impact.
- Its assessment of the Biden tax plan estimates that it will reduce GDP in the long run by 1.6%, subtract 542k jobs through 2030 and reduce aggregate after-tax incomes by ~2.8% through 2030.



Source: FactSet, as of 11/4/2020

Source: FactSet, as of 11/4/2020

EQUITY PERFORMANCE UNDER PRESIDENT TRUMP

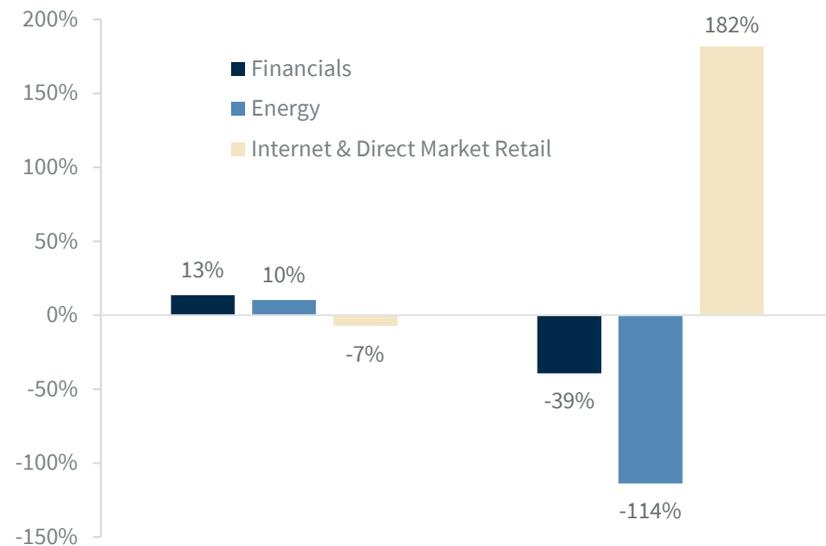


SUMMARY OF PERFORMANCE RELATIVE TO S&P 500

SECTOR PERFORMANCE EXPECTATIONS HAVE OFTEN BEEN PROVEN INCORRECT

- Regardless of the presidency, common expectations that some sectors outperform and underperform under a specific party are often incorrect.
- While this is often true for the first 30 days after the election, historically these expectations have not held up over the course of the presidency with some sectors outperforming the broad market by over 200%.

Donald Trump
30 Days After Election vs. Entire Presidency



Source: FactSet, as of 10/29/2020

“We view the potential split government outcome as a net market positive over the long term due to it drastically reducing the potential for higher taxes in the years ahead. This reduces the odds of a bear case scenario playing out and also keeps US equities favorable vs the world in our view. Therefore, we would view potential market weakness due to a contested outcome as a buying opportunity for the longer term.”

- Mike Gibbs

LONG-TERM TRENDS OFFSET POLITICAL HEADWINDS

Info Tech

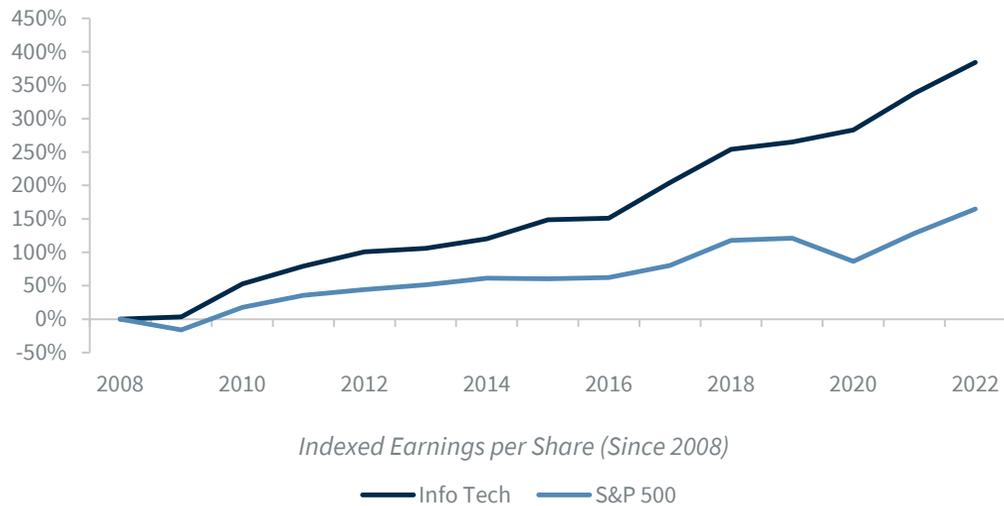
Tailwinds

- Additional fiscal stimulus could boost tech spending
- Easier China trade stance
- Benefit from potential infrastructure bill

Headwinds

- Anti-trust concerns increased under Biden
- Greater potential for increased regulation

Strong and Stable Earnings Growth in Tech



Source: FactSet, as of 10/29/2020

Communication Services

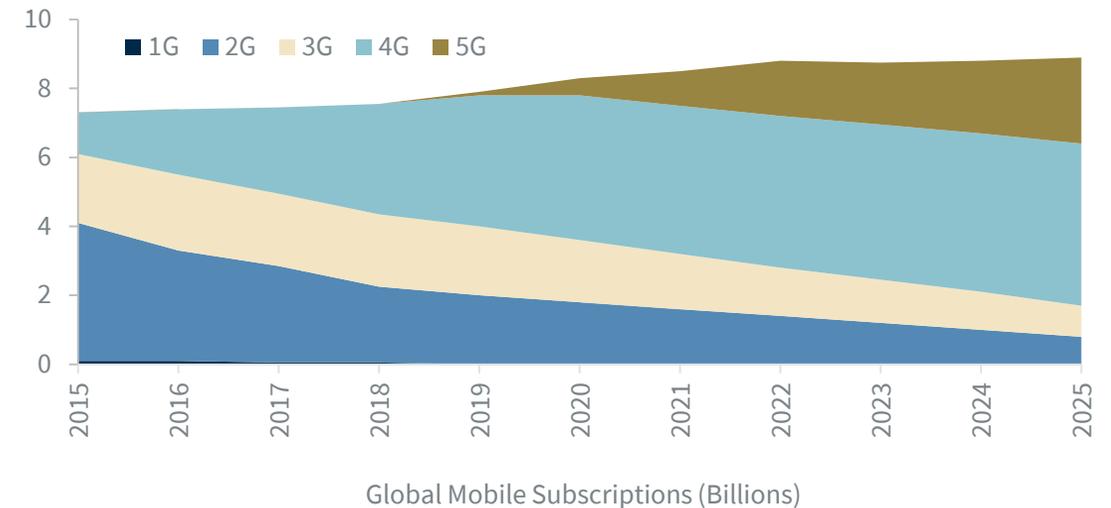
Tailwinds

- Additional fiscal stimulus a boost for the sector
- Potential for universal broadband/increased 5G spending in infrastructure bill

Headwinds

- Increased regulatory concern
- Headline risk surrounding rollback of net neutrality
- Elevated scrutiny on potential M&A transactions
- Increased corporate taxes

5G Adoption Supportive of Communication Services



Source: FactSet, as of 10/29/2020

LONG-TERM TRENDS OFFSET POLITICAL HEADWINDS

Health Care

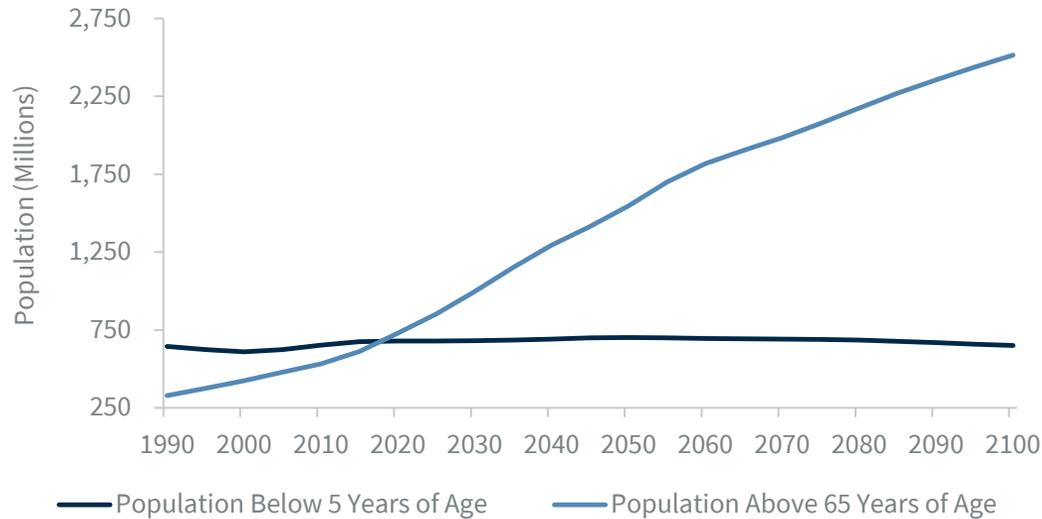
Tailwinds

- Increased Federal health care spending a priority
- Increased Federal spending to combat COVID

Headwinds

- Potential public option for health care a headwind for profits
- Scrutiny on drug pricing

Aging Demographics Supportive of Health Care



Source: FactSet, as of 10/29/2020

Consumer Discretionary

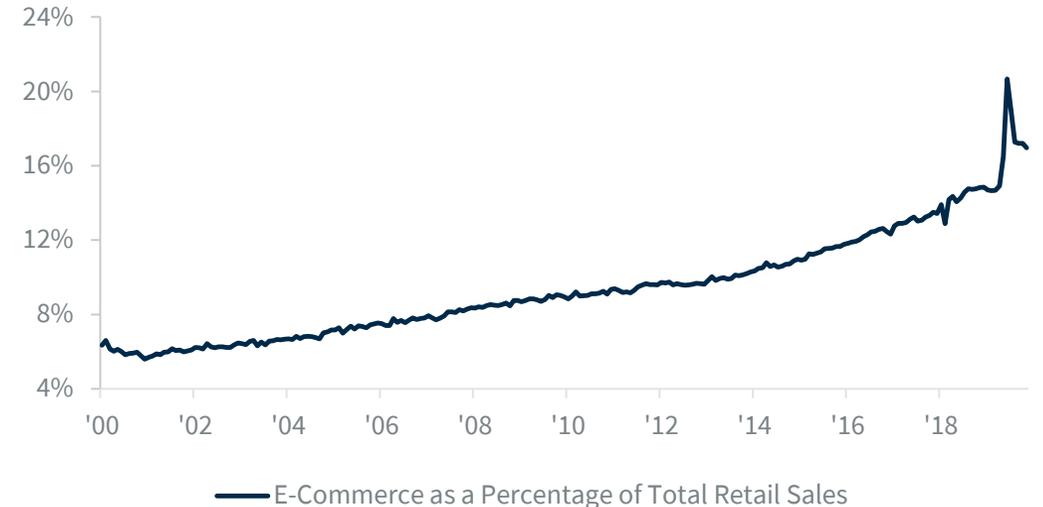
Tailwinds

- Increased fiscal stimulus could boost spending

Headwinds

- Potential minimum wage hike could hamper margins
- Potential for increased social distancing measures
- Regulation a concern

COVID Reshaping Consumer Spending Habits

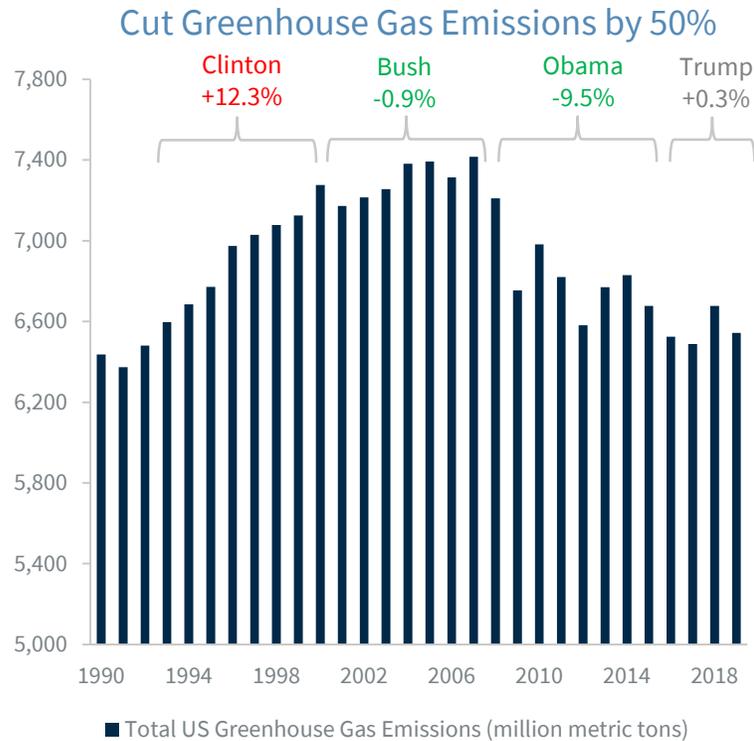


Source: FactSet, as of 10/29/2020

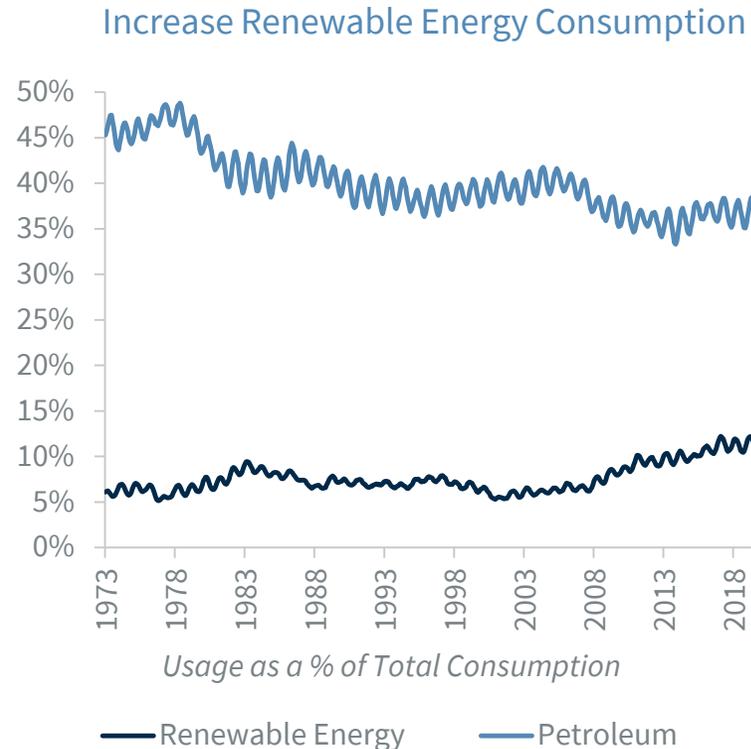
ENVIRONMENTAL CONCERNS A HEADWIND FOR OIL

REGARDLESS OF WHO WINS, ESG INVESTING WILL SERVE AS A HEADWIND FOR ENERGY SECTOR.

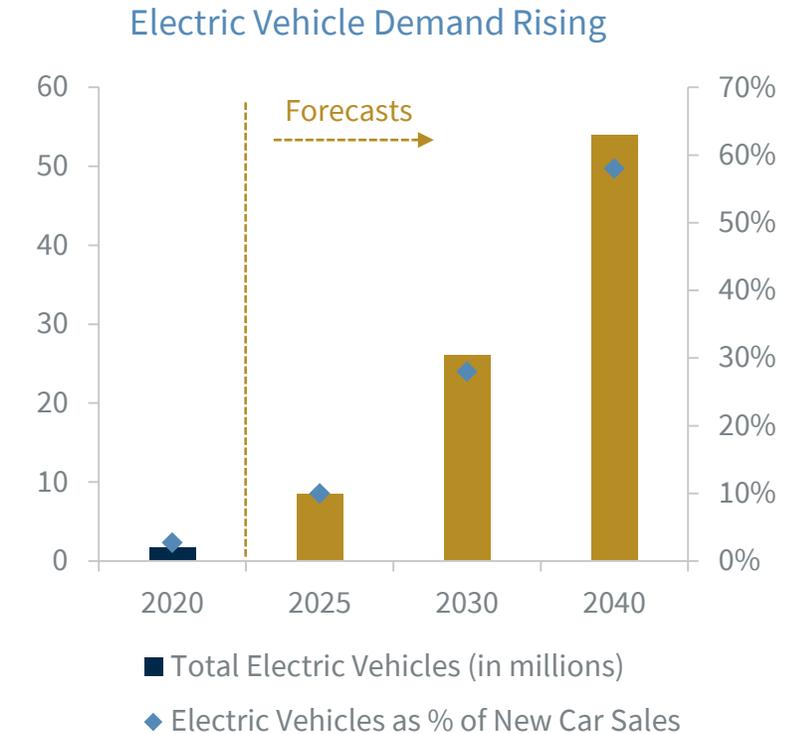
- The percentage of energy consumption from renewable sources relative to total consumption has risen considerably in recent years, with ~13% of consumption now coming from renewable sources. This is an almost 3x increase over the last 20 years.
- By 2040, it is estimated that ~60% of total car sales will be of electric vehicles.



Source: EPA, as of 10/30/2020



Source: EIA, as of 9/30/2020



Source: Bloomberg, as of 9/30/2020

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DATA SOURCES:

FactSet.

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