

US ELECTION PUTS SECTORS AT STAKE

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Our Macro Election Outlook

The two most likely scenarios for the upcoming US presidential election are (1) Democrat sweep and (2) divided government.

The Democrat sweep scenario would accompany a sizable increase in government spending funded in part by higher taxes (both corporate and individual). Overlay this with a Fed that is committed to keeping monetary policy easy and you have the recipe for a steeper curve and a cheaper USD. On the latter, this environment would be the reverse of the Reagan/Volcker regime of the early '80s (loose fiscal/tight monetary) which drove USD strength. Furthermore, the promised tax hikes and increased regulation would pose a headwind to aggregate EPS growth. Looking globally, the weaker USD combined with a more diplomatic trade stance would likely be a positive tailwind for EM assets.

The divided government scenario would likely imply that not much legislation gets accomplished in Washington. Thus, the focus turns to what the president can do unilaterally: foreign policy, trade, and regulation. While we expect a similar stance towards trade no matter who is in the White House, the difference would likely come in the tone of the rhetoric (bellicose or diplomatic). On the regulatory front, energy, healthcare, finance and technology would be key sectors to watch for if Democrats control the White House in a divided government.

Sector Outlook

The US presidential election comes at a time when companies across sectors are adjusting to the unique market environment. We evaluate the potential influence each nominee from the Democratic (Biden) and Republican (Trump) parties may have on key sectors given their difference in policies and priorities. (Exhibit 1.)

Exhibit 1: Fundamental impact based on a Trump and Biden administration

Sector	Fundamental Impact	
	Trump Administration	Biden Administration
Banks and Finance	Neutral/Mixed	Modest Negative
Basics (Chems, Metals, Paper)	Neutral/Mixed	Modest Negative
Communication (Cable, Wireless, Wirelines)	Neutral/Mixed	Modest Negative
Construction (Building Materials, Construction Machinery, Environmental, Home Construction)	Modest Positive	Neutral/Mixed
Energy (Independent, Integrated, Midstream, Oil Field Services, Refining)	Neutral/Mixed	Modest Negative
Entertainment (Gaming, Lodging & Leisure, Media & Entertainment)	Neutral/Mixed	Neutral/Mixed
Food Related Consumer (Food & Bev, Restaurants, Supermarkets)	Neutral/Mixed	Neutral/Mixed
Healthcare (Healthcare, Pharma)	Neutral/Mixed	Neutral/Mixed
Insurance (Health, Life, P&C)	Neutral/Mixed	Modest Negative
Manufacturing (A&D, Diversified Manufacturing)	Neutral/Mixed	Neutral/Mixed
REITs	Neutral/Mixed	Neutral/Mixed
Retail Related Consumer (Automotive, Retailers, Consumer Cyclical Services, Consumer Products, Tobacco)	Neutral/Mixed	Neutral/Mixed
Technology	Neutral/Mixed	Modest Negative
Transportation (Airlines, Railroads, Transportation Services)	Neutral/Mixed	Neutral/Mixed
Utility (Natural Gas, Electric, Utility Other)	Neutral/Mixed	Neutral/Mixed

Source: Aegon AM. As of October 22, 2020.

We anticipate a number of these sectors will be fundamentally impacted by the election. In the following section, we take a more granular look at how these sectors may fare under each administration.

Banks and Finance

Trump: Neutral/Mixed. We anticipate a continuation of the status quo, although with a chance for further positive implications in the areas of taxes and regulation.

Biden: Modest Negative. We expect an increase in tax rates and the Biden administration to incrementally rollback some of the recent deregulation, as well as implement new financial regulation—actions which would likely diminish profitability, but possibly be partly offset by additional stimulus and higher interest rates. We also anticipate a low probability of a push to break-up the big banks; however, there is the potential for a significant impact on the student loan market.

Basics

Trump: Neutral/Mixed. The status quo is expected to continue which means tariffs stay in place, environmental regulation remains lax and green initiatives related to carbon emissions are highly unlikely to be implemented. These are all viewed as modest positives for the basics industry. On the flip side, the aggressive stance towards China and trade is likely to continue which could be negative for the Chinese economy and therefore demand for global metals.

Biden: Modest Negative. The main risk this administration poses to the chemicals sector is an outright ban or limit on fracking which would result in an increase in natural gas feedstock costs. A more aggressive stance on environmental regulation could lead to action on pollution remediation efforts related to per- and polyfluoroalkyl substances, PFAS, as well as increased regulation of carbon emissions and single-use plastics. The "Green New Deal" could be positive for battery metals/chemicals demand. In addition, Biden's infrastructure plan calls for increased spend for affordable housing which could benefit titanium dioxide (TiO₂) players and companies with exposure to wood products. For metals, the potential removal of tariffs presents a risk to steel companies as imports could re-enter the US and pressure pricing. Biden's tax plan to increase the corporate tax rate is expected to have a disproportionately negative impact on companies with higher US income exposure.

Communications

Trump: Neutral/Mixed. The status quo is expected to continue.

Biden: Modest Negative. Title II Net Neutrality, which prohibits broadband/wireless providers from charging fees to prioritize internet traffic will be Biden's focus. Ultimately, the regulation

may eliminate future revenue opportunities, but little to no current revenue is at risk if Net Neutrality is reenacted. Broadband and wireless are still expected to benefit from growing data usage from both consumers and enterprises, particularly in a work-from-home environment.

Construction

Both administrations are supportive of an infrastructure plan, which could be a positive for aggregates building materials and construction machinery industries.

Trump: Modest Positive. Lower overall tax rates and continued affordability are anticipated which would continue to benefit the construction sectors.

Biden: Neutral/Mixed. A potential tax credit for first-time homebuyers would be a positive for housing demand. However, for higher income brackets, potential lower disposable income from higher tax rates could impact housing and repair, and remodeling spending. In addition, more open trade has a mixed impact on the sector with potential greater competitive pressures in some building materials which would be more supportive from an agricultural equipment standpoint.

Energy

Trump: Neutral/Mixed. We expect Trump would remain accommodative to the industry, but also encourage higher production and at the margin limit commodity price upside.

Biden: Modest Negative. We believe Biden would provide greater support on energy transition and low carbon initiatives, and stricter rules for fracking, methane emissions, and waste-water disposal; higher regulatory scrutiny of pipeline development and approval, partially mitigated by more limited future infrastructure needs. Drilling restrictions on federal lands would most directly impact upstream companies with high exposure, with spillover effects on some midstream companies and already challenged oil field service providers.

Healthcare

We see the fundamental impact on branded pharmaceuticals as modestly negative under a second Trump term and negative under a Biden presidency. President Trump has previously shown interest in reducing prescription drug costs via executive orders. Vice President Biden supports more wide-ranging legislation on branded pharma, including limiting price increases on all branded, biotech, and "abusively priced" generic drugs to the general inflation rate. Even if

these policies are compromised, we expect a material impact on branded pharma and companies supporting the pharma industry.

Trump: Neutral/Mixed. Maintain the status quo in the US healthcare industry. However, this assumes that the Affordable Care Act is retained following the case of California v. Texas, which is scheduled to be argued in front of the Supreme Court on November 10, 2020. Our view is that retention is the likeliest outcome, but if the ACA is invalidated, there could be meaningful disruption across the industry, particularly towards healthcare providers.

Biden: Neutral/Mixed. We would expect legislation creating a new public option, strengthening the ACA, and reducing the age of Medicare eligibility from 65 to 60. Biden's policy goals are aimed around improved access to healthcare for the uninsured or underinsured; if achieved, these policies would positively affect healthcare facilities and services as well as healthcare equipment and supplies.

Insurance

Trump: Neutral/Mixed. Despite Trump's promise for a better and cheaper replacement for the ACA, the president has yet to unveil a comprehensive plan. In addition, his executive orders to preserve portions of the ACA (e.g., protecting those with pre-existing conditions) stand in contrast with his stated goal of replacing it. Until such details emerge, we believe the status quo is likely to continue. We do not expect the election to have a meaningful impact on the Life or P&C Insurance industries.

Biden: Modest Negative. Biden's proposal for creating a public healthcare option has the potential to be the most disruptive to the industry, as any individual on a private plan (either through the ACA or an employer) would have the option to move onto a lower-cost public plan. The level of disruption will ultimately depend on how attractive the health plan is to potential consumers, but information on plan benefits, participating providers, and cost structure is currently limited. Based on the information provided on Biden's website and his commentary during the first Presidential debate, we believe a public option under a Biden administration would serve more as a supplement than as a replacement to existing healthcare plans and primarily target uninsured individuals. Also, we would note that a public option has historically had difficulty passing through Congress, even with a blue majority in Congress.

Biden's proposal for a higher corporate tax rate would reduce future profitability and cash flow on the margin. On the other

hand, a more expansionary fiscal policy would be a net positive for the insurance industry if it led to higher interest rates.

Technology

Bipartisan: Several politicians concerned with the size and influence of several big technology firms, which could lead to break-ups and/or reduced M&A (i.e. DOJ antitrust suit against Google). We believe both parties will continue efforts to bring some technology manufacturing back to US related to national security.

Trump: Neutral/Mixed. We anticipate a continued tough stance on China that could strain supply and accelerate re-domiciling of supply-chains. In addition, we expect increased investment of US high-speed networks (broadband/wireless).

Biden: Modest Negative. We expect increased regulation centered around privacy, anti-trust, and taxes. Based on campaign statements, we anticipate significant spending on infrastructure including high-speed networks (broadband/wireless). The fundamental impact of modest negative preliminary related to increased corporate taxes.

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