

# The Election, the Economy, and the Road to Recovery



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06 November 2020

## Important Information

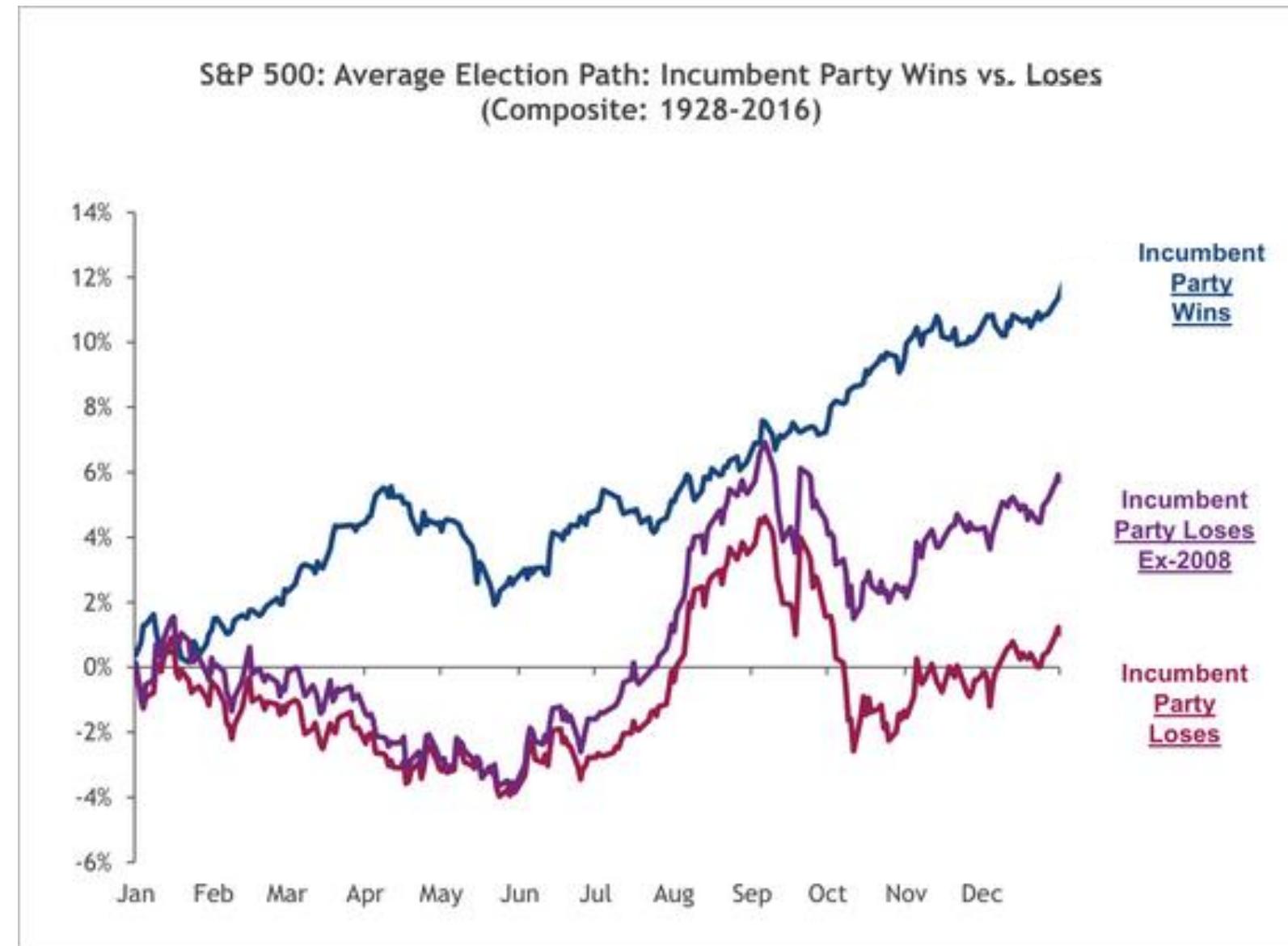
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# Historically Markets Preferred Incumbent Party Wins

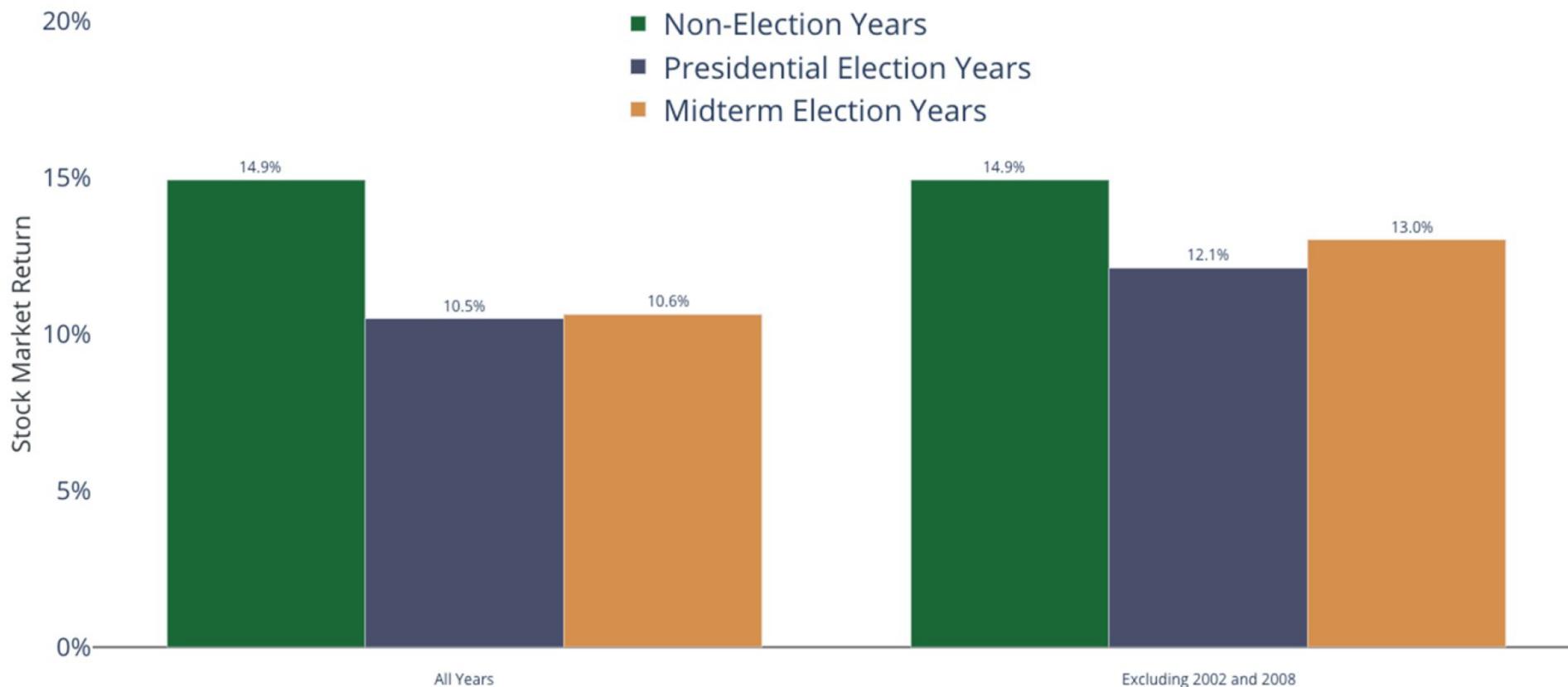


3 Source: The Daily Shot. Data as of 8/26/2020. Past performance is not indicative of future results.

# Lower Returns in Election Years

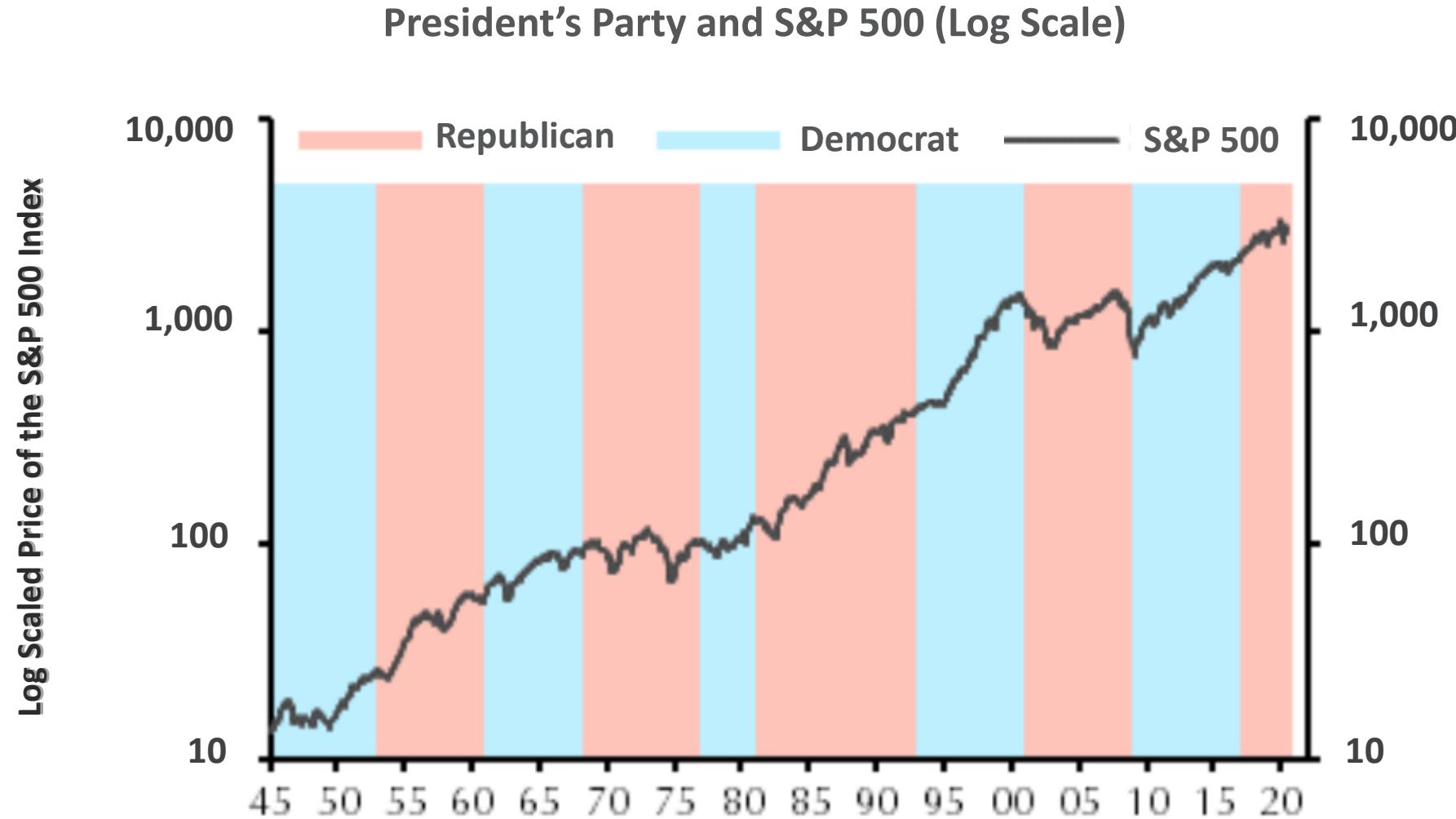
## Stock Markets in Election Years

*S&P 500 total return in election and non-election years since 1933*



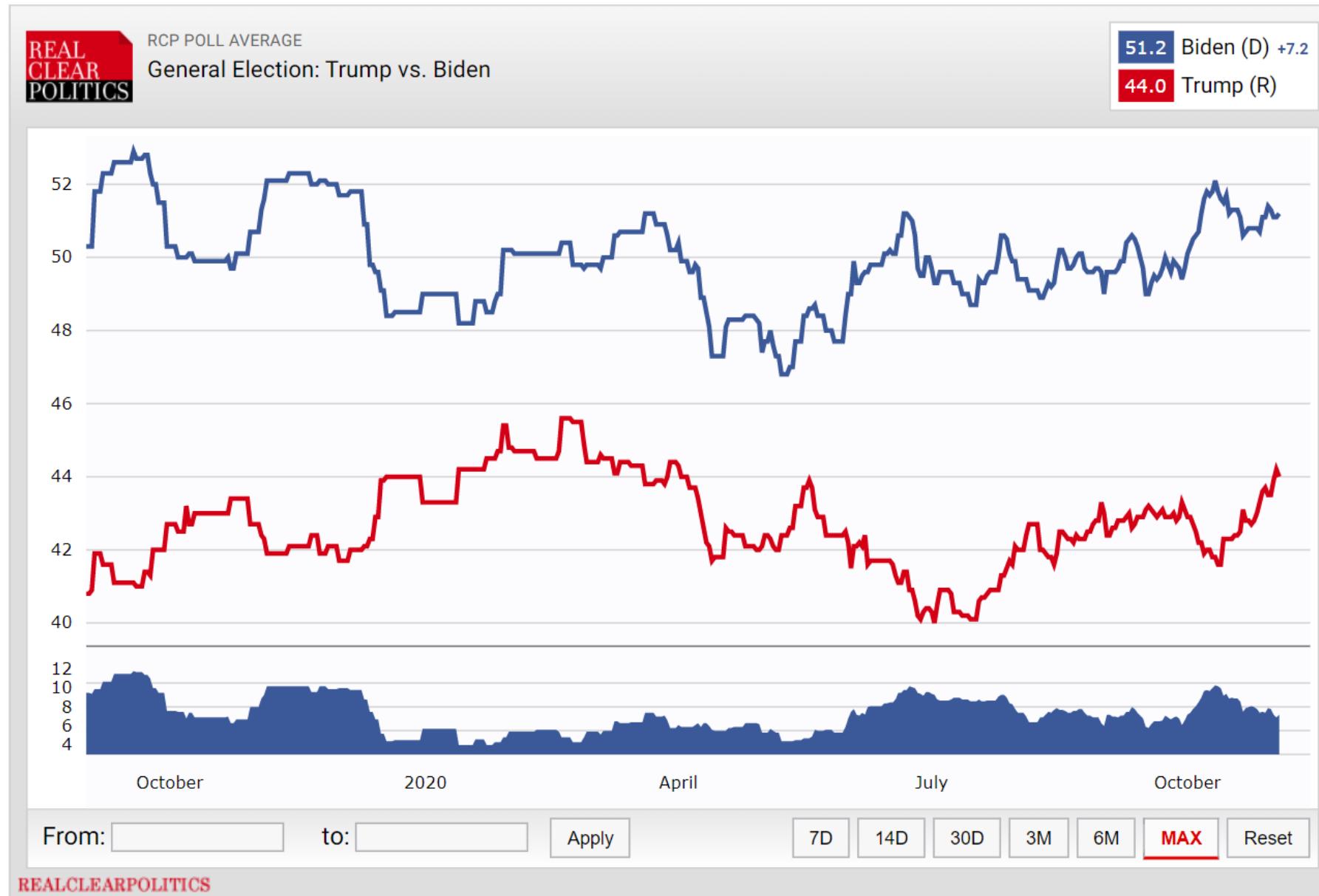
<sup>4</sup> Source: Clearnomics, S&P. Data as of 12/31/2017. Past performance is not indicative of future results.

# Democratic President's Party Slightly Ahead: Less of a Driver



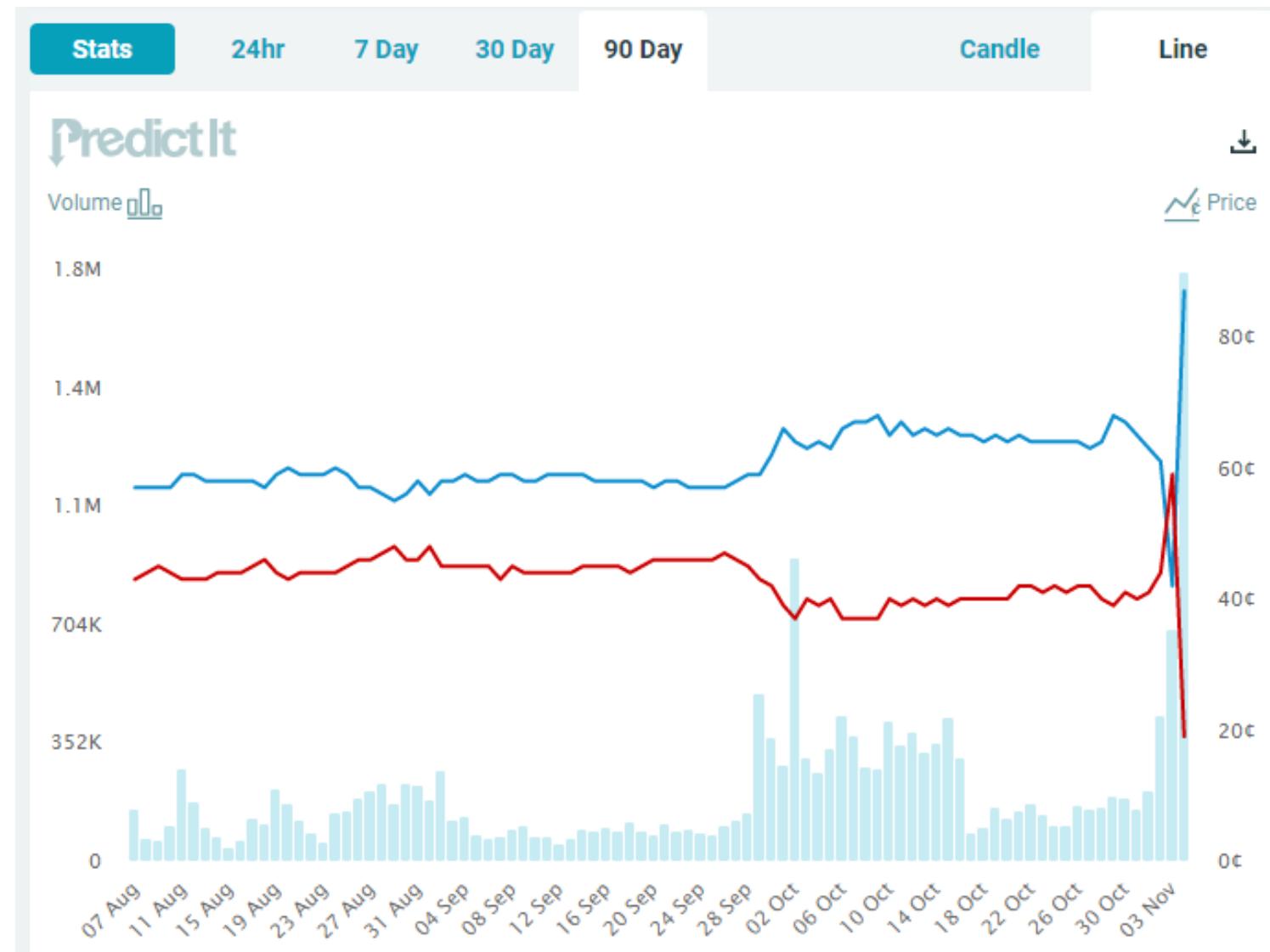
5 Source: Refinitiv, Capital Economics. Data as of 2020.

# Biden Maintained Advantage Over Trump in Polls



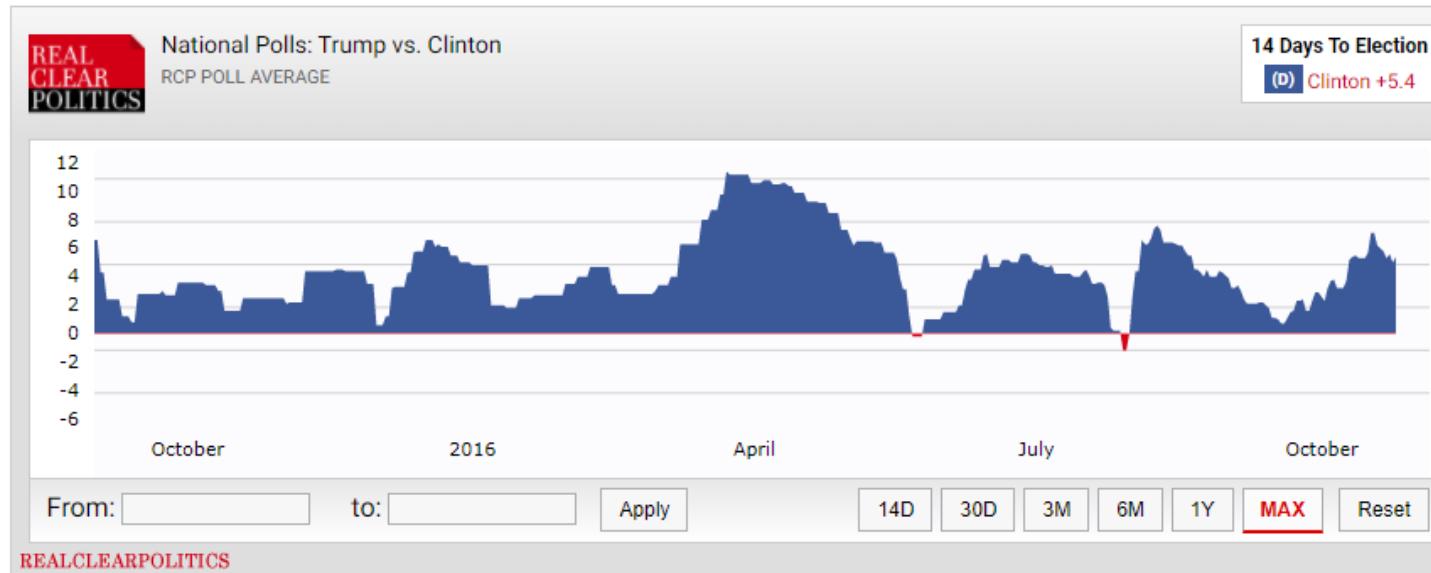
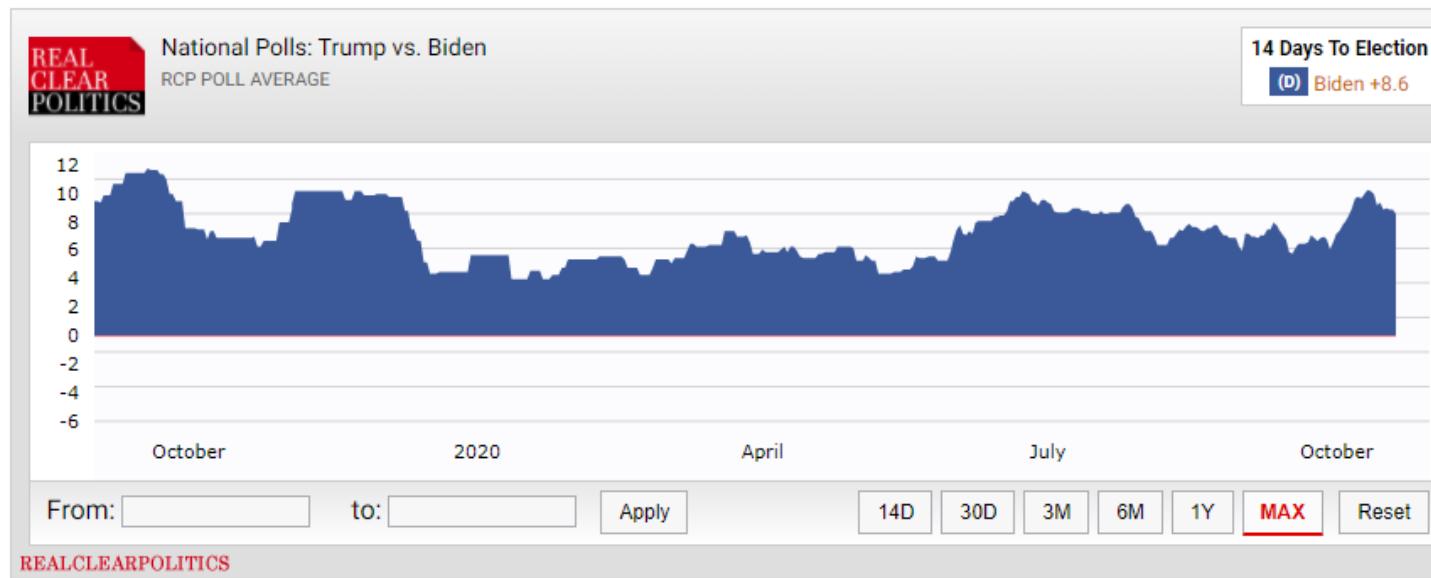
6 Source: RealClearPolitics. Data as of 03/11/2020.

# Biden Maintains Advantage Over Trump in Betting Markets



7 Source: PredictIt. Data as of 06/11/2020.

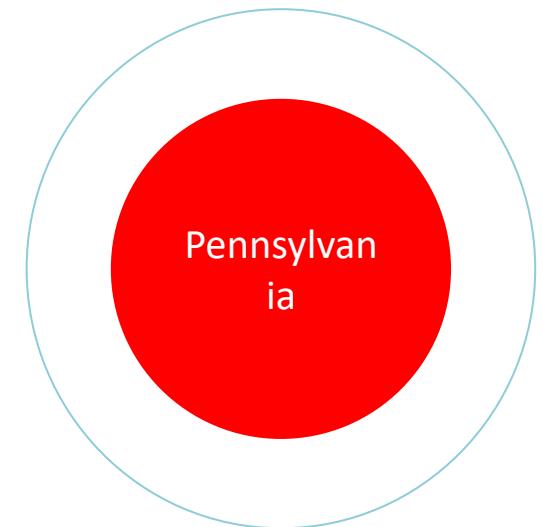
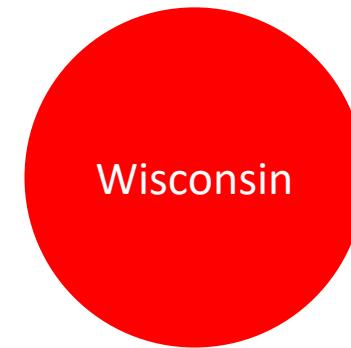
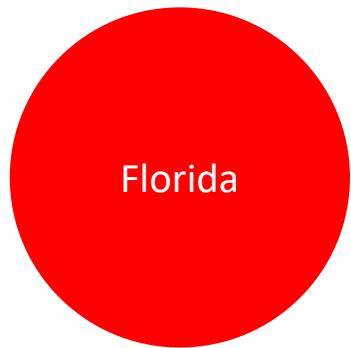
# Biden Lead Superior to Clinton: Still the Gap Wasn't Predictive



8 Source: RealClearPolitics. Data as of 10/19/2020.

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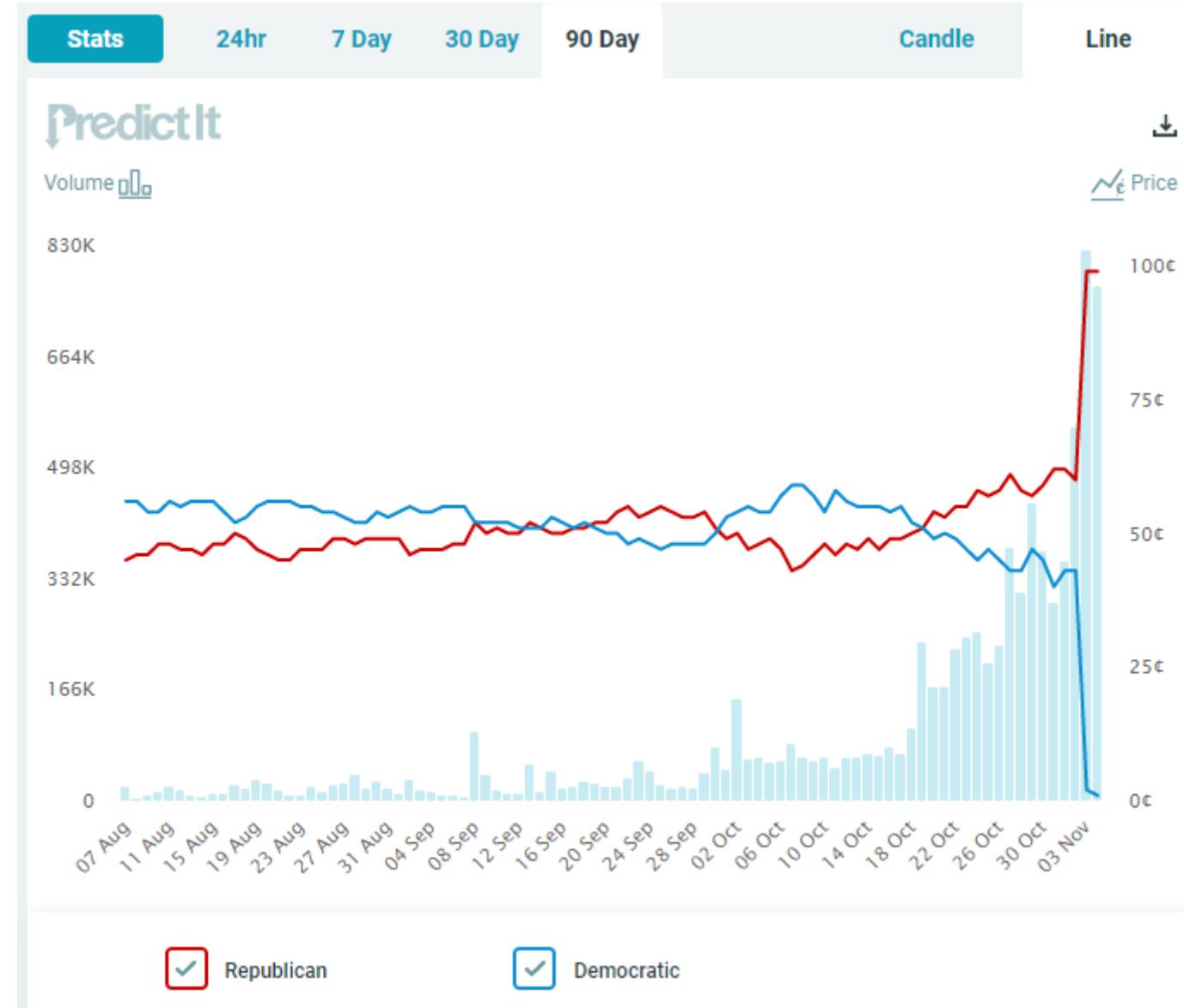
# Leading in the election, four states were expected to be key for a Trump re-election



# Republican victory in Florida

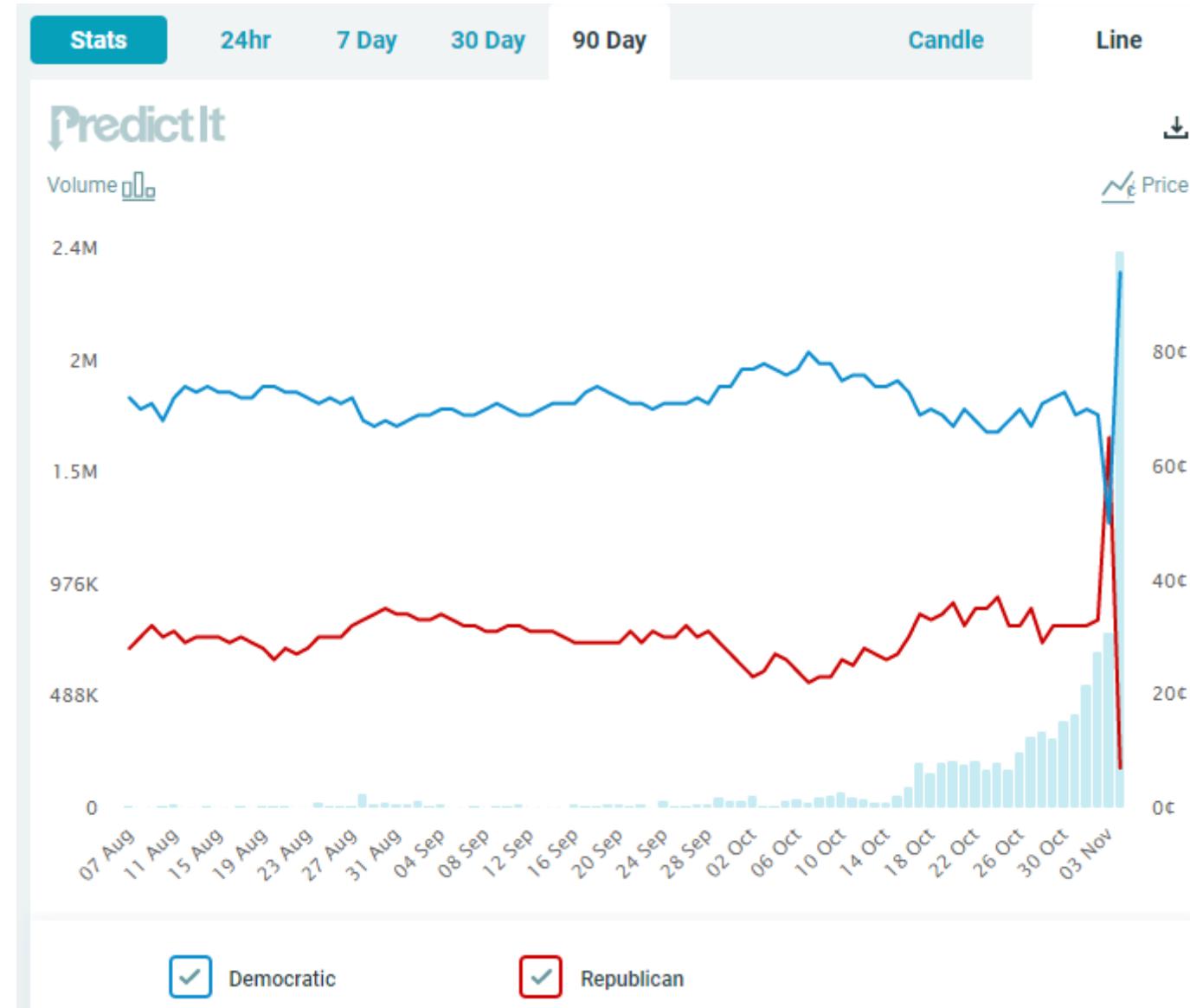
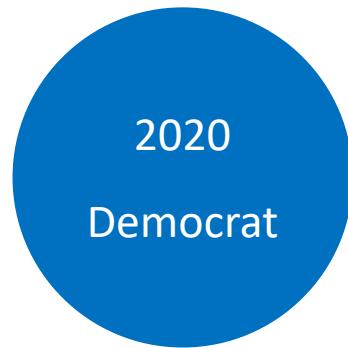
2016  
Republi-  
can

2020  
Republi-  
can



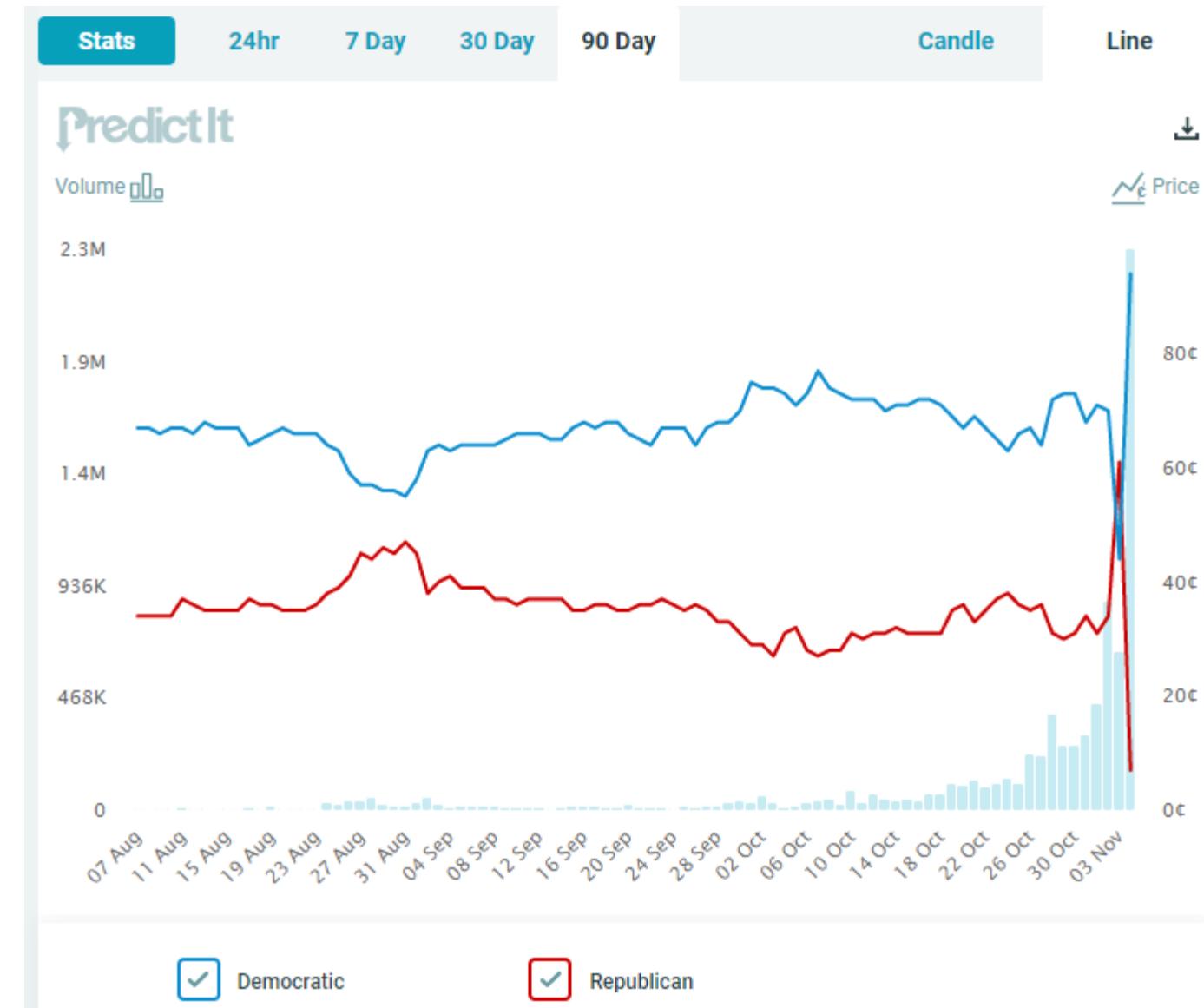
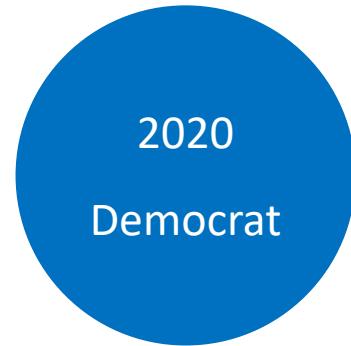
10 Source: PredictIt. Data as of 06/11/2020.

# Biden Claims Other Battleground States in Michigan



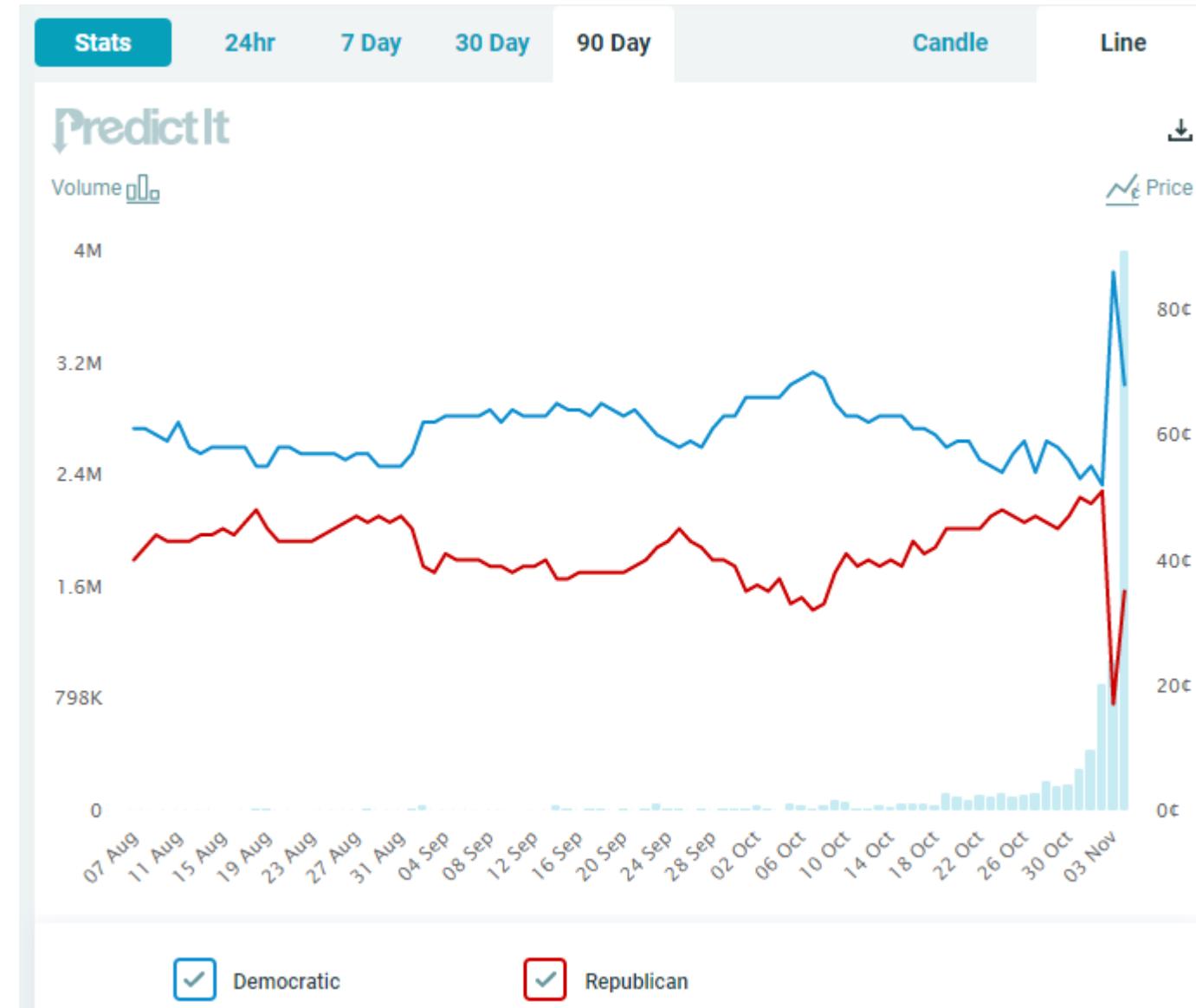
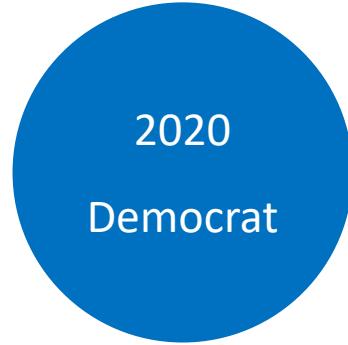
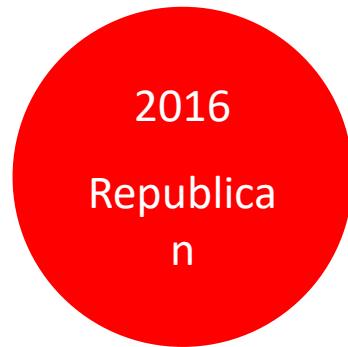
11 Source: PredictIt. Data as of 06/11/2020.

# And Wisconsin



12 Source: PredictIt. Data as of 06/11/2020.

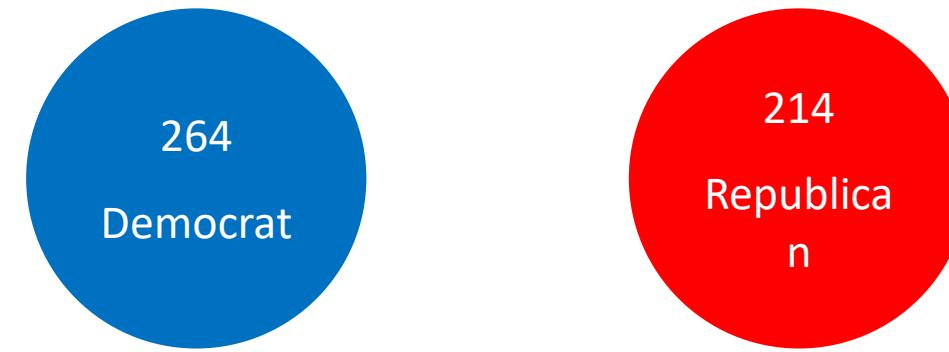
# And has taken Arizona



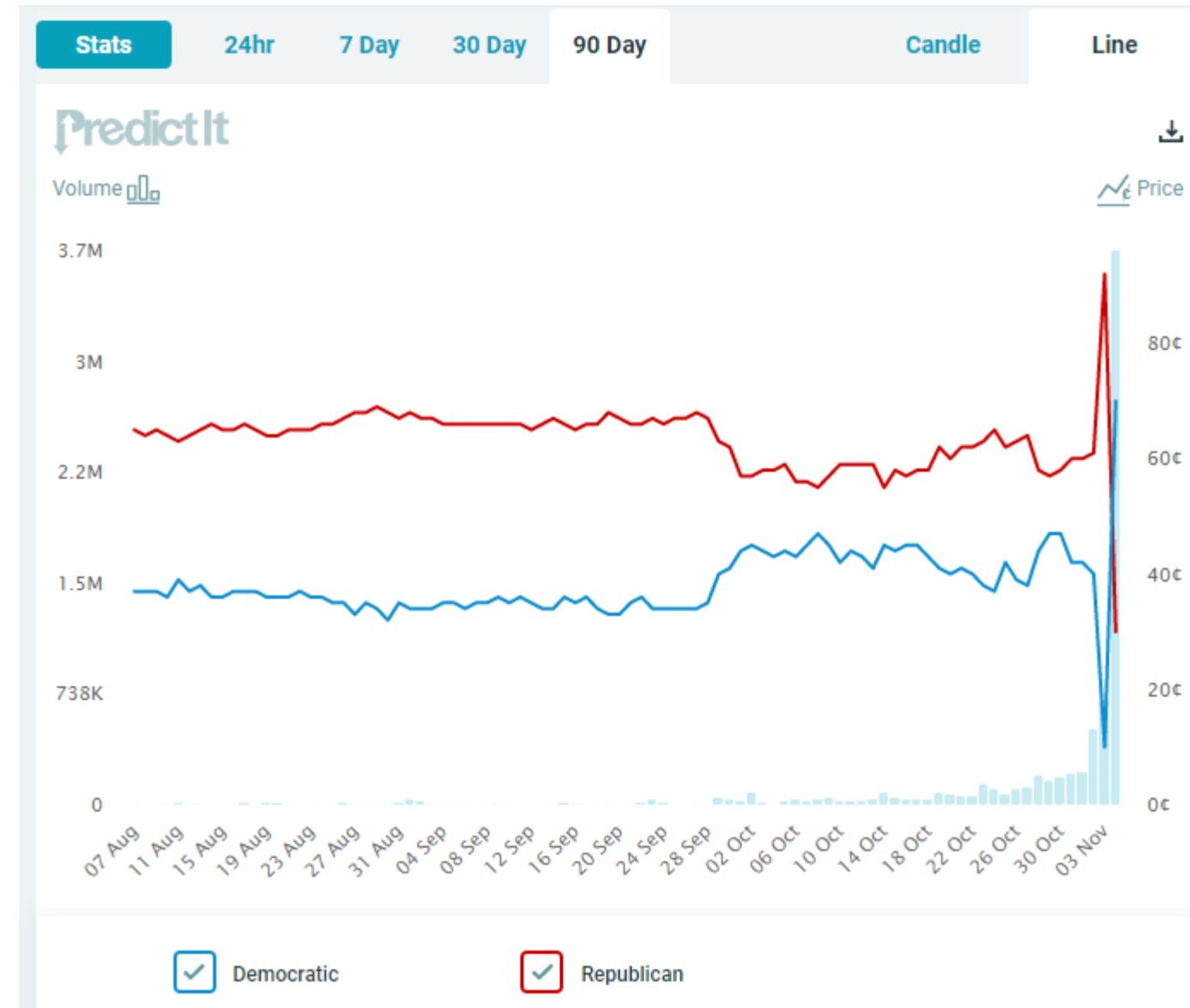
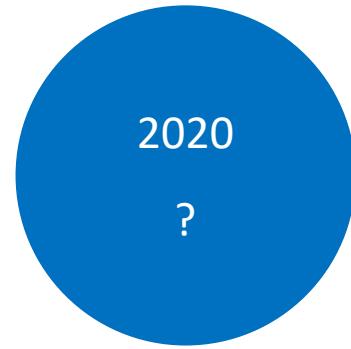
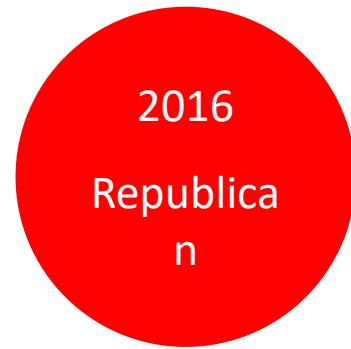
13 Source: PredictIt. Data as of 06/11/2020.

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# The current state of play – Trump needs to win/hold the remaining four states to secure victory



# Georgia

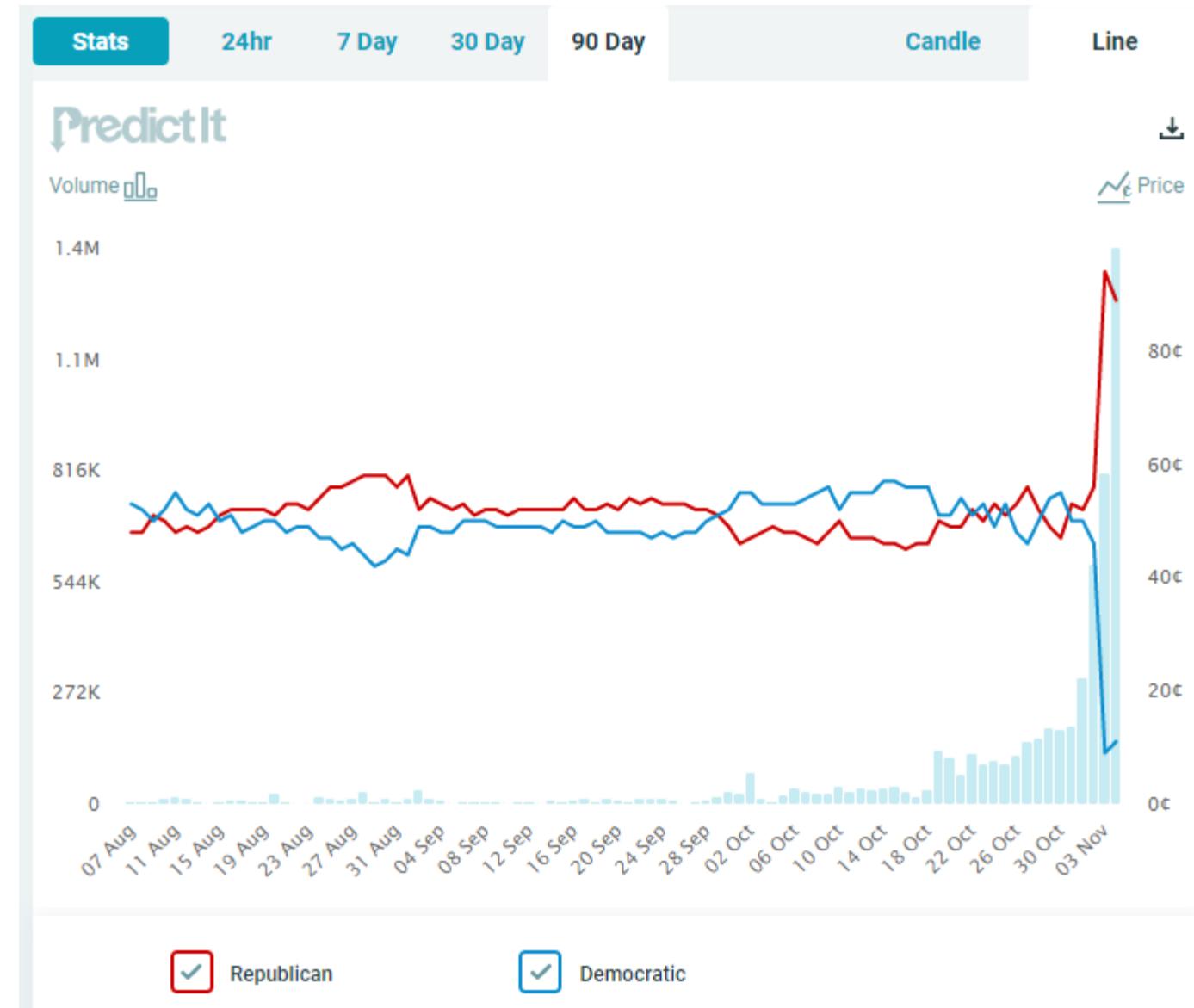


15 Source: PredictIt. Data as of 06/11/2020.

# North Carolina

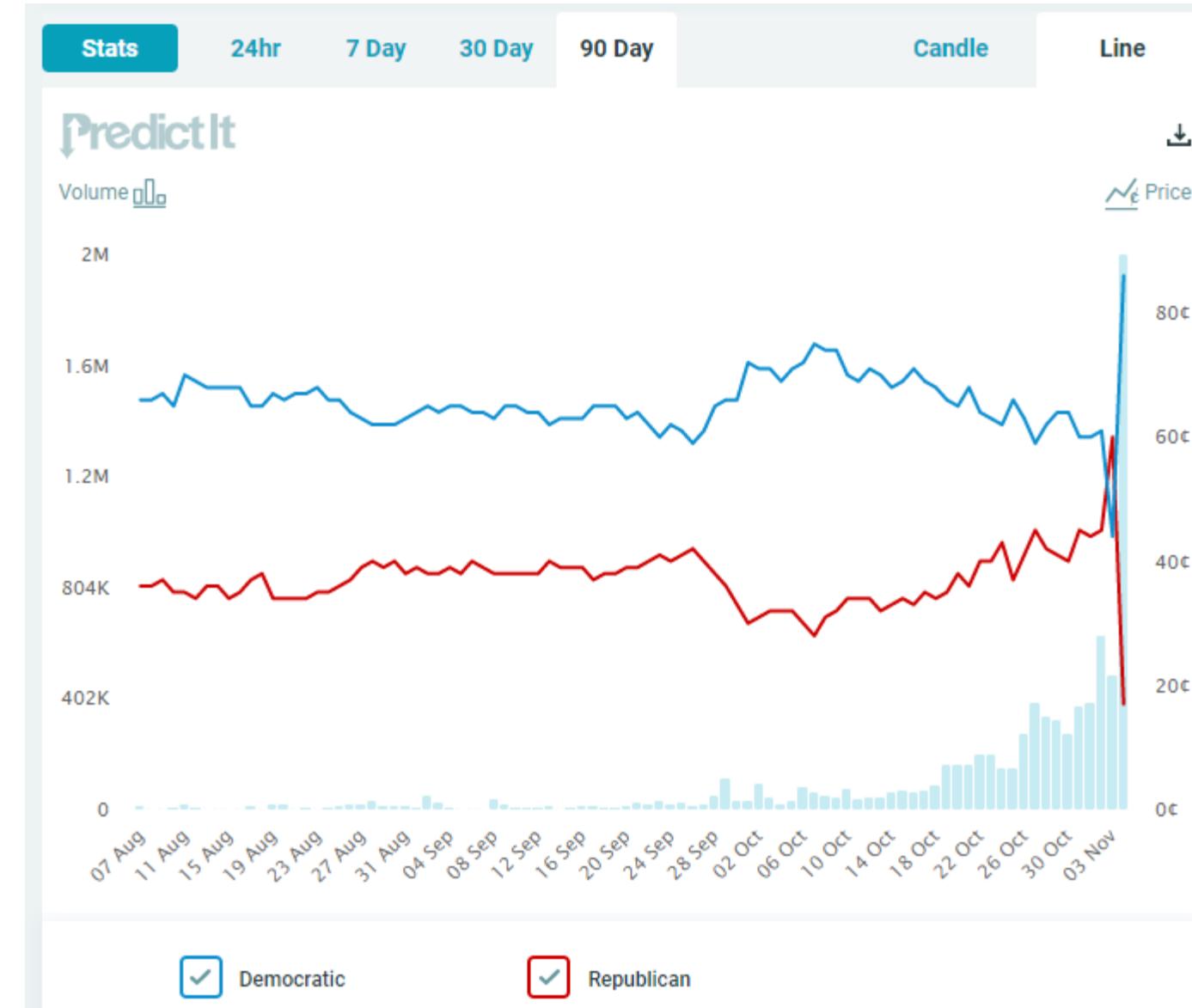
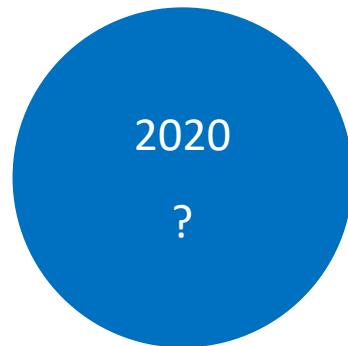
2016  
Republican

2020  
?



16 Source: PredictIt. Data as of 06/11/2020.

# Pennsylvania

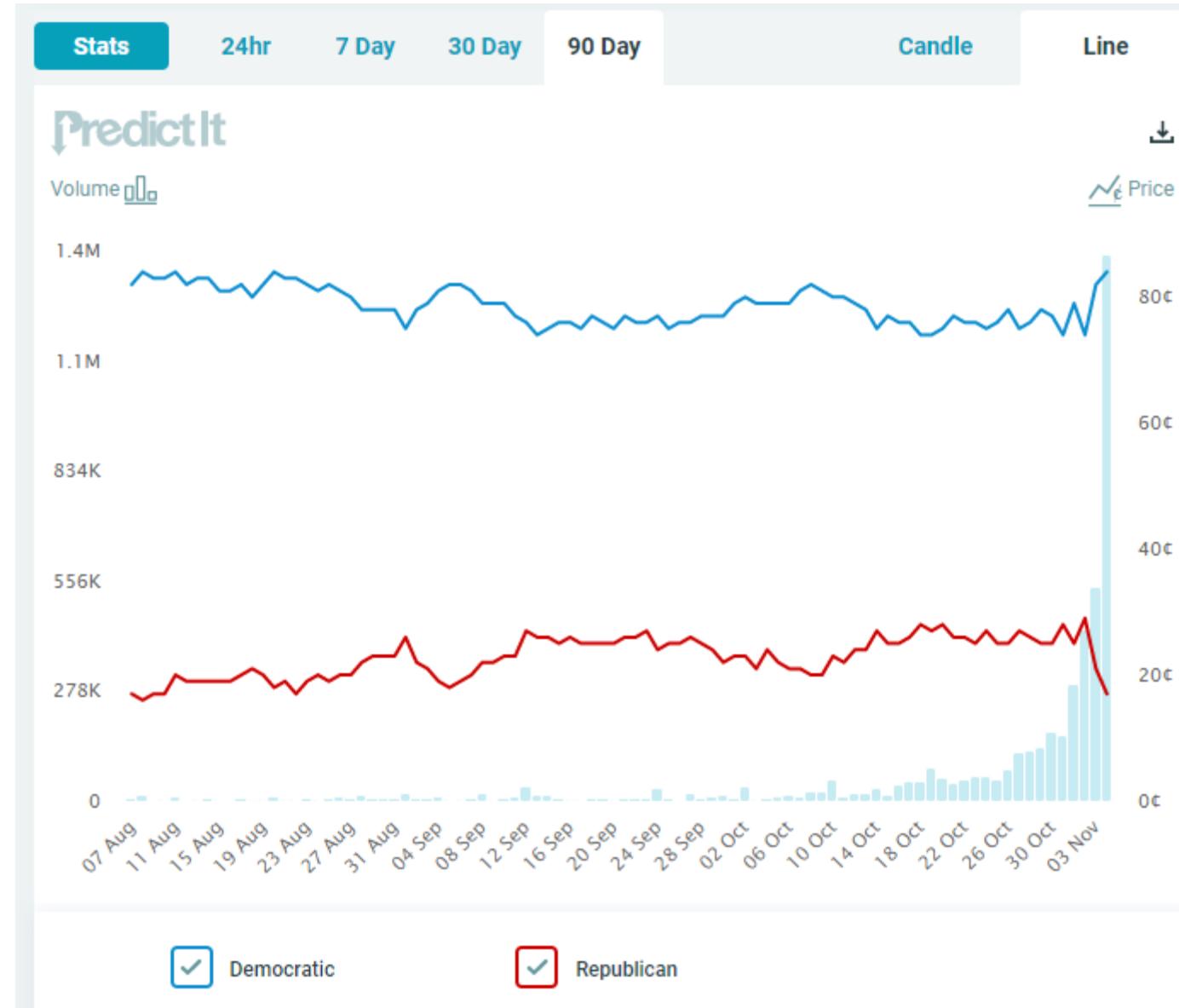


17 Source: PredictIt. Data as of 06/11/2020.

# Nevada

2016  
Democrat

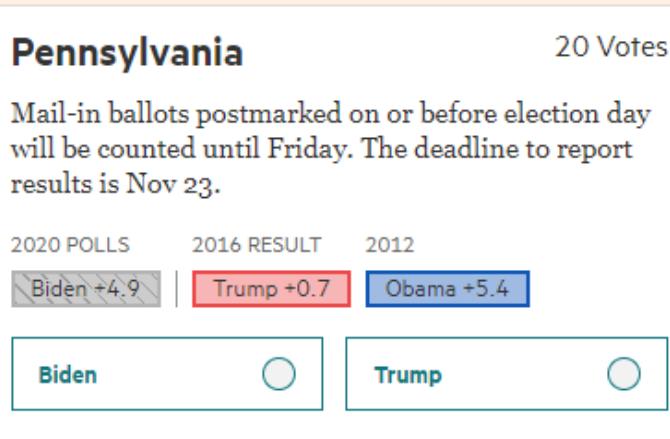
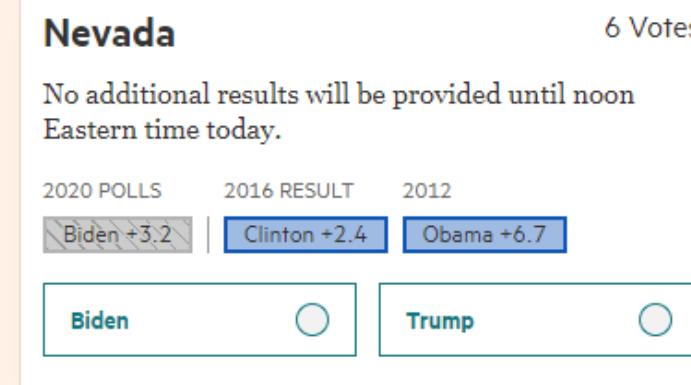
2020  
?



18 Source: PredictIt. Data as of 06/11/2020.

# Pulling this together – Trump needs a lot to go his way....

- States not yet called



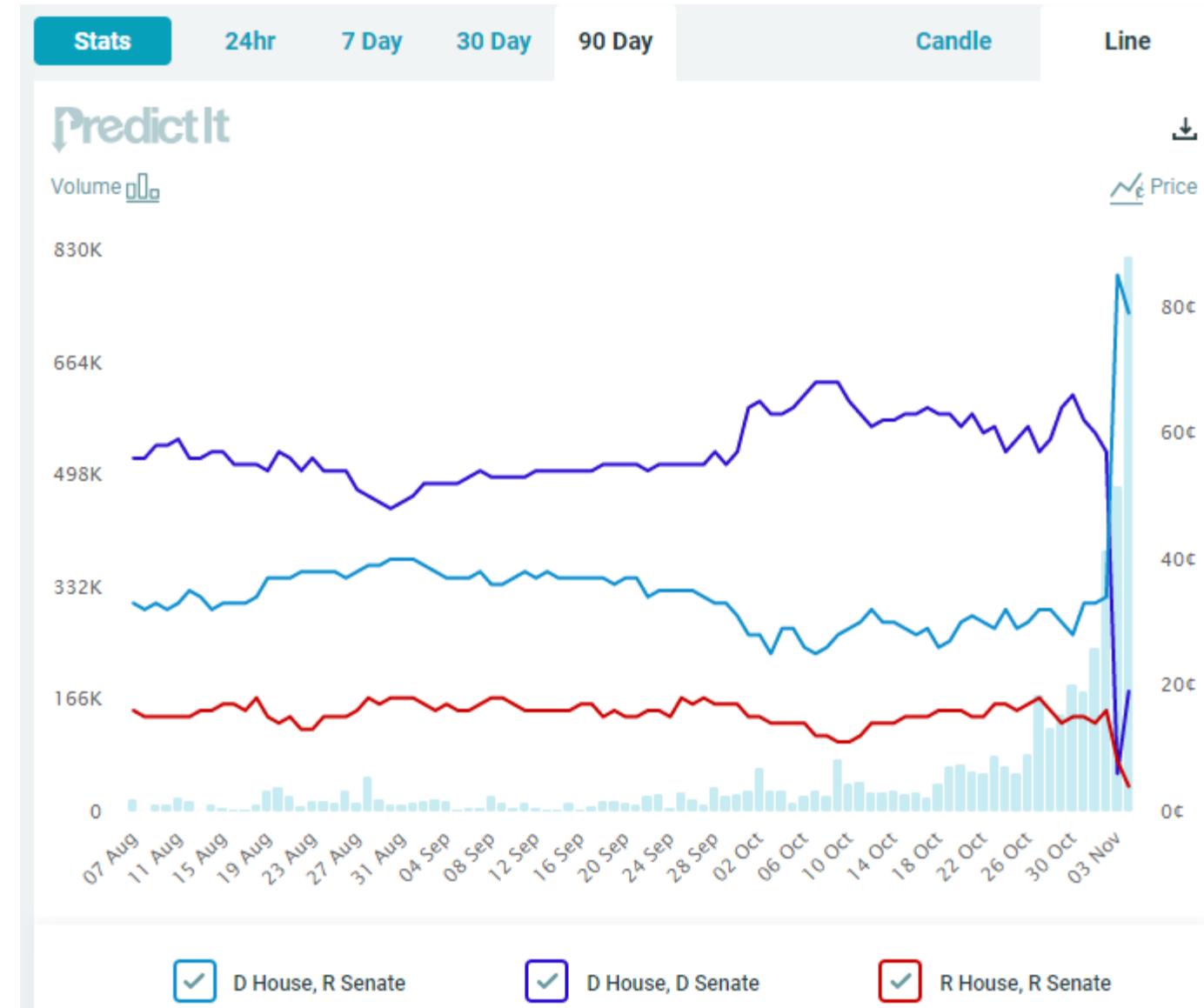
## Question

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Which are the four key states still to be decided in the U.S election?

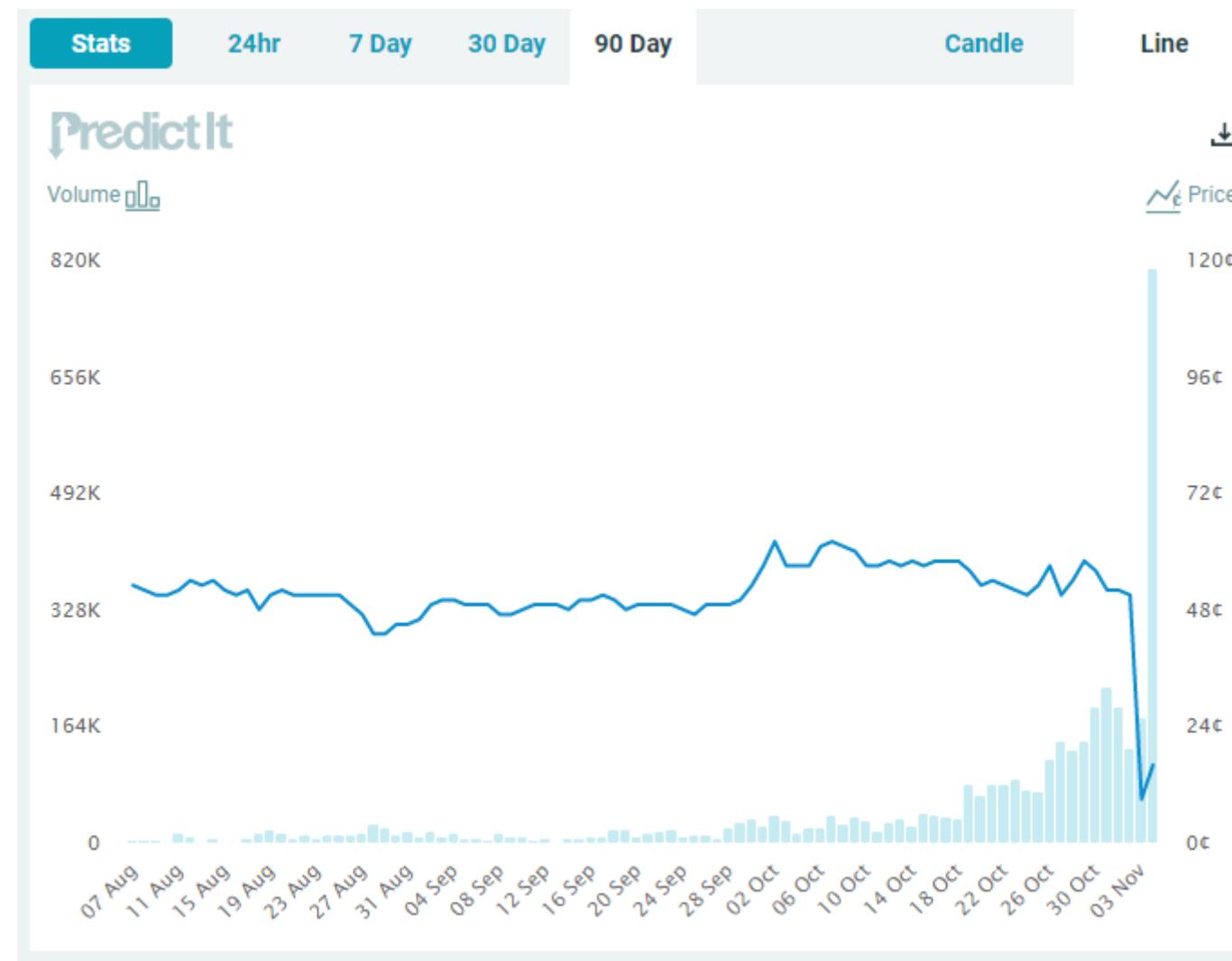
- a) Florida, Wisconsin, Pennsylvania and Minnesota
- b) California, Wisconsin, Pennsylvania and Michigan
- c) Georgia, Pennsylvania, North Carolina and Nevada
- d) Florida, New York, Pennsylvania and Michigan

# Control of Congress: The Bigger Outcome



21 Source: PredictIt. Data as of 06/11/2020.

# The likelihood of a blue wave (a Democrat clean sweep of the White House, Senate and House) has plunged



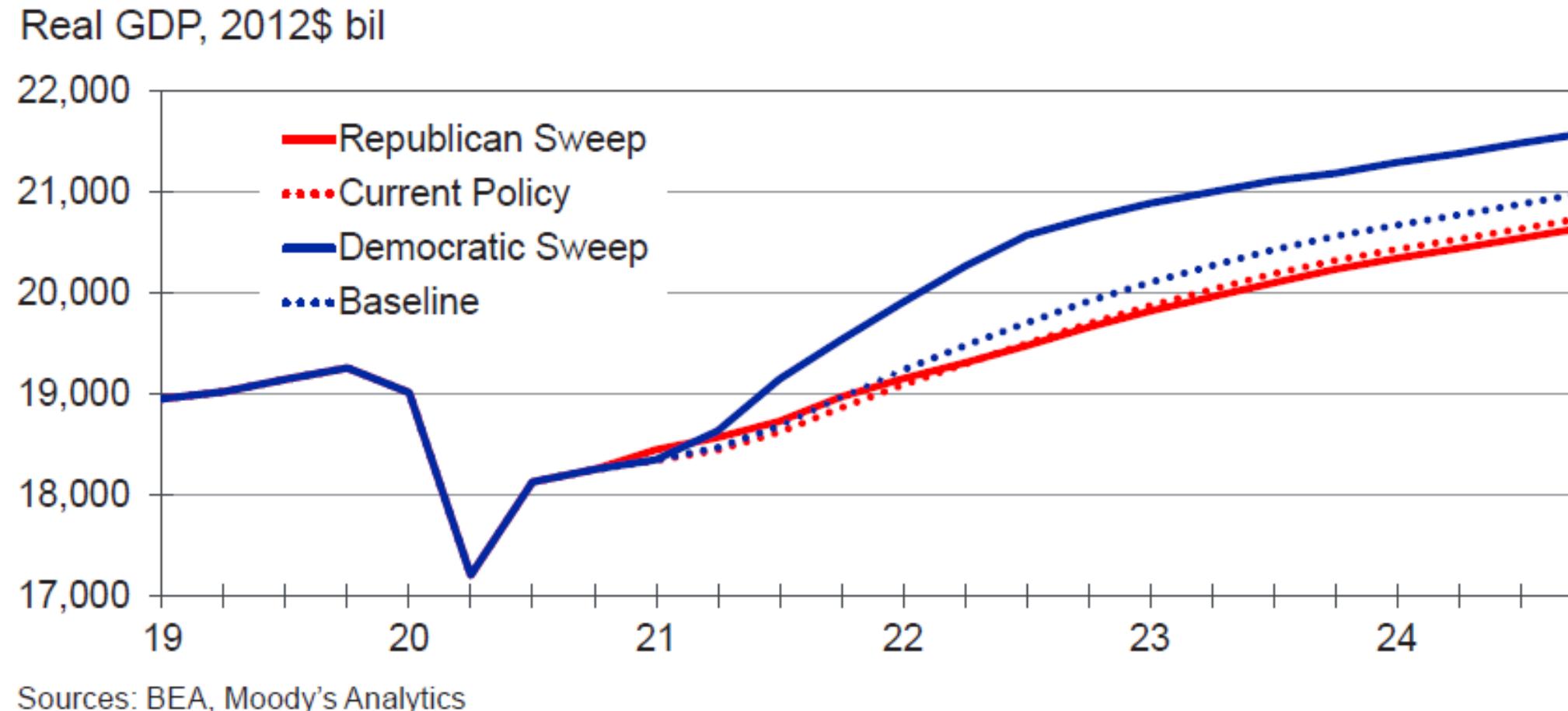
22 Source: PredictIt. Data as of 06/11/2020.

# Policy Implications

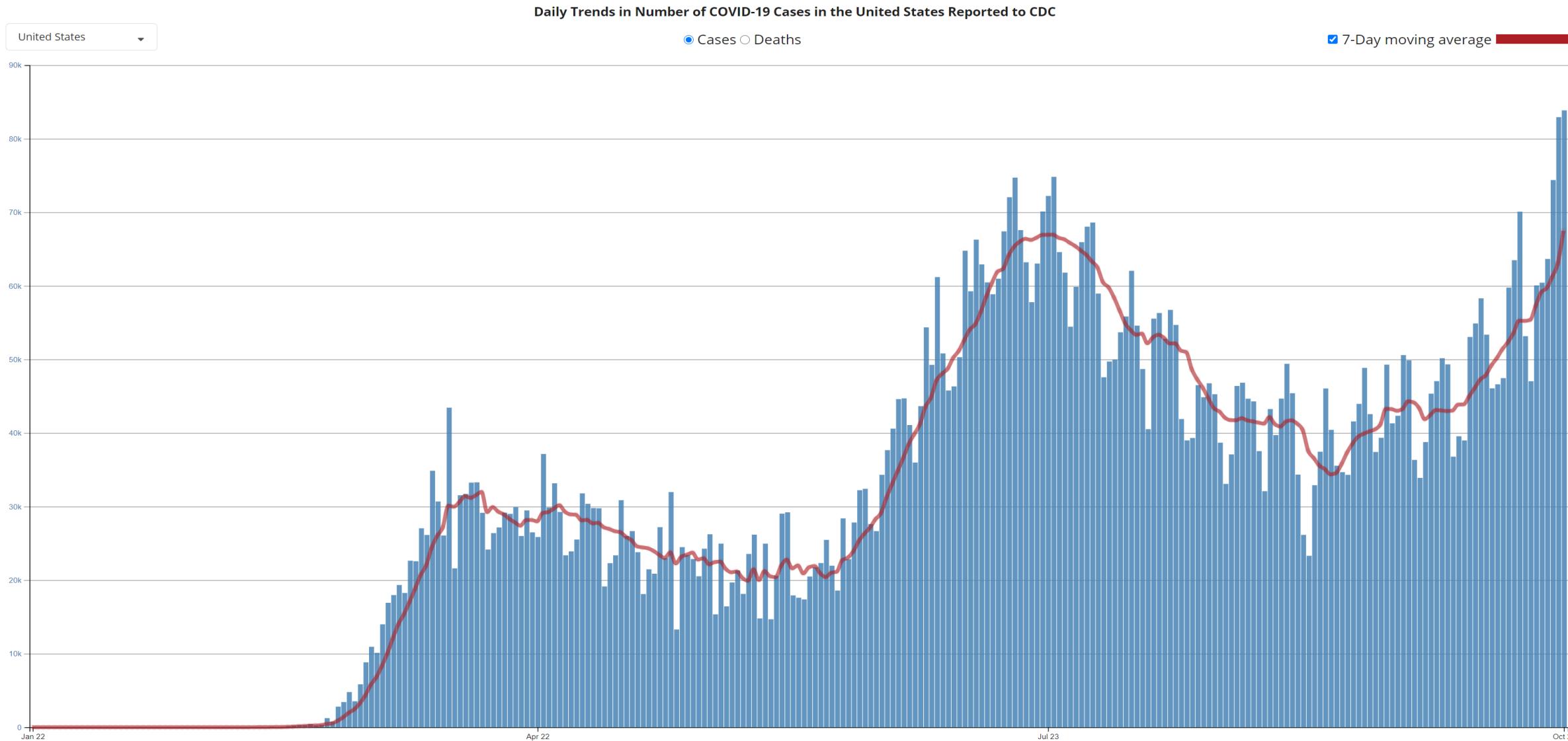
	<b>Trump</b>	<b>Biden</b>
<b>Taxes &amp; Spending</b>	<ul style="list-style-type: none"><li>Deficit-financed tax cuts</li><li>Reduced individual income taxes</li></ul>	<ul style="list-style-type: none"><li>Additional spending and taxes (on higher earners)</li><li>Raising corporate tax rate back to 28% (from 21%)</li></ul>
<b>Healthcare</b>	<ul style="list-style-type: none"><li>“Status quo”</li></ul>	<ul style="list-style-type: none"><li>Public option for all individuals</li></ul>
<b>Regulation</b>	<ul style="list-style-type: none"><li>Continued rollback of regulations</li></ul>	<ul style="list-style-type: none"><li>Raise Federal minimum wage to \$15/hr</li><li>Stricter environmental rules</li></ul>
<b>Trade Policy</b>	<ul style="list-style-type: none"><li>Continued escalation with China</li></ul>	<ul style="list-style-type: none"><li>Stronger Buy America provisions</li></ul>
<b>Fed Appointments</b>	<ul style="list-style-type: none"><li>Replace Fed Chair Jerome Powell</li></ul>	<ul style="list-style-type: none"><li>Reappoint Fed Chair Jerome Powell</li></ul>

Source: Candidate websites, various media reports, Capital Economics 08/13/2020.

# Moody's Prediction of Real GDP Paths

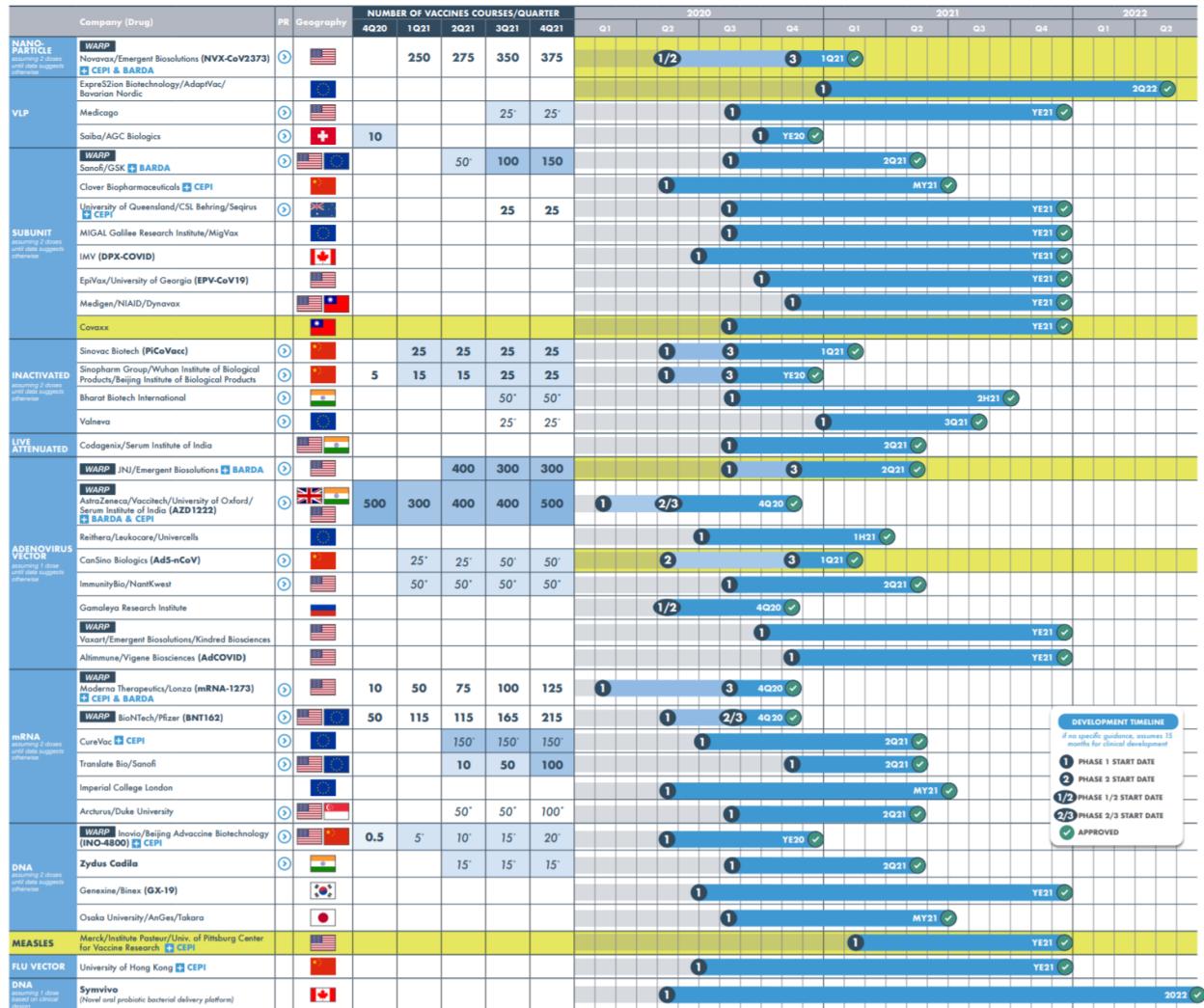


# Daily COVID-19 Cases Rising in the US



# Promising Vaccine Efforts Underway

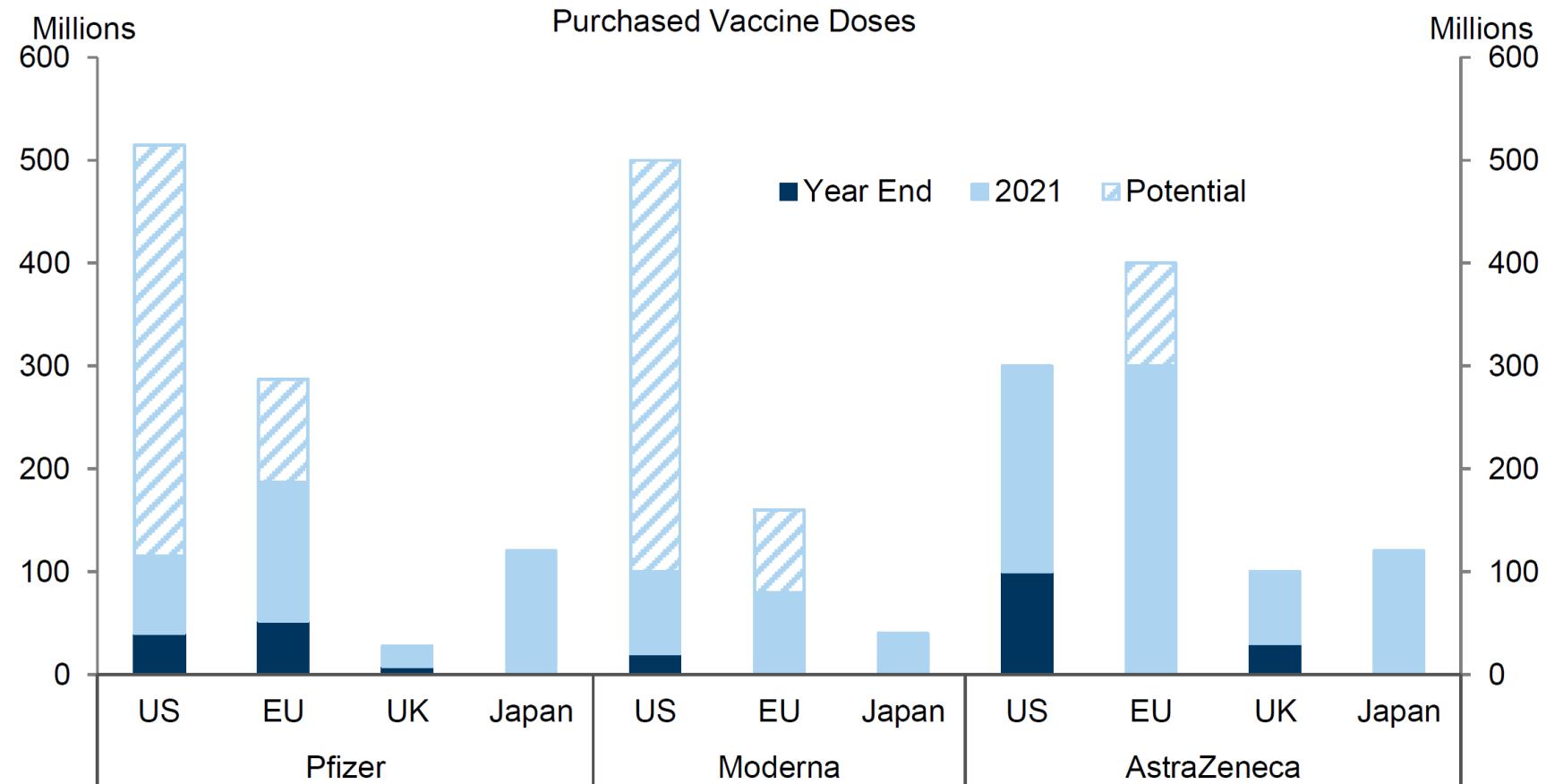
## COVID-19 VACCINES: MILESTONES\* (DATA AS OF OCTOBER 16)



## CUMULATIVE VACCINES MANUFACTURED BY COUNTRY

COUNTRY	NUMBER OF VACCINES COURSES/QUARTER				
	4Q20	1Q21	2Q21	3Q21	4Q21
<b>TOTALS</b>	<b>575M</b>	<b>785M</b>	<b>1.67B</b>	<b>2.1B</b>	<b>2.4B</b>
US	86M	305M	865M	890M	1.10B
EU	86M	150M	430M	525M	650M
INDIA	400M	250M	265M	465M	465M
CHINA	5M	65M	65M	100M	100M
JAPAN		15M	40M	65M	90M

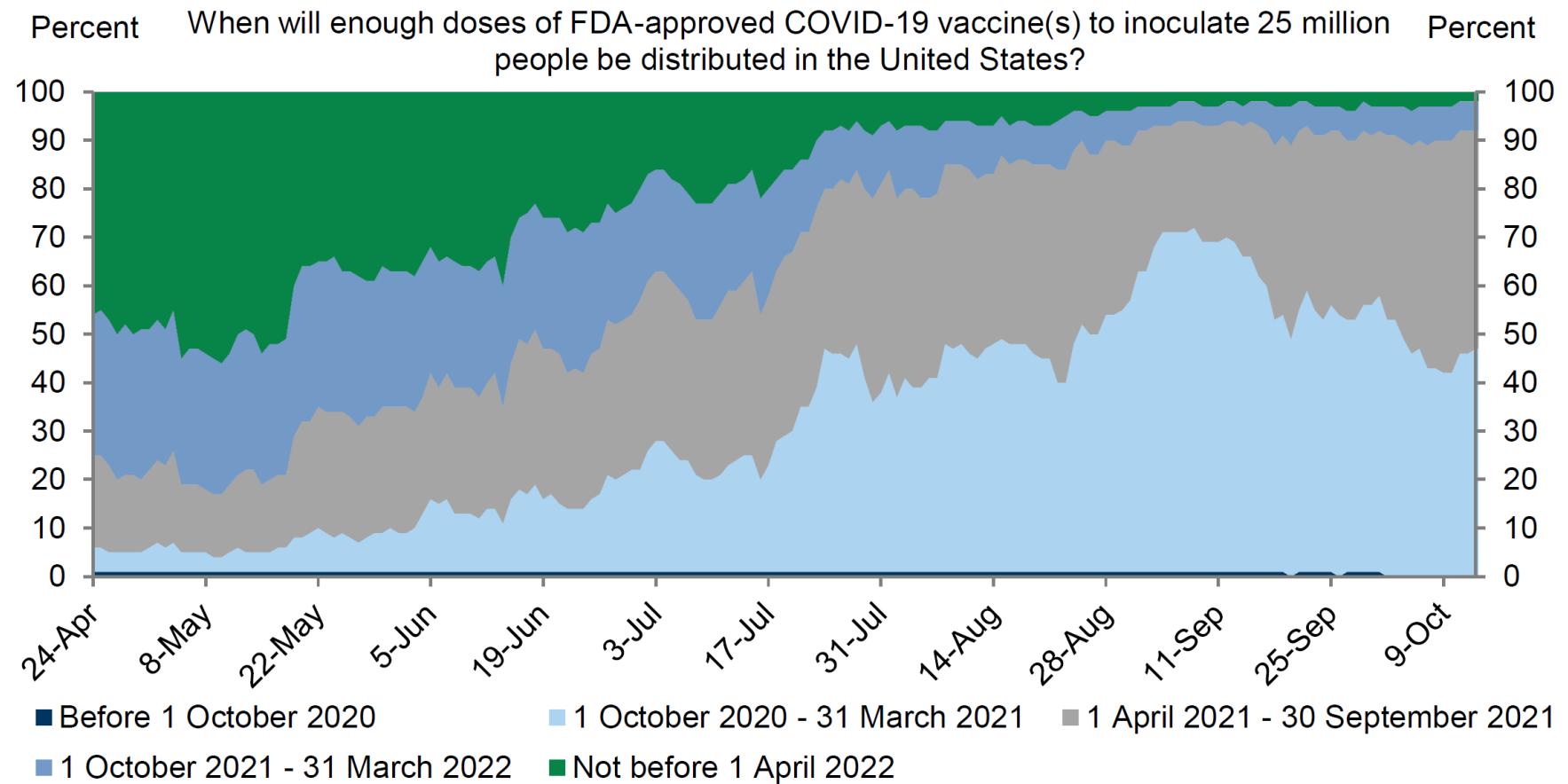
# Governments Are Purchasing Doses Across Drug Companies



Pfizer estimates production of 100mn doses by end-2020, of which we allocate 40mn to the US using Operation Warp Speed estimates and split the remaining 60mn between the EU and the UK by population.

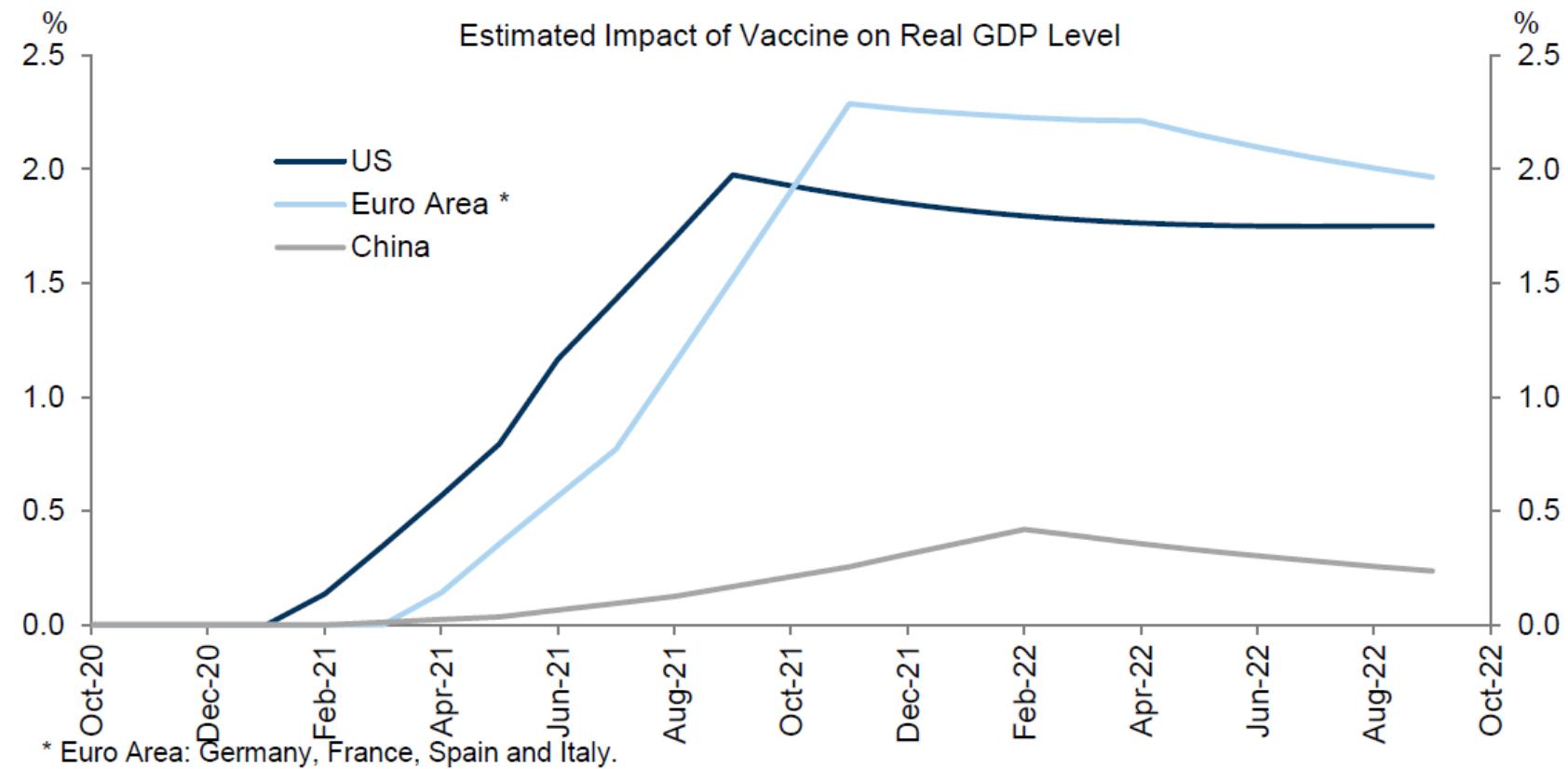
# Concerns Over Timeline Have Grown

## Exhibit 1: Greater Concern That a Vaccine May Take Longer Than Previously Hoped



# Vaccine Expected to Boost Economic Output in 2021

Exhibit 8: A Larger Boost to the US and Europe Than to China



## Question

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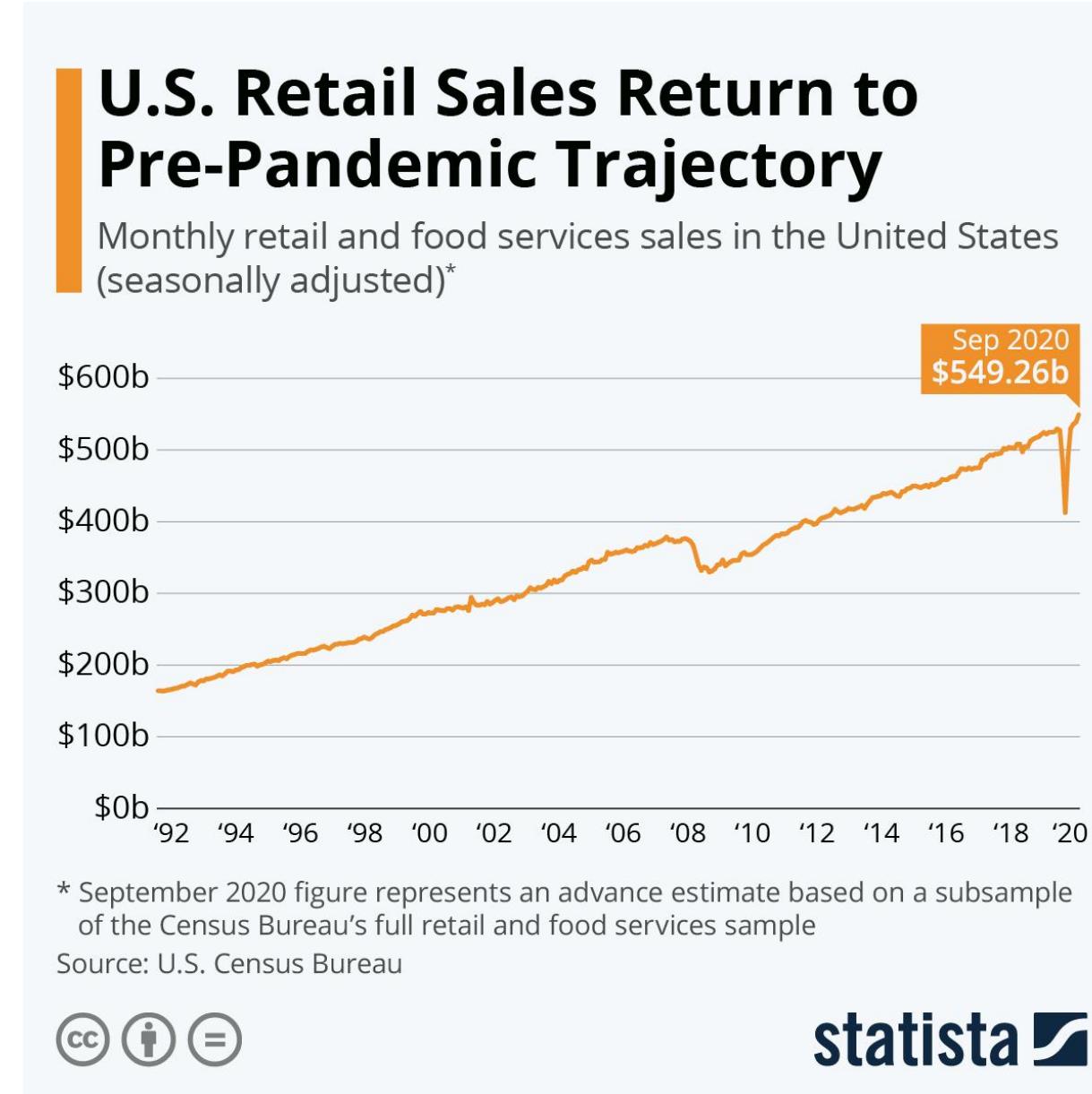
Approximately how many cases of COVID-19 infection has the U.S. recorded to date?

- a) 1 million
- b) 10 million
- c) 100 million

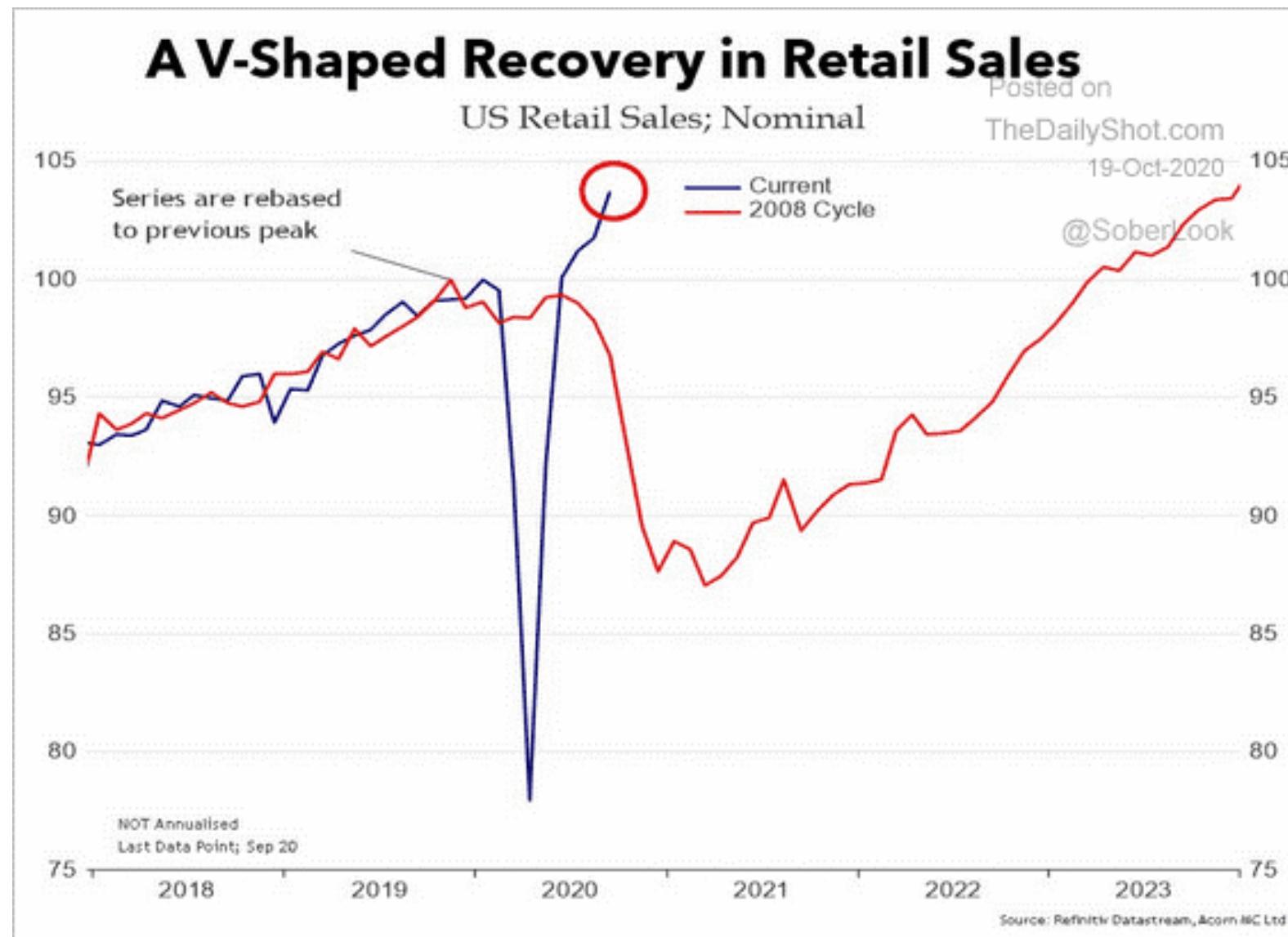
# Positive Recovery Signs via Unemployment Improvement



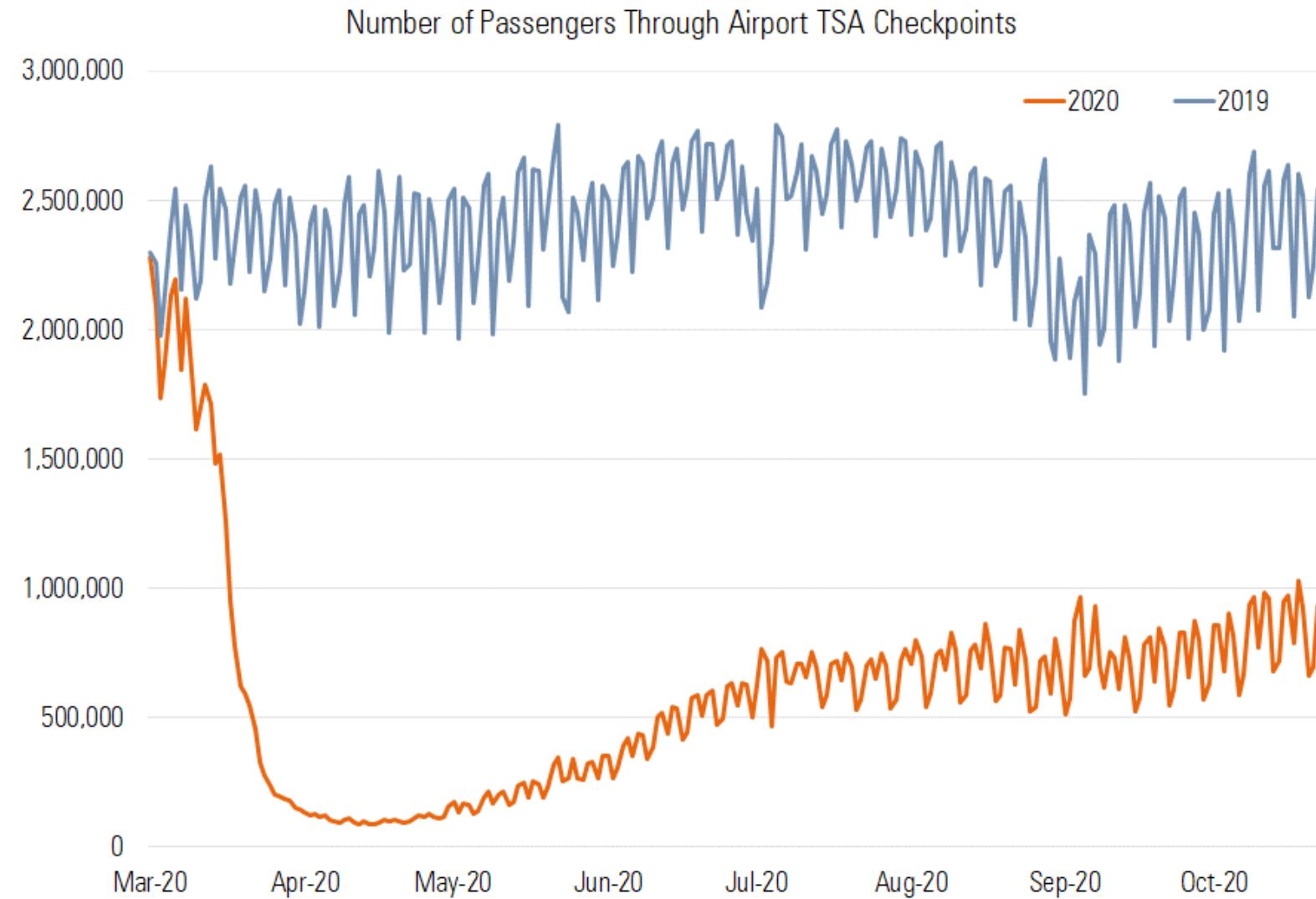
# Retail Sales Area of Strength



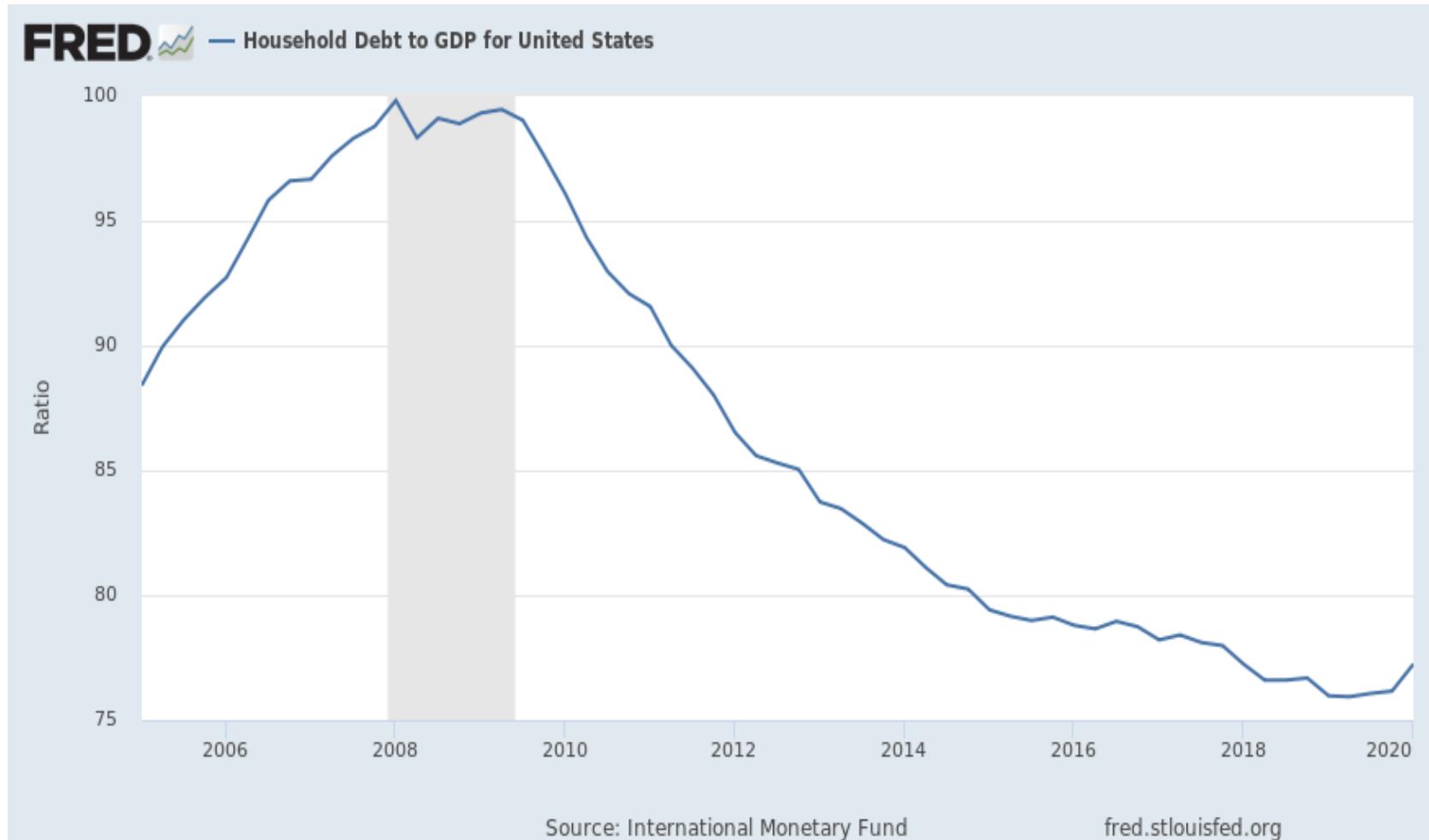
# And Very Different to 2008



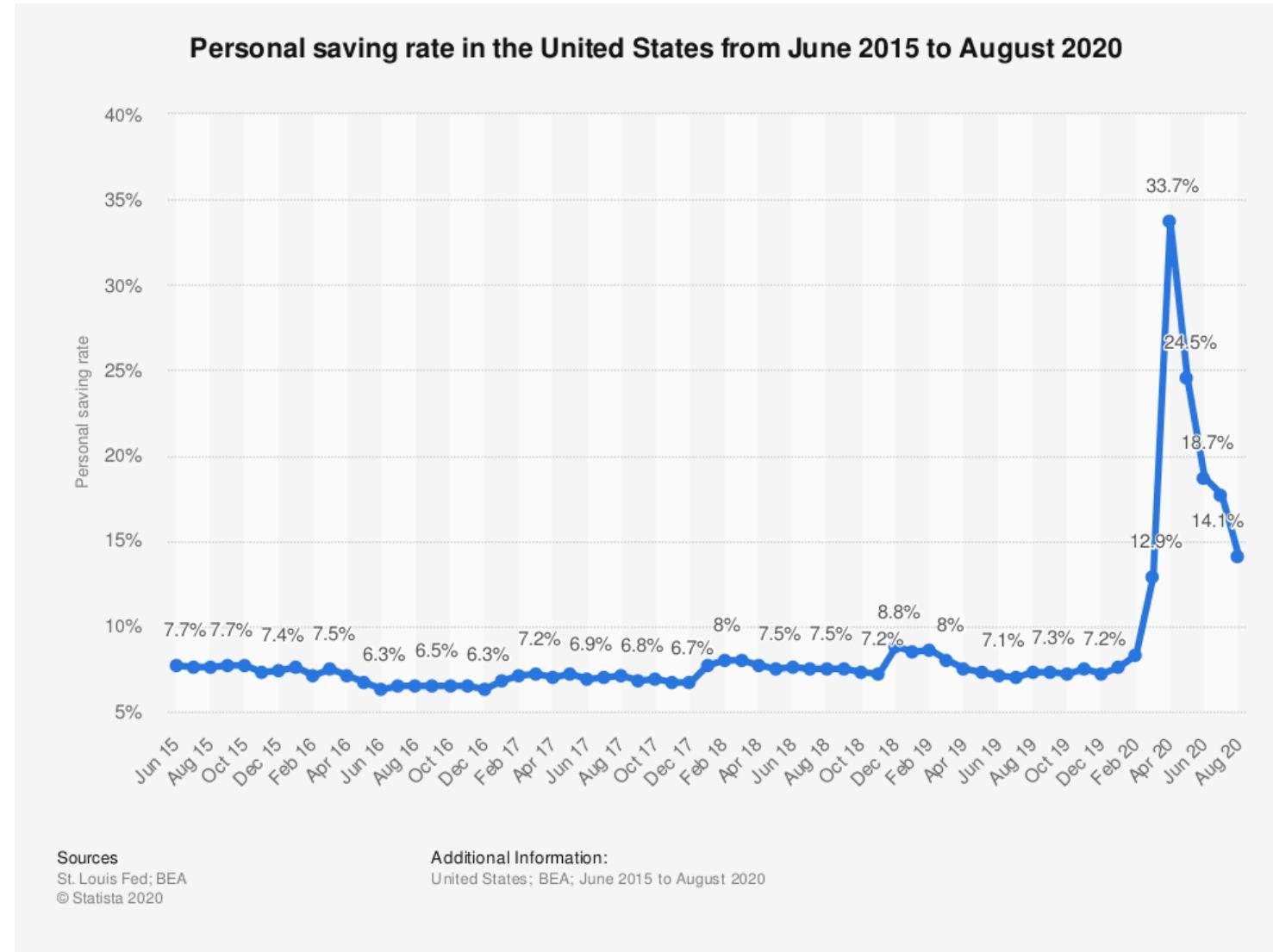
# Travel, Leisure, and Hospitality Remain a Concern



# US Households' Financial Health Better Than in 2008

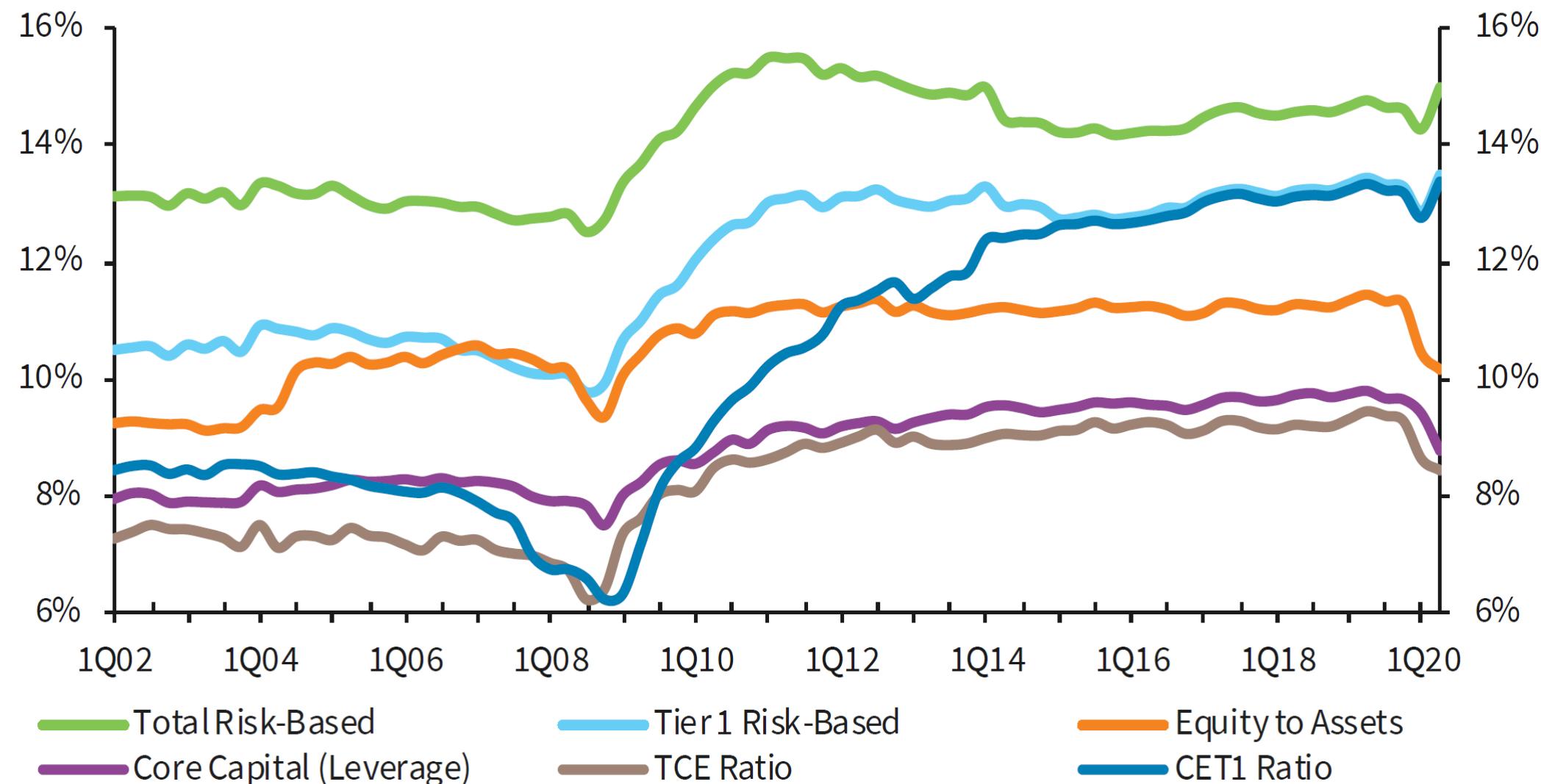


# US Households' Financial Health Better Than in 2008



# And Bank Capital Ratios Stronger Than in 2008

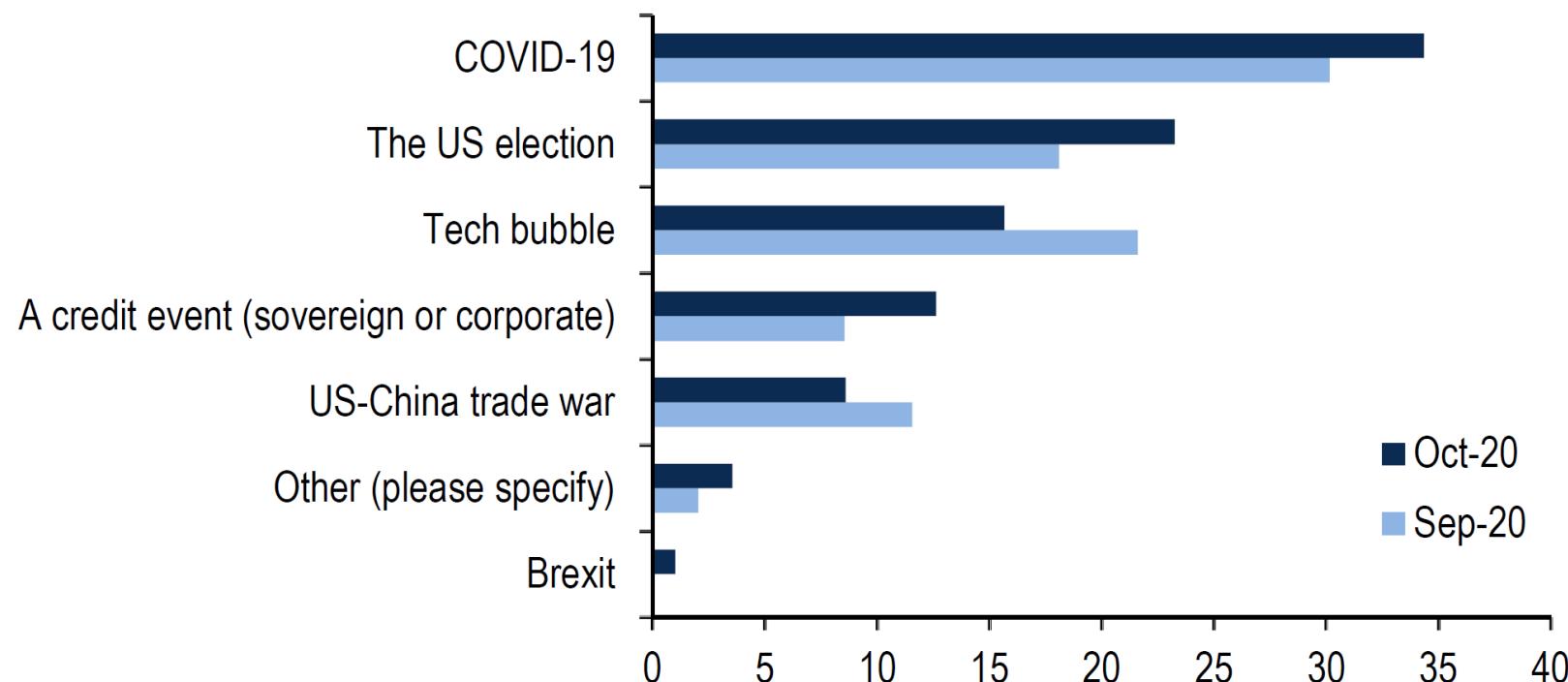
Capital Ratios, 1Q02 – 2Q20



# Institutional Investors Rank the U.S. Election the Number 2 Tail Risk

## Investor Risk Appetite

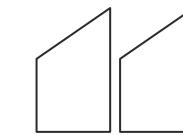
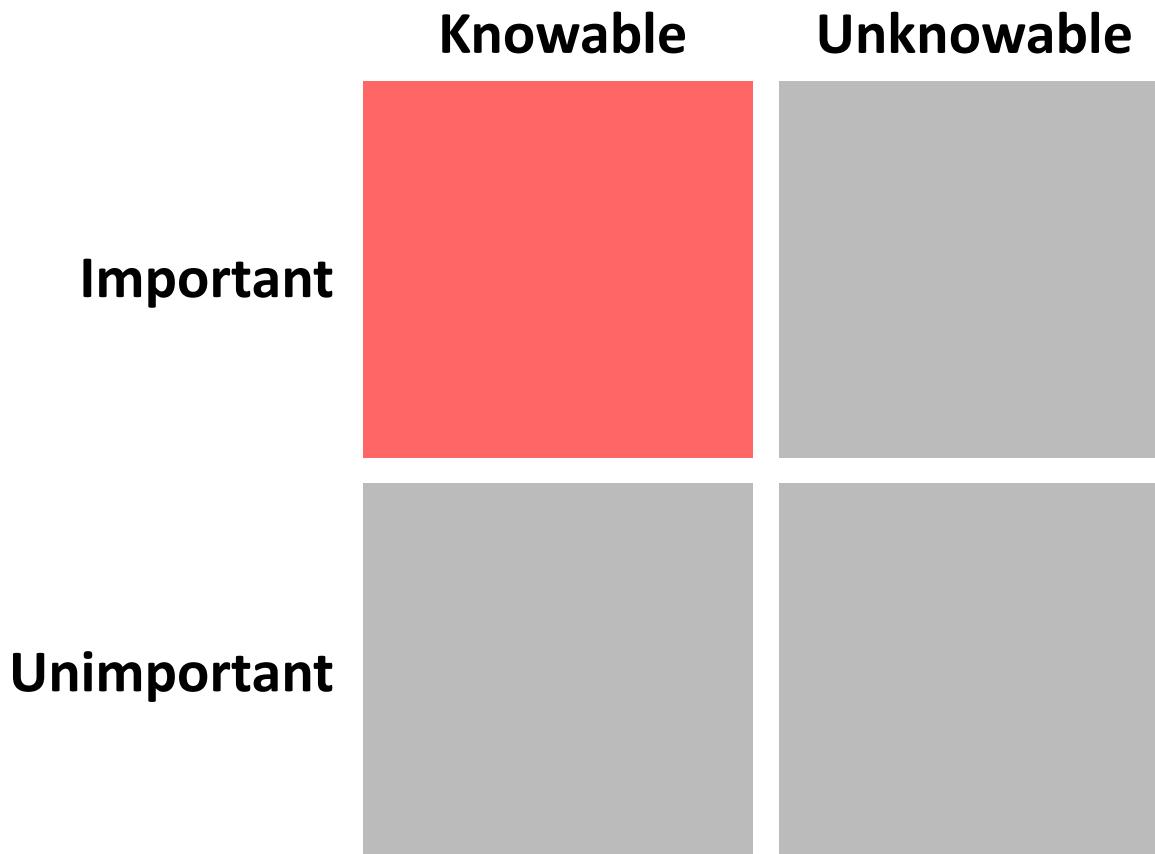
Exhibit 25: What do you consider the biggest “tail risk”?



Biggest “tail risks” in Oct ‘20:

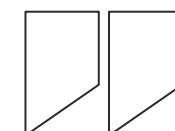
1. COVID-19 second wave (34%).
2. US election (23%).
3. Tech bubble (16%).
4. A credit event (sovereign or corporate) (13%).
5. US-China trade war (9%).

# Understanding what matters



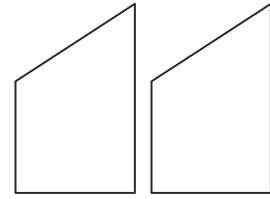
What you really want to do with investments is figure out what's important and knowable.

If it's unimportant or unknowable you forget about it.

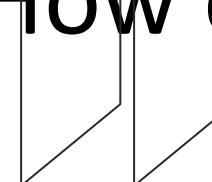


- Warren Buffett

For illustrative purposes only.



The world is combatting the **greatest pandemic in a century** and the **worst economic contraction** of the last 80+ years. And yet the **stock market** –supposedly a gauge of current conditions and a barometer regarding the future–was **able to compile a record advance** and nearly recapture an all-time high... How could that be?



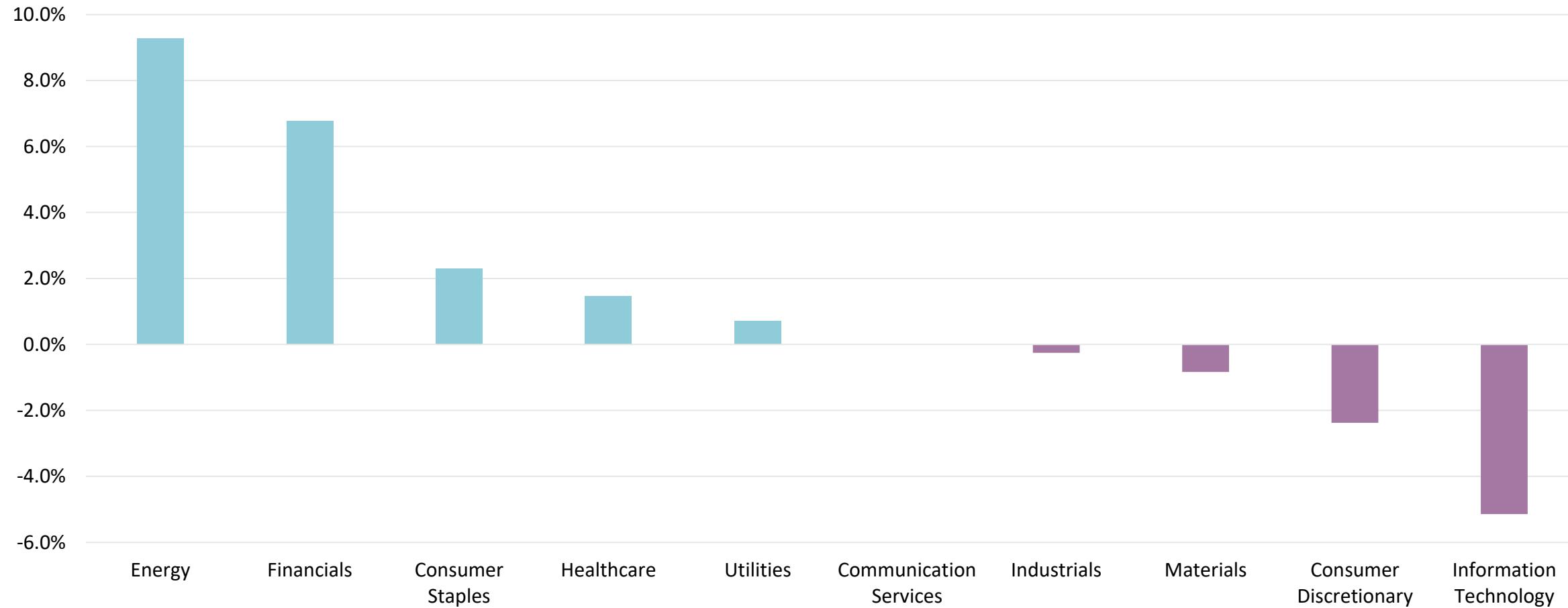
Howard Marks, *Anatomy of a rally*

# Expected Returns, after inflation, for select growth assets



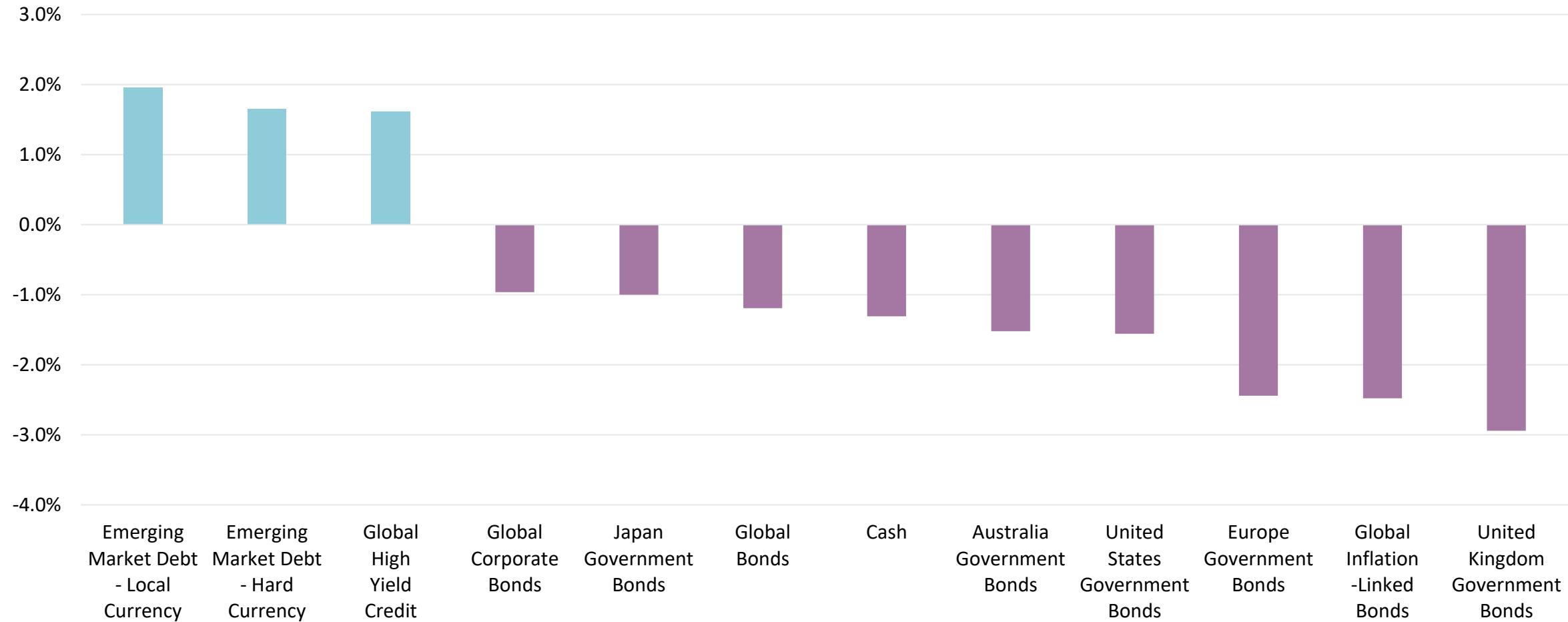
Source: Morningstar Investment Management. As at 30 September 2020.

# Expected Returns, after inflation, for global sharemarket sectors



Source: Morningstar Investment Management. As at 30 September 2020. MSCI Developed world sectors quoted.

# Expected Returns, after inflation, for select defensive assets



Source: Morningstar Investment Management. As at 30 September 2020.

# Bringing this together – our conviction toward key asset classes

## Growth Assets



## Defensive/Alternative Assets



Source: Morningstar Investment Management. As at 27 October 2020.

Thanks for joining us.