

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

Clint Abraham  
Director, Portfolio Specialist

06 November 2020



---

## Important Information

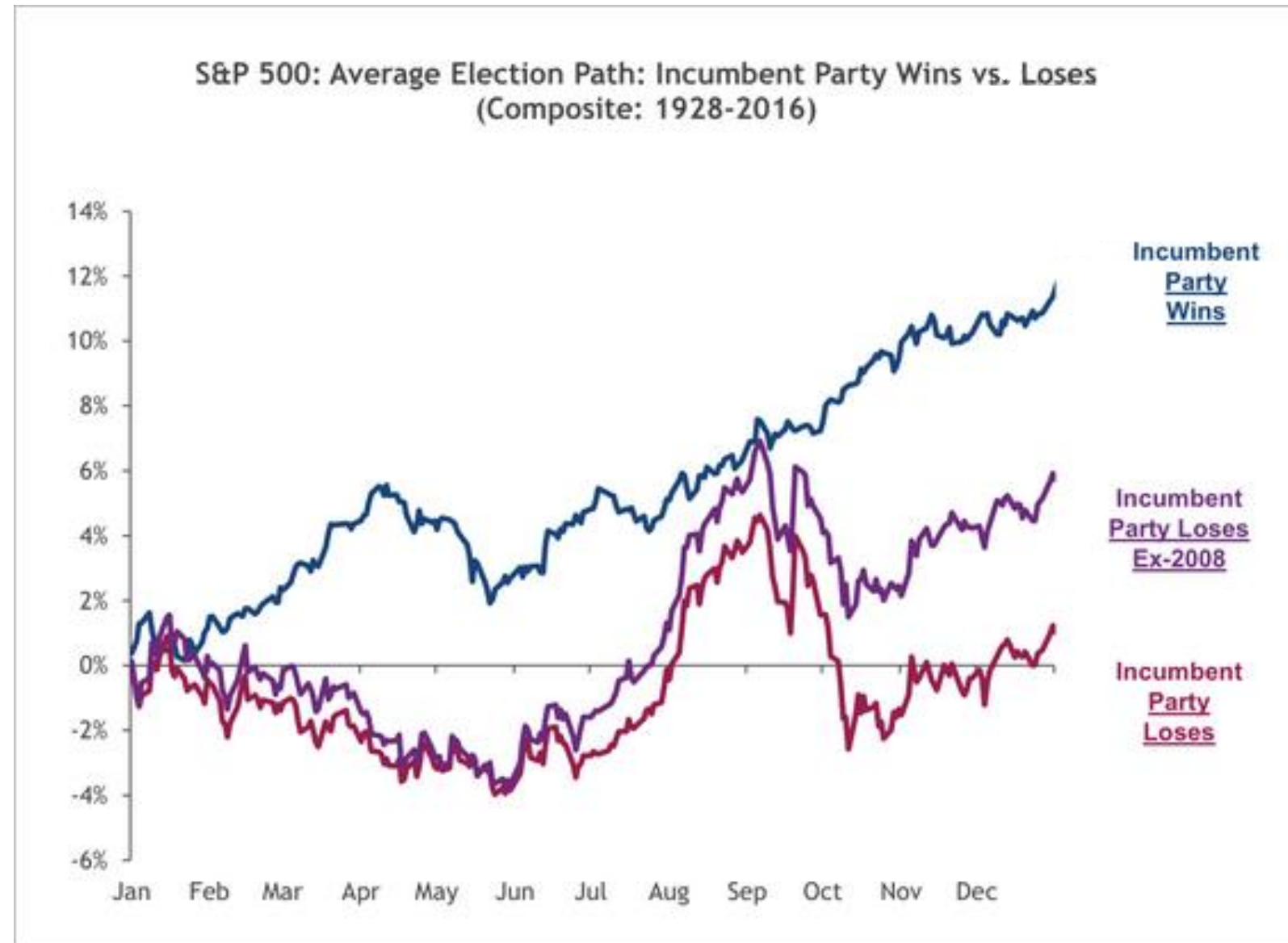
This document is issued by Morningstar Investment Management Australia Limited (ABN 54 071 808 501, AFS Licence No. 228986) ('Morningstar'). © Copyright of this document is owned by Morningstar and any related bodies corporate that are involved in the document's creation. As such the document, or any part of it, should not be copied, reproduced, scanned or embodied in any other document or distributed to another party without the prior written consent of Morningstar. The information provided is for general use only.

In compiling this document, Morningstar may have relied on information and data supplied by third parties including information providers (such as S&P, MSCI, Barclays, FTSE). Whilst all reasonable care has been taken to ensure the accuracy of information provided, neither Morningstar nor its third parties accept responsibility for any inaccuracy or for investment decisions or any other actions taken by any person on the basis or context of the information included.

This presentation may contain certain forward-looking statements. We use words such as "expects", "anticipates", "believes", "estimates", "forecasts", and similar expressions to identify forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results to differ materially and/or substantially from any future results, performance or achievements expressed or implied by those projected in the forward-looking statements for any reason.

Past performance is not a reliable indicator of future performance. Morningstar does not guarantee the performance of any investment or the return of capital. Morningstar warns that (a) Morningstar has not considered any individual person's objectives, financial situation or particular needs, and (b) individuals should seek advice and consider whether the advice is appropriate in light of their goals, objectives and current situation. Refer to our Financial Services Guide (FSG) for more information at [morningstarinvestments.com.au/fsg](https://morningstarinvestments.com.au/fsg). Before making any decision about whether to invest in a financial product, individuals should obtain and consider the disclosure document. For a copy of the relevant disclosure document, please contact our Adviser Solutions Team on 1800 951 999.

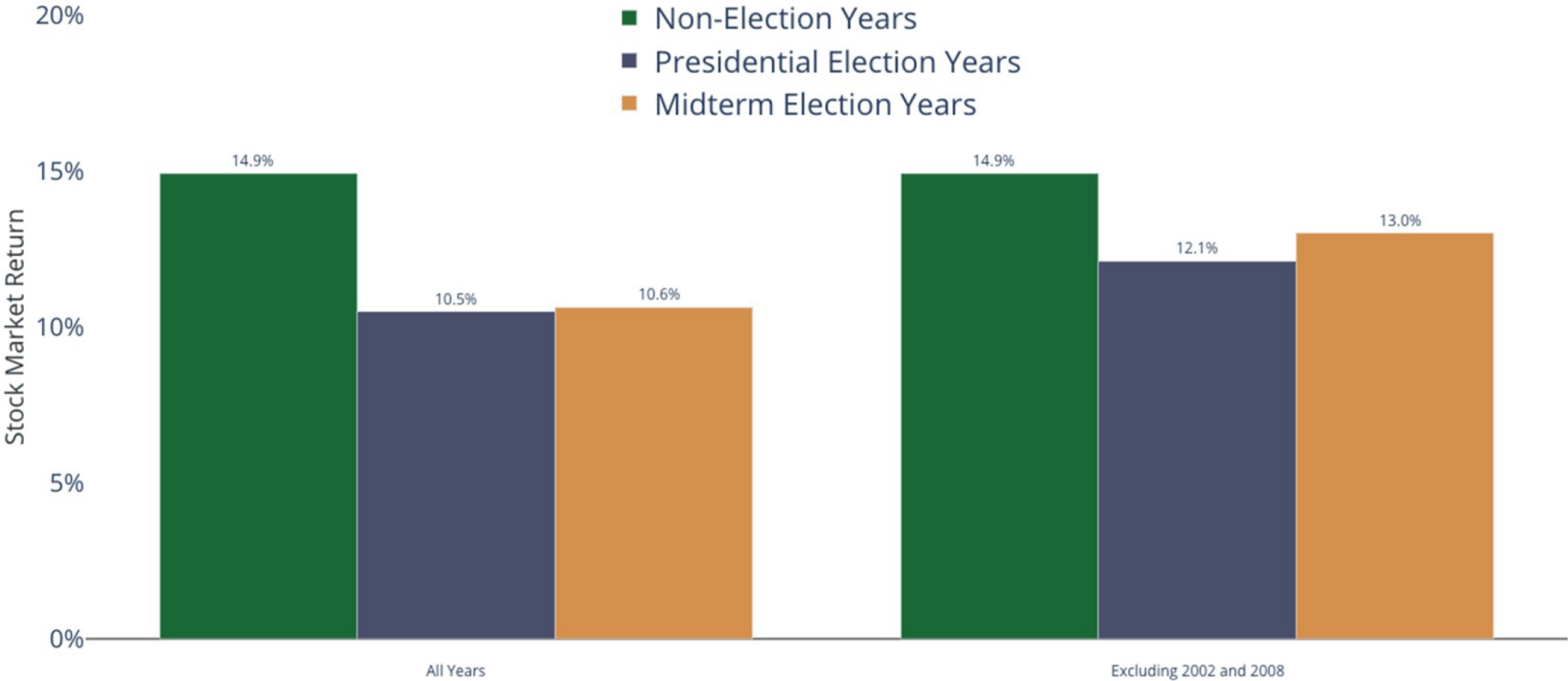
# Historically Markets Preferred Incumbent Party Wins



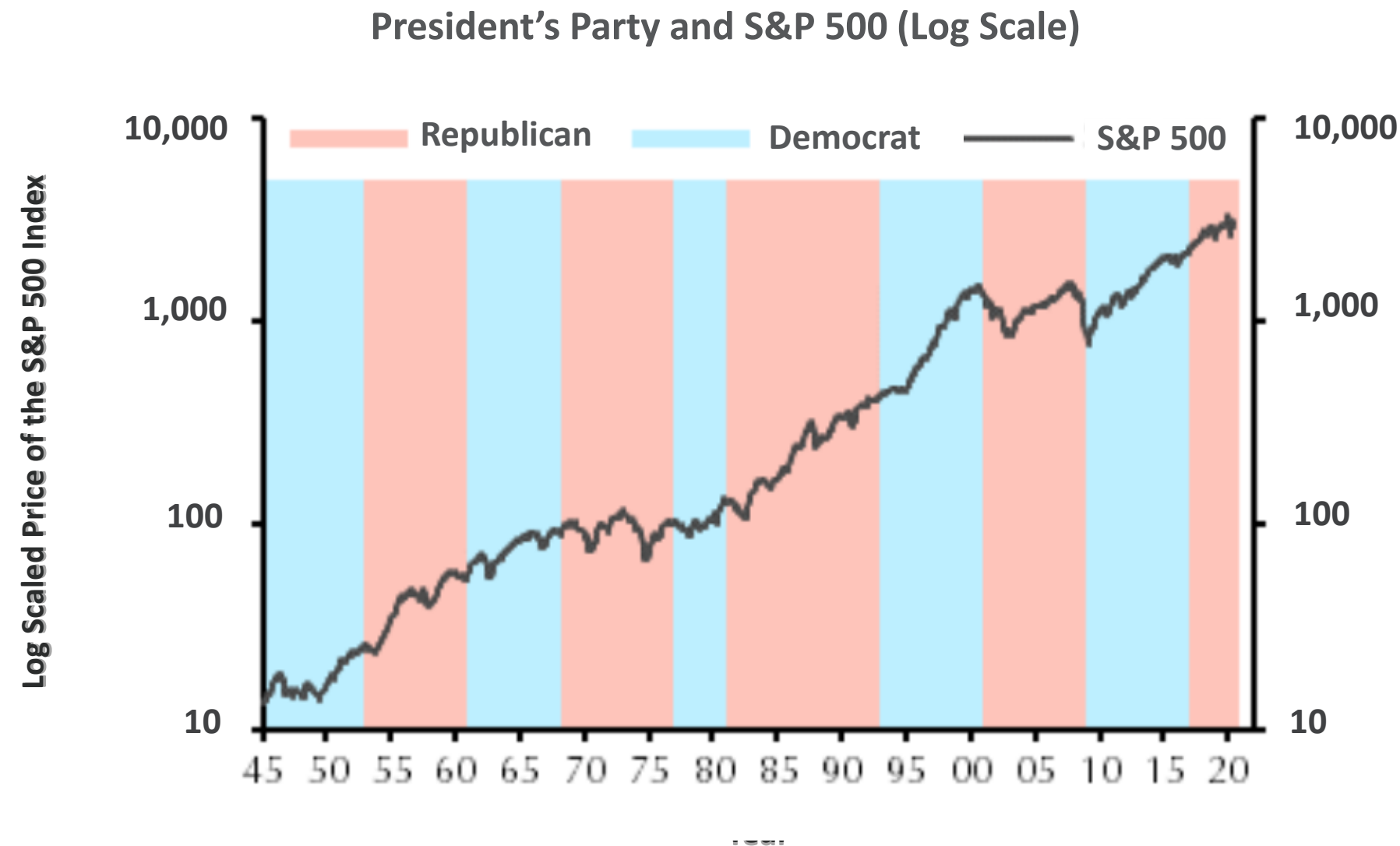
# Lower Returns in Election Years

## Stock Markets in Election Years

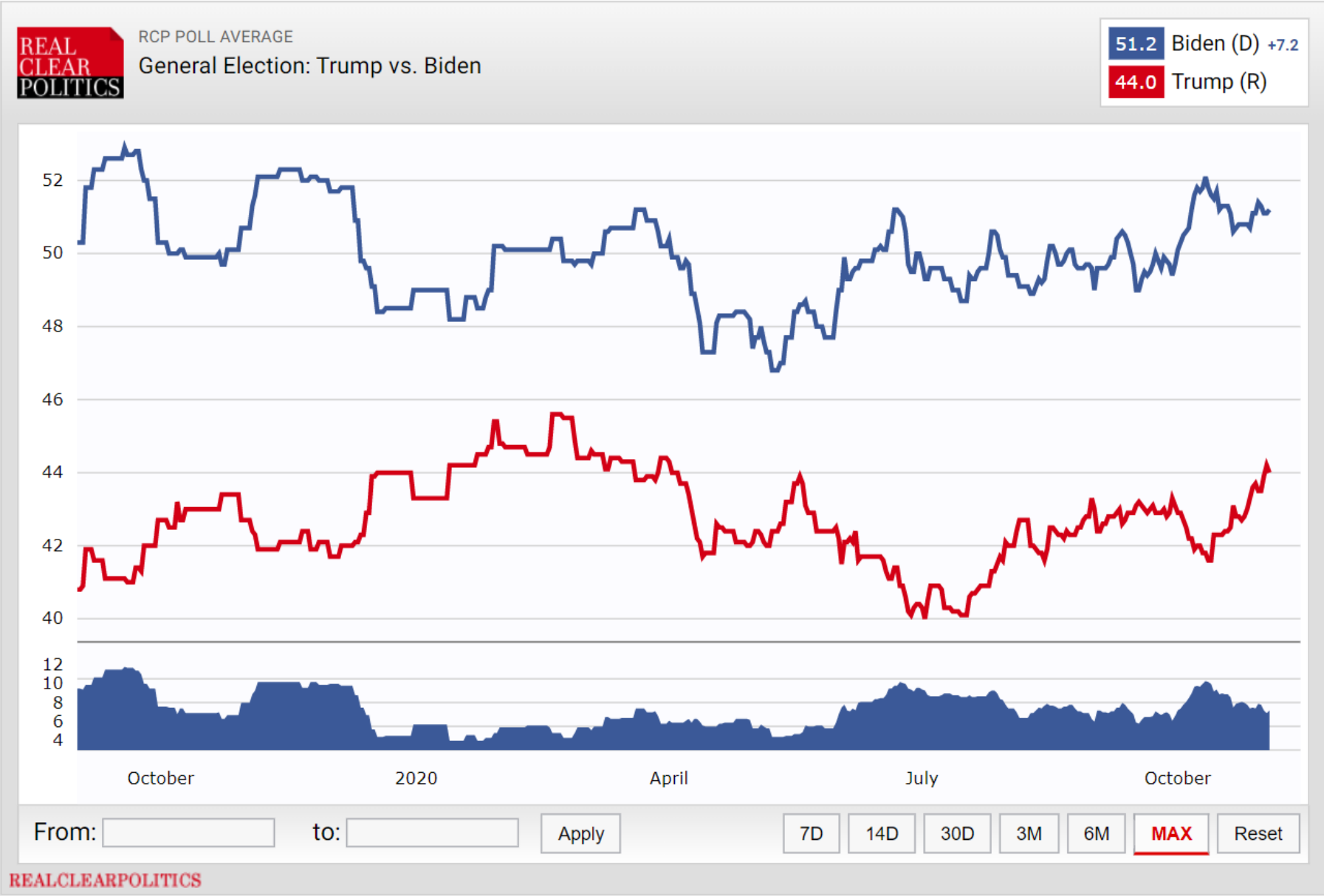
*S&P 500 total return in election and non-election years since 1933*



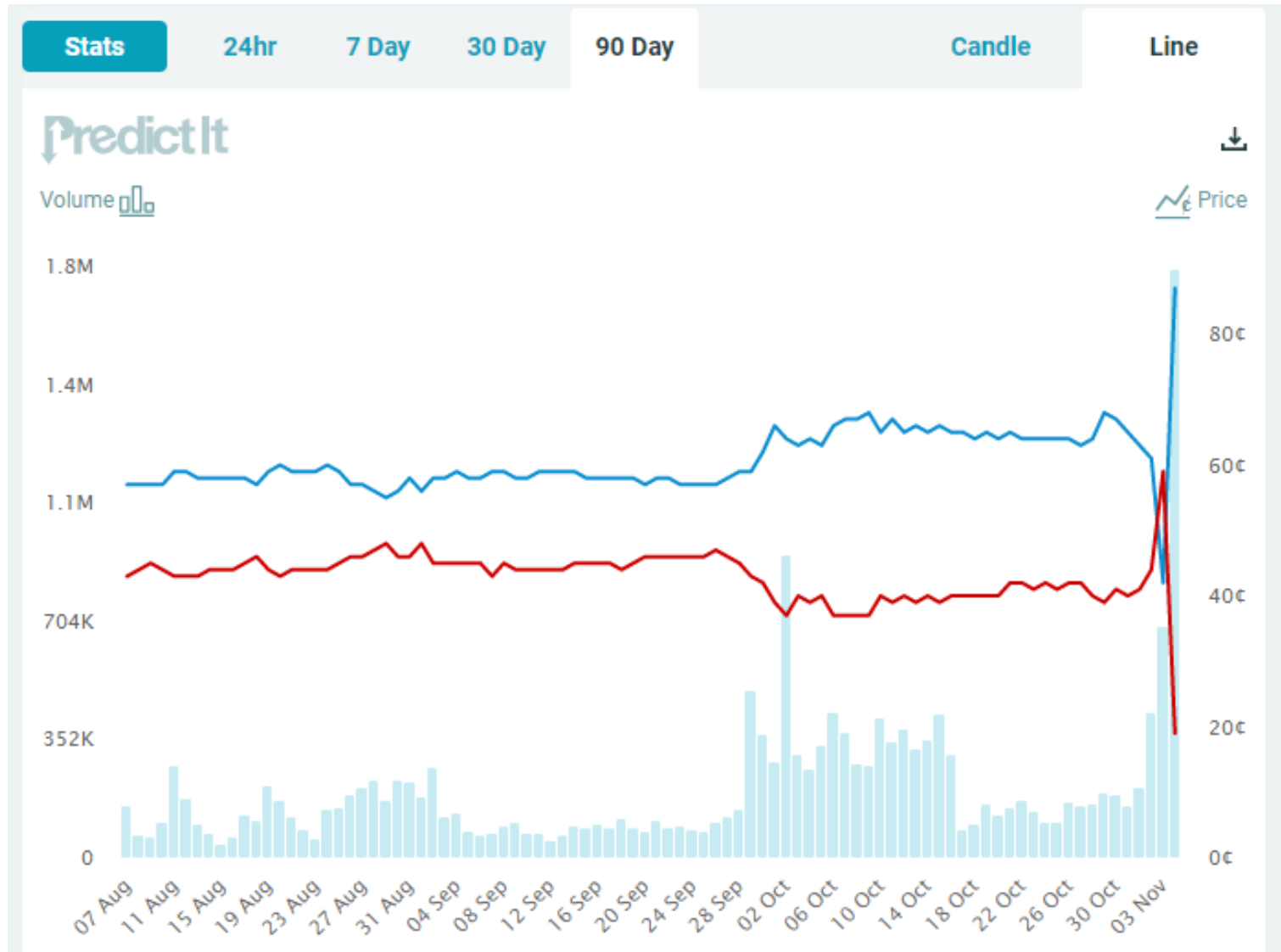
# Democratic President's Party Slightly Ahead: Less of a Driver



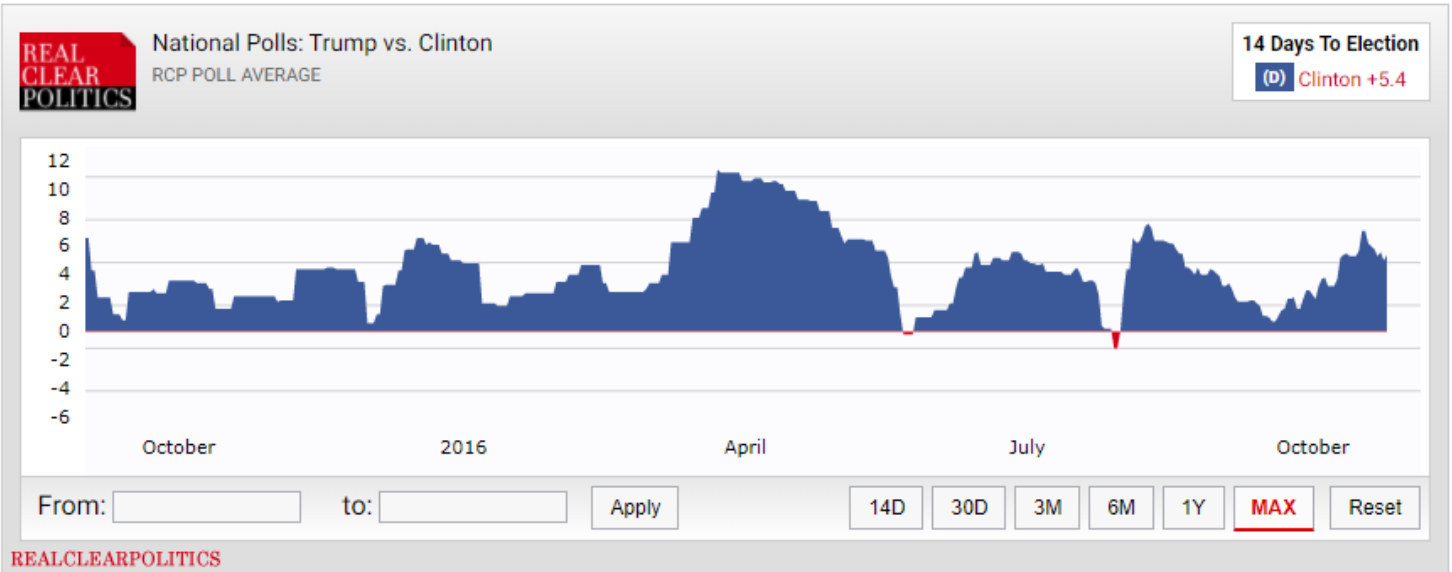
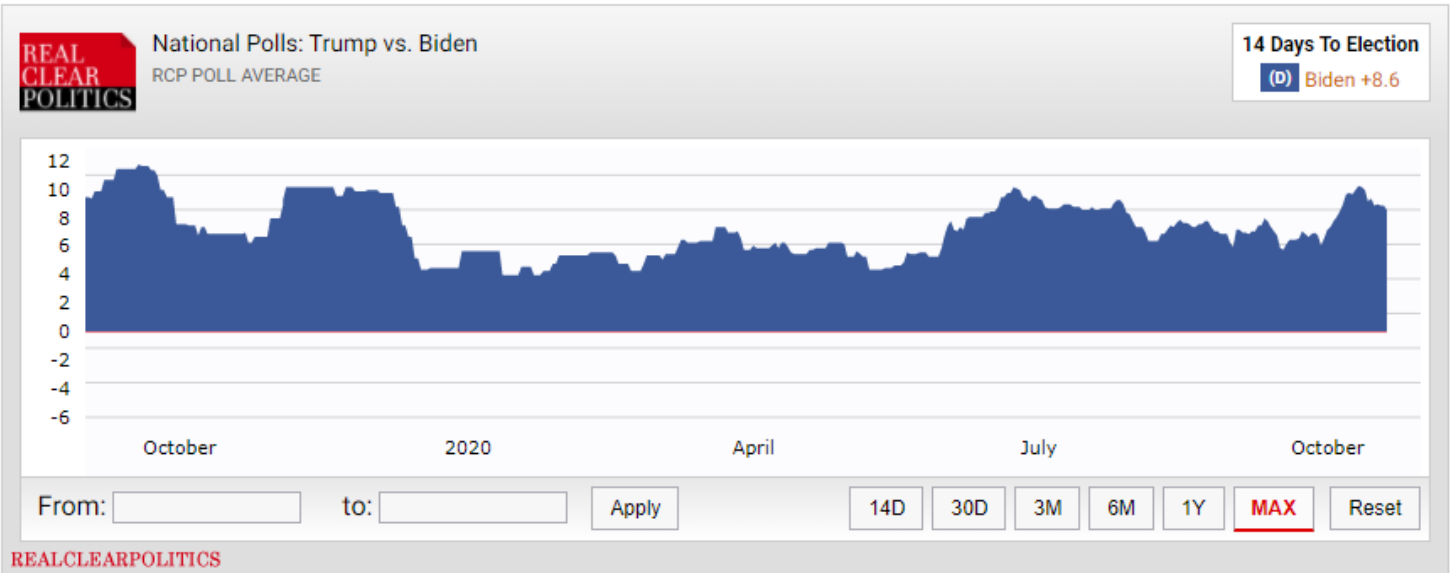
# Biden Maintained Advantage Over Trump in Polls



# Biden Maintains Advantage Over Trump in Betting Markets



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

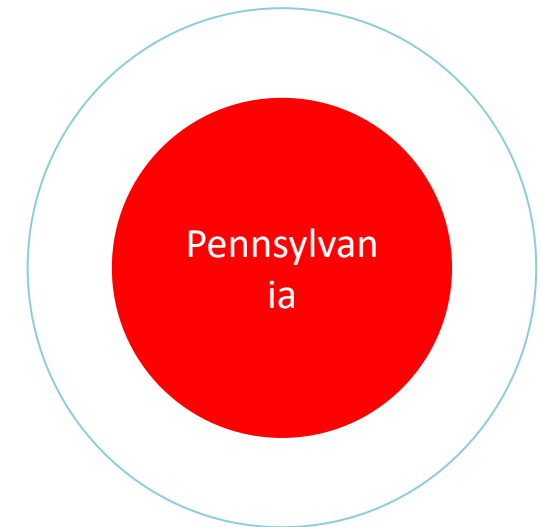
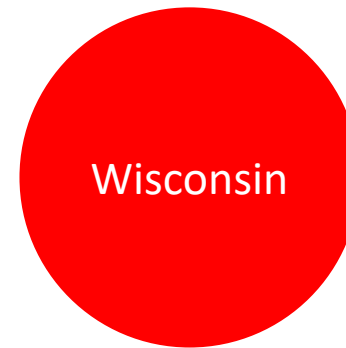
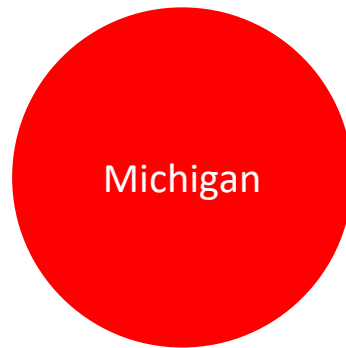
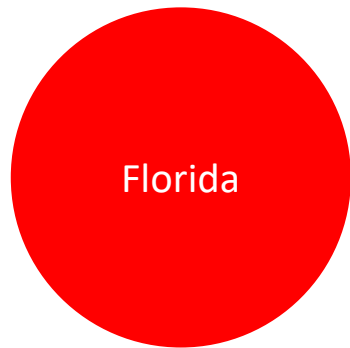


8 Source: RealClearPolitics. Data as of 10/19/2020.



---

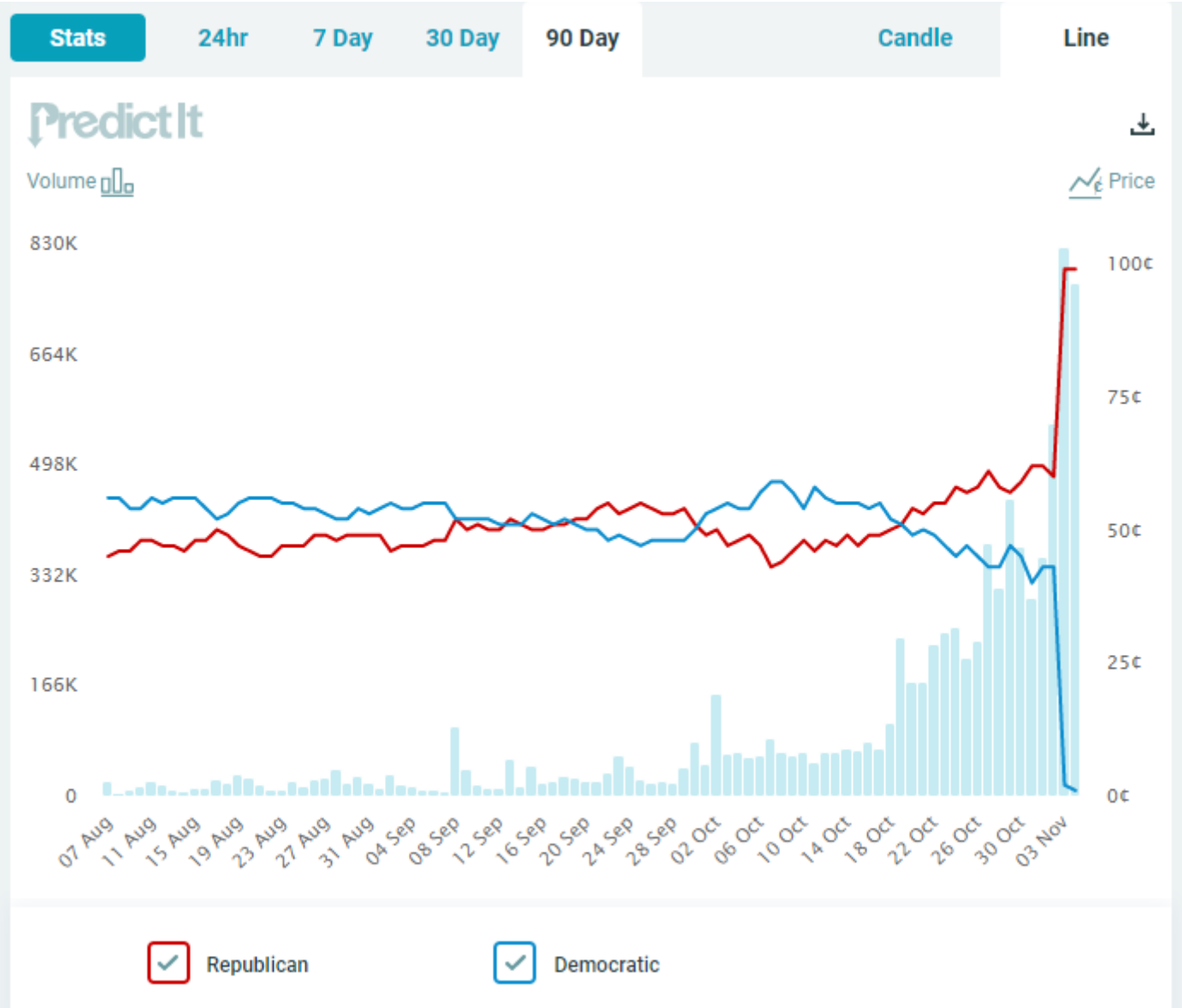
## Leading in the election, four states were expected to be key for a Trump re-election



# Republican victory in Florida

2016  
Republican

2020  
Republican

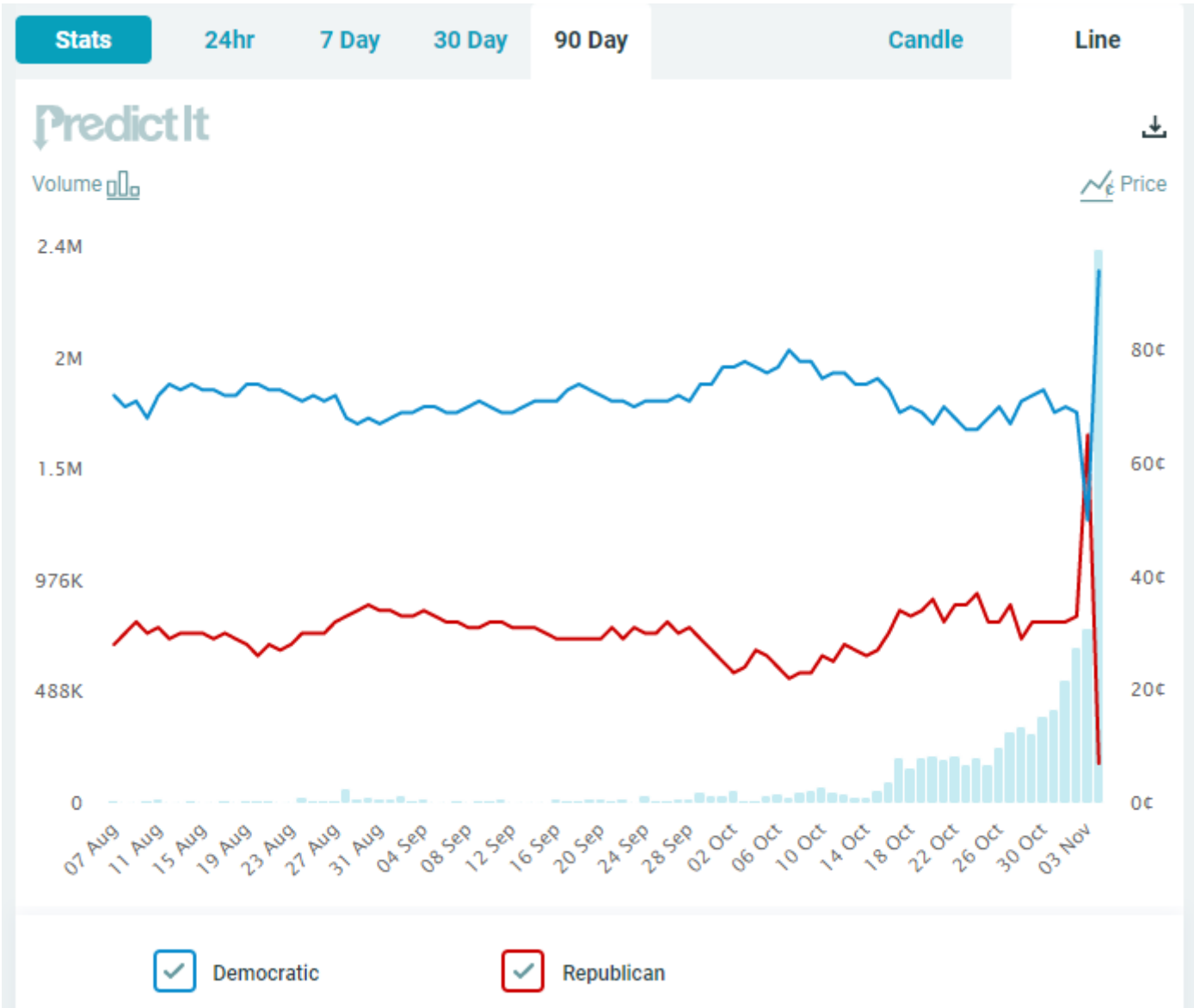


10 Source: PredictIt. Data as of 06/11/2020.

# Biden Claims Other Battleground States in Michigan

2016  
Republican

2020  
Democrat

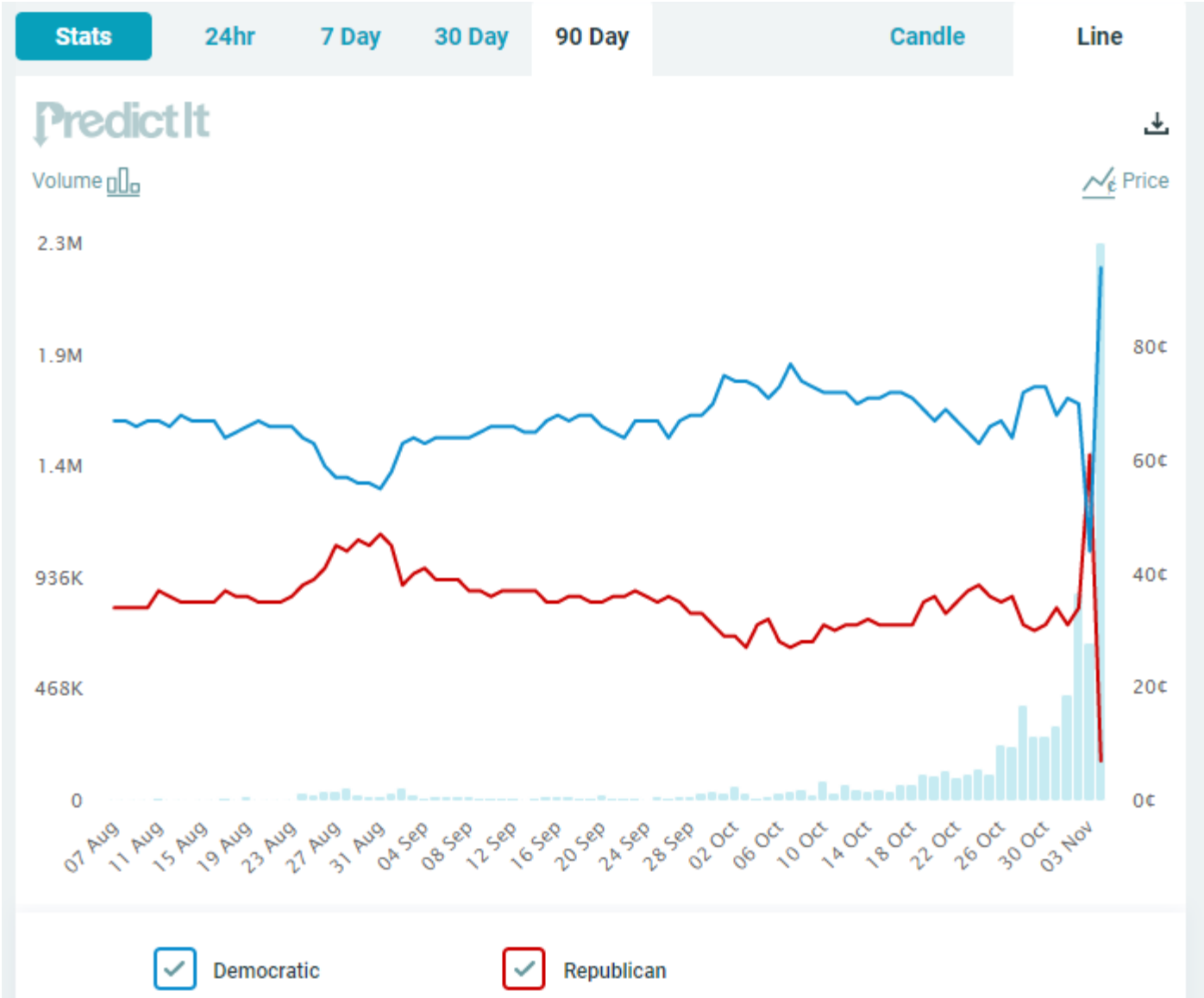


11 Source: PredictIt. Data as of 06/11/2020.

# And Wisconsin

2016  
Republican

2020  
Democrat

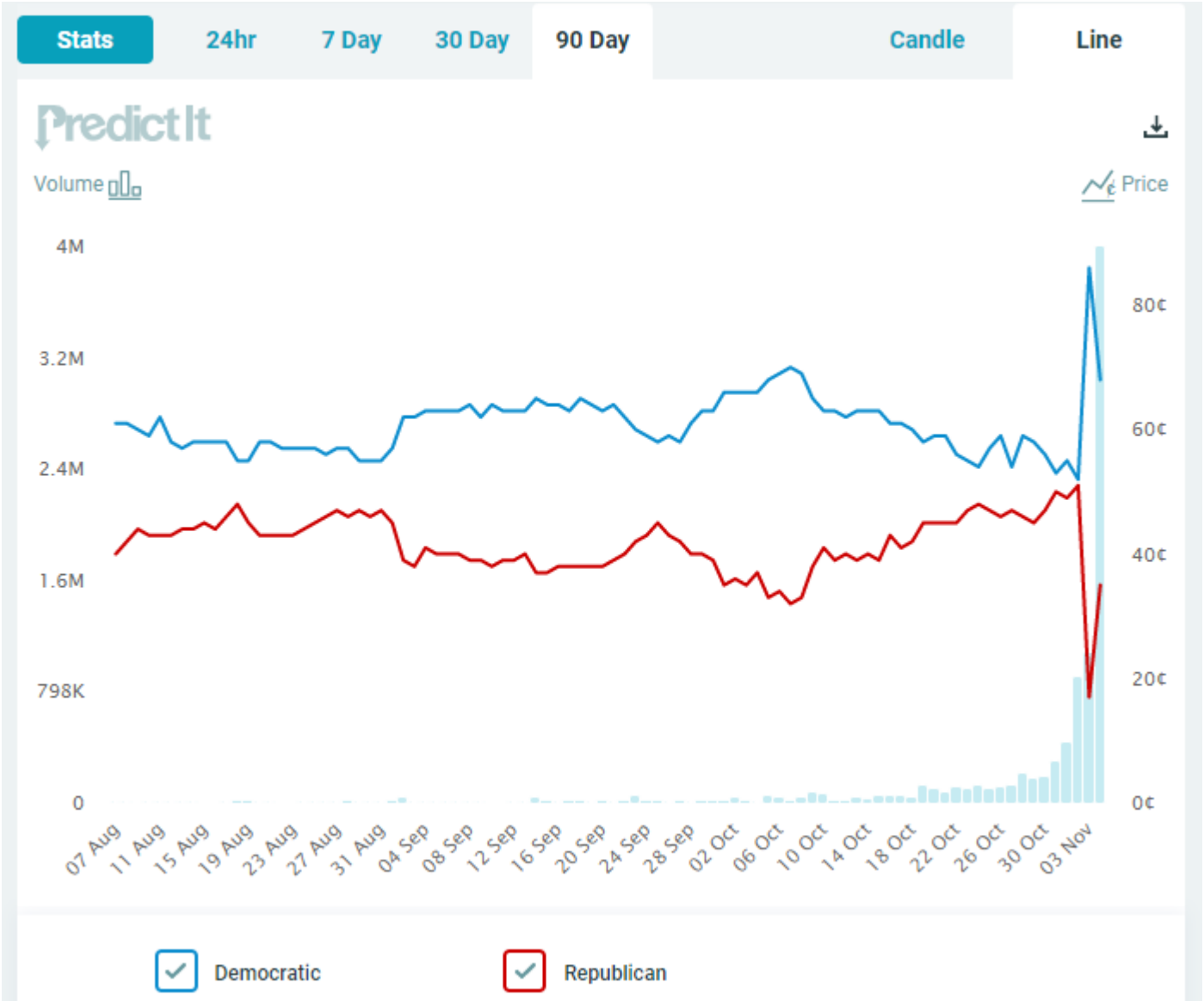


12 Source: PredictIt. Data as of 06/11/2020.

# And has taken Arizona

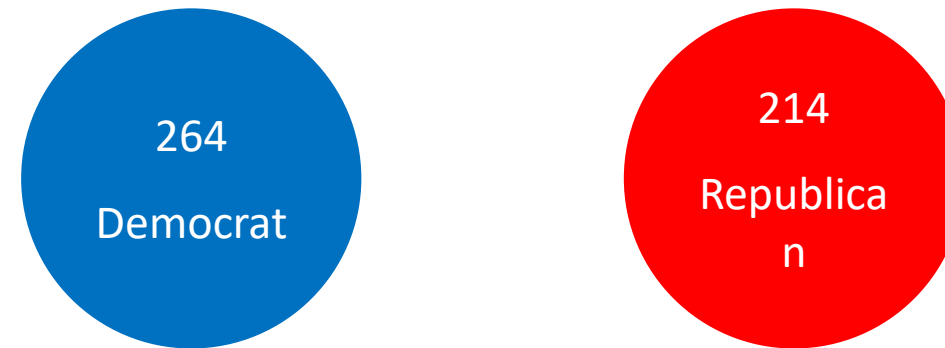
2016  
Republican

2020  
Democrat



---

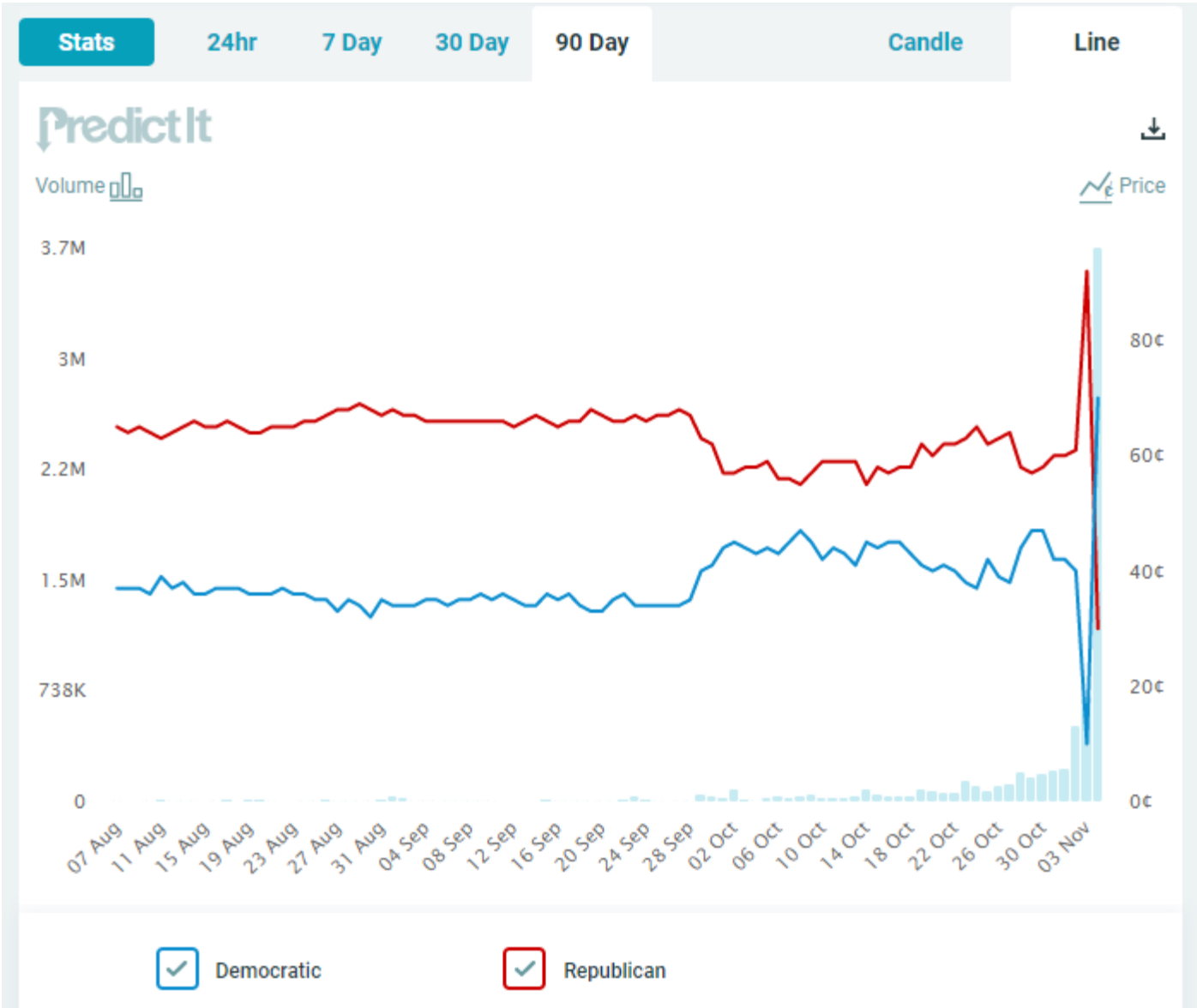
# The current state of play – Trump needs to win/hold the remaining four states to secure victory



# Georgia

2016  
Republican

2020  
?

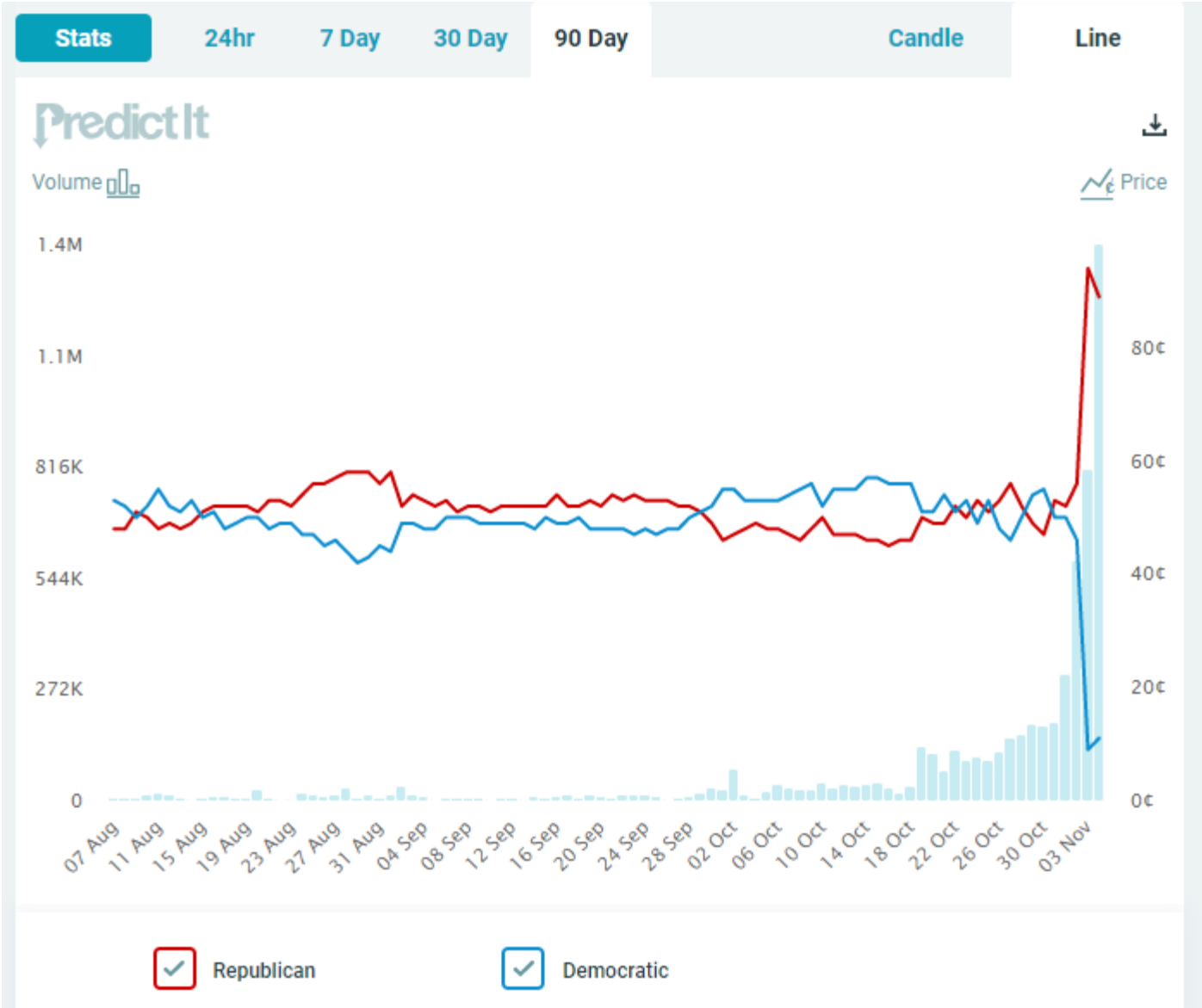


15 Source: PredictIt. Data as of 06/11/2020.

# North Carolina

2016  
Republican

2020  
?

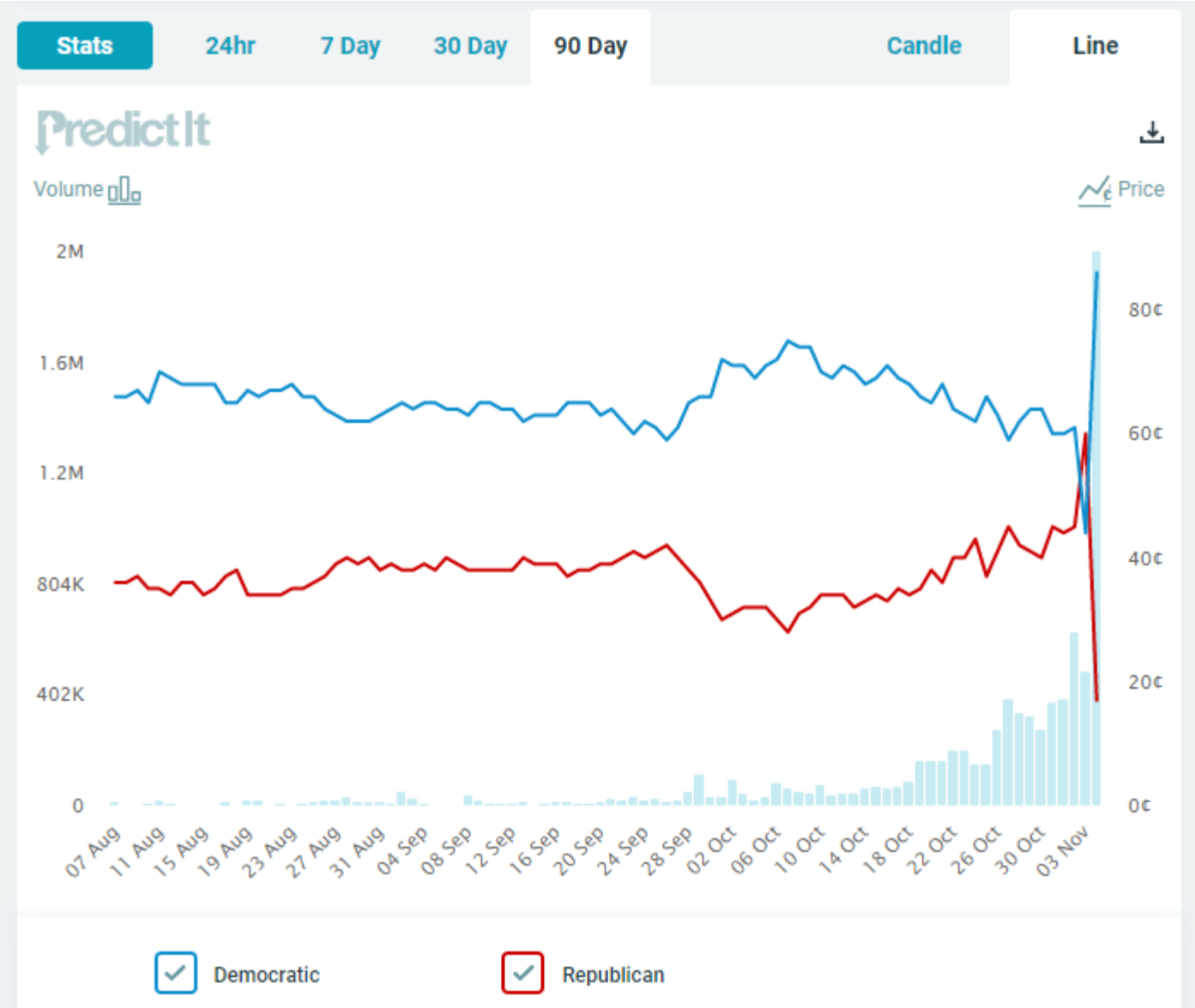




# Pennsylvania

2016  
Republican

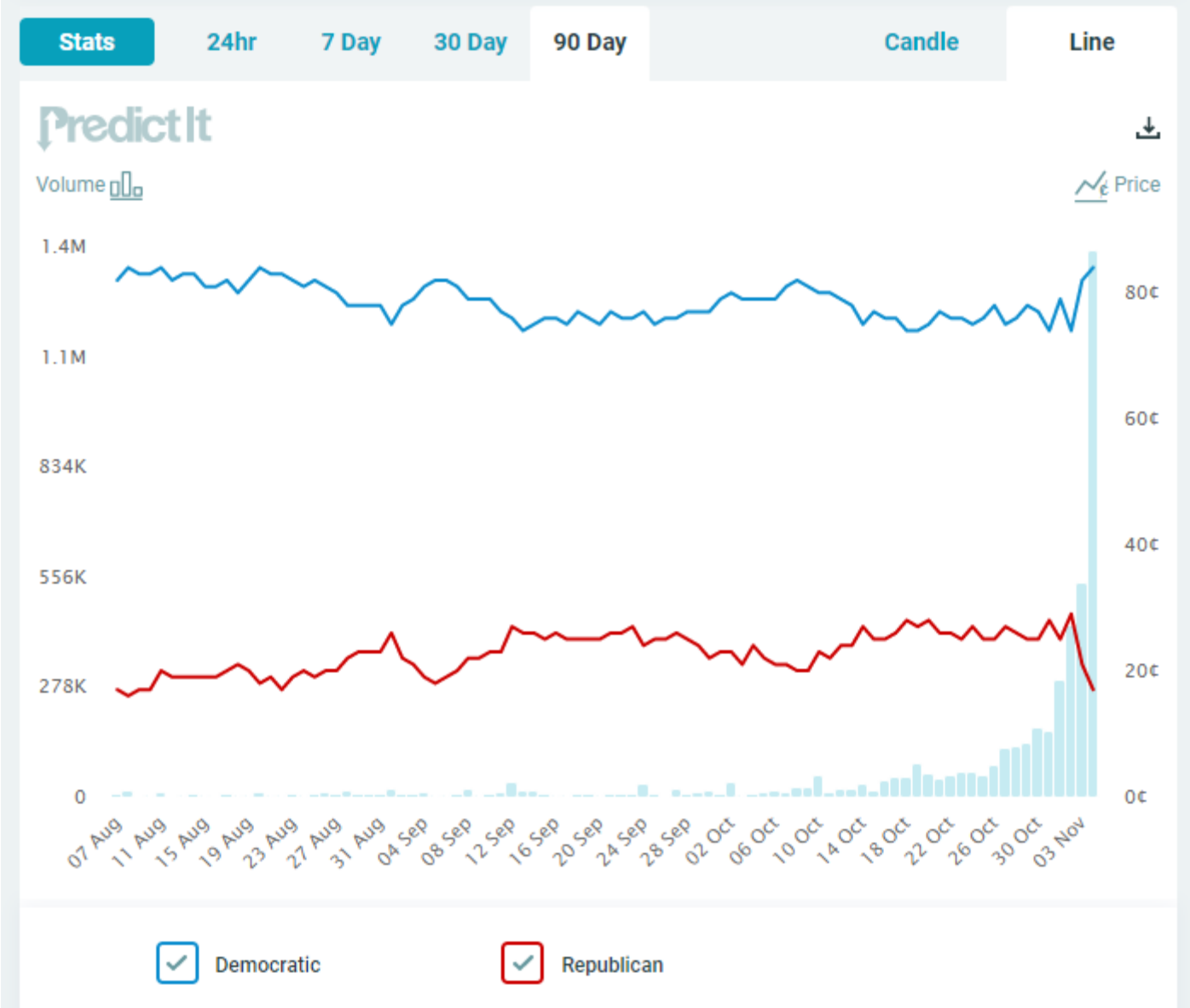
2020  
?



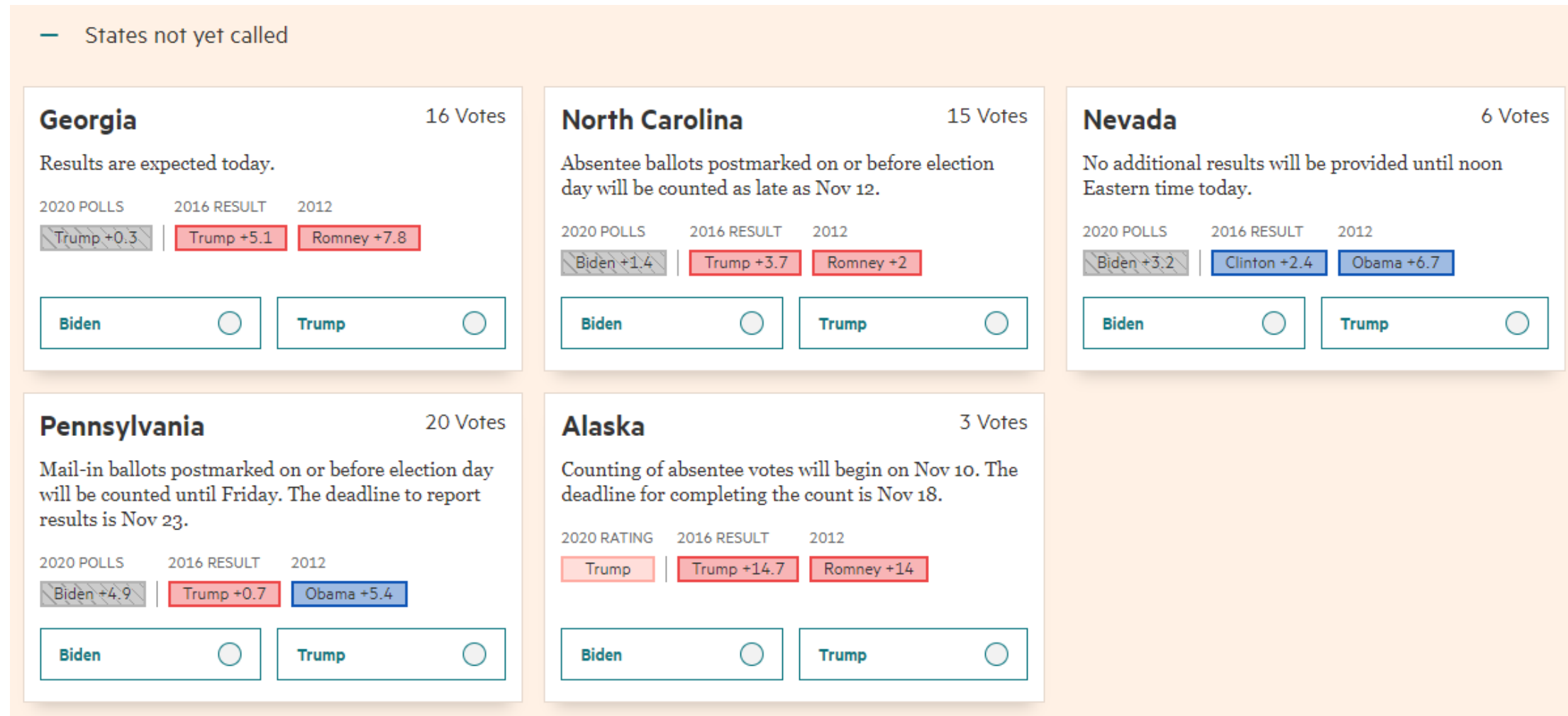
# Nevada

2016  
Democrat

2020  
?



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



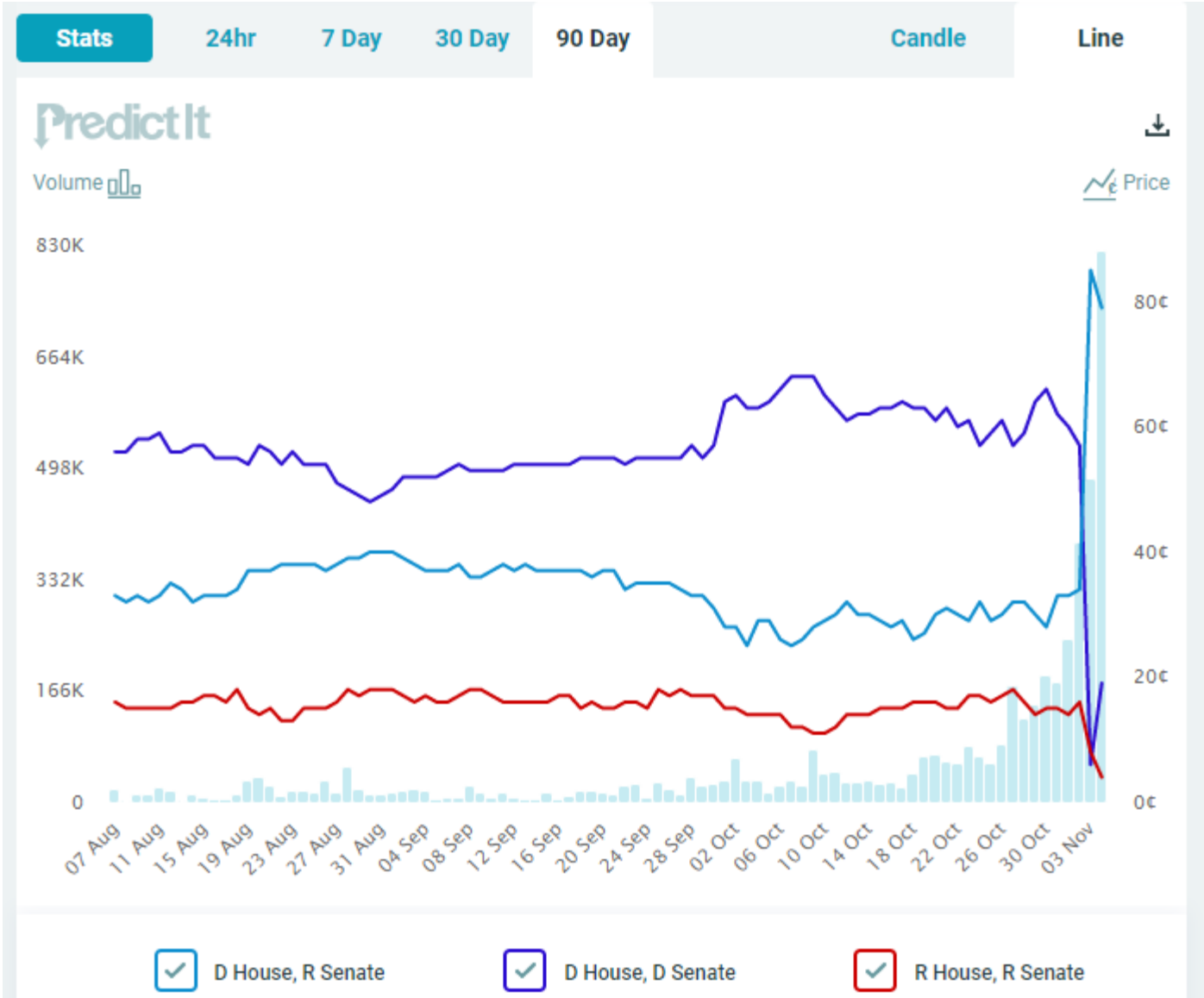
---

## Question

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

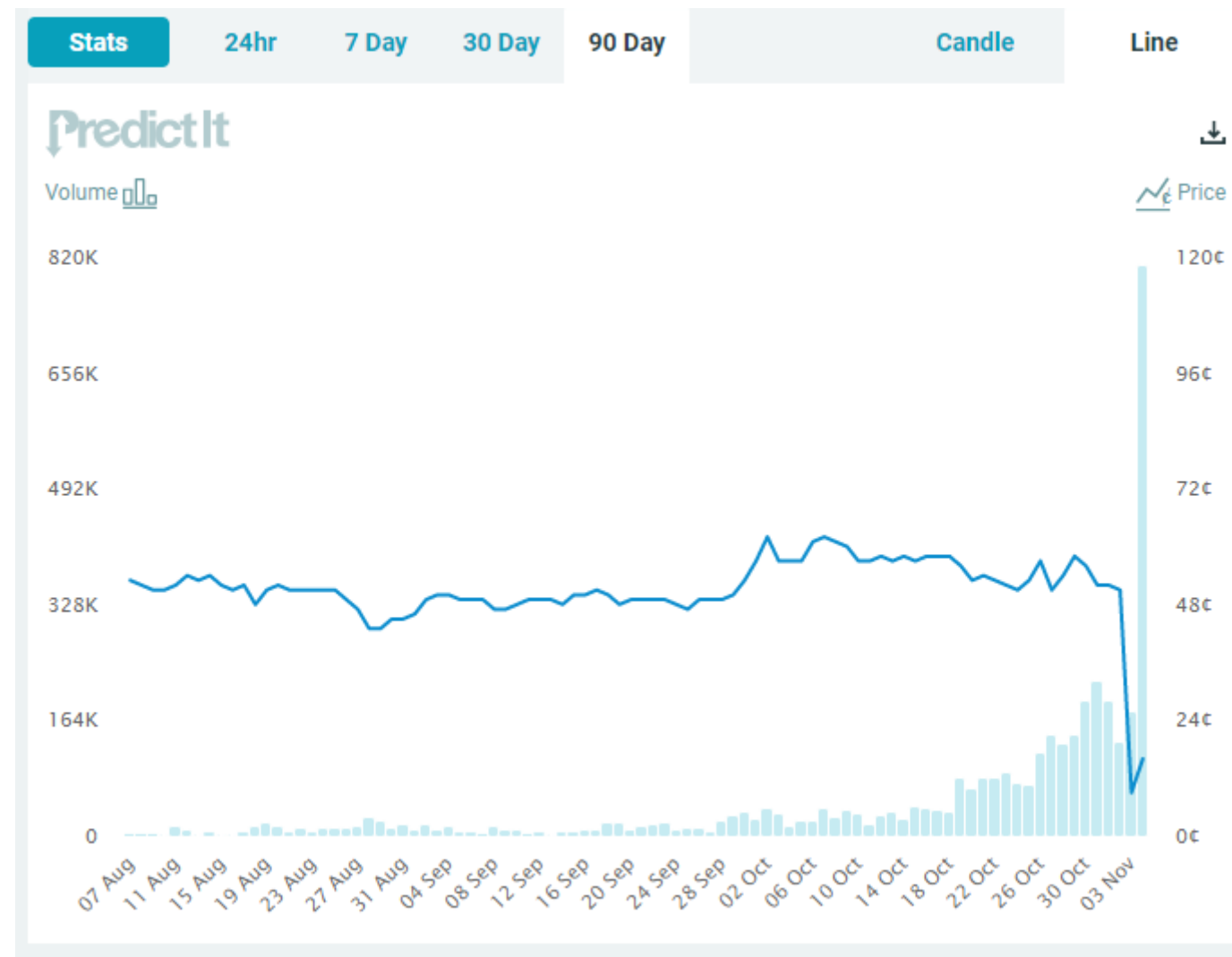
- a) Florida, Wisconsin, Pennsylvania and Minnesota
- b) California, Wisconsin, Pennsylvania and Michigan
- c) Georgia, Pennsylvania, North Carolina and Nevada
- d) Florida, New York, Pennsylvania and Michigan

# 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

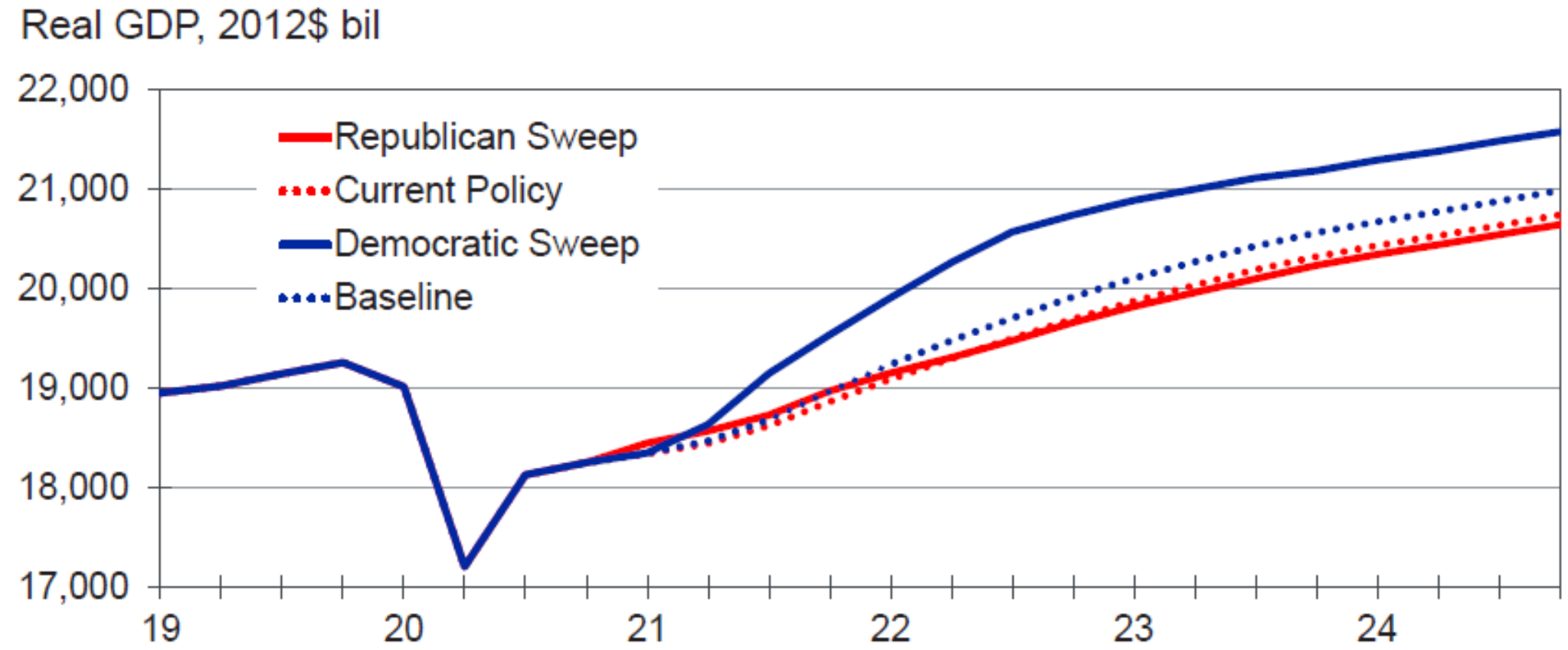


# Policy Implications

|                             | Trump  | Biden  |
|-----------------------------|--|--|
| <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.

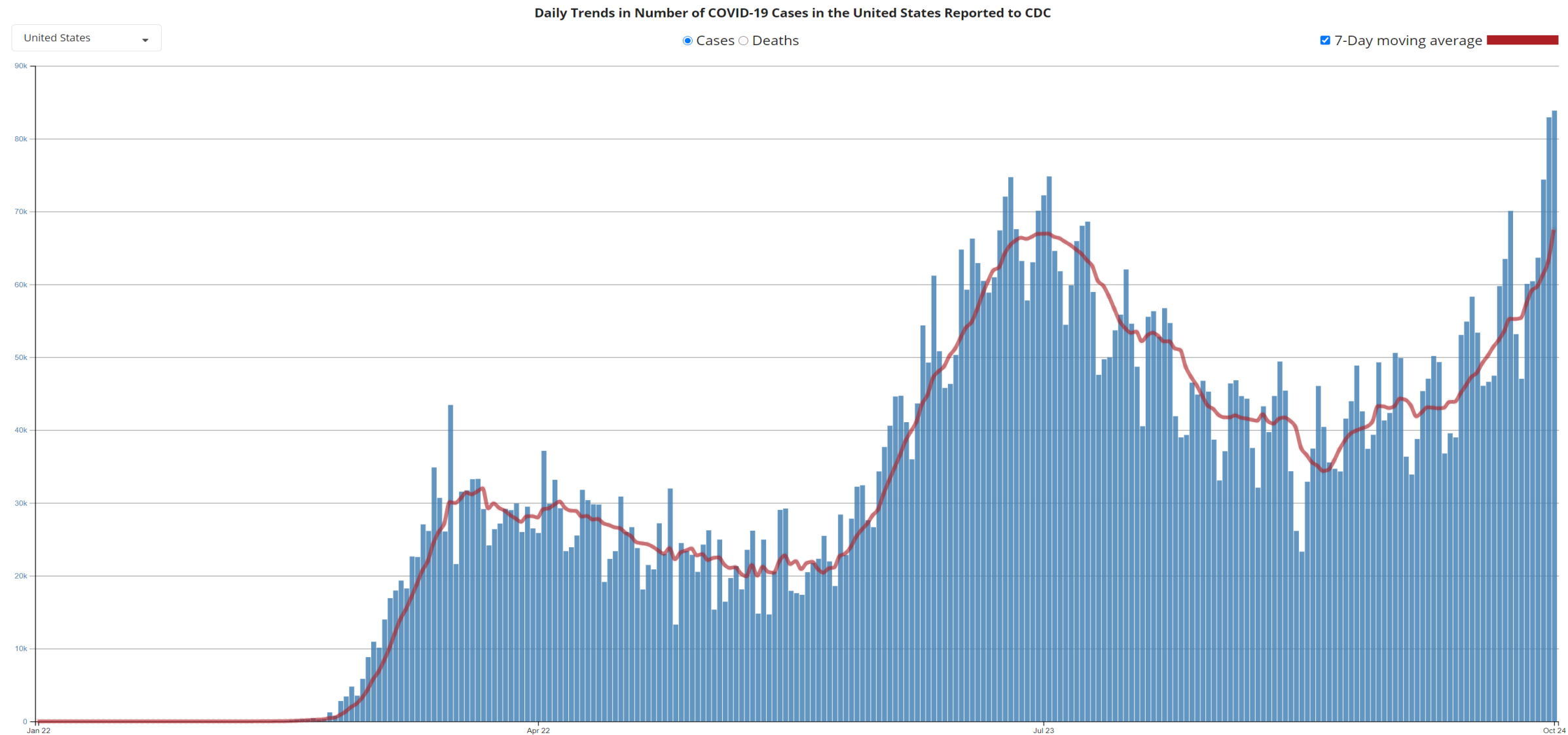
# Moody's Prediction of Real GDP Paths



Sources: BEA, Moody's Analytics

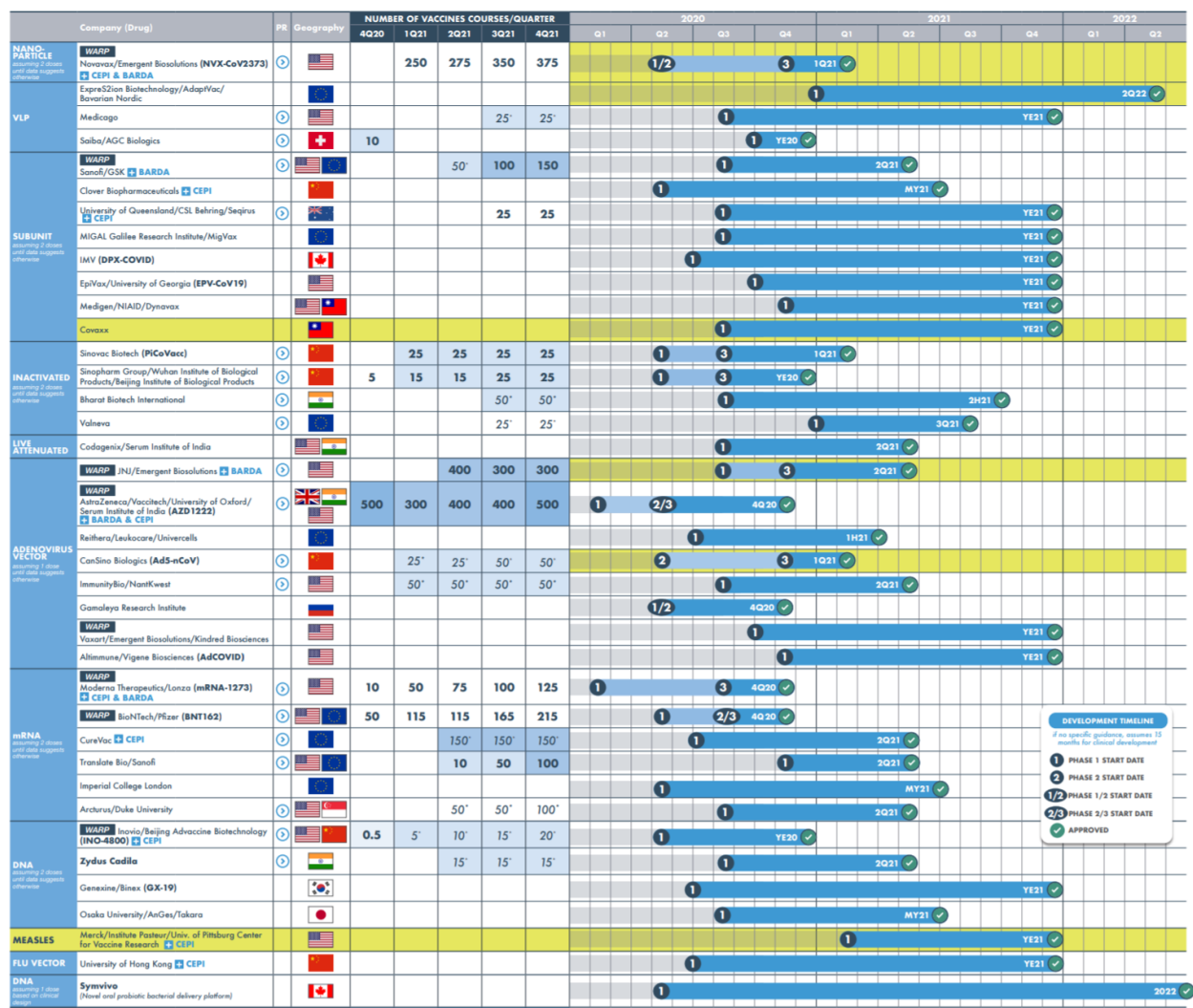


# Daily COVID-19 Cases Rising in the US



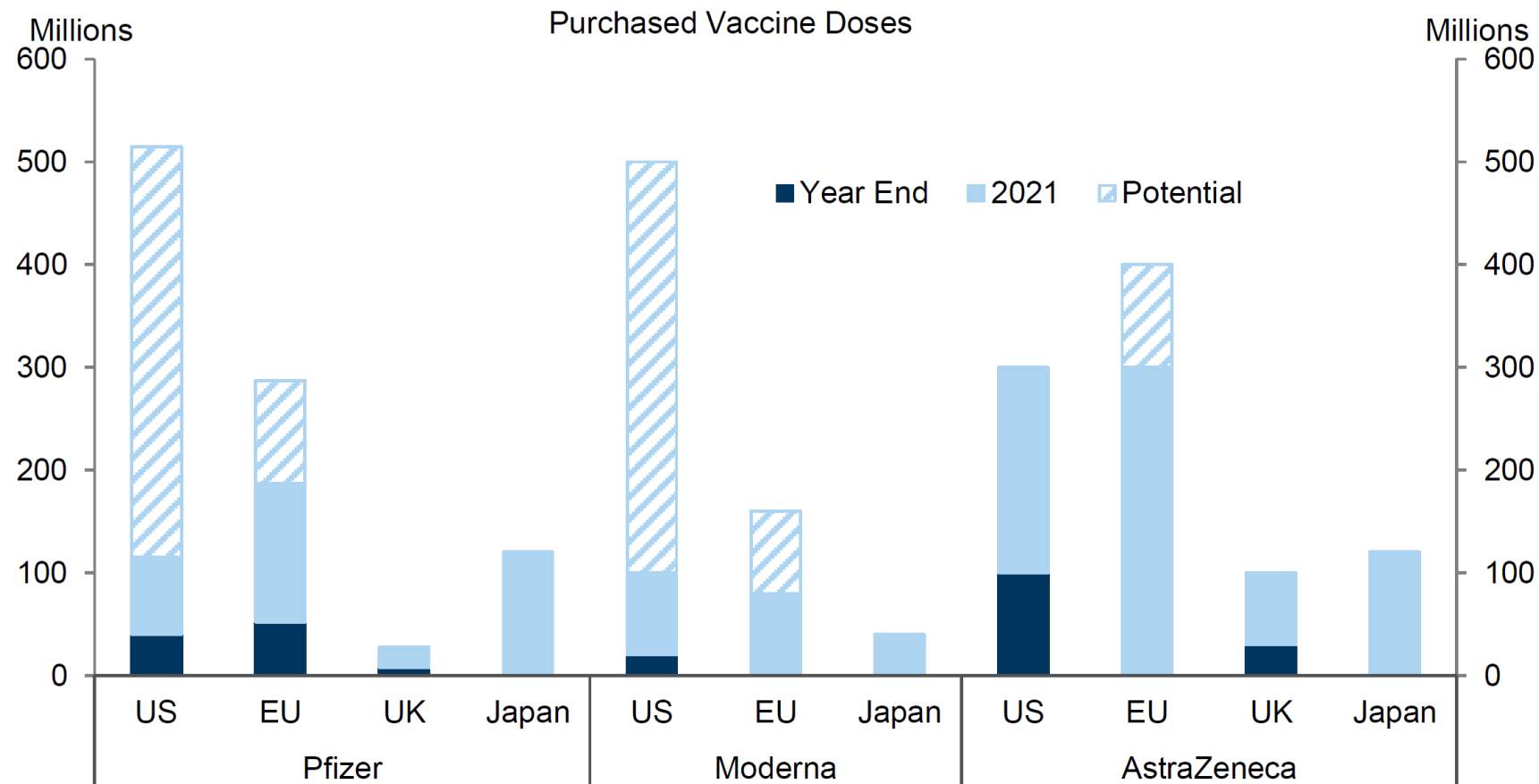
# Promising Vaccine Efforts Underway

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



|   |       | NUMBER OF VACCINES COURSES/QUARTER |      |       |      |       |
|---|-------|------------------------------------|------|-------|------|-------|
|   |       | 4Q20                               | 1Q21 | 2Q21  | 3Q21 | 4Q21  |
| TOTALS                                      |       | 575M                               | 785M | 1.67B | 2.1B | 2.4B  |
| CUMULATIVE VACCINES MANUFACTURED BY COUNTRY | 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   |

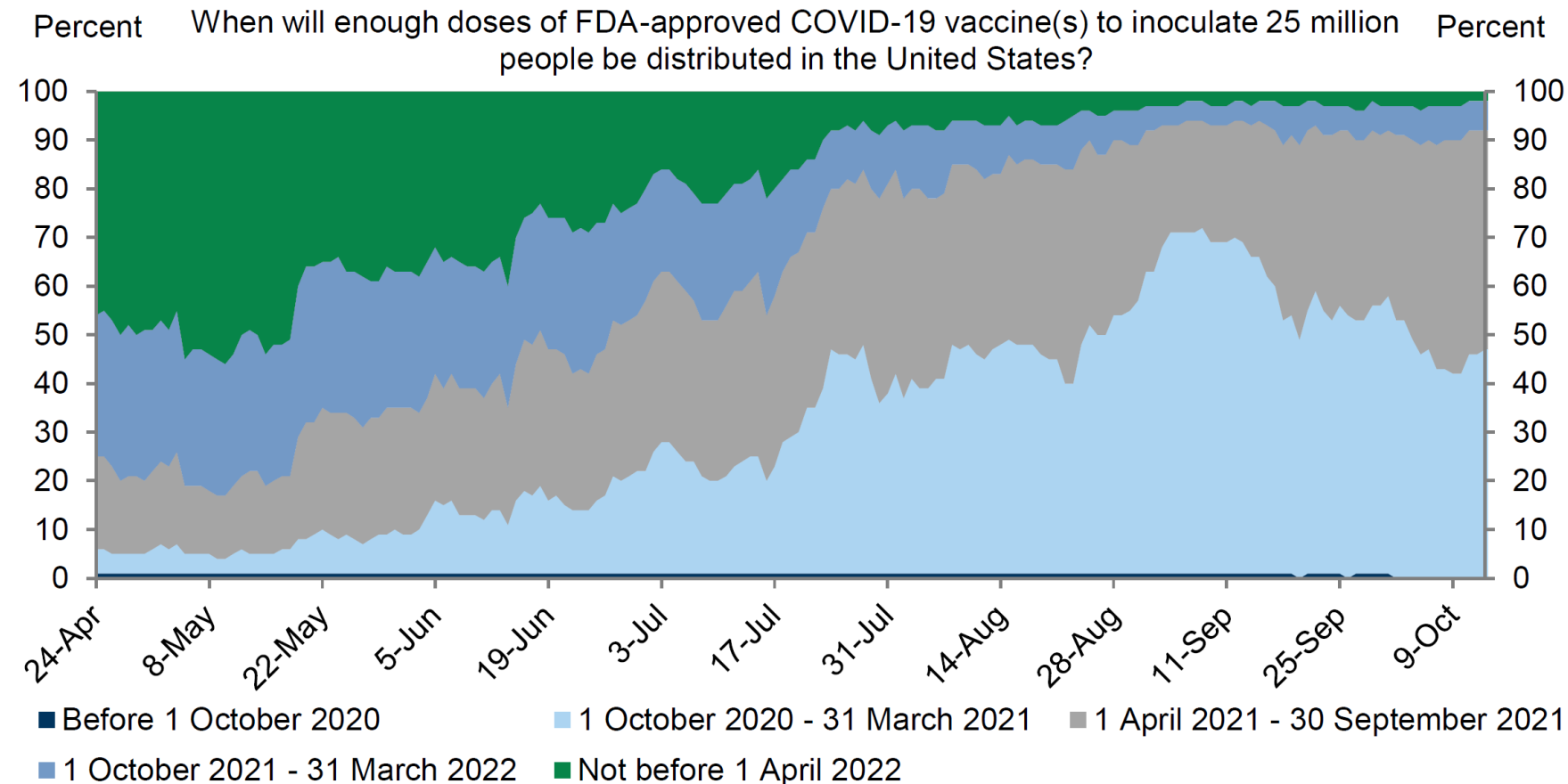
# Governments Are Purchasing Doses Across Drug Companies



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.

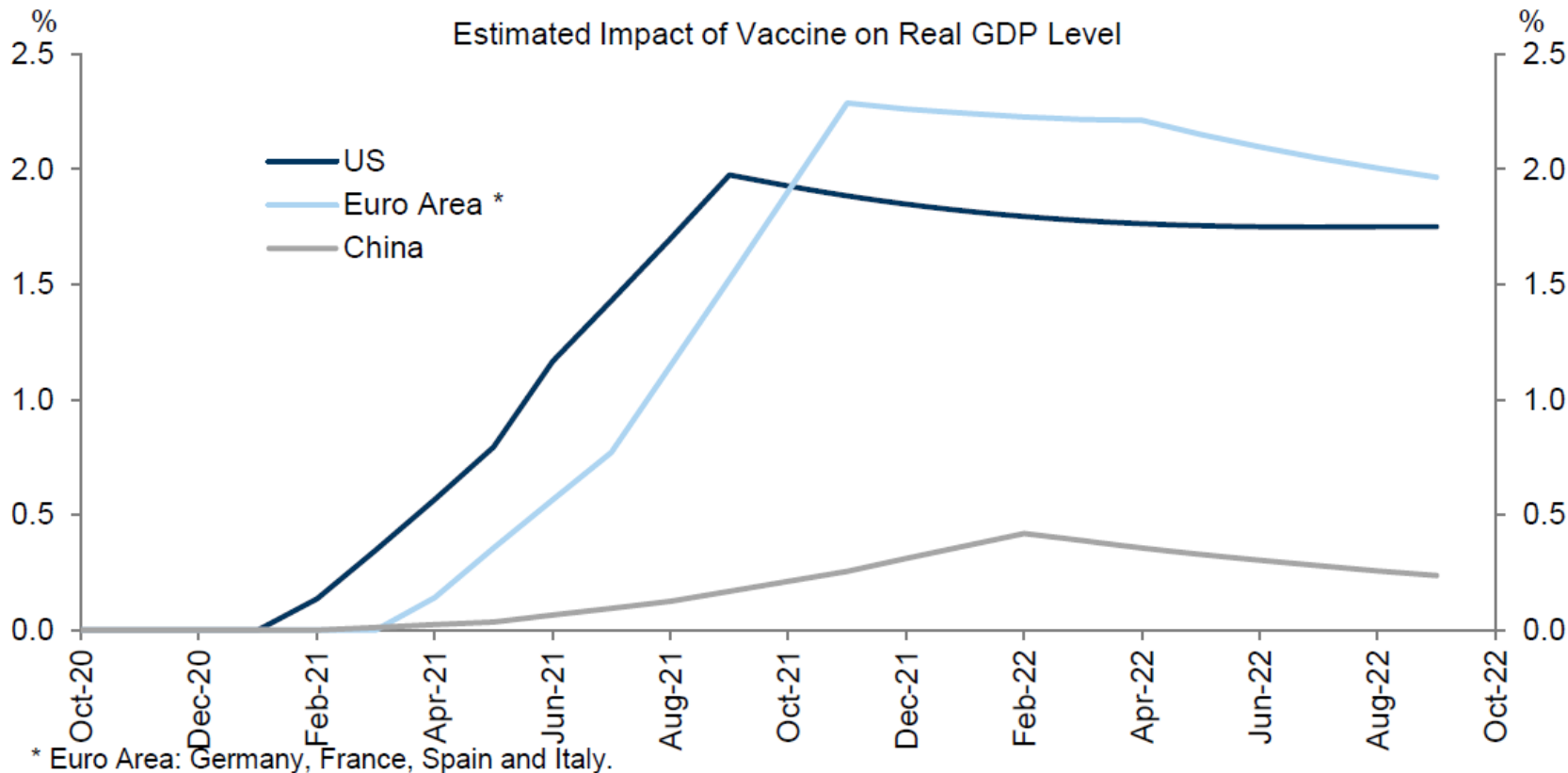
# Concerns Over Timeline Have Grown

**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

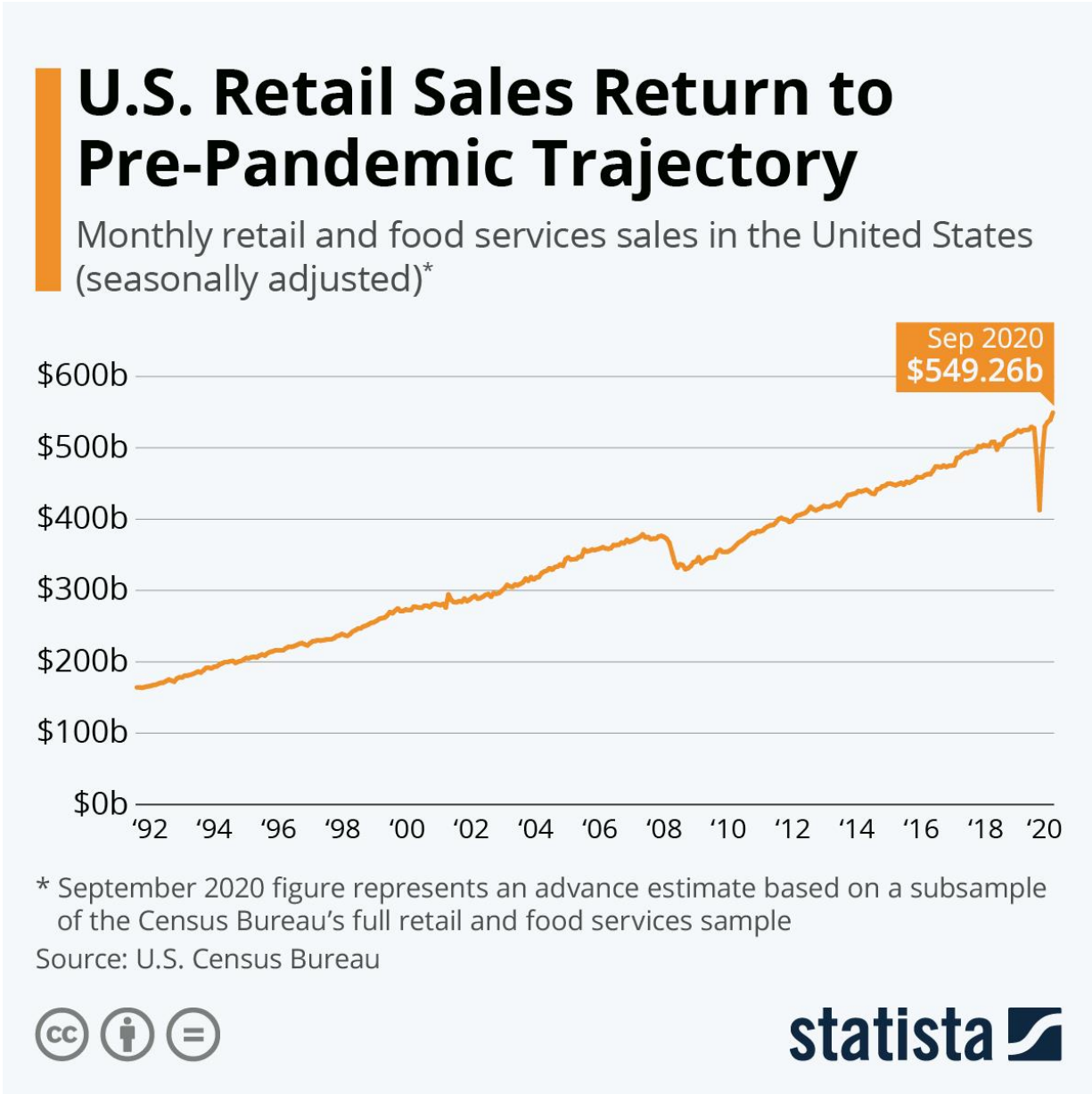
Approximately how many cases of COVID-19 infection has the U.S. recorded to date?

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

# Positive Recovery Signs via Unemployment Improvement

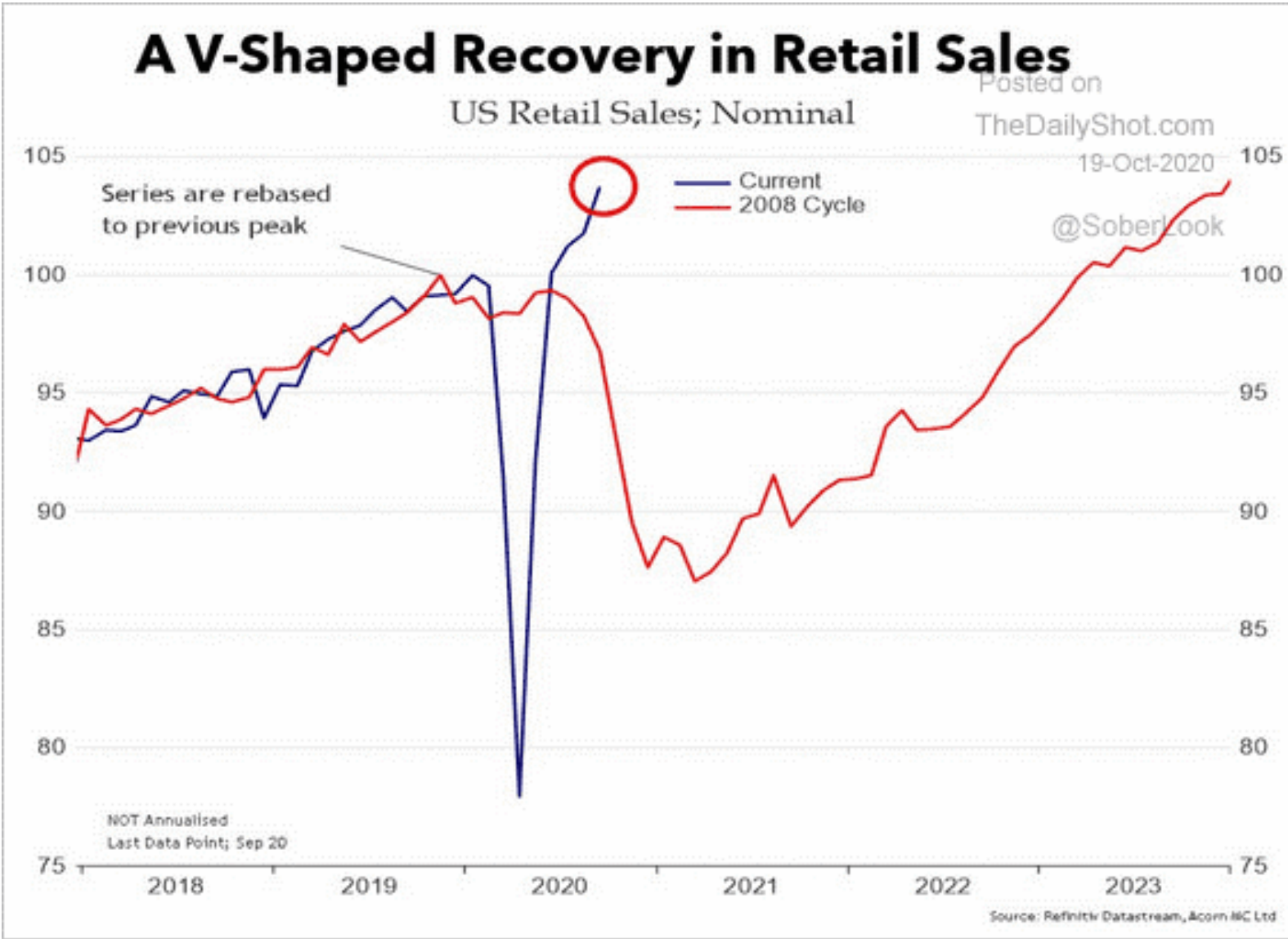


# Retail Sales Area of Strength

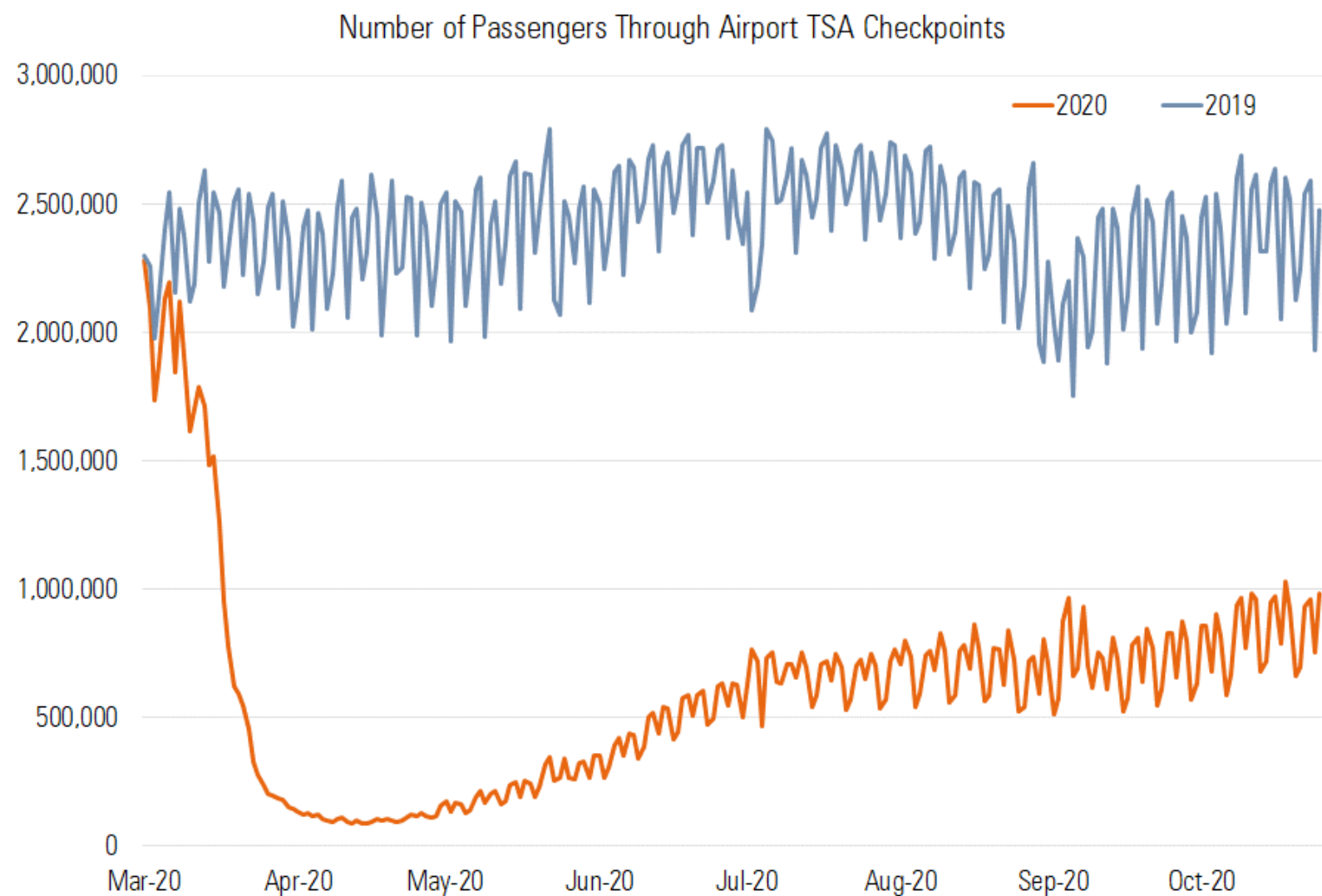




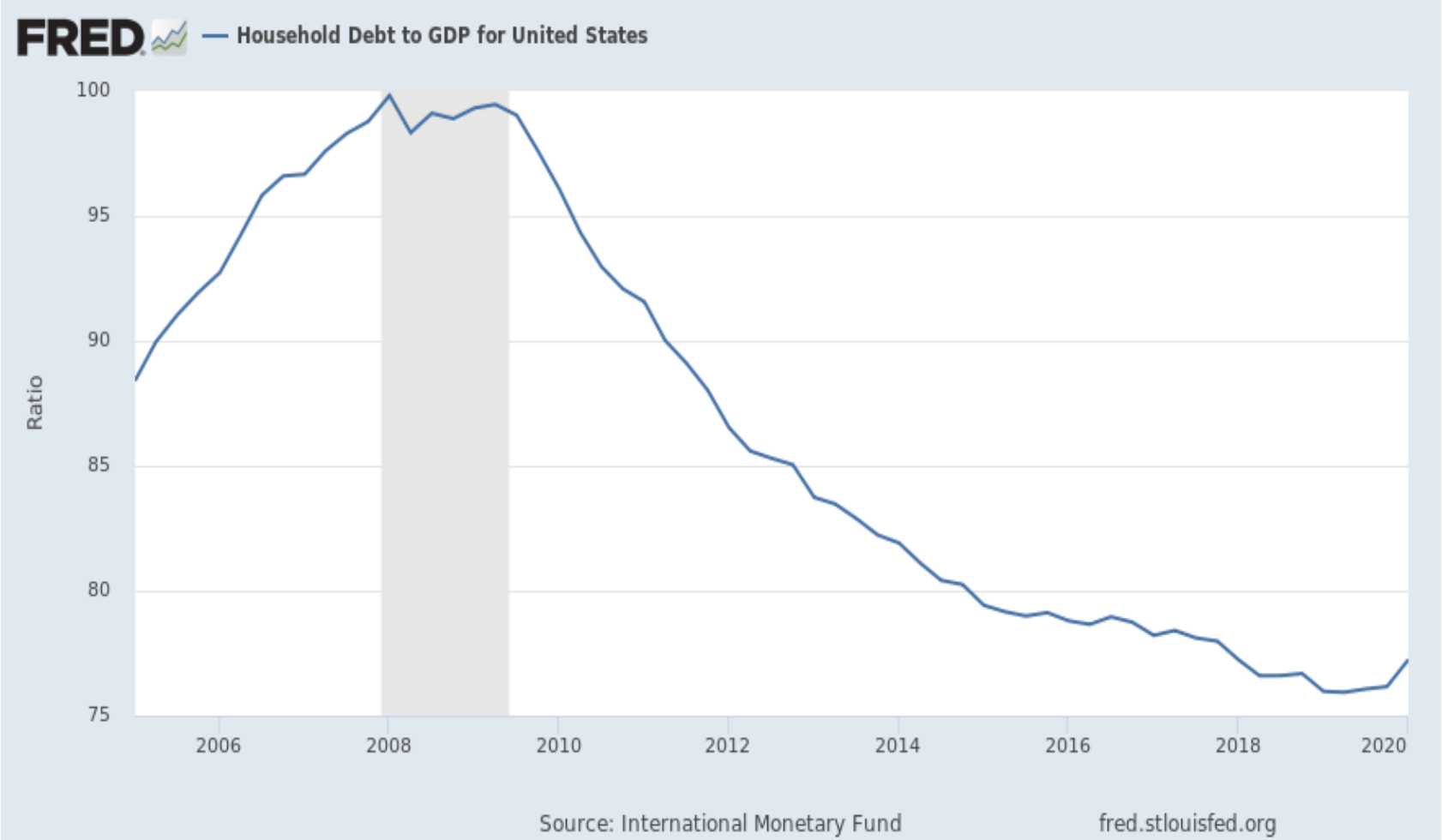
# And Very Different to 2008



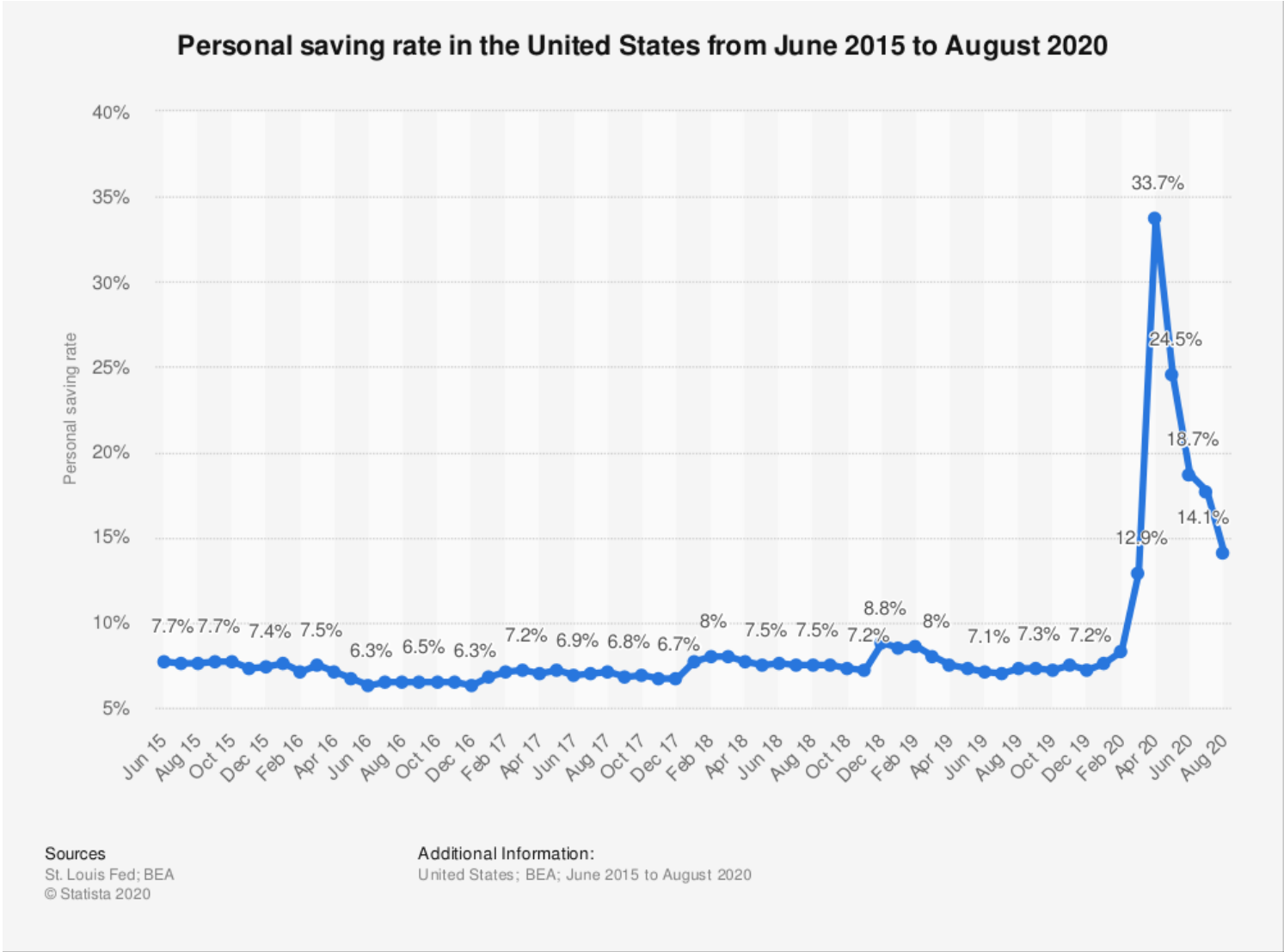
# Travel, Leisure, and Hospitality Remain a Concern



# US Households' Financial Health Better Than in 2008

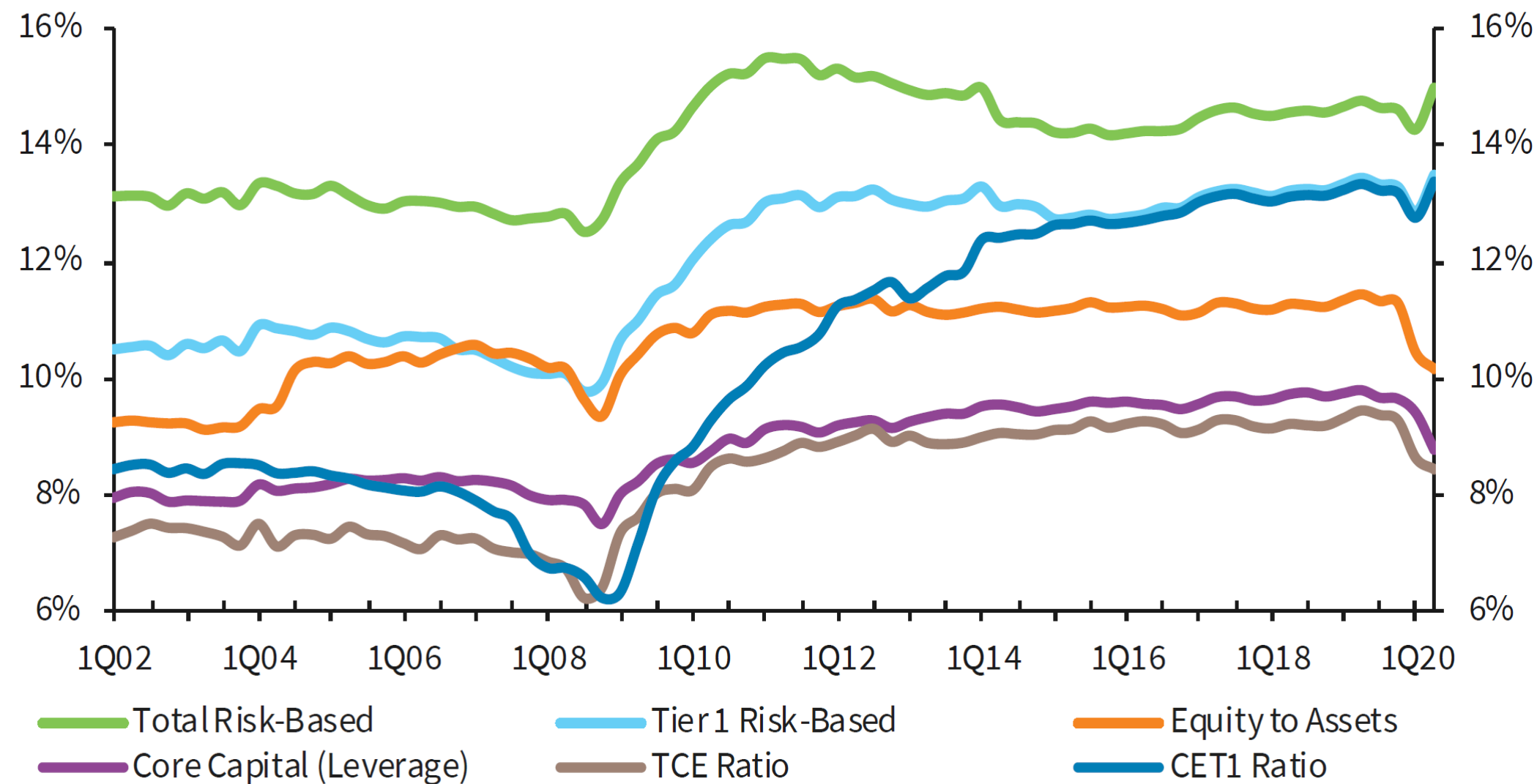


# US Households' Financial Health Better Than in 2008



# And Bank Capital Ratios Stronger Than in 2008

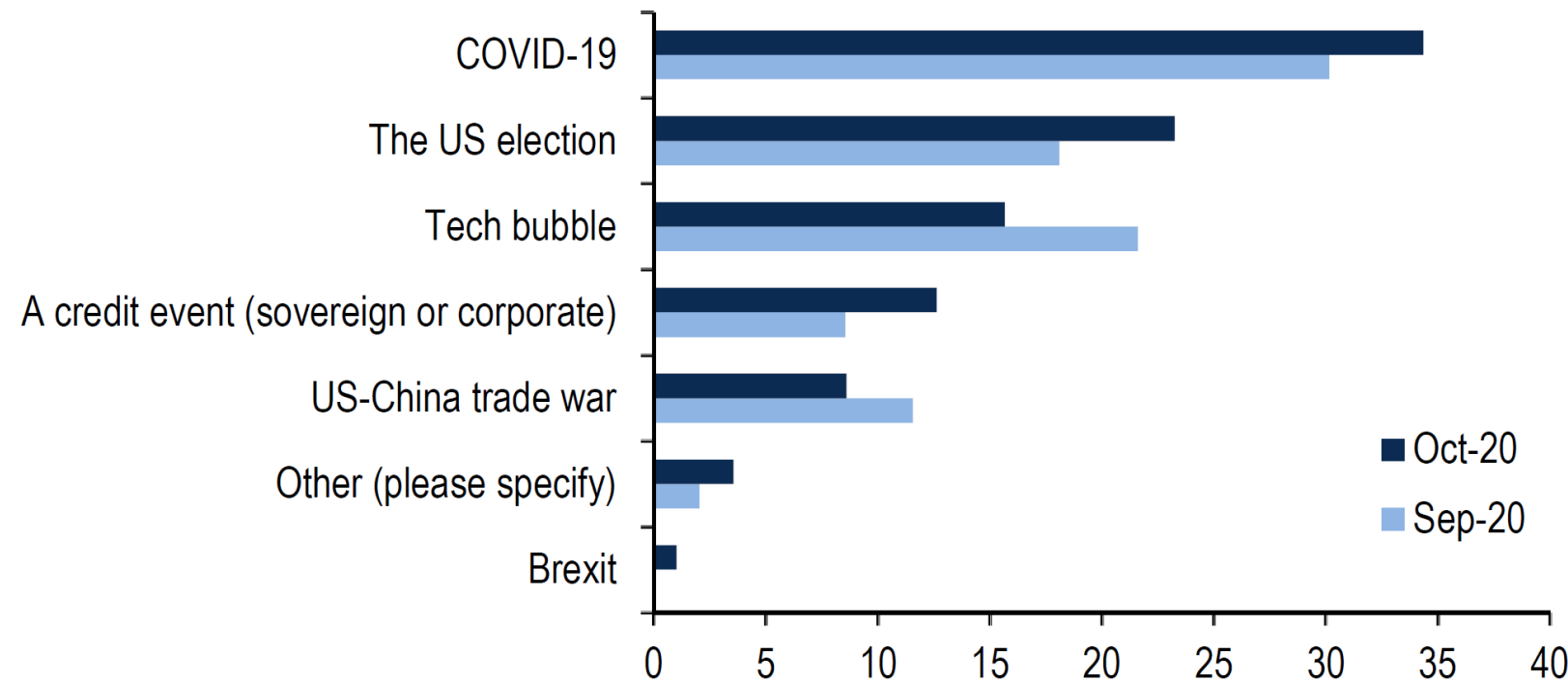
Capital Ratios, 1Q02 – 2Q20



# 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

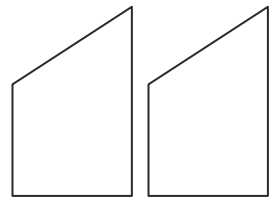
|             | Knowable | Unknowable |
|-------------|----------|------------|
| Important   |          |            |
| Unimportant |          |            |

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

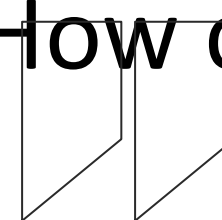
If it's unimportant or unknowable you forget about it.

- Warren Buffett

For illustrative purposes only.



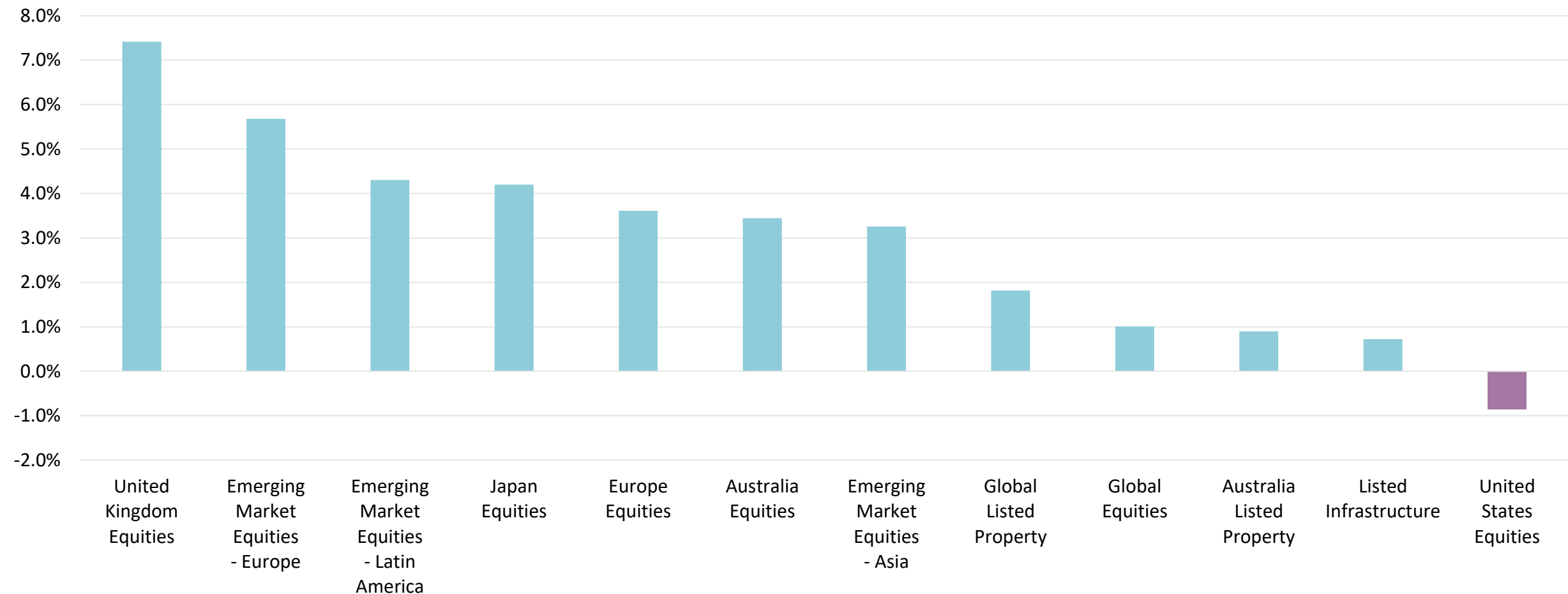
The world is combatting the **greatest pandemic in a century** and the **worst economic contraction** of the last 80+ years. And yet the **stock market**—supposedly a gauge of current conditions and a barometer regarding the future—was **able to compile a record advance** and nearly recapture an all-time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



Howard Marks, *Anatomy of a rally*

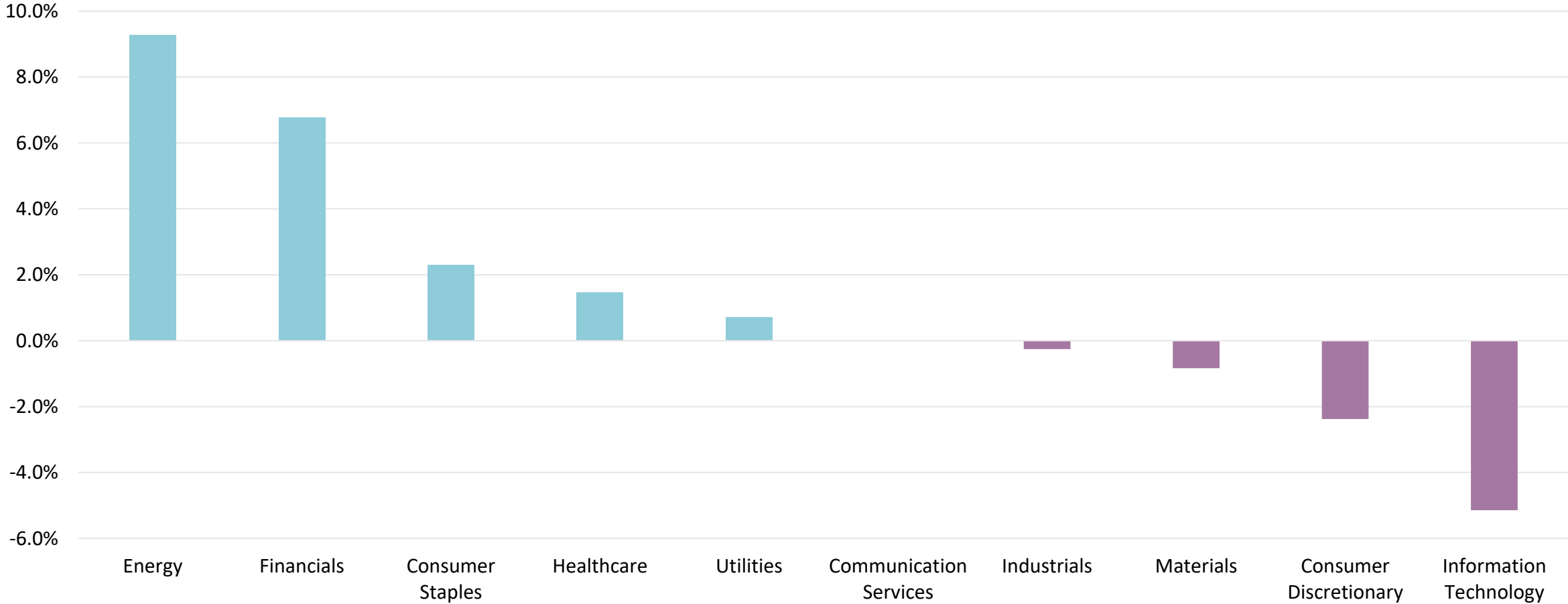


# Expected Returns, after inflation, for select growth assets



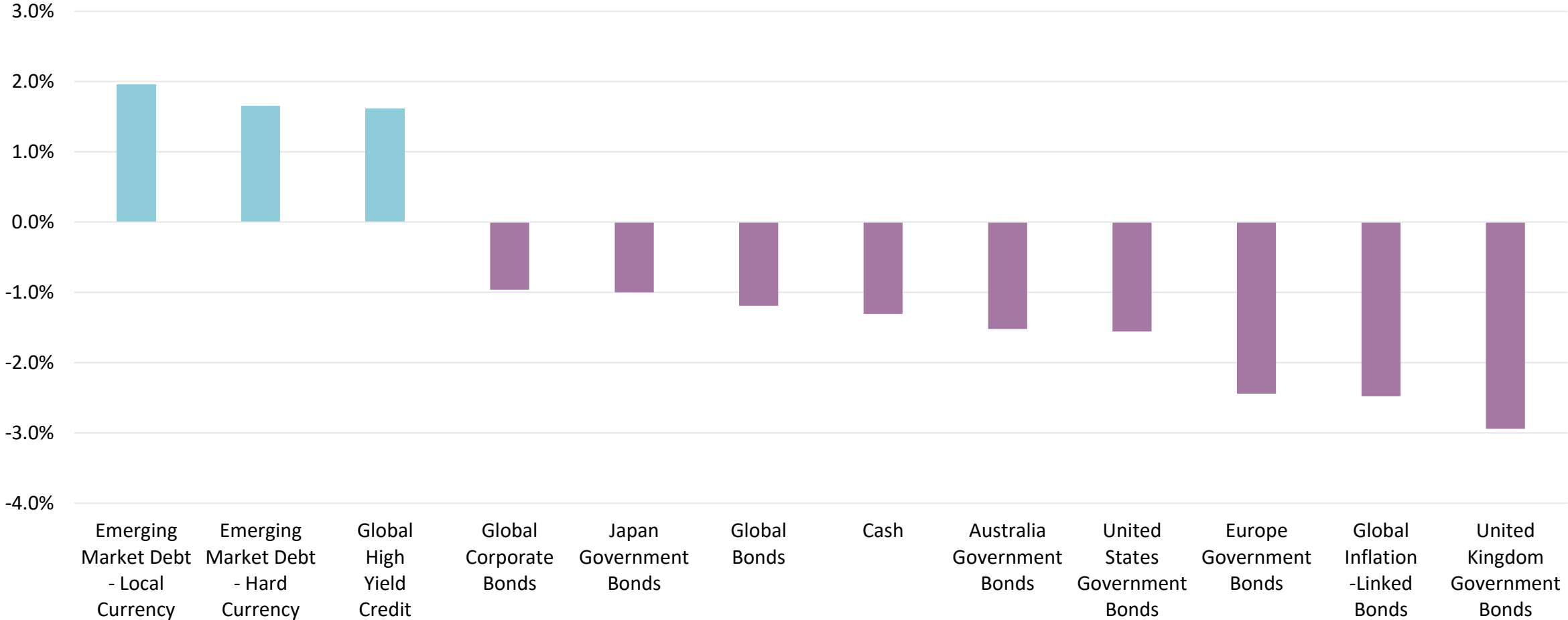
Source: Morningstar Investment Management. As at 30 September 2020.

# 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

| Conviction Level                     | Low | Low to Medium | Medium | Medium to High | High |
|--------------------------------------|-----|---------------|--------|----------------|------|
| <b>Equities</b>                      |     |               |        |                |      |
| Australian Equities                  |     |               |        |                |      |
| U.S. Equities                        |     |               |        |                |      |
| Japanese Equities                    |     |               |        |                |      |
| Europe Ex U.K. Equities              |     |               |        |                |      |
| U.K. Equities                        |     |               |        |                |      |
| Emerging Market Equities             |     |               |        |                |      |
| <b>Property &amp; Infrastructure</b> |     |               |        |                |      |
| Australian REITs                     |     |               |        |                |      |
| Global REITs                         |     |               |        |                |      |
| Global Infrastructure                |     |               |        |                |      |

## Defensive/Alternative Assets

| Conviction Level           | Low | Low to Medium | Medium | Medium to High | High |
|----------------------------|-----|---------------|--------|----------------|------|
| <b>Bonds</b>               |     |               |        |                |      |
| Australian Bonds           |     |               |        |                |      |
| U.S. Bonds                 |     |               |        |                |      |
| Japanese Bonds             |     |               |        |                |      |
| Europe Ex U.K. Bonds       |     |               |        |                |      |
| U.K. Bonds                 |     |               |        |                |      |
| Inflation-Linked Bonds     |     |               |        |                |      |
| Emerging Market Bonds (HC) |     |               |        |                |      |
| Emerging Market Bonds (LC) |     |               |        |                |      |
| Investment Grade Credit    |     |               |        |                |      |
| High-Yield Credit          |     |               |        |                |      |
| <b>Australian Dollar</b>   |     |               |        |                |      |
| <b>Cash</b>                |     |               |        |                |      |

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

Thanks for joining us.