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MARKET REVIEW
SEPTEMBER 2020

2020 ELECTION INVESTMENT IMPLICATIONS

As the November election approaches, investors are increasingly focused on the investment implications of the divergent policies of President Trump and Democratic presidential nominee Joe Biden. A second term for Trump may focus on deregulation, extension of the 2017 tax cuts or additional tax cuts, and an “America First” approach to international trade. By contrast, Biden’s proposed policies include expanded access to federally funded health care and spending initiatives for clean energy and infrastructure. Biden plans to fund increased federal spending through higher tax rates for corporations and high income individuals. A Biden presidency may also re-regulate some industries such as energy, health care, and technology. The outcome of the Senate elections will be a key factor in allowing the next president to implement their policies since some parts of each candidate’s agenda requires congressional approval. Polling data suggests there is a possibility that Democrats could gain a simple majority in the Senate while keeping control of the House of Representatives.

Despite presidential candidates’ policies receiving a lot of attention by investors, history suggests that policy changes from a particular president or political party are less impactful for the economy and stock market than many observers believe. For example, former President Obama and President Trump had opposing views on taxes, regulation, and trade policy yet the U.S. economy and stock market performed similarly during both administrations. The three-year annualized U.S. economic growth during the first three years of Obama’s second term and during the Trump administration were 2.47% and 2.57%, respectively. During those same time periods the S&P 500’s three-year annualized return was 15.13% for Obama and 15.27% for Trump. For comparative purposes, we are using the time period in Obama’s second term since his first term began during the tail end of the global financial crisis which would skew the comparison.

Ultimately, economic fundamentals (GDP growth, interest rates, inflation, and labor growth and productivity) drive the economy and stock market. Political policies can impact these fundamentals, but their effect tends to be gradual and can be outweighed by non-political factors such as the Federal Reserve’s monetary policy and demographic shifts.

Even though the economy and stock market may not be significantly impacted by a change in political leadership, political policies can be impactful at a more granular level by creating winners and losers within certain sectors of the economy. The remainder of this Market Brief will cover some of the key policy differences between Trump and Biden.

HEALTH CARE

Biden’s health care plan includes a government-run health insurance option that would compete with the private health insurance system currently in place. This is a more moderate policy than the proposal among some progressives for a single-payer system, “Medicare For All,” which would gradually eliminate private coverage options. Some equity analysts believe many individuals will likely keep their employer-sponsored insurance and the public option will appeal to the uninsured and those facing high premiums under the Affordable Care Act (ACA) individual market. However, a public insurance option will have the ability to absorb losses indefinitely which could lead to it undercutting private health insurers.

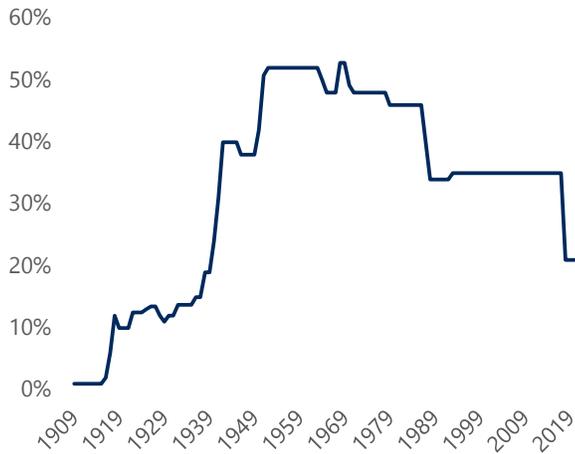
Prescription drug pricing reform will also be a key focus for Biden. Biden aims to negotiate Medicare drug prices with pharmaceutical companies; those prices are currently set freely by the companies. The Congressional Budget Office estimates that negotiating Medicare drug prices could reduce government spending on drugs by \$448 billion over 10 years. Biden’s program would also have drug price increases linked to inflation, limit the launch prices of new drugs, allow drug imports from other countries, and terminate the tax break for drug advertisement spending. These policies would likely reduce the earnings of many drug companies and weigh on overall health care sector profits. Pharmaceutical firms account for approximately 45% the market capitalization of the S&P 500 Health Care sector.

ENERGY

The Trump administration prioritized reducing regulations for oil and gas companies to support energy production and advance American energy self-sufficiency. Since 2017, Trump rolled back 64 environmental regulations and another 34 are in progress. Less regulation opened new opportunities for oil exploration and production. From 2017 to 2019, U.S. crude oil production grew 47% to 12.9 million barrels per day (bpd)

U.S. FEDERAL CORPORATE TAX RATE

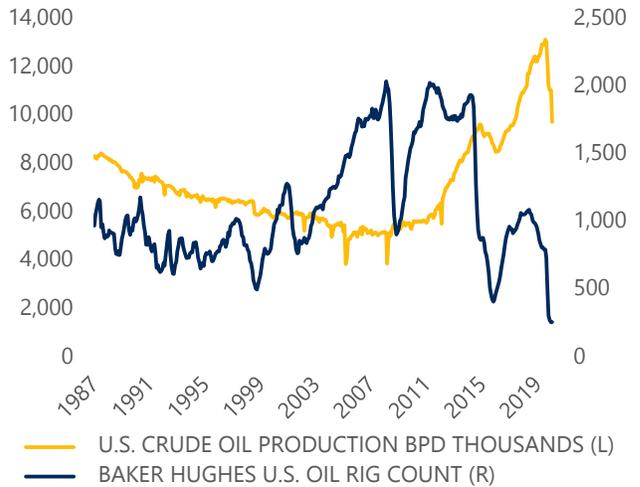
BIDEN PROPOSES RAISING TAX RATE TO 28% FROM 21%



Source: Tax Policy Center
Past performance does not guarantee future results.

OIL INDUSTRY EXPANSION UNDER TRUMP

U.S. CRUDE OIL PRODUCTION (BARRELS PER DAY) AND RIG COUNT



Source: Bloomberg
Past performance does not guarantee future results.

from 8.8 million bpd. Bloomberg equity analysts estimate if Trump is reelected oil production could expand by another 0.5 to 1.0 million bpd.

Biden's energy plan includes measures to promote clean energy such as rejoining the Paris climate accord, eliminating carbon pollution from power plants by 2035, tax credits and federal funding for renewable and carbon-free energy projects (e.g. wind, solar, nuclear, hydropower, and batteries), and actions to encourage the use of electric vehicles (EVs).

Eliminating carbon pollution from power plants by 2035 would require aggressive retirement strategies for fossil fuels since coal and natural gas still account for over 60% of electricity production. Biden plans to support the transition to cleaner energy with his \$2 trillion energy plan that would allocate \$500 million a year for developing renewable and carbon-free energy. If half of that spending was used to support projects in the utilities sector it could nearly double the sector's annual capital spending and likely boost their earnings growth rates by creating new revenue streams. In addition, tax incentives for renewables that were previously discussed in Congress could save energy producers over \$10 billion per year in taxes.

Biden's policies to encourage the use of EVs include renewing and expanding the EV tax credit, public investment for building 500,000 EV charging stations, strengthening fuel efficiency standards, and transitioning the federal government's 3 million annual vehicle purchases to EVs from gas-powered vehicles. For a point of reference, EVs accounted for 2% of all vehicle sales in 2019.

Biden's approach to clean energy may also include policies to discourage the production of fossil fuels. Potential policies to reduce fossil fuel production could include restricting new oil drilling activity on federal lands and in federal waters

(e.g. Gulf of Mexico), restricting exports of liquid natural gas, creating a tougher regulatory and legal environment for pipelines, and eliminating fossil fuel subsidies. If these policies were implemented, they could constrain the growth opportunities for oil and gas companies.

TAXES

During the Trump administration, corporate and individual federal tax rates were reduced as part of the Tax Cuts and Jobs Act of 2017. Trump's agenda for a second term proposes additional tax cuts for individuals. Further tax cuts would be challenging if Congress remains divided or Democrats take control of the Senate. A more likely scenario for a second term for Trump is a continuation of current tax rates. Meanwhile, Biden proposed raising the tax rate for corporations to 28% from 21% and to 39.6% from 37% for the top individual tax bracket. Investment research provider BCA Research estimates Biden's tax plan would result in an 11.4% reduction in S&P 500 earnings. Real estate, technology, and health care would be most impacted by higher tax rates.

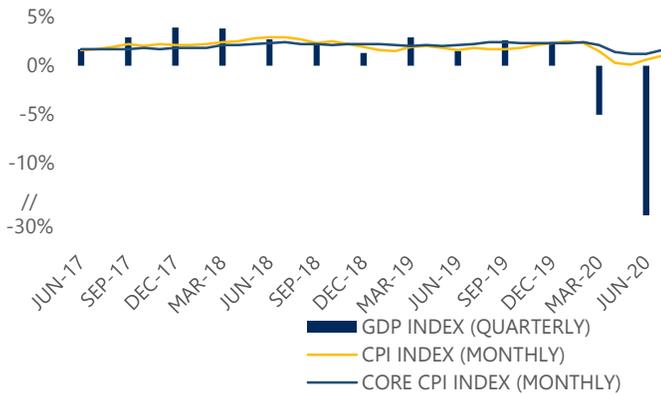
MINIMUM WAGE

Biden's labor agenda includes a proposal to roughly double the federal minimum wage to \$15 per hour from \$7.25 and index minimum wage growth to the median wage growth. President Trump appears to be against raising the minimum wage given that White House officials said Trump would veto the Democrat-led House of Representatives' bill, passed in July 2019, to raise the federal minimum wage to \$15 per hour. The Republican-led Senate did not take up the bill so it never reached Trump's desk. Similar to higher taxes rates, increasing the minimum wage would likely pressure corporate profit margins and earnings. Employment data from the Bureau of Labor Statistics shows that certain industries including restaurants, leisure and hospitality, and retail are most vulnerable to increases in the federal minimum wage.

ECONOMY

GDP AND CONSUMER PRICES

JUNE 2017 THROUGH JULY 2020

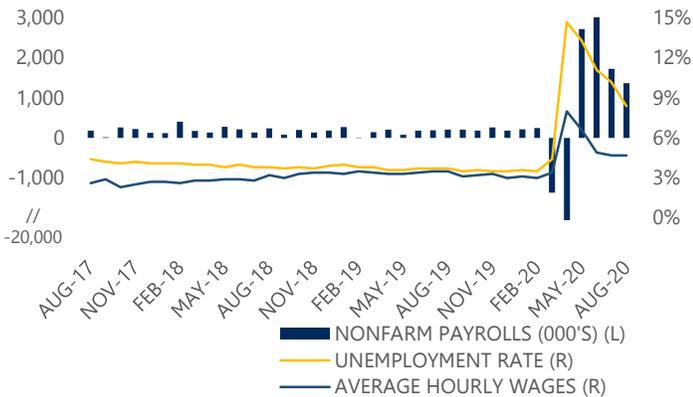


Source: Bloomberg

- U.S. economic growth in the second quarter was revised to an annualized rate of negative 31.7%, slightly better than the first estimate of negative 32.9%. This marked the largest quarterly contraction ever recorded for the U.S. economy.
- Looking forward to the third and fourth quarters, economists' consensus estimate shows a healthy rebound in U.S. GDP growth of 21.2% and 6.1%, respectively. The economy is projected to contract 5.0% in 2020.
- Core Consumer Price Index (CPI), excluding food and energy, rose 0.6%, posting its largest month-to-month increase since January 1991. Higher prices on a range of products and services point to firming inflation as consumer demand rebounded following steep declines earlier in the COVID-19 pandemic.

LABOR MARKET

AUGUST 2017 THROUGH AUGUST 2020

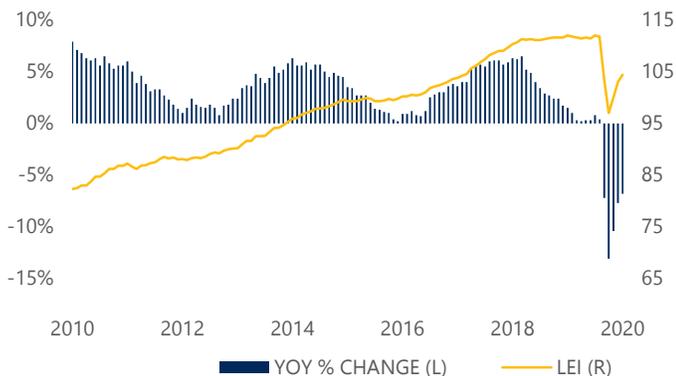


Source: Bloomberg

- The U.S. economy added more jobs in August than anticipated as U.S. nonfarm payrolls rose by 1.37 million in August, following the 1.73 million jobs added in July. Average hourly earnings rose 4.7% year over year in August.
- Despite the pace of job additions slowing compared to recent months, the continuing trend of employers bringing back workers at a strong rate is an encouraging sign for the labor market recovery. Over the last four months, almost half of the 22 million jobs lost during March and April have been recovered.
- The unemployment rate declined to 8.4% in August, the first single-digit decline since March and better than economists' estimate of 9.8%.

LEADING ECONOMIC INDICATORS

JULY 2010 THROUGH JULY 2020



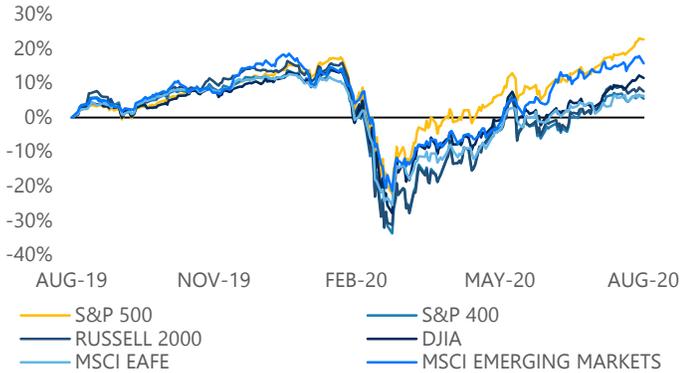
Source: Bloomberg

- In July, the Conference Board Leading Economic Index increased for the third consecutive month with a gain of 1.4%. The main contributors fueling the rebound in the LEI have been declining initial jobless claims, an increase in average hours worked in manufacturing, and a sharp increase in building permits.
- Some laggards from the July report included a decrease in consumer expectations for business conditions and the Leading Credit Index.
- LEI growth over the six-month period ending July 2020 improved to negative 6.8%, up from negative 8.4% growth over the six-month period ending June 2020.

EQUITY

TRAILING 12-MONTH EQUITY RETURNS

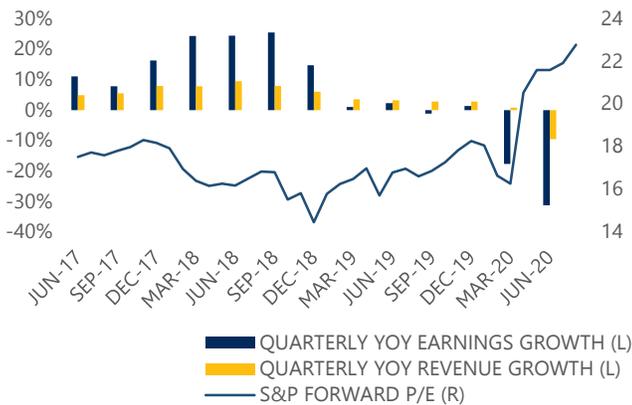
PRICE APPRECIATION, AUGUST 2019 THROUGH AUGUST 2020



Source: Bloomberg. Past performance is no guarantee of future results.

- The S&P 500's 57.74% rally since the market low in late March led the index to a new record by surpassing the previous high of 3,386.15 which was set on February 19th and, in the process, erased all of the losses related to COVID-19.
- The steady decline in the daily number of new COVID-19 cases in the U.S. throughout August, encouraging progress with vaccine trials, and hopes for additional fiscal stimulus helped the S&P 500 gain 7.19% in August. The index has risen 37.40% over the last five months, the largest five-month gain since 1938.

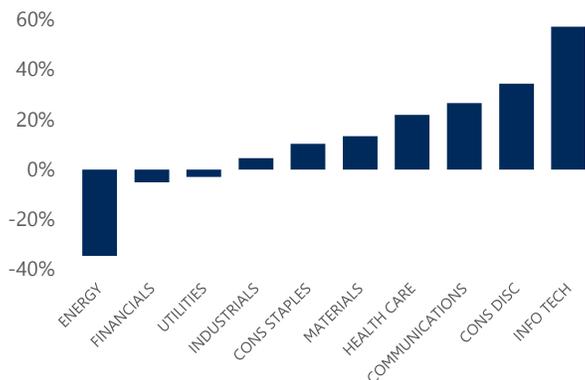
S&P 500 YOY EARNINGS & REVENUE GROWTH BY QUARTER, MARCH 2017 THROUGH AUGUST 2020



Source: Bloomberg

- Second quarter earnings reporting season is mostly wrapped up with 98% of S&P 500 companies reporting results. It appears that analysts overestimated the negative impact from the pandemic and economic shutdowns. Earnings are on track for a 31.21% year-over-year decline compared to analysts' initial estimate for a 43.64% decline.
- Around 83% of companies reported earnings above analysts' estimates. This is the highest earnings beat percent since at least 1992 and above the 63% long-term average.
- Analysts have revised their earnings expectations upward for the second half of the year and project earnings declines of 22.70% and 12.72% in the third and fourth quarters, respectively.

S&P 500 SECTORS 12-MONTH PRICE RETURNS AUGUST 2019 THROUGH AUGUST 2020



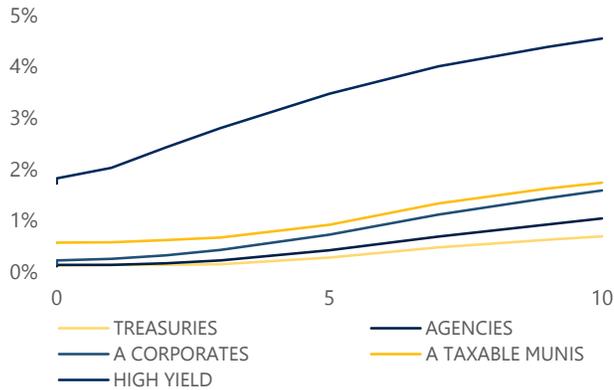
Source: Bloomberg

- Technology was the leading sector with a monthly gain of 12.01% which extended the sector's performance this year to 35.99%. Strong performance was widespread within the sector as the S&P 500 Software, Hardware, and Semiconductor industries each gained over 10% in the month.
- The consumer discretionary sector returned over 9% for a second consecutive month. Several stocks in the sector benefitted from improving retail sales including Target (TGT) which rose 20.66% in August.
- The energy sector fell 1.02% in August amid oil production disruptions. Two simultaneous hurricanes forced oil companies to shut down over 80% of offshore oil production in the Gulf of Mexico.

FIXED INCOME

CURRENT YIELD CURVES

YIELD CURVES AS OF AUGUST 2020

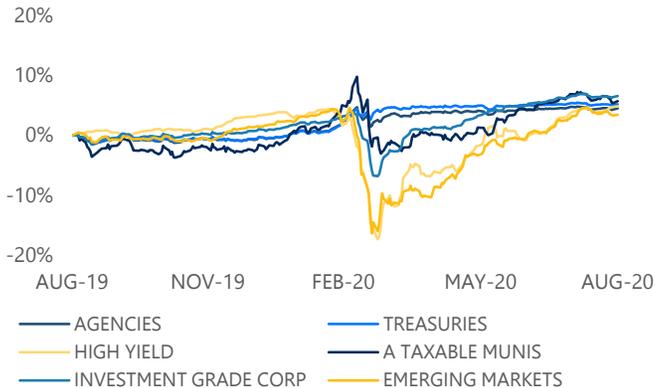


Source: Bloomberg

- The U.S. Treasury curve shifted higher and steepened during August. The two-year, ten-year, and thirty-year U.S. Treasuries increased by 0.02%, 0.17% and 0.28%, respectively.
- Credit spreads over Treasuries begin to widen around the two-year maturity and increase further toward the longer end of the yield curve.
- Yields on below investment grade bonds have increased significantly more than the other bond segments shown in the accompanying chart amid the COVID-19 pandemic. Economic uncertainty related to lockdown measures has led bond investors to favor higher quality corporate credits.

12-MONTH RETURNS, TAXABLE BOND SEGMENTS

AUGUST 2019 THROUGH AUGUST 2020

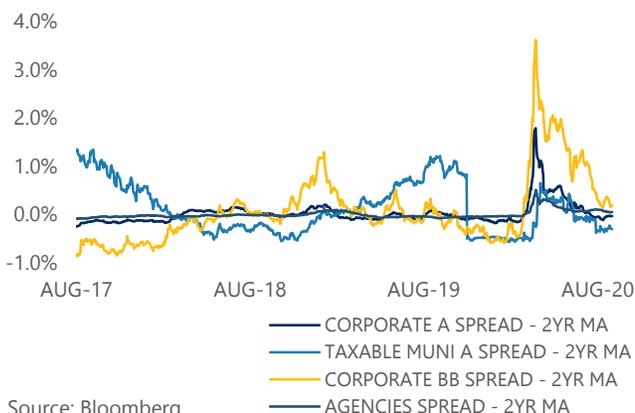


Source: Bloomberg. Past performance is no guarantee of future results.

- All of the bond sectors in the accompanying chart generated a return over 3% during the last twelve months.
- The pandemic has led to better relative performance in investment grade sectors. A-rated corporates have led the bond market over the last twelve months with a return of 6.6%. A-rated taxable municipals were the second best performing sector with a return of 5.7%.
- Only the two government backed sectors, Treasuries and agencies, have experienced a positive price return since the start of the pandemic.

SPREAD VS. TREASURY LESS 2-YR MOVING AVG

AUGUST 2017 THROUGH AUGUST 2020



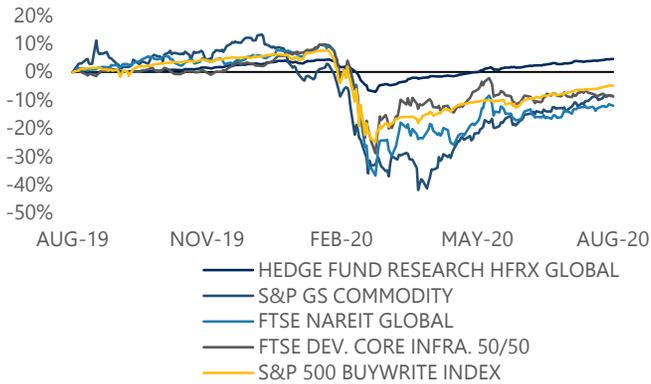
Source: Bloomberg

- Agencies and BB-rated corporate bonds experienced spread tightening during August while the other two sectors shown in the accompanying chart, A-rated taxable municipals and A-rated corporate bonds, experienced spread widening during the month.
- Of the fixed income sectors shown in the accompanying chart, agencies and BB-rated corporate bond yield spreads over similar maturity Treasuries are above their two-year averages as of the end of August.
- Spreads for all the fixed income sectors shown in the accompanying chart are wider than prior to the beginning of 2020. BB-rated corporate bond spreads have experienced the most spread widening.

ALTERNATIVES

ALTERNATIVES, 12-MONTH RETURNS

AUGUST 2019 THROUGH AUGUST 2020

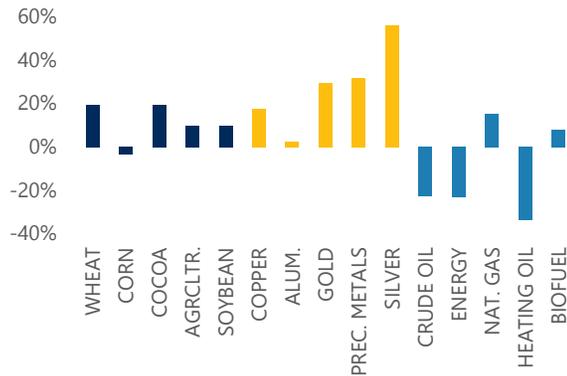


Source: Bloomberg. Past performance is no guarantee of future results.

- The market recovery in recent months has enabled the higher beta commodities and real estate asset classes tracked in the chart at left to continue closing the performance gap with the broad hedge fund asset class.
- In recent months, strong price gains across both precious and industrial metals allowed the broad trade-weighted commodity asset class to advance 5.5% in August following a 32.2% surge in the three-month period spanning May through July.
- Across the hedge fund world, event-driven, convertible arbitrage, and credit-focused strategies have generated the best returns in the first eight months of 2020.

COMMODITIES, 12-MONTH SPOT RETURNS

AUGUST 2019 THROUGH AUGUST 2020



Source: Bloomberg. Past performance is no guarantee of future results.

- Led by nickel and aluminum, most industrial metal prices extended July gains into August amid increased inflation expectations and optimism surrounding the fledgling global economic recovery.
- A divergence between gold and silver occurred in August. The yellow metal consolidated gains after hitting all-time highs in the first week of the month, while its semi-industrial counterpart, silver, surged 16.9% to extend its year-to-date gain to 56.6%.
- Hot weather and the summer driving season led to increased air-cooling demand and served as a positive influence on energy sector prices in August. Additionally, Hurricane Laura in the Gulf of Mexico caused oil rig shutdowns and short-term supply disruptions. Energy commodities benefitted from a catch up in demand amid signs of progress toward normal levels of economic activity.



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DEPOSIT	INSURED	VALUE	GUARANTEED
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