



Elections 2020: Key issues for investors

September 2020

Global Portfolio Advisory Committee (GPAC)

RBC Capital Markets, LLC / Portfolio Advisory Group

All values in U.S. dollars and priced as of Sept. 21, 2020, unless otherwise noted

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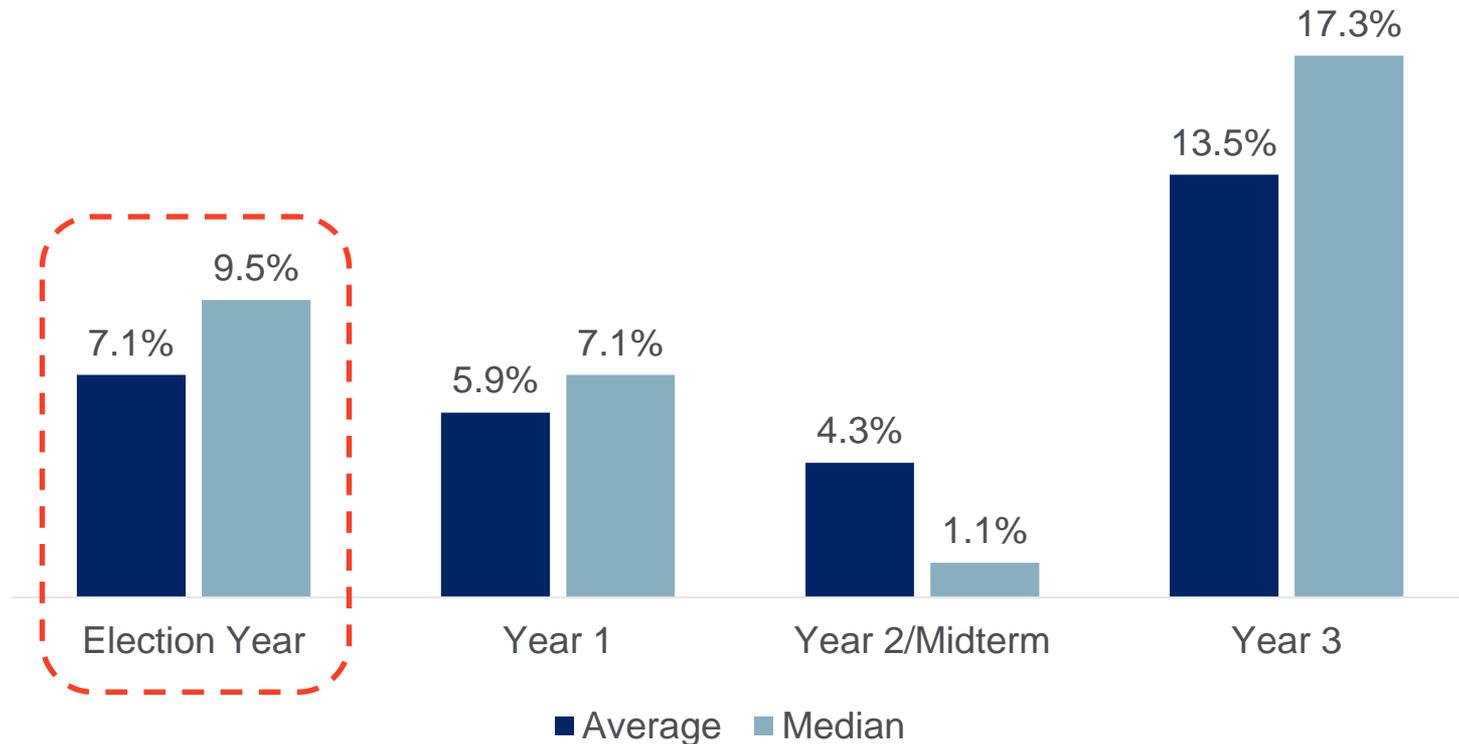
**Wealth
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Presidential cycle track record

Annual returns have been second-best in election years

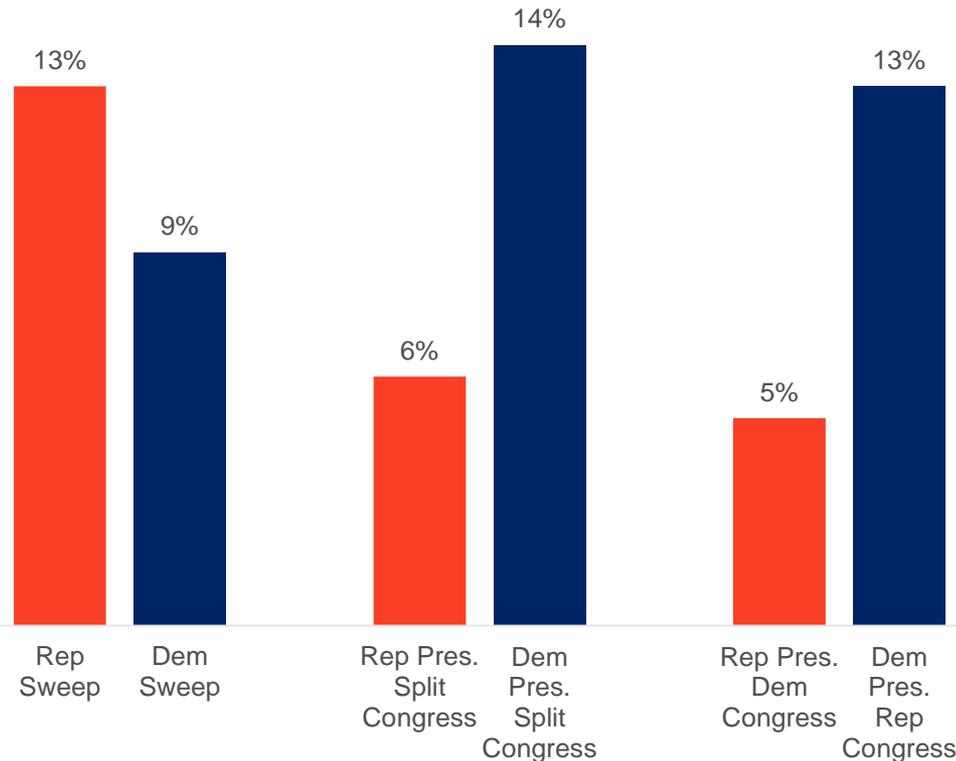
S&P 500 performance during U.S. presidential election cycles since 1928



Source - RBC Capital Markets U.S. Equity Strategy, RBC Wealth Management, Bloomberg. Past performance is no guarantee of future results.

Has party control mattered in the past?

Average historical S&P 500 returns by various party control scenarios

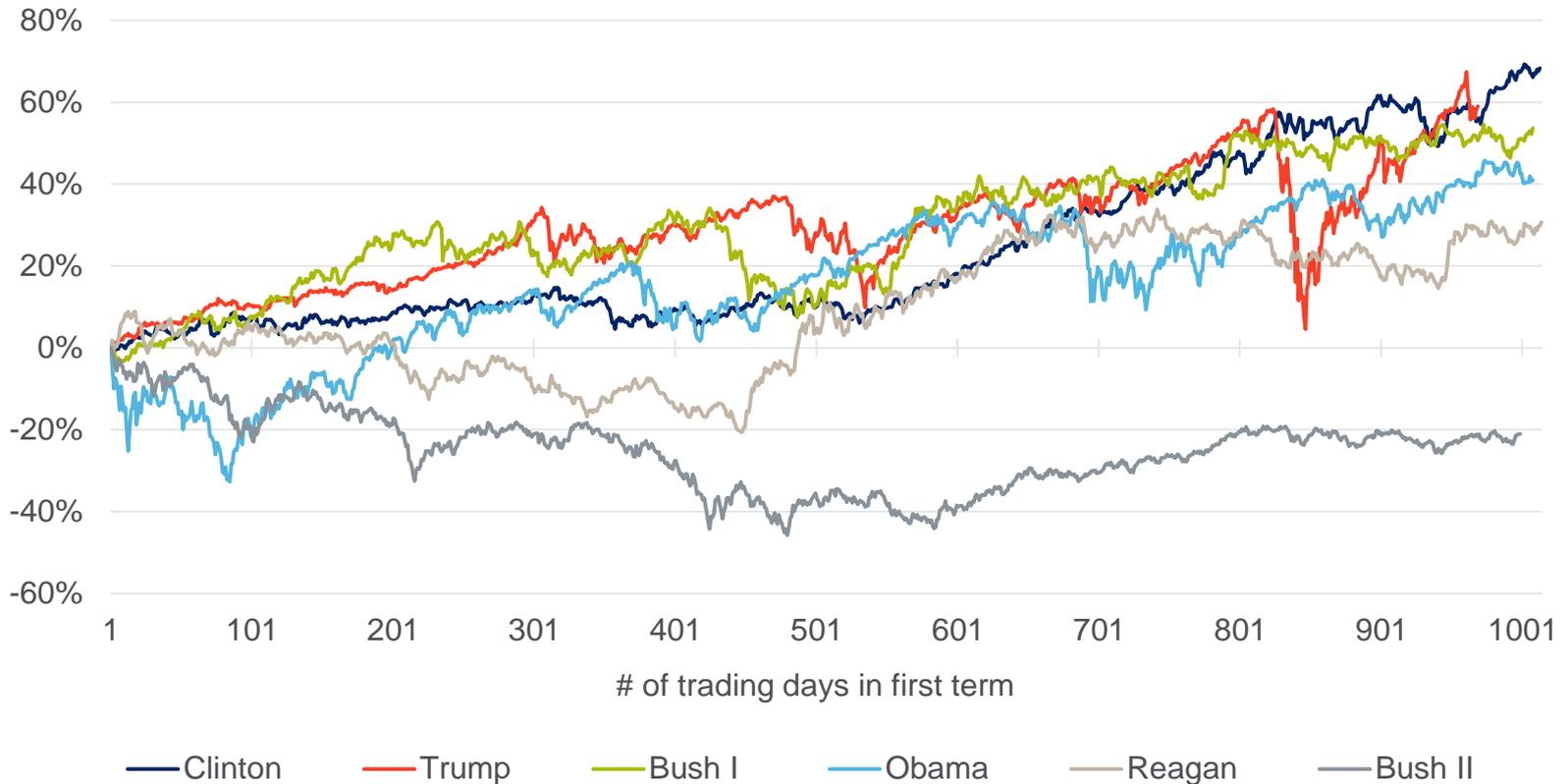


- Since 1933, the market has performed best in three scenarios:
 - ✓ Democratic president with a divided Congress
 - ✓ Democratic president with Republican Congress
 - ✓ Republican sweep
- But the historical data is limited, and there is wide variation around the averages. Take the data with a grain of salt.

Source - RBC Capital Markets U.S. Equity Strategy, RBC Wealth Management, Haver; Returns since 1933. Past performance is no guarantee of future results.

Presidential track record

S&P 500 performance during the first term of recent presidents*



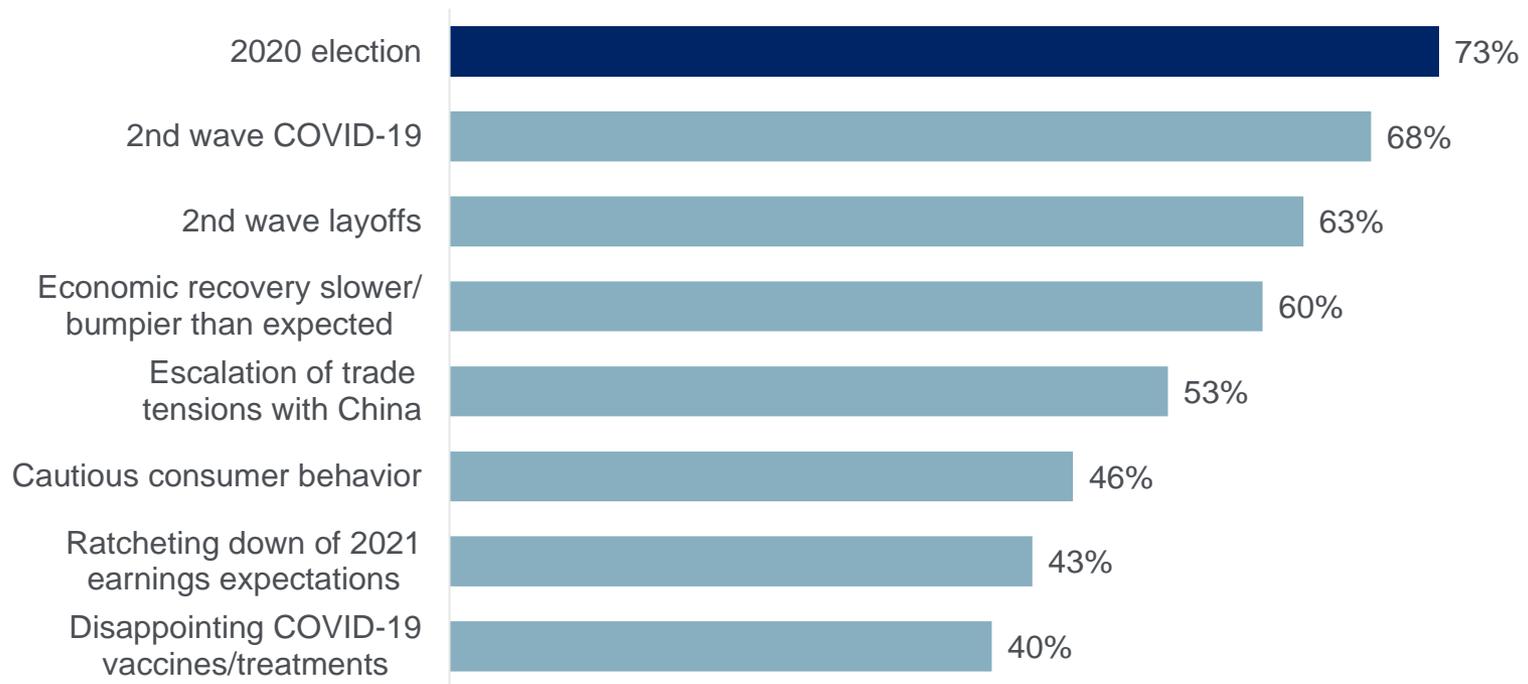
* Performance calculated from election day to the day before the next presidential election.

Source - RBC Wealth Management; Bloomberg. Trump data through 9/15/20; others for four years. Past performance is no guarantee of future results.

Election angst

In 2020, the election is on the top of the “worry” list

Percentage of institutional investors who are worried about the following issues, based on an RBC Capital Markets survey*



Note: The survey question offered three alternatives: Are you "worried," "not worried," or "neither"? The percentages shown represent those who responded "worried."

Source - RBC Capital Markets U.S. Equity Strategy; survey in late June 2020; * The survey is referenced in the RBC Capital Markets report Eye on the Election – The Biden Playbook, July 28, 2020

What's at stake for the market

Key considerations for the 2020 presidential election ...

- Corporate and individual tax rates
- Senate filibuster rule
- Major shift for energy policy?
- Health care reforms
- Infrastructure spending with different priorities
- Regulatory changes?
- China & trade policies

Source - RBC Wealth Management



Recession track record

Shifts in party control

When a recession has occurred at some point during a presidential election year since 1920

Election year	Recession duration	Incumbent party	Incumbent party candidate	Winning party	Election winner
2008	Dec. 2007 to June 2009	Republican	McCain	Democratic	Obama
1980	Jan. 1980 to July 1980	Democratic	Carter	Republican	Reagan
1960	April 1960 to Feb. 1961	Republican	Nixon	Democratic	Kennedy
1948	Nov. 1948 to Oct. 1949	Democratic	Truman	Democratic	Truman
1932	Aug. 1929 to March 1933	Republican	Hoover	Democratic	F. Roosevelt
1924	May 1923 to July 1924	Republican	Coolidge	Republican	Coolidge
1920	Jan. 1920 to July 1921	Democratic	Cox	Republican	Harding

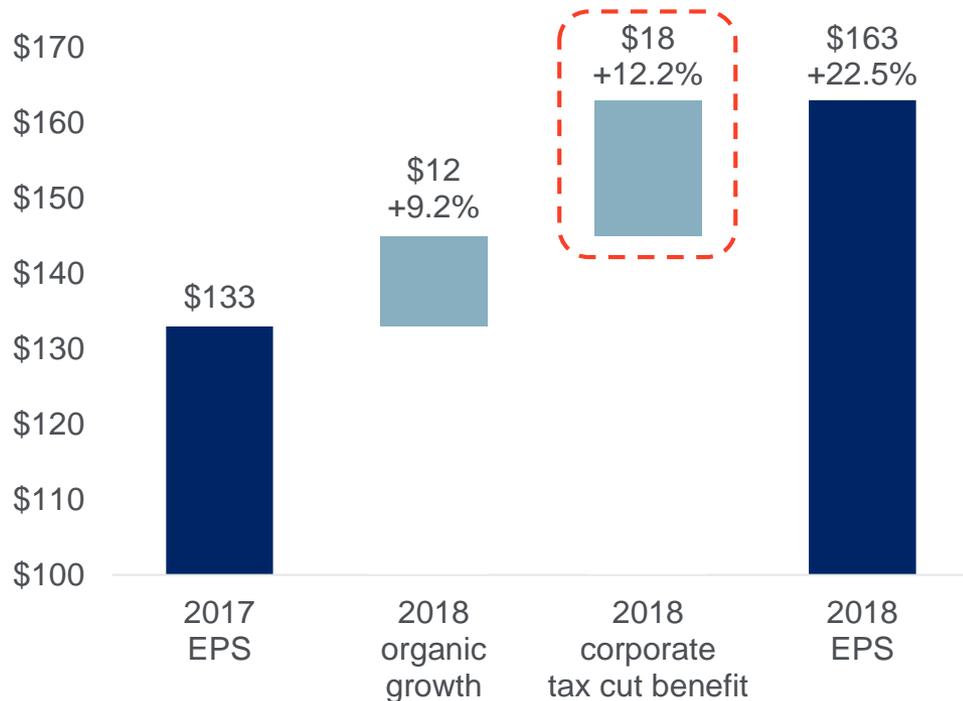
- Overall, recessions have been unkind to incumbent parties.
- Party control of the White House changed in five of the last seven presidential campaign seasons that overlapped a recession.
- Election winners when control shifted:
 - ✓ Obama
 - ✓ Reagan
 - ✓ Kennedy
 - ✓ F. Roosevelt
 - ✓ Harding

Source - RBC Wealth Management, Library of Congress, National Bureau of Economic Research

Corporate taxes: Why the hand-wringing?

How corporate tax cuts impacted earnings growth

S&P 500 earnings per share (EPS) 2017 vs. 2018



- Institutional investors are concerned about corporate tax rates, according to a survey by RBC Capital Markets. Here's why:

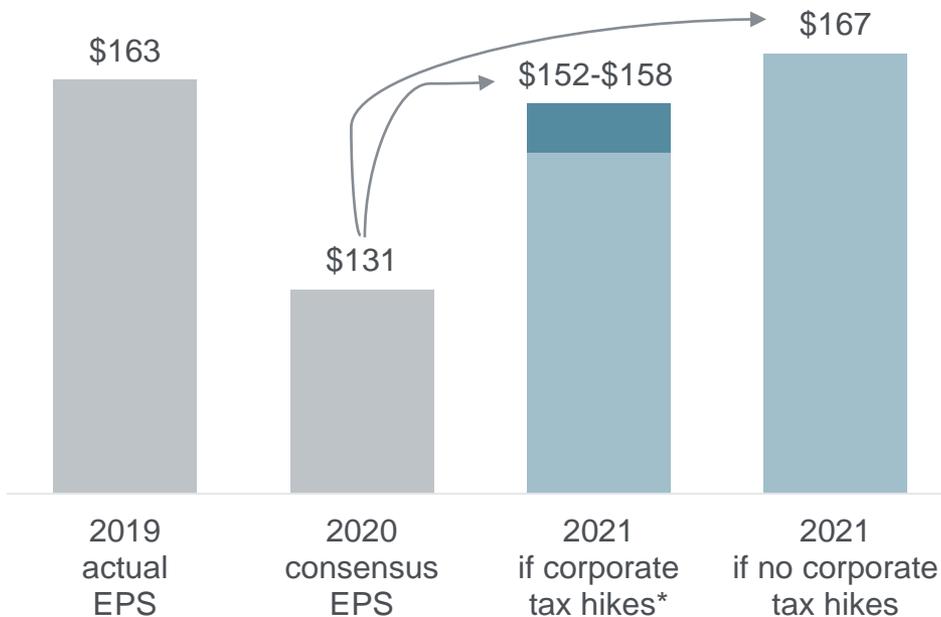
- ✓ Trump's corporate tax cuts, implemented in 2018, were the largest contributor to earnings growth that year.
- ✓ They represented 12.2% of the 22.5% growth rate.

Source – National research correspondent, FactSet. 2017 EPS assumes a median effective tax rate of 27.7%; after the tax cut, 2018 assumes a median effective tax rate of 18.9%. Past performance is no guarantee of future results.

Corporate taxes: Are the concerns overblown?

If corporate taxes are raised,
it would hold back earnings

S&P 500 annual earnings per share (EPS)



- Biden seeks to roll back at least part of Trump's corporate tax cuts.
- This would constrain but not crush earnings, in our view.
- It would reduce earnings by 5.5%–9.0% in the first year, depending on how the tax hikes are structured, according to our strategists.

* Represents the percentage loss (5.5%–9%) during the first year of higher corporate tax rates compared to if rates are not raised.

Note: 2021 estimates represents the consensus forecast on 9/21/20.

Source - RBC Wealth Management, Refinitiv I/B/E/S; estimates of tax hike impact from our national research correspondent and RBC Capital Markets U.S. Equity Strategy

Individual taxes: Comparison of select policies

Current Law	Trump Plan	Biden Plan
Individual income tax rates		
Seven brackets from 2017 deal (TCJA*): 10%, 12%, 22%, 24%, 32%, 35%, 37%. Unless changed, these expire 1/1/26.	Extend 2017 TCJA provisions past 2025; make them permanent. Considering a middle income tax cut.	Raise top rate back up to 39.6% from 37%. Taxpayers above \$400,000 would see taxes increase.
Capital gains rates		
Top rate is 20%. Households earning over \$250,000 add 3.8%. Those in 10% and 12% income tax brackets pay 0%.	Seeks to cut the max rate to 15% by executive action (unclear if this is possible). Consider indexing to inflation.	For taxpayers with over \$1 million in income, would tax capital gains at the new top ordinary income rate of 39.6%.
Credits and deductions		
Eligible itemized deductions and credits allowed against income tax liability. Deductions for state and local taxes (SALT) capped at \$10,000. Can deduct up to 20% of Qualified Business Income.	Extend TCJA provisions past 2025. Make the 20% pass-through for Qualified Business Income permanent.	Cap itemized deductions at 28%. Restore "Pease provision" for incomes above \$400,000 (reduces deductions' value). End SALT cap. Phase out the 20% deduction for Qualified Business Income for upper-income investors.
Financial instruments transaction tax		
No tax on buying/selling stocks, bonds, or derivatives.	No public statement on this.	Supports taxing.
Estate taxes		
Exemption amount is \$11.58 million (for 2020). At death, assets passed through to recipient get step-up basis to current fair market value. Exemption amount reverts back to \$5 million after 2025.	Extend TCJA provisions past 2025. Maintain the step-up basis for assets.	Eliminate step-up basis rule that allows people to pass capital gains to heirs without tax after death. Revert the top rate back to 45% from current 40%. Unclear if exemption amount would change.

Source - Bloomberg Tax & Accounting, Bureau of National Affairs (part of Bloomberg), *Kiplinger*, RBC Wealth Management

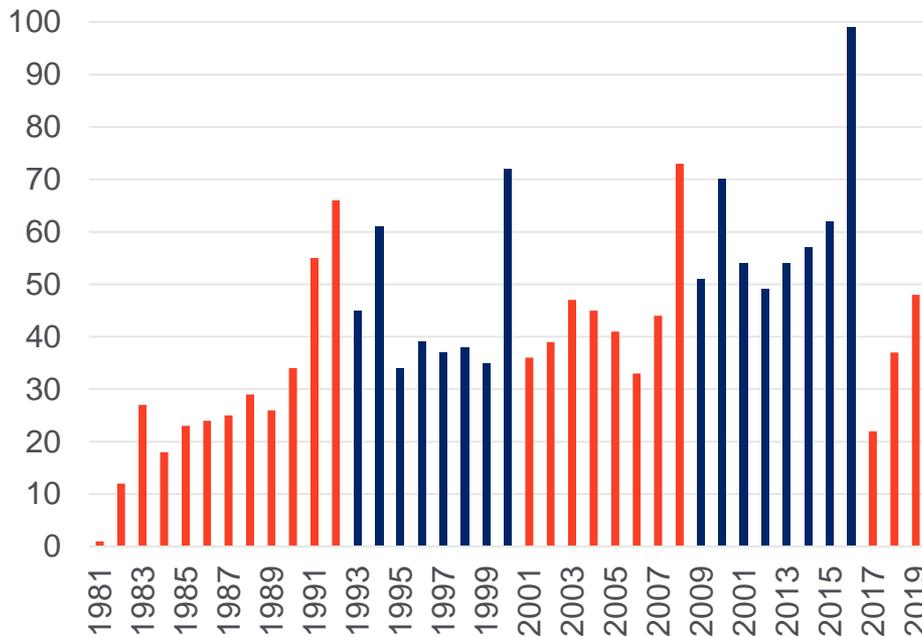
* Tax Cuts and Jobs Act



Regulations: Different philosophies

Economically significant rules by presidential year*

Red is Republican presidency; Blue is Democratic



- The business sector has ongoing concerns about the costs associated with government regulations.
- Trump seeks to consolidate and reduce regulations.
- Biden seeks a more active “green” regulatory approach, and would introduce new rules on fossil fuels, transportation, agriculture, among other industries.

* Economically significant rules are regulations issued by executive branch agencies that meet this definition in Executive Order 12866: “Have an annual effect on the economy of \$100 million or more, or adversely affect in a material way the economy, a sector of the economy, productivity, competition, jobs, the environment, public health or safety, or state, local, or tribal governments or communities.”

Source - George Washington University Regulatory Studies Center, U.S. federal government Office of Information and Regulatory Affairs (OIRA)

Equity sector implications

Analysts' S&P 500 sector views of Biden's platform

Risk level assessment based on a survey of RBC Capital Markets industry analysts

Sector	Risk level	Sector	Risk level	Sector	Risk level
Utilities	Bullish	REITs*	Neutral	Technology	Slightly Bearish
		Comm. Services	Neutral	Energy	Bearish
		Consumer Staples	Neutral	Consumer Discret.	Bearish
		Health Care	Mixed	Industrials	Bearish
		Materials	Mixed	Financials	Bearish

Higher corporate tax rates and regulatory costs are seen as the primary challenges that would confront sectors in the mixed and bearish categories. From an economic standpoint, this could be offset by higher infrastructure and research and development (R&D) spending.

Source - RBC Capital Markets U.S. Equity Strategy, RBC Wealth Management; analyst survey conducted in July 2020

* Real Estate Investment Trusts

Key issues for sectors in a Biden presidency

Sector	Risk level*	Key issues highlighted in Biden policy announcements, RBC U.S. Equity Analyst Survey, and other Biden statements from primary season and first half of 2020
Utilities	Bullish	Clean energy; infrastructure; no impact from higher corporate taxes
REITs	Neutral	Higher corporate tax rates and proposed real estate taxes to fund the caring economy plan should not materially impact the REITs
Communication Services	Neutral	Net neutrality push; investments in R&D and technologies including 5G; enhanced broadband access; restrictive view on market concentration/future M&A; higher corporate taxes/ minimum corporate tax; anti stock buyback stance; more favorable immigration policy
Consumer Staples	Neutral	Tightening rules on what can be designated “Made in America”; \$15 minimum wage; higher corporate taxes; caring economy/consumer-friendly initiatives on child care, free college, student debt relief, teacher pay, renter’s tax credit which could boost consumer spending though higher taxes on wealthy would offset; more liberal marijuana policies
Health Care	Mixed	Affordable Care Act restoration/expanding coverage; public option; drug pricing reform; government purchase of critical medical supplies; investment in R&D and technology (includes biotech); eliminate tax incentives to produce drugs overseas; new incentives to produce drugs in America; expand access to long-term care services in local settings; higher corporate taxes; anti stock buyback stance
Materials	Mixed	Affordable housing initiatives; infrastructure; clean energy plan; investments in R&D and technologies including advanced materials; higher corporate taxes; anti stock buyback stance; tough on China trade stance

Source - RBC Capital Markets U.S. Equity Strategy

* Risk level based on RBC Capital Markets industry analysts’ responses to RBC U.S. Equity analyst survey.



Key issues for sectors in a Biden presidency

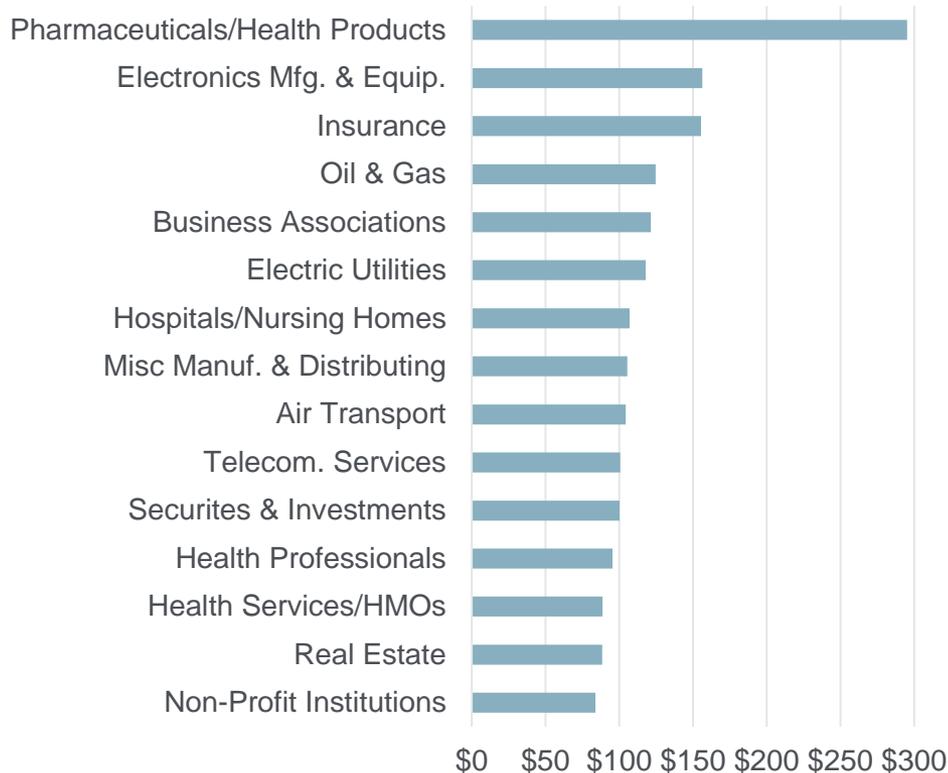
Sector	Risk level*	Key issues highlighted in Biden policy announcements, RBC U.S. Equity Analyst Survey, and other Biden statements from primary season and first half of 2020
Technology	Slightly bearish	Investment in R&D and technology including 5G, quantum computing, and artificial intelligence (AI); proposals to reduce offshoring; higher corporate taxes; anti stock buyback stance; tough on China trade stance; more favorable immigration policy
Energy	Bearish	Clean energy/net zero emission subsidies/plans; banning offshore drilling; no new oil and gas leases on federal lands; more difficult pipeline permitting; higher corporate taxes; anti stock buyback stance
Consumer Discretionary	Bearish	\$15 minimum wage; caring economy/consumer friendly initiatives on child care, free college, student debt relief, teacher pay, renter's tax credit which could boost consumer spending though higher taxes on wealthy would offset; extend unemployment insurance benefits for the duration of training, up-skilling, and reskilling programs; higher corporate taxes; anti stock buyback stance; tough on China trade stance; clean energy; affordable housing initiatives
Industrials	Bearish	Infrastructure including public transportation, rail; more restrictive fossil fuel policies; "Make It In America" policy, \$15 minimum wage, pro union bias could create cost/margin pressures; greater pressure on federal budgets/defense spending; higher corporate taxes; anti stock buyback stance; tough on China trade stance
Financials	Bearish	Higher corporate taxes; anti stock buyback stance; potentially enhanced scrutiny of banks/consumer lenders through regulatory appointments

Source - RBC Capital Markets U.S. Equity Strategy

* Risk level based on RBC Capital Markets industry analysts' responses to RBC U.S. Equity analyst survey.

Informal checks and balances matter

Leading U.S. lobbying industries in 2019 in millions of U.S. dollars



- In a Democratic sweep, the Senate could toss out the filibuster rule, making it easier to pass legislation.
- But even in this scenario, American system's formal and informal checks and balances can mitigate sweeping policy outcomes.
- An important check is the business lobby. We've yet to witness a legislative cycle that it didn't achieve at least some objectives, often benefitting investors.

Source - Statista

The U.S.-China rivalry is likely to persist

Sources of friction between the two countries

U.S. complaints about China

Trade surplus	Capital controls
State-owned enterprises	COVID-19 origin
Joint venture requirements	Hong Kong repression
Intellectual property theft	Challenging global order

China complaints about the U.S.

Tariffs	Control of global order such as: World Bank World Trade Organization United Nations International Monetary Fund G7
Pacific clout	
Hong Kong interference	

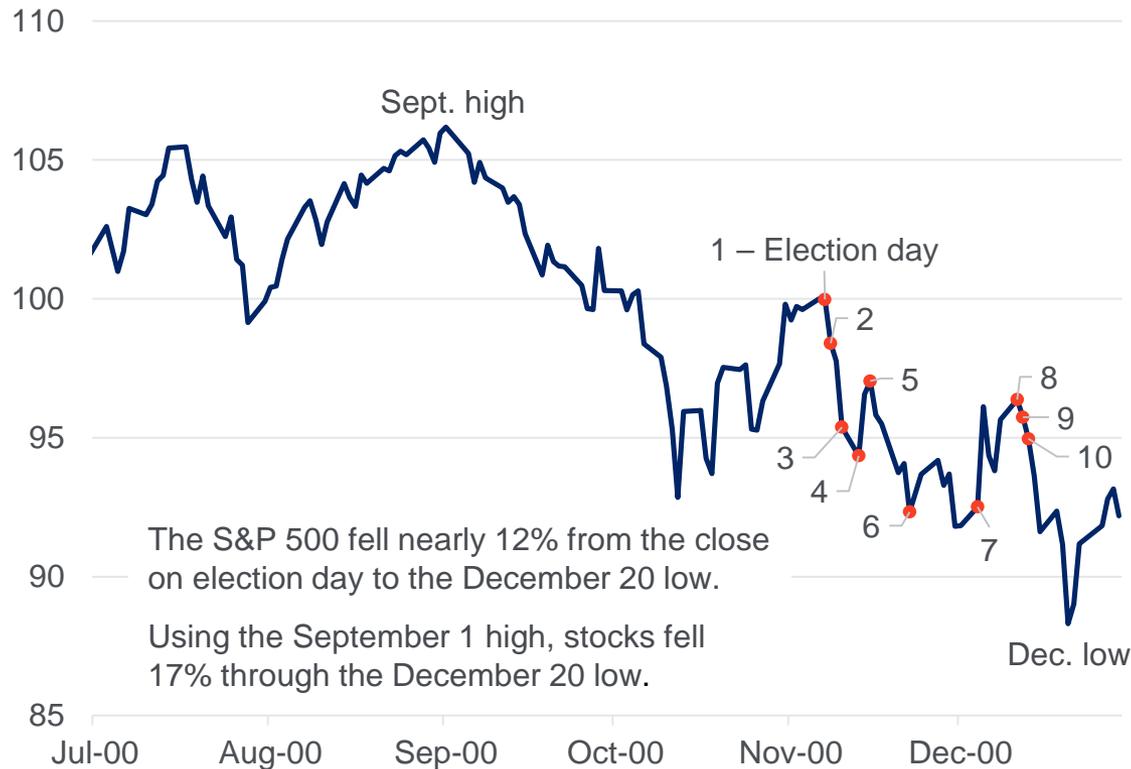
- Trump's aggressive China policy is not just an election-year tactic. We think it would persist in a second term.
- We expect Biden would confront China in a more targeted way.
- We see no signs that China would bend to pressure. If tensions intensify, the conflict could generate periodic market volatility.

Source - RBC Global Asset Management

What if the election result is contested?

Expect litigation, litigation, and more litigation

S&P 500 performance surrounding the Bush vs. Gore Florida recount in 2000*



Key events:

- 1 - Election day
- 2 - Initial Florida vote count very close; Bush leads. Gore concedes, then retracts.
- 3 - Mandatory statewide machine recount nearly complete. Bush lead shrinks to 327 votes.
- 4 - Federal judge denies Bush request to stop manual vote recounts.
- 5 - Broward County begins manual recount.
- 6 - Bush asks U.S. Supreme Court to block Florida Supreme Court decision allowing manual recounts. (*Bush v. Palm Beach Co.*)
- 7 - U.S. Supreme Court vacates (throws out) Florida Supreme Court decision; remands it.
- 8 - U.S. Supreme Court halts manual recounts in a separate case, *Bush v. Gore*.
- 9 - U.S. Supreme Court reverses ruling of Florida Supreme Court in *Bush v. Gore*, which ends the recounts. 5-4 decision. This effectively awards Florida's 25 electors to Bush.
- 10 - Gore concedes Bush won the election.

* S&P 500 performance in 2000 indexed to the closing price the day before election day (100 = 11/6/2000). Past performance is no guarantee of future results.

Source - RBC Wealth Management, RBC Capital Markets U.S. Equity Strategy, FactSet, Stanford Law School, Associated Press, *The New York Times*, *Pittsburgh Post Gazette*



2020 election checklist

Summary of key issues for investors

Tax rate uncertainty	2017 tax cuts likely to stay in place under Trump. Biden would unwind some by raising taxes on upper-income individuals and investors, and on corporations.
Filibuster or not?	In a Democratic blue wave, the removal of the Senate filibuster rule is a risk for the equity market, but not a fait accompli. Also, there are other checks and balances.
“Big business” will still flex its muscles	In any reasonable election scenario, the business lobby will have a seat at the table. Don’t underestimate its power and creativity, which can benefit investors.
Major shift for energy policy?	Trump would continue to promote fossil fuels (oil and natural gas), while Biden would shift away from them and toward renewables. Climate change funding and regulatory changes under Biden.
Infrastructure unites	An infrastructure bill is a goal under any outcome, but would likely be “greener” under Biden.
China in focus	U.S. policy toward China would be confrontational in any outcome, but more aggressive, combative, and comprehensive under Trump. The latter could create periodic market volatility.
Trade deals and sanctions in different flavors	Bilateral deals with countries and large entities under Trump, with a dash of light protectionism and a heavy dose of sanctions. Multilateral deals under Biden, and a willingness to use targeted sanctions against so-called adversaries.

Source - RBC Wealth Management

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