US EQUITY STRATEGY I **RESEARCH**

Eye on the Election

How The 2020 Race For The White House Affects US Equities

October 7th, 2019

RBC Capital Markets, LLC

Lori Calvasina (Head of U.S. Equity Strategy) (212) 618-7634 lori.calvasina@rbccm.com

Sara Mahaffy, CFA (Associate Strategist) (212) 618-7507 sara.mahaffy@rbccm.com

Carlos Torres (Associate) (212) 618-3312 carlos.torres@rbccm.com

This report is priced as of market close October 4th, 2019.
All values in U.S. dollars unless otherwise noted.

For Required Conflicts Disclosures, please see page 64.

RBC Capital Markets

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Sara Mahaffy, CFA (Associate Strategist) (212) 618-7507 sara.mahaffy@rbccm.com

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Overview

Impeachment Matters To The Stock Market Because It Could Impact The 2020 Election

- **Our take.** We don't think impeachment matters much to the direction of the US equity market, since Trump is unlikely to be convicted by the Senate (our investor survey work suggests that removal from office would be a negative stock market event, but not impeachment without conviction –page 7). But investors shouldn't tune out what's happening in Washington, since the details that emerge could have an impact on the outcome of the 2020 election, which we've been arguing for the past few months is a significant hurdle for the US equity market in 2020. The specific questions that most investors we've spoken to recently have been asking is whether the Ukraine controversy is damaging the President's re-election bid, and whether it boosts Elizabeth Warren's chances in the Democratic primary and ultimately in the race for the White House.

Four Thoughts on the Implications for the US Equity Market if Elizabeth Warren Wins the White House in 2020

1. **This risk could play out in the equity market well before Election Day.** Though impeachment is pulling some of the impact into 4Q19, we have expected fears of a Warren win to be a headwind for the stock market in the first half of 2020 (particularly 1Q20), and that continues to be our view today. The timeline of events is key (page 11). The Iowa caucus takes place on February 3rd. Across all states, forty percent of the Democratic delegates will be assigned by early March, and roughly 2/3's will be assigned by the end of March (pg 12). If Warren wins the nomination, we expect most of the pain associated with a White House victory to occur well ahead of Election Day.
2. **The combination of a Warren White House and Democratic Congress would be extremely challenging for stocks from a bottom-up perspective.** So far, Warren has distinguished herself in the primary through policy. The sheer multitude of her plans leaves US equity investors with few safe havens. Interestingly, the participants in our September investor survey highlighted Health Care as the primary sector at risk if Democrats sweep the White House and Congress in 2020 (page 14). But our own analysis, which relies heavily on a survey that we conducted of RBC industry analysts in early October plus our review of which sectors have been benefiting the most from lower corporate taxes and share buybacks, tells us that the combination of a Warren White House and Democratic Congress is also an extremely high risk for Energy and Financials. There is also a significant degree of risk for Industrials and Tech (though a bit lower than the three previously mentioned sectors). The implications for Consumer Discretionary, Communication Services, Materials, and Consumer Staples are mixed, while risks are lowest for Utilities and REITs. See page 15 for our 2020 election sector heat map, in which we outline which Warren policy positions seem likely to affect each of the major GICS sectors, as well as our overall take on the implications of the election for each sector. On pages 16 – 26, we highlight the full results from our analyst survey, in which our teams assess the risk of a Warren White House/Democratic sweep to their industries, their rationale, and thoughts on how their views would change if the Senate stays Republican or if Biden wins the nomination instead of Warren.
3. **Despite the myriad challenges at the sector level, we envision a number of investable themes that US equity investors would be able to focus on under this scenario.** First, the election of a progressive Democrat seems supportive of the already growing popularity of ESG as an investment approach, since issues like climate change and fair pay could be in the spotlight. Second, dividends seem likely to become a more popular use of cash, since buybacks would be out of favor politically. This benefits the two sectors that we believe have the least direct policy risk (Utilities and REITs) but could also offset some of the pain in Financials and Energy, other major dividend payers which are already deeply undervalued relative to the broader US equity market. Other sectors also seem likely to shift their attention from buybacks to dividends, and we note that dividends were already in greater focus among S&P 500 companies in 2Q19 reporting season. Third, our initial assessment is that Small Caps may have less direct policy risk than Large Caps. Big Tech break ups would be a problem for a select few Mega Cap Internet names (affecting Large Cap Consumer Discretionary and Communication Services) but could be a positive for other Internet names along with Retailers that have suffered from the dominance of AMZN (many of which are Small Caps). Our SMID cap Banks analyst also sees a Warren presidency as a bit less of a negative for regional names than their big cap counterparts.
4. **Any pain from a Warren win is likely to be temporary.** While the broader US equity market looks expensive, particularly on non-P/E metrics which have not been pushed down by tax reform, most of the sectors at high risk under a Warren Presidency from a policy perspective (Financials, Energy, Health Care, Industrials) are already deeply undervalued vs. the broader market. More importantly, the stock market tends to go up over time, regardless of who occupies the White House. This is true even when Democrats control the White House and both chambers of Congress (page 30). Interestingly, the best historical returns in the S&P 500 have occurred with a Democrat in the White House, when Republicans control at least one chamber of Congress. In the short-term, stocks don't respond well to heightened economic policy uncertainty (page 31). Ultimately we think Corporate America and US equity investors would learn to adapt to new political leadership, as they always do.

Overview (continued)

Other Thoughts on the 2020 Election

- **Warren appears to have a good shot at winning the Democratic nomination.** Over the summer, we told many investors that if they viewed the Democratic primary contenders as stocks instead of candidates, they'd all be shorting Biden (whose trend in the *RealClearPolitics* average reminds us of a broken Large Cap) and buying Warren (who's polling average trend has reminded us of a hot Small Cap momentum stock that's in the midst of breaking out). As of early October, Warren had clearly moved into 2nd place in the *RealClearPolitics.com* polling average, and has nearly caught up to Biden (page 37). Polling data from *Morning Consult* also indicates that Warren is the second choice of voters who prefer Biden, Harris and Buttigieg, meaning that she could emerge as a consensus candidate within the party and could be the biggest beneficiary if Harris and Buttigieg drop out. Our own Sept 2019 investor survey also suggested Wall Street is waking up to the possibility that Warren will win the nomination. Those expecting Biden to take it fell sharply relative to our June survey, while those expecting Warren to win the nomination rose sharply (page 39).
- **US equity investors clearly think Biden is better for the stock market than Warren.** Our September 2019 investor survey revealed that most participants view a Trump victory as a bullish event for stocks, a Biden win as a neutral event for stocks, and a victory by another Democrat as a negative event for stocks (pages 36 - 50). Back in our March 2019 survey, most of the investors we polled said Biden was the most market friendly Democratic candidate, while Warren was the least market friendly (pgs 41-42).
- **US equity investors have been convinced Trump will win in 2020, though this may be changing.** For much of this past summer, the fervor with which investors told us Trump would win re-election reminded us of the fervor with which they told us he couldn't possibly win back in the summer of 2016. But doubts have appeared to be creeping in, even before the Ukraine/impeachment controversy. In our September 2019 investor survey, 66% told us that they thought Trump would get re-elected. But the percent holding that view slipped for the 2nd survey in a row.
- **The electoral math tells us the Democrats have a path back to the White House.** Trump's favorability rating has slipped a little bit in recent months, but not much (page 47). We think it's far too early to call the outcome of the 2020 election, and expect a close race. But our analysis of the electoral math tells us that investors need to at least consider the possibility that the Democrats will emerge victorious. If the Democrats keep all of the states that they won in 2016, they would only need to flip 38 electoral votes to win the White House. They could do so by flipping Pennsylvania, Michigan and Wisconsin, which account for 46 electoral votes combined, had a margin in favor of Trump of ~1% or less in 2016, elected a Democrat in the 2018 Senate race, and have seen Trump's net approval rating turn deeply negative (page 48).
- **Recession fears are rising at the wrong time for Trump.** A survey conducted at the beginning of 2019 by the *Pew Research Center* showed that Americans viewed the economy as Trump and Congress' top priority, and that global trade was #18 on the list – suggesting to us that the electorate is unlikely to be forgiving if the trade war with China tips the US economy into recession. As is the case with the economic outlook, investors should also keep a close eye on consumer confidence in assessing the political outlook. Consumer confidence/sentiment is high but may be peaking. It's already eased back a bit on the University of Michigan time series, and is back to Tech bubble highs on the Bloomberg Consumer Comfort index. Both time series tend to fall sharply before or in conjunction with a change in party at the White House (page 53).
- **Sentiment among Democrats is starting to improve.** Interestingly, on the Bloomberg Consumer Comfort time series, sentiment for Republicans has stalled at Tech bubble highs and sentiment among Democrats – which has been much lower than Republicans in terms of level – has been moving up (page 54). This matters for two reasons. First, Republican sentiment has been closely correlated with stock market performance in recent years (reinforcing our view that a loss of political power by Republicans could trip up the stock market – page 55). Second, Democratic sentiment improved relative to Republican sentiment before Obama's victory in 2008.
- **Turnout will be critical.** Something else that's caught our eye as we've dug into consumer sentiment data is the wide gap that has emerged between men (where sentiment has returned to Tech bubble highs) and women (where sentiment has been much lower, near pre Financial Crisis highs but well below Tech bubble highs – see page 56).
- **It will be tough for the Democrats to take the Senate.** While Democrats appear to have an edge in the House of Representatives (pg 62), the math in the Senate favors the Republicans. There are 35 Senate seats up for grabs in 2020, and 23 of those are currently held by Republicans. Forecasts currently in place by *Cook Political Report* suggest that Republicans have a good chance of holding on to their majority (page 63). Note that most of the Energy, Financials, and Health Care analysts in our survey said that the impact of a Warren win on their industry would be less negative if Republicans keep the Senate. We think this is true for the broader market generally as well.

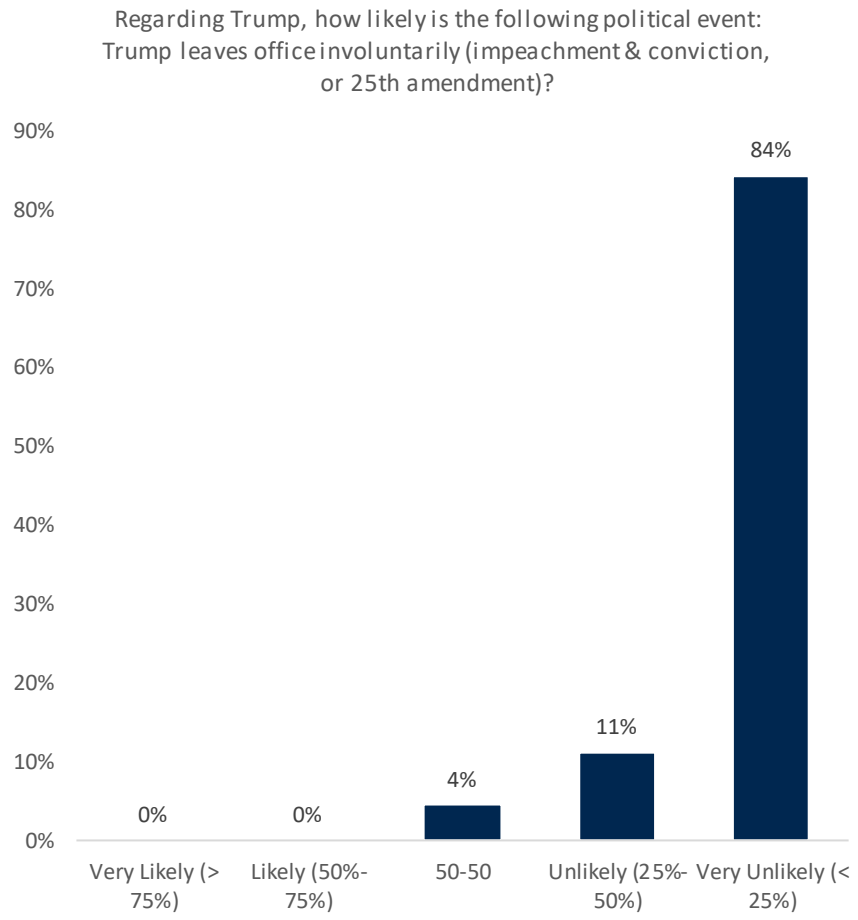
Impeachment

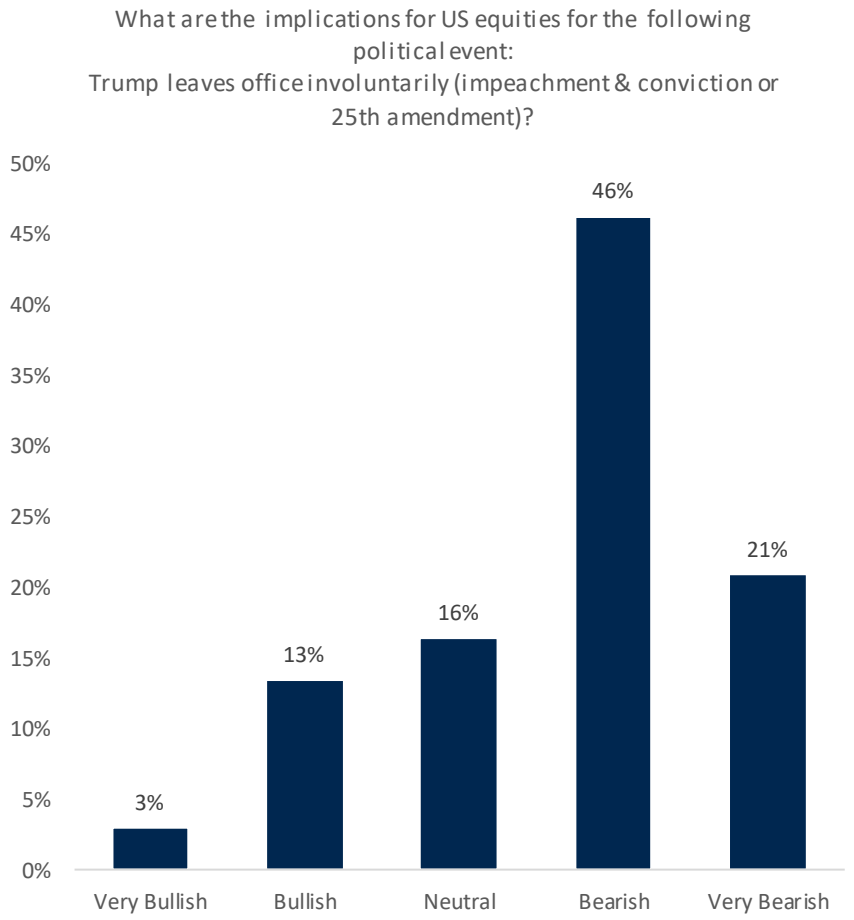
RBC Capital Markets

Few Have Expected Trump To Depart Involuntarily; Most Have Seen It As A Negative Market Event

Key Takeaways

- 84% of our June 2019 respondents said it is very unlikely that Trump will leave office involuntarily, while another 11% said it is unlikely. If he were to leave office involuntarily, 67% said it would be a negative event for stocks.
- In our June survey, investors were more convinced that Trump wouldn't leave office involuntarily than they were in our 3Q18 survey. Previously, only 64% said it was very unlikely Trump would resign vs. 84% in our June poll.



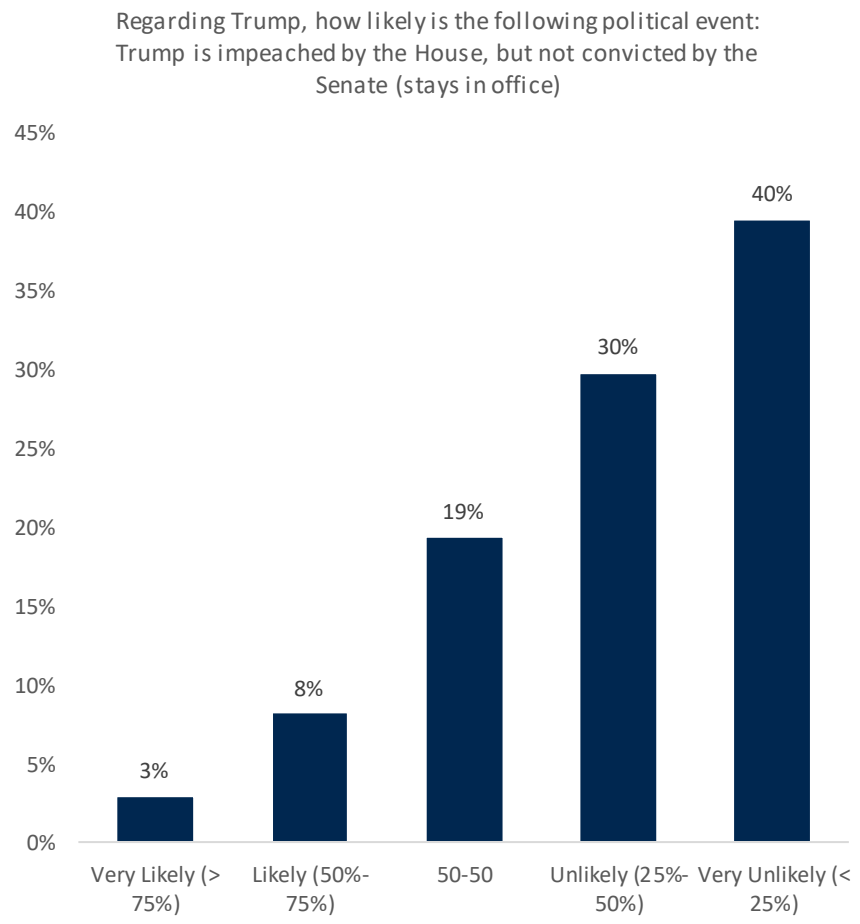


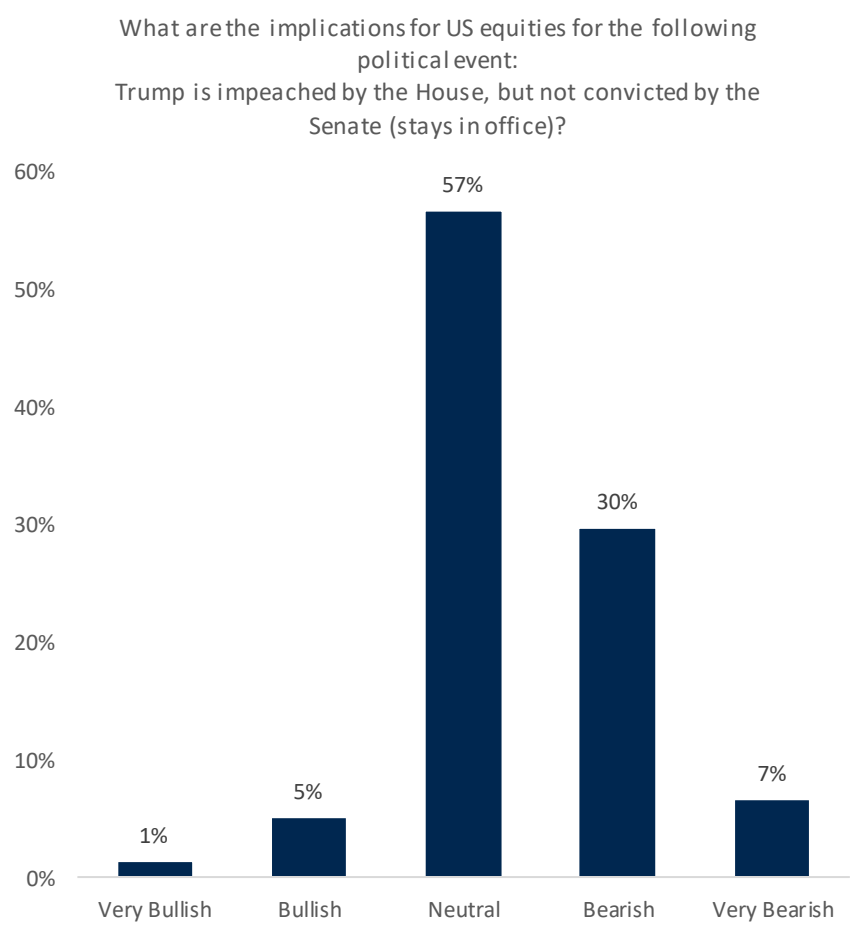
Source: RBC US Equity Strategy

Few Have Expected Trump To Be Impeached w/out Conviction; Most Have Seen It As Neutral

Key Takeaways

- 70% of our June 2019 respondents said is very unlikely or unlikely that Trump will be impeached in the House while avoiding conviction by the Senate. The confidence level on this question was a bit lower than on our resignation and involuntary removal questions, with just 40% in the very unlikely camp.
- If this scenario were to occur, 57% said it would be a neutral event for stocks. The bulls in this scenario were far outnumbered by the bears, however. This is similar to what we saw in our September 2018 survey, where 50% of respondents viewed this scenario as a neutral event for stocks.



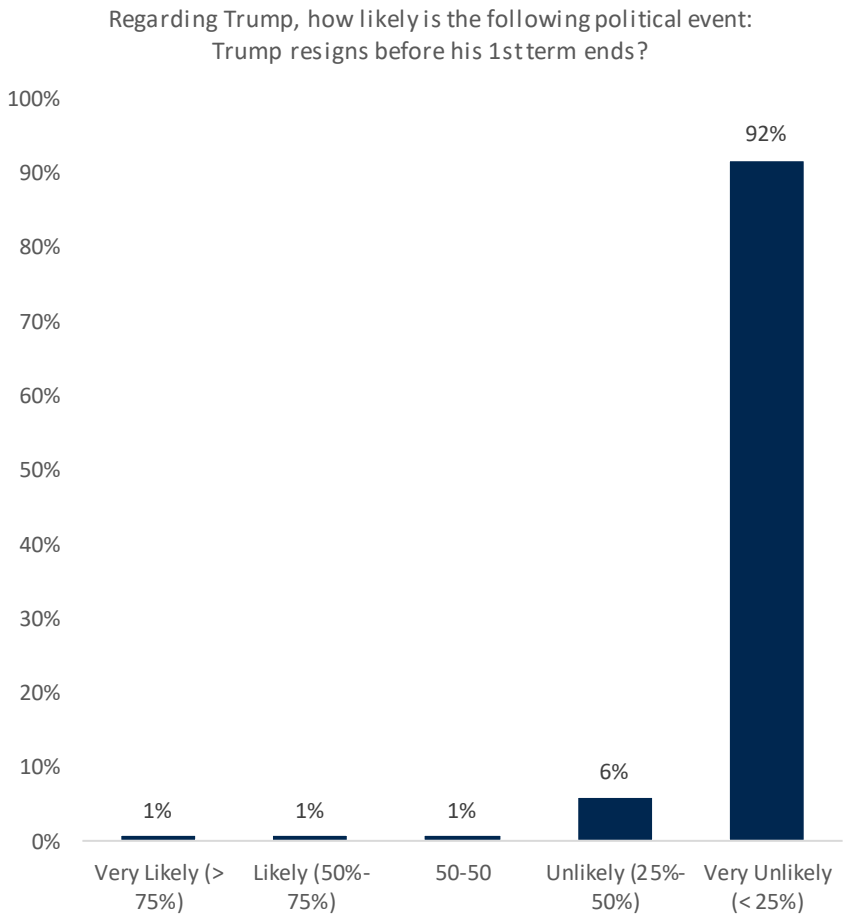


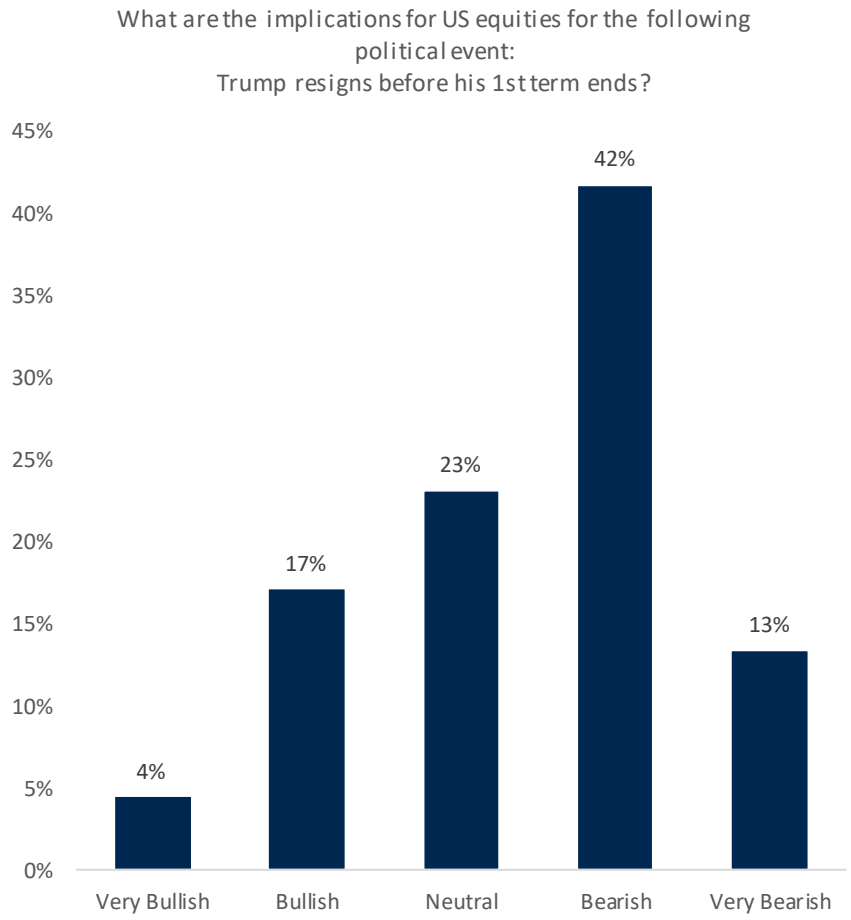
Source: RBC US Equity Strategy

Few Have Expected Trump to Resign; Most Have Seen It As A Negative Event for Stocks

Key Takeaways

- 92% of our June 2019 respondents said it is very unlikely that Trump will resign before his first term ends, while another 6% said it is unlikely. If he were to resign, 55% view it as a negative event for stocks.
- Investors became more convinced that Trump won't resign since we last asked about this issue in our 3Q18 survey. In 3Q18, only 74% said it was very unlikely that Trump would resign vs. 92% in our June 2019 survey.



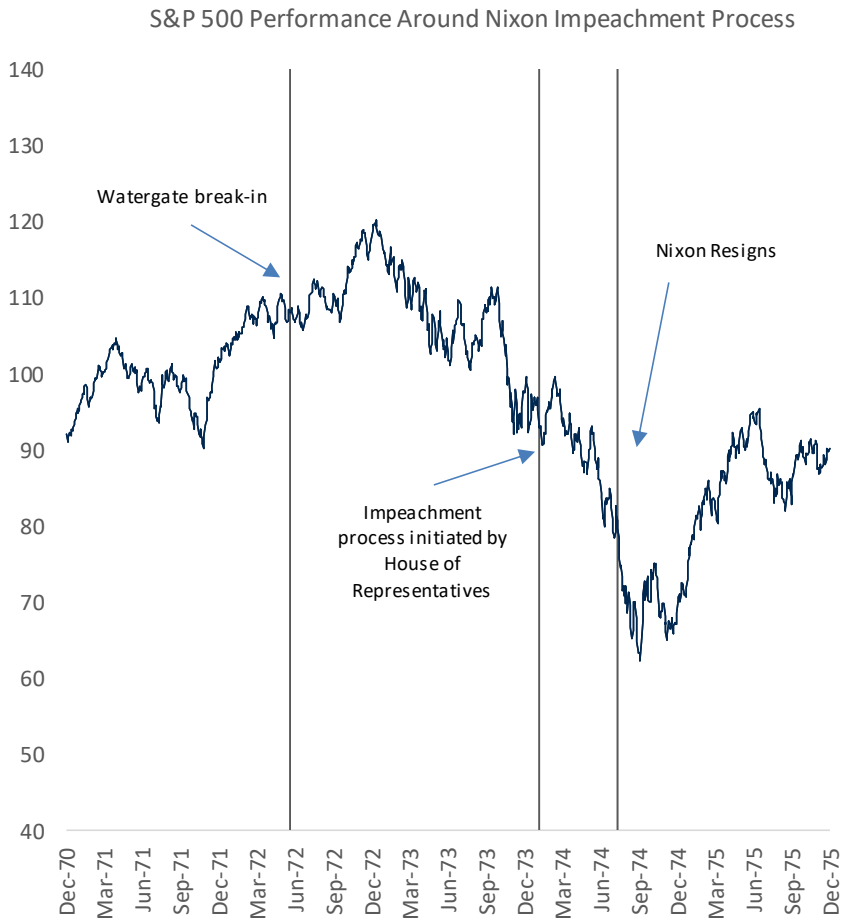


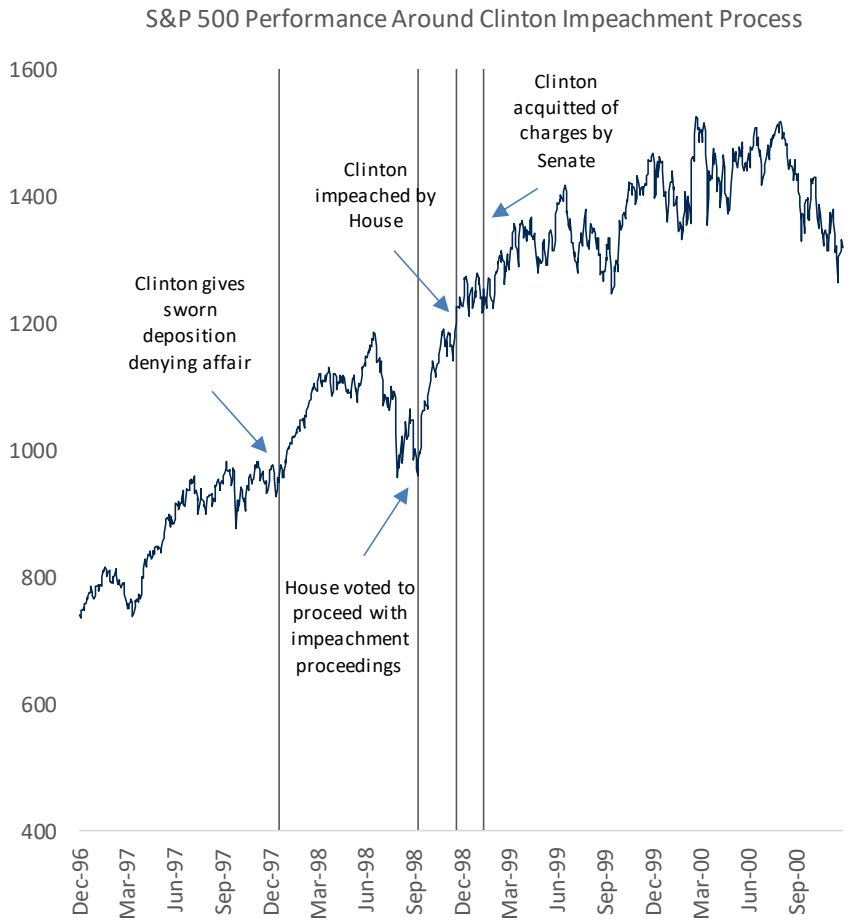
Source: RBC US Equity Strategy

A Tale of Two Impeachments: Derailment Around Nixon, Speed Bump Under Clinton

Key Takeaways

- Around Watergate/Nixon's resignation, the S&P 500 peaked on January 11, 1973, and hit its low 270 trading days later on October 3, 1974. The S&P 500 ultimately fell 48% peak to trough.
- The S&P 500 fell 9% peak to trough ahead of Clinton's impeachment proceedings but rallied back quickly. Note that this occurred alongside the LTCM crisis (LTCM was bailed out in late September 1998 and the House Judiciary Committee voted to launch a congressional impeachment inquiry in early October 1998).
- Both Nixon's resignation and Clinton's impeachment were 2nd term events.





Source: RBC US Equity Strategy, Bloomberg

2020 Election Timeline

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Key Events Leading Up To The 2020 Election

Key Takeaways

- The Democrats will hold debates on a monthly basis through January, keeping the contest in the media spotlight.
- Primary season kicks off in early February with the Iowa caucus.
- Both parties will hold conventions over the summer.

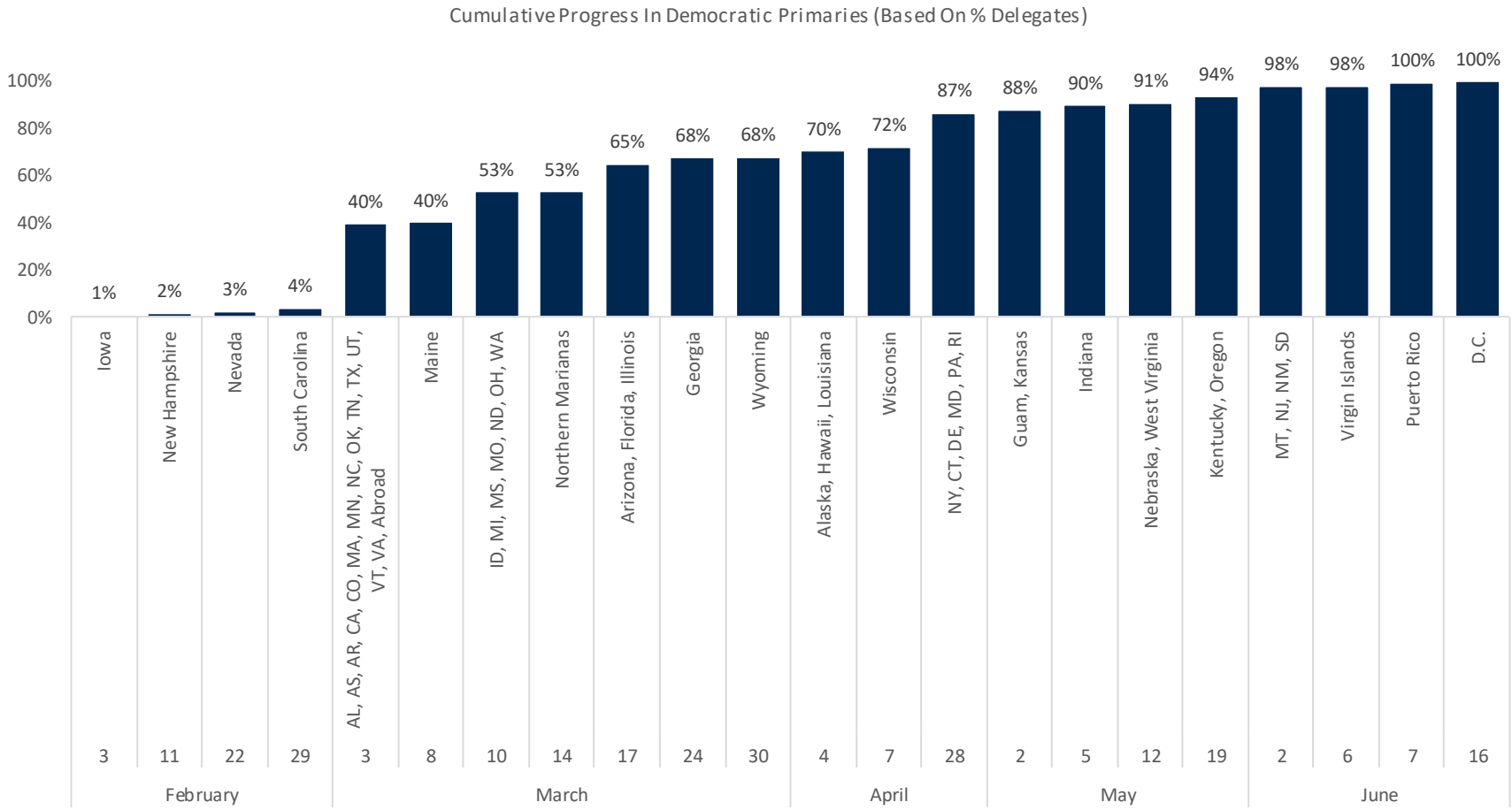
Year	Month	Date	Election Event	Network/Location
2019	September	12	Third Democratic Primary Debate	ABC, Univision
	October	15	Fourth Democratic Primary Debate	CNN & NYT / Ohio
	November	TBD	Fifth Democratic Primary Debate	
	December	TBD	Sixth Democratic Primary Debate	
2020	January	TBD	Seventh Democratic Primary Debate	
	January/February	TBD	Eighth Democratic Primary Debate	
	February	3	Democratic Primaries begin w/ Iowa Caucuses	Iowa
	February	TBD	Ninth Democratic Primary Debate	
	February	TBD	Tenth Democratic Primary Debate	
	March	TBD	Eleventh Democratic Primary Debate	
	April	TBD	Twelfth Democratic Primary Debate	
	June	16	Democratic primaries end w/ D.C. primary	
	July	13-16	Democratic National Convention	Milwaukee, Wisconsin
	August	24-27	Republican National Convention	Charlotte, NC
	November	3	Election day	

Source: RBC US Equity Strategy, Ballotpedia.org, NY Times

The Democratic Primary/Caucus Calendar

Key Takeaways

- To win the Democratic nomination, a candidate must receive support from a majority of pledged delegates (1,885 out of total 3768) on the first ballot at the convention. In each primary or caucus, pledged delegates are proportionally allocated to candidates getting 15% or more votes.
- Primary season kicks off in early February with the Iowa caucus and ramps up in March. By the end of March, more than 2/3's of the ballots will be cast. If a front runner emerges, the nominee could be established by the end of 1Q20. If the race is tight, the nominee may not be determined until 2Q or July (during the convention).



Source: RBC US Equity Strategy, NY Times

Implications of a Warren Win & Democrats Sweep

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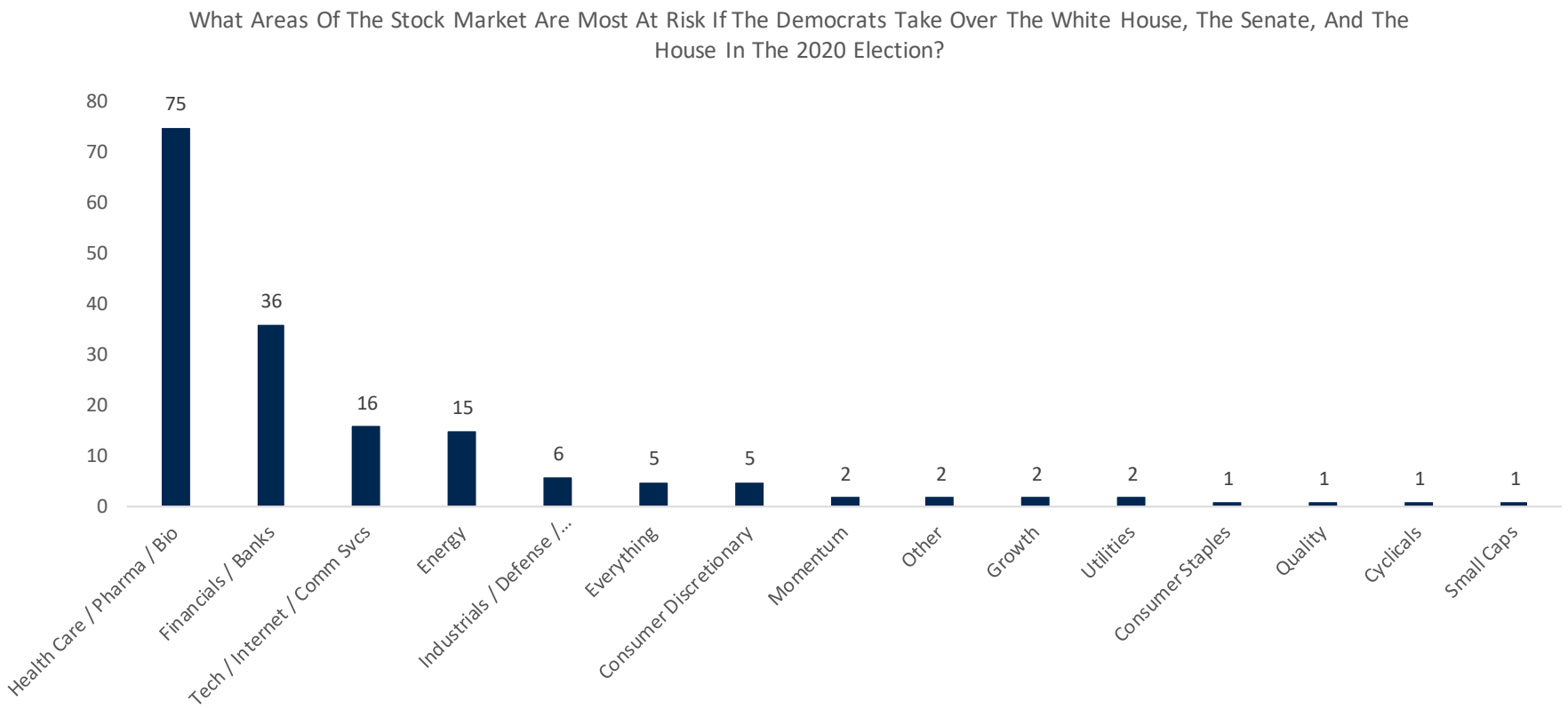
What Equity Investors Have Said Is Most At Risk If Democrats Sweep In 2020

Key Takeaways

- In our September investor survey. Health Care was mentioned by close to three quarters (72%) of the respondents to this question, where multiple answers were permitted. Most of the Health Care related mentions were either general references to the entire sector, Pharma, or Biotech. Financials (especially Banks), Tech, and Energy also received several mentions.
- No major changes in responses to this question since we last asked it in March 2019.



Source: RBC US Equity Strategy

RBC's View On What's Most & Least At Risk If Warren Wins & Democrats Sweep In 2020

	Risk Level	RBC Analyst Views	Warren Views With Sector Impacts	Our Overall Take
Cons Staples	Mixed	Neutral	Tariffs, $15 minimum wage, eliminating student debt, universal public college, affordable housing initiatives, higher corporate taxes	Overall platform constructive for consumer spending/confidence, but other views adverse to company profitability (wages, corporate taxes, tariffs)
Utilities	Low	Mostly Bullish	Support for renewables is a positive, nuclear regulation (relevant to IPP's, a very tiny weight)	No clear negatives for the broader sector, and support for renewables is a plus; has not been a big beneficiary of tax reform or buybacks
REITs	Low	Neutral	Indirectly, $15 minimum wage, eliminating student debt, universal public college; higher corporate taxes	No clear negatives for the sector; and Retail properties could benefit from consumer related initiatives; not a big beneficiary of buybacks
Health Care	Highest	Bearish to Very Bearish	Medicare For All, eliminating private insurance, support for government negotiation of drug prices/international reference pricing, allowing US government to manufacture generics, higher corporate taxes, preconditions on buybacks	Numerous direct /industry specific policy risks for the sector, while views on corporate taxes and buybacks are also negatives
Energy	Highest	Mostly Very Bearish	Green New Deal, national fracking ban, requiring climate risk disclosures, federal funds for clean energy, strict regulations on reducing carbon emissions, higher corporate taxes, preconditions on buybacks	Several direct /industry specific policy risks for the sector, while views on corporate taxes and buybacks are also negatives
Materials	Mixed	Bullish to Neutral to Bearish	Green New Deal, support for agribusiness break ups, support of tariffs, regulation, higher corporate taxes, preconditions on buybacks, no clear stance on infrastructure spending	In terms of industry specific policy issues, a few key risks and no clear positives; views on corporate taxes and buybacks are also negatives
Financials	Highest	Bearish to Very Bearish	Regulation, restoring Glass Steagall, eliminating student loan debt, cap on credit card interest rates, lending restrictions, making payments infrastructure a public utility, judiciary appointments, higher corporate taxes, preconditions on buybacks	Numerous direct /industry specific policy risks for the sector, while views on corporate taxes and buybacks are also negatives
Industrials	High	Mostly Bearish w/1 Neutral	Defense spending cuts, support of tariffs, demands for changes to USMCA, $15 min wage, higher corporate taxes, preconditions on buybacks, no clear stance on infrastructure spending, Green New Deal (indirect effects via Energy)	Several direct /industry specific policy risks, tariff overhang could remain; views on corporate taxes and buybacks are also negative; revenue could be pressured if corporate taxes rise (lowering capex/demand)
Cons Disc	Mixed	Mostly Neutral w/1 Very Bearish & 1 Bullish	Breaking up big Tech/privacy concerns, tariffs, wealth taxes, $15 minimum wage, eliminating student debt, universal public college, affordable housing initiatives, higher corporate taxes, preconditions on buybacks	Overall platform constructive for consumer spending/confidence, but adverse to company profitability (wages, corporate taxes, buybacks, tariffs); big Tech break up is a negative for AMZN (major weight in Internet Retail), but could be positive for other Retailers/Internet names
Comm Svcs	Mixed	Bullish to Neutral to Bearish	Breaking up big Tech/privacy concerns, higher corporate taxes	Big Tech break up is a negative for Interactive Media (FB & GOOGL, major weights in the sector) but could be positive for other Internet names; stance on corporate taxes is a risk but sector has not been buyback dependent
Tech	High	Mostly Bearish w/1 Neutral	Breaking up big Tech/privacy concerns, making payments infrastructure a public utility, higher corporate taxes, preconditions on buybacks	Big Tech break up / privacy concerns are less of an issue but Tech has been very buyback dependent and higher corporate taxes would negatively the companies directly and also seem likely to dampen IT spending; payments views a risk to IT Svcs; tariff overhang could remain

What RBC Analysts Say Is Most & Least At Risk If Warren Wins & Democrats Sweep In 2020

Key Takeaways

- Our analysts say the combination of a Warren win and Democratic sweep in 2020 is bearish or very bearish for 64% of the US industries that they cover.
- This scenario is viewed as neutral for 26% of the US industries RBC covers and is a positive for just 10%.

Very Bullish	Bullish	Neutral	Bearish	Very Bearish
•Yield Cos / Alternative Energy	•Forest Products •Internet ex Megacap •Utilities (Electric, Gas & Multi)	•Autos & Autos Parts •Beverage, HH & Personal Care and Tobacco •Building Products •Business Services •Cable & Telecom •Communications Infrastructure •Global Apparel & Specialty Softlines •Homebuilding •Packaging •REITs •Software	•Chemicals •Coatings •Independent Power Producers •Machinery/Cap Goods •Medical Supplies & Devices •Mega Cap Internet •Multi-Industry & Electrical Equipment •Oil Services •P&C Insurance; Insurance Brokers •Payments, Processors, & IT Services •Railroads •Semiconductors & Semi-cap Equipment •SMID Regional Banks •Spec Pharma – Generics •U.S. Asset Managers	•Banks (Large) •Biotech •E&P •Hardlines/ Broadlines •HC Payors (Managed Care) •HC Service Providers •Integrated Oil & Gas •Life Insurance •Midstream and MLPs •Refiners •Spec Pharma – Branded •Specialty/Consumer Finance

Source: RBC US Equity Strategy, RBC Capital Markets estimates

Consumer Industries: Implications of a Warren Win & Democratic Sweep in 2020

Cons Disc ex Internet Industries & Analysts	Outlook if Warren wins & Dems Sweep	Thesis	If Senate Stays Republican…	If Biden wins the White House…
Autos & Auto Parts (Joseph Spak)	Neutral	Positive – some potential easing of trade relations; Negative – Economic impact, taxes, more favorable labor stance	No change.	Slightly more positive given less potential economic impact, taxes, potential tariff removal
Global Apparel & Specialty Softlines (Kate Fitzsimons)	Neutral	LT positives potentially to the top line with Warren win in that eliminated student loan debts and rising wages could free up customer wallet share for other discretionary categories, and a breakup of big tech including Amazon could reduce the dominance of Amazon. Also resolution of trade tensions with China would be a positive. Negative would be wages to $15/hr on margins and reversal of corporate tax cuts to the bottom line.	Probably be more bearish as inability to get anything done and rising rhetoric just creates a more volatile/stressful backdrop for the consumer.	Probably stays at a neutral.
Homebuilding (Michael Dahl)	Neutral	Positive stance toward affordable housing but no comprehensive housing policies at this point; increased financial sector regulation could pose a risk to the extent it impacts credit availability/cost; net economic/tax impacts could dampen housing.	No meaningful change; gridlock would continue status quo.	Slightly more positive but Biden doesn't have a comprehensive housing policy either.
Hardlines/ Broadlines (Scot Ciccarelli)	Very Bearish	Retailers (and many other companies) have been paying substantially higher wages due to the tight employment environment and a lot of this spending has been funded by the recent corporate tax cuts. If corporate tax rates were to rise sharply, many of these companies would be locked into a structurally higher cost base, which would adversely impact the bottom-line.	A split Congress would likely help offset some of the business-related pressures that we envision under Elizabeth Warren, especially given the broad Republican support for lower corporate tax rates.	Biden would likely be more moderate than Elizabeth Warren and, thus, likely wouldn't be as negative from a business policy perspective.

Consumer Staples Industries & Analysts	Outlook if Warren wins & Democrats Sweep	Thesis	If Senate Stays Republican…	If Biden wins the White House…
Beverage, HH & Personal Care, and Tobacco (Nik Modi)	Neutral	It is likely that the market gets defensive and that is good for our space. Also, Warren would use federal funds to build more houses and raise minimum wage, which is good for tobacco and beverages. An offset would be higher wages for truck drivers, which could put some pressure on margins. As for buybacks, it is important, but the activity has been lower lately because many companies have done deals and are focused on de leveraging right now.	Then we would be slightly more bearish because the market would not be as defensive.	Avoidance of tariff will benefit our coverage.

Note: Internet takeaways can be found on the TIMT version of this table
Source: RBC US Equity Strategy

Energy Industries: Implications of a Warren Win & Democratic Sweep in 2020

Energy Industries & Analysts	Outlook if Warren wins & Dems Sweep	Thesis	If Senate Stays Republican…	If Biden wins the White House…
Oil Services (Kurt Hallead)	**Bearish**	Banning of fracking and other drilling related activities would negatively impact revenue and profitability. So doing would result in lower US oil production growth if not an outright decline in production which in turn would increase the price of oil in the short term.	We imagine the Republicans would work to block any legislation change.	Given no ban on fracking, would have no near term impact on OFS revenue opportunity and would be neutral to oil price near-term.
E&P (Scott Hanold)	**Very Bearish**	Potential to ban fracking in the US, most likely on federal lands only success because states will fight it and private land owners would sue the Fed if try to make all fracking. Additionally, with current Warren/Democrat views, would likely see the global economy reducing demand for oil.	If Republicans win the Senate the fracking ban and other nonsensical plans are likely more challenging to get across the line.	Biden win would be neutral to bearish as his views do not appear to be as extremist.
Integrated Oil & Gas (Biraj Borkhataria)	**Very Bearish**	Potential to ban fracking in the US, most likely on federal lands only success because states will fight it and private land owners would sue the Fed if try to make all fracing. Additionally, with current Warren/Democrat views, would likely see the global economy reducing demand for oil.	Unlikely to get across the line with Republican Senate	Stick to status quo
Midstream & MLPs (Schultz & Scotto)	**Very Bearish**	Bearish on sentiment for energy since Elizabeth Warren claims she wants to ban fracking everywhere (not sure she can legally do that, but sentiment would still take a big hit – especially if she bans fracking on federal lands)	Maybe becomes less bearish (from Very Bearish to Bearish) – would need a better understanding of what she can do by Executive Order.	Would change to neutral/no impact. Biden hasn't called for a fracking ban and it was under Obama that the US could export crude oil. Trump with trade war hasn't helped (tariffs on steel, delaying LNG and LPG export deals with China), so could be positive on the margin if trade dispute continues through the election and Biden has an opportunity to end it.
Refiners (Brad Heffern)	**Very Bearish**	Warren's commentary leads to a bearish outlook for oil and gas supply and demand, which would negatively impact refiners. First, $1.5 trillion of federal funds for clean energy research over 10 years would likely increase competitive entrants, negative impacting demand side of oil and gas macro. This would be a negative for refiners. Secondly, while the ban of fracking could be viewed as a positive for global supply, this outcome would negatively impact refiners through likely higher feedstock pricing, especially as it relates to US crude discounts. Overall, softer global demand for Oil and Gas and higher input costs would crimp margins leading to downward EBITDA revisions.	If Senate remains Republican our outlook on the refining space would be more bullish versus a bearish view if Senate flipped Democratic. Driver behind this view is Senate would likely block unfavorable proposals from the house. However, much of the onerous industry regulation could likely be done through executive action, so it would still be a bearish outcome.	We would be less bearish if Biden takes the Democratic nomination/wins the White House. If the Obama administration is a blueprint, things could be relatively benign with a Biden administration. Fracking, the lifting of the ban on US crude exports and some RINs relief all came during the Obama administration.

Source: RBC US Equity Strategy

Financials Industries: Implications of a Warren Win & Democratic Sweep in 2020 (Part 1)

Financials Industries & Analysts	Outlook if Warren wins & Dems Sweep	Thesis	If Senate Stays Republican…	If Biden wins the White House…
P&C Insurance; Insurance Brokers (Mark Dwelle)	**Bearish**	The only notable P&C legislation that is soon to be renewed/extended is Flood Insurance and the Terrorism Risk Insurance Act which backstops the issuance of terrorism coverage. Candidates have not generally spoken about these topics so we wouldn't foresee obvious negatives legislatively. Where our bearish view comes in is on judiciary selection. On balance Democrat presidents and congresses appoint judges (at all layers of the judiciary) who have views which are negative for defendant payors and positive for plaintiffs. Accordingly a combined Democrat executive and legislative branch would be a negative for P&C companies over time.	Would probably move to more 'neutral' since the Senate takes the lead on judicial appointments and can at least slow the process if not outright block it.	No change for this, nor for any other potential candidate – the concern is party driven, not platform.
SMID Regional Banks (Jon Arfstrom)	**Bearish**	Warren would likely have a more aggressive pro-regulation stance on the financial services industry given her past comments and position on the Senate Banking Committee. A re-implementation of Glass Steagall would have harsher implications for the larger banks, but also would negatively impact SMID cap regionals as many have some level of investment banking and/or capital markets oriented businesses.	We would likely move our answer to bearish from very bearish as a Republican Senate would likely result in more political gridlock and decreased likelihood of success on implementing very progressive policies such as student debt forgiveness.	We would likely move our answer to neutral/no impact from very bearish as our sense is that Biden would take a more balanced/neutral view on the financial services industry given lack of specificity on banking related policies to date.
U.S. Asset Managers (Kenneth Lee)	**Bearish**	The only direct regulatory item that could potentially impact the US asset managers is if Warren re-visits the original DOL fiduciary rule, or increases the regulatory oversight within the SEC's Regulation Best Interest, which could restrict the sales of high-fee fund products and restrict how vertically integrated distributors can sell proprietary fund products. Otherwise, most of the potential impact would be indirectly through equity market growth; pro-growth economic policies would help and vice versa.	Senate composition likely less of an impact one way or another. If a restrained US government leads to continuation of pro-growth legislation, then this would be an indirect help for US asset managers. Otherwise, we note any revision to the DOL fiduciary rule or SEC's Reg BI would not require Congressional action.	Possibly more neutral if Biden wins if his financial regulatory policies are more moderate vis a vis Warren.

Source: RBC US Equity Strategy

Financials Industries: Implications of a Warren Win & Democratic Sweep in 2020 (Part 2)

Financials Industries & Analysts	Outlook if Warren wins & Dems Sweep	Thesis	If Senate Stays Republican…	If Biden wins the White House…
Banks (Large) (Gerard Cassidy)	**Very Bearish**	Very negative as the banking industry is targeted for higher taxes and greater regulation by Warren. A Democratic controlled Senate is expected to throw out filibuster rules and a simple majority will suffice to change legislation. Higher taxes, greater regulation and the potential to restrict lending practices, i.e., limit the rate charged on loans, foreclosure restrictions, etc.	Gridlock which will prevent onerous legislation from becoming law but still a negative.	Biden is not expected to be as much of an extremist but if he rolls back Trump's tax reform that would be very bad for the banks.
Life Insurance (Mark Dwelle)	**Very Bearish**	Life insurance companies favorably responded to the Trump election which resulted in the rollback of the DOL fiduciary rule and a financial rulemaking approach which has generally favored the status quo or better in the regulation of financial products. Our expectation would be that legislation would be adopted which would either make it harder to sell certain complex financial products (i.e. annuities) and/or would make them more expensive to sell because of incremental regulation. Whether the planned policies would result in a less hostile interest rate environment (i.e. rates go up) is difficult to forecast, but we wouldn't expect enacted policy to be obviously GDP enhancing and accordingly we wouldn't expect a rising Fed Interest rate for some time, which would also be negative.	We could probably lean towards more of a Bearish (instead of Very Bearish) stance if the Senate stayed Republican as that might at least forestall the enactment of directly negative legislation (i.e. a follow on DOL Fiduciary type rule). That said a non-pro growth tax regime or other policies which might inhibit economic growth would be interest rate negative (i.e. lower for longer) and accordingly still bearish for Life insurers.	Perhaps. From what we know of Biden's rather limited explained agenda he doesn't seem to have the same animosity towards financial products/ financial institutions so legislative priorities might not include some of the items above and instead focus on healthcare, taxation or other matters which would have less impact on the group.
Specialty/Consumer Finance (Jon Arfstrom)	**Very Bearish**	For the consumer finance names, the forgiveness of student debt would have tremendous ramifications on the private student loan industry. A proposed cap on credit card interest rates would likely result in significantly reduced access to credit for low-to-middle income U.S. consumers as risk-adjusted yields would not be sufficient to lend to this segment. The Consumer Finance Protection Bureau (CFPB), which was created by Warren, likely could see increased authority in leadership and adopt a more aggressive regulatory/enforcement stance on the financial industry.	We would likely move our answer to bearish from very bearish as a Republican Senate would likely result in more political gridlock and decreased likelihood of success on implementing very progressive policies such as student debt forgiveness.	We would likely move our answer to neutral/no impact from very bearish as our sense is that Biden would take a more balanced/neutral view on the financial services industry given lack of specificity on banking related policies to date.

Source: RBC US Equity Strategy

Health Care Industries: Implications of a Warren Win & Democratic Sweep in 2020 (Part 1)

HC Industries & Analysts	Outlook if Warren wins & D's Sweep	Thesis	If Senate Stays Republican…	If Biden wins the White House…
Medical Supplies & Devices (Brandon Henry)	**Bearish**	The Medical Supplies & Devices group has outperformed most other healthcare subsectors YTD, partly as investors believe the subsector has less political and election risk relative to other healthcare subsectors. Medical device implant pricing goes down on a low-to-mid-single-digit basis annually and does not appear to be on the radar of politicians at this point. Medicare for All proposals have a low probability of succeeding, in our view. However, such a plan would likely be negative for the Medical Supplies & Devices subsector as Medicare reimbursement is typically well below commercial reimbursement and would be unlikely to be offset by an increase in volumes as more Americans obtain insurance coverage.	If Elizabeth Warren is elected President, and the Senate stays Republican, we would assume very little gets done in the way of transformational healthcare policies, given the massive divide between her views and the Republicans. There may be some changing of the guard at the FDA and/or CMS, which could be slightly negative for the Medical Supplies & Devices space, but we think it would be mostly status quo for our subsector. We would put a lower probability on Elizabeth Warren being elected President however.	If a Democrat like Joe Biden is elected President, and the Senate stays Republican, that could actually be the best case scenario for the Medical Supplies & Devices group. Joe Biden will likely push for increased healthcare coverage, but his health care plan is not as extreme (or as expensive) as Warren's. This could end up being slightly positive for the Medical Supplies & Devices subsector if it were to result in a slight increase in volumes. Also, Republicans may be able to negotiate with the Democratic President for a suspension/repeal of the medical device excise tax (in addition to other important items) in exchange for an expansion of healthcare coverage. Finally, we would also expect trade rhetoric with China to be less heated, and we could see a reversal of or further exemptions from the recent tariff amounts levied on the space.
Spec Pharma - Generics (Randall Stanicky)	**Bearish**	Government production of generic drugs (or threat thereof) would likely exert downward pressure on generic drug prices while price cuts on branded drugs could also impair the value of future generic drug launches. That said, this could be partially offset to the extent legislation is passed that increases access to generic drugs.	Neutral - Government production of generic drugs is likely off the table (Republicans would block) with upside potential if the two sides can reach consensus on increasing access to generic drugs.	Neutral - Biden is likely to pursue more moderate policy changes with respect to generic drug pricing with upside potential if steps are taken to increase access to generic drugs.
Spec Pharma - Branded (Randall Stanicky)	**Very Bearish**	New restrictions on drug prices such as international reference pricing and government negotiation of drug prices in Medicare could result in significant price cuts and also impair the value of future drug launches.	Less bearish (From Very Bearish to Bearish) - More radical proposals would likely be off the table but lower drug prices remain a bipartisan objective which increases the likelihood of more moderate reform.	Less bearish (From Very Bearish to Bearish) - Biden is likely to take a more incremental approach to drug pricing reform but some measure of (adverse) change is still likely.

Source: RBC US Equity Strategy

Health Care Industries: Implications of a Warren Win & Democratic Sweep in 2020 (Part 2)

HC Industries & Analysts	Outlook if Warren wins & D's Sweep	Thesis	If Senate Stays Republican…	If Biden wins the White House…
Biotechnology (Brian Abrahams, Kennen MacKay, & Gregory Renza)	Very Bearish	The potential for progressive drug pricing reform to be passed versus prior precedent of Congressional gridlock could meaningfully change our sector outlook and be disruptive for the industry. Drug pricing reform is a high priority policy issue for Democrats – the most impactful proposals could be those that enable direct Medicare negotiation, set price inflation caps or price controls that could also extend to the commercial payer space, require forced arbitration for launch prices, create a more permissive environment for drug importation, and increase transparency measures. The impact of these policies could be exacerbated if a Medicare for All or expanded Medicare option policy also gained political traction, though this seems less likely given opposition by moderate Democrats.	Less bearish (From Very Bearish to Bearish). A GOP controlled Senate would likely maintain status quo of political gridlock that would prevent any major draconian changes to drug pricing policy from being passed. If any bipartisan changes were to gain support, they would likely be more moderate and have only an incremental impact for the sector. We would still be bearish, however, on the prospects of a Warren presidency to implement some administrative changes that could negatively impact drug pricing in Medicare/Medicaid, though we believe to some degree such a possibility is already starting to become baked into expectations.	Less bearish (From Very Bearish to Bearish). Biden has historically proposed more moderate policy changes, though has proposed several more aggressive policies, like Medicare negotiation, as part of this 2020 election campaign. This is balanced, however, by his historical perceived support for the industry to innovate and discover new cures for diseases, like cancer and Alzheimer's. A Biden presidency paired with a Democratic controlled Senate could result in a greater appetite for moderate drug pricing policy changes with some impact for the sector, but we would not anticipate more draconian changes. We would see a more neutral impact if a Biden White House were coupled with a GOP-led Senate.
HC Payors (Managed Care) (Frank Morgan)	Very Bearish	We would expect significant volatility for providers early on in a Warren administration with a Democrat controlled congress due to uncertainty over potential changes to health policy like Medicare-for-All. That said, we believe that even in this scenario implementing a fully government controlled health system would be difficult given the fact that public's appetite for such policies tend to wane after learning more about their implications. While full government control of healthcare could address the 28 million Americans without coverage, transition to a universal single payor system has potential to disrupt access to care for the 180 million Americans with employer-sponsored plans.	Neutral to Bullish: Ongoing Republican control of the Senate would most likely lead to deadlock over healthcare issues, meaning more of the same for payors and providers, which we see as favorable over the long term.	Bullish to Very Bullish: In a Biden scenario, we would expect a push to build on and expand Obamacare, which we see as positive for both payors and providers. Providers would benefit from expanded coverage through increased affordability of exchange plans and through incremental Medicaid expansion across hold-out states. Surveys suggest much greater Democratic support for building on the ACA rather than replacing it with Medicare-for-All.
HC Service Providers (Frank Morgan)	Very Bearish	In a Warren win / Democrat control scenario, we would expect significant volatility early in the administration, for both payors and providers, related to Medicare-for-All and similar policies, which in theory could disrupt coverage for the 180 million Americans with employer-sponsored health plans. As it relates to payors specifically, the details are very important. For example, a pure Medicare single payor system would be a worst case scenario as it would essentially cut out payors altogether; whereas a Medicare Advantage-for-All could ultimately be positive. We would expect significant volatility as details are ironed out.	Neutral to Bullish: Ongoing Republican control of the Senate would most likely lead to deadlock over healthcare issues, meaning more of the same for payors and providers, which we see as favorable over the long term.	Bullish to Very Bullish: In a Biden scenario, we would expect a push to build on and expand Obamacare, which we see as positive for both payors and providers. Payors would benefit from greater government support for exchange enrollment efforts and plan affordability. We believe regulatory stability for ACA exchanges would promote a more viable marketplace prompting issuers to expand their exchange footprint. Surveys suggest much greater Democratic support for building on the ACA rather than replacing it with Medicare-for-All.

Source: RBC US Equity Strategy

Industrials Industries: Implications of a Warren Win & Democratic Sweep in 2020

Industrials Industries & Analysts	Outlook if Warren wins & Dems Sweep	Thesis	If Senate Stays Republican…	If Biden wins the White House…
Business Services (Seth Weber)	Neutral	$15 minimum wage could be incremental negative for some service providers in lower-skilled employment categories; however, higher wages can be a positive for staffing providers.	No change.	No change.
Machinery/Cap Goods (Seth Weber)	Bearish	Higher corporate taxes, continued use of tariffs and more restrictive energy narrative (direct and indirect implications) would likely be viewed as a negative; tariffs have hurt the farm economy particularly hard.	Not a big change; potential for gridlock/nothing getting done could extend limited visibility overhang, which wouldn't be conducive to helping investor confidence.	Would be more constructive, given his noted support to boost US infrastructure investment, goal to make US trade policy more favorable for farmers, and less onerous energy and corporate tax policies.
Multi-Industry & Electrical Equipment (Deane Dray)	Bearish	No stance on increased infrastructure spending; favors increasing corporate taxes; strong protectionist views with proclivity to use tariffs; our expectation that markets would react negatively to the news	View would mostly stay the same. Turmoil in White House would still create uncertainty.	Would be incrementally more positive on Joe Biden given his stance to boost infrastructure spending, less aggressive corporate tax increase, and more favorably view on global trade.
Railroads (Walter Spracklin)	Bearish	During 2008 the Democrats controlled both the House and the Senate. During this period the Railroad Competition and Service Improvement Act of 2007, which was a bill introduced to increase rail competition, was introduced to the House. Our view is that a Democrat controlled House and Senate would increase the likelihood of regulation, which would act as a headwind to growth at the railroads.	If the Senate stays Republican we believe that things would remain status quo. We think that the Republicans are less likely to introduce new regulation.	We think that if Joe Biden takes the Democratic nomination that things are likely to remain status quo. We view Joe Biden as more pro-business when compared to Elizabeth Warren and we think the probability of regulation is lower with Joe Biden winning the Democratic nomination.

Source: RBC US Equity Strategy; Note: Walter Spracklin is an RBC Dominion Securities Inc. analyst

TIMT Industries: Implications of a Warren Win & Democratic Sweep in 2020

Comm Svcs Industries & Analysts	Outlook if Warren wins & Dems Sweep	Thesis	If Senate Stays Republican…	If Biden wins the White House…
Internet ex Megacap (Mark Mahaney)	Bullish	Breaking up big Tech could be positive, not only for the economy but individual companies overall.	Neutral, it could be a deadlock and not be as dramatic of a change.	Likely a neutral – Biden is asking for more investigations and not calling for breaking Big Tech right away.
Cable & Telecom (Jonathan Atkin & Kutgun Maral)	Neutral	T-Mobile/Sprint deal is likely to see final resolution by March 2020 and hence not affected by the 2020 election.	No change.	No change.
Mega Cap Internet (Mark Mahaney)	Bearish	Elizabeth Warren would be incrementally bad for FB, GOOGL and AMZN, but only incrementally and not materially as there is a fair amount of negative sympathy towards these names already.	Neutral, it could be a deadlock and not be as dramatic of a change.	Likely a neutral – Biden is asking for more investigations and not calling for breaking Big Tech right away.
Tech Industries & Analysts	**Outlook if Warren wins & Dems Sweep**	**Thesis**	**If Senate Stays Republican…**	**If Biden wins the White House…**
Software (Alex Zukin & Matt Hedberg)	Neutral	No specific policy issues. Tax changes would be a negative but no more so than any industry and less in some cases.	No change.	No change.
Payments, Processors, & IT Services (Dan Perlin)	Bearish	Expect increased regulation which may reduce innovation in payments (including making ACH even more publicly-owned than currently), and/or pressure the interchange revenue model; IT services may benefit from increased government spending.	Yes, no implication if Senate stays Republican as would expect regulation to remain essentially unchanged.	Yes, less bearish (so between flat and negative one) as Biden has usually been somewhat supportive of the credit card industry given his ties to Delaware.
Semiconductors & Semi-cap Equipment (Mitch Steves)	Bearish	R&D tax credits and overall taxes could go up. In addition, the Democratic side has talked to "curbing" stock buy backs which would be negative for our space as they are prevalent for shareholder value return.	Still a negative but less so as more extreme tax/buyback adjustments would likely be blocked.	Still a negative but effectively the same as there is a general push for reducing ability to buyback stocks.

Source: RBC US Equity Strategy

Materials Industries: Implications of a Warren Win & Democratic Sweep in 2020

Materials Industries & Analysts	Outlook if Warren wins & Dems Sweep	Thesis	If Senate Stays Republican…	If Biden wins the White House…
Forest Products (Paul Quinn)	Bullish	Warren's plan to invest $500 billion over the next ten years to build "millions of new units" and to renovate older units for lower-income families would drive significant demand for wood, OSB, and siding products. Higher oil prices would negatively impact OSB producers through higher resin prices, but all building product companies would experience higher transportation costs. Imposing taxes on profits above $100 million would be modestly negative for companies with deferred tax assets: International Paper, WestRock, Rayonier, and Domtar.	No change	Would change to neutral/no impact.
Building Products (Michael Dahl)	Neutral	Infrastructure spending views unclear but Dem sweep could allow for some progress; exact tariff implications unclear - supportive of tariffs but to same extent/rate? - net economic/tax impacts could dampen housing.	No meaningful change; gridlock would continue status quo. Significant infrastructure bill becomes less likely.	More positive - more likely to roll back tariffs, increase infrastructure, less negative tax policy.
Packaging (Arun Viswanathan)	Neutral	Sustainability policies could spur bev-can growth as more consumer opt for environmentally friendly recycling products. On the other hand, this could also weigh on plastic packaging.	A Republican Senate majority would keep the status quo.	No impact
Chemicals (Arun Viswanathan)	Bearish	Harsher regulation on shale gas could make USGC chemical producers lose their cost advantage position. We could also see EPA taking a hawkish stance on chemicals, which could impact the current PFAS hearing. The Green New Deal movement would also impact commodity chemicals as feedstocks are derived from oil and gas. On the other hand, lithium producers could see some uplift as the movement calls for zero emission vehicles, which would help EV demand.	A Republican Senate majority would keep the status quo.	Biden win would be a neutral to bearish as his views do not appear to be as extremist.
Coatings (Arun Viswanathan)	Bearish	Any policies that raise taxes could deter consumer spending on auto and home purchases could negatively impact coatings demand.	A Republican Senate majority would keep the status quo.	Biden win would be a neutral to bearish as his views do not appear to be as extremist.

Source: RBC US Equity Strategy; Note: Paul Quinn is an RBC Dominion Securities Inc. analyst

REITs & Utilities Industries: Implications of a Warren Win & Democratic Sweep in 2020

Real Estate Industries & Analysts	Outlook if Warren wins & Dems Sweep	Thesis	If Senate Stays Republican…	If Biden wins the White House…
Communications Infrastructure (Jonathan Atkin)	Neutral	Communications Infrastructure stocks (towers) should be driven principally by the outcome of the T-Mobile/Sprint transaction, which we expect to be resolved before the election.	No Change	No Change
REITs (Michael Carroll & Wes Golladay)	Neutral	We expect this election to have a low impact on the real estate market unless the economy or stock market show significant volatility. We believe a few of the major policy proposals would have an indirect impact to the REIT industry. First, forgiving student debt would likely allow consumers to increase spending helping the industrial and retail property types. Second, free college would likely push overall enrollment higher, and therefore, drive incremental student housing demand. Third, Medicare for all would likely create some volatility for healthcare service providers, and in turn, real estate owners that support them.	If Warren is elected and the Senate stays Republican, we believe it would be difficult to pass the above policy, and therefore, the REIT impact will be more muted.	We expect a Joe Biden Presidency would have a more muted impact to the REIT industry compared to Elizabeth Warren as his policies seem less radical.

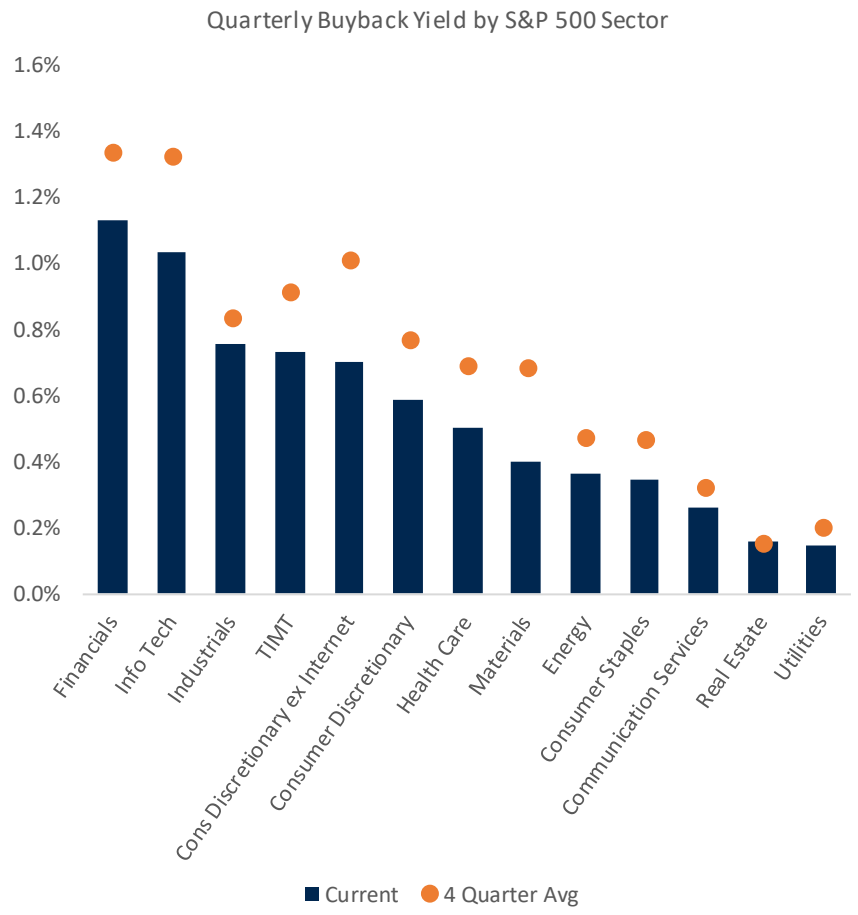
Utilities Industries & Analysts	Outlook if Warren wins & Dems Sweep	Thesis	If Senate Stays Republican…	If Biden wins the White House…
Yield Cos / Alternative Energy (Shelby Tucker)	Very Bullish	They will have more opportunities to invest in renewable assets, though the state will still dictate the pace at which renewables will grow. There is a possibility that a Warren administration would push the legislature to extend tax credits for wind and solar and introduce greater tax credit benefits for battery storage. This would help YieldCos/Alternative Energy. Banning gas production would lead to more investment opportunities for YieldCos.	Without the Senate, Warren will likely neither pass the New Green Deal nor the ban of fracking and a potential phase out of nuclear plants. A little negative for YieldCos.	Policy-wise, little change (think Obama-lite).
Utilities (Electric, Gas, Multi) (Shelby Tucker)	Bullish	They will continue to invest in renewables as they already do, as mandated by the states. However, investor perception would be positive for utilities. The industry is already reporting a lot of environmental data through its ESG initiative. The Green New Deal could help utilities that would need to build more renewables, though it would be severely challenged by states that are not in favor of renewables over economics. As it turns out, most states are more progressive than the Trump administration on that front. The nuclear bill sounds like a gimmick, unless the federal government provided guarantees even in the case of costs overruns. Shutting down nuclear would take out 20% of power supply in the country and the largest source of carbon-free electricity. The grid is not designed yet – and battery storage is too expensive – to run solely on renewables.	Without the Senate, Warren will likely neither pass the New Green Deal nor the ban of fracking and a potential phase out of nuclear plants. Still pretty neutral for utilities.	Utility stocks get less of a lift due to lower need to be defensive.
Independent Power Producers (Shelby Tucker)	Bearish	Higher gas prices would lead to higher power prices which helps IPPs, if they can retain their nuclear plants. Warren seems to support phasing out nuclear, but less clear on timing. Furthermore, higher forms of regulation will hover over the group and create an overhang for the sub-sector and may force them to retire nuclear plants, as Warren is less clear about the fate of nuclear.	Without the Senate, Warren will likely neither pass the New Green Deal nor the ban of fracking and a potential phase out of nuclear plants. More positive for IPPs.	Perception of IPPs would be less negative

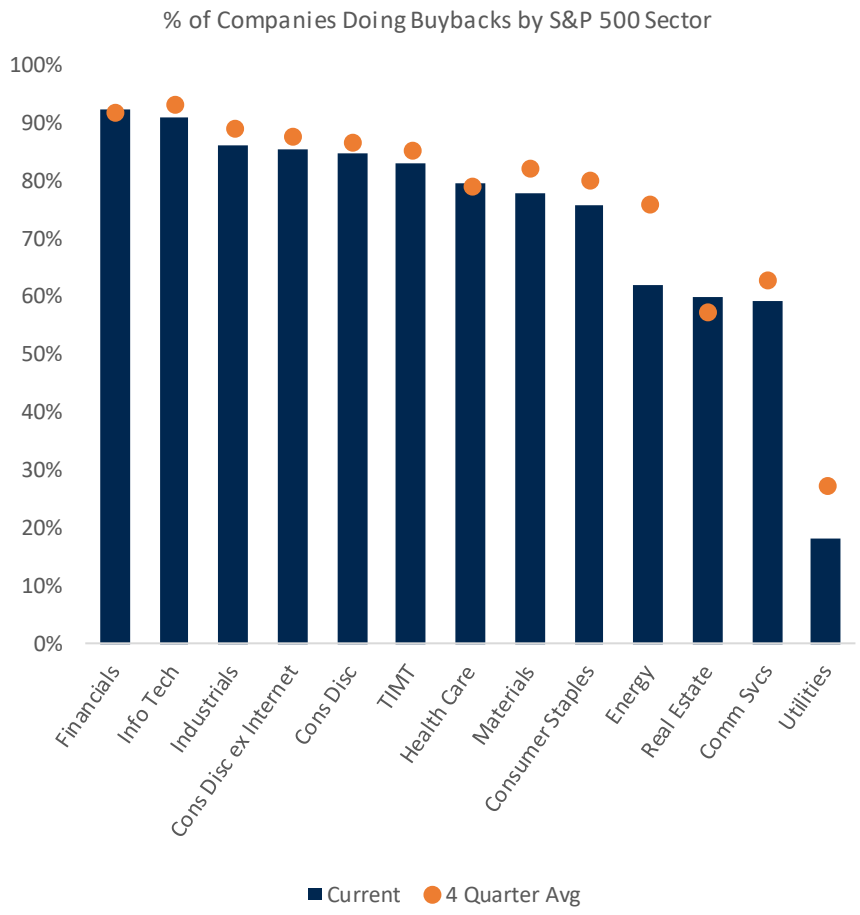
Source: RBC US Equity Strategy

S&P 500 Sector Sensitivity To Buybacks

Key Takeaways

- Sectors that have been most tied to buybacks in recent quarters have been Financials, Tech/TIMT, Industrials, Consumer Discretionary (both including and excluding Internet) and Health Care.
- Sectors less impacted by buyback activity in recent quarters have been Utilities, Real Estate, and Communication Services.



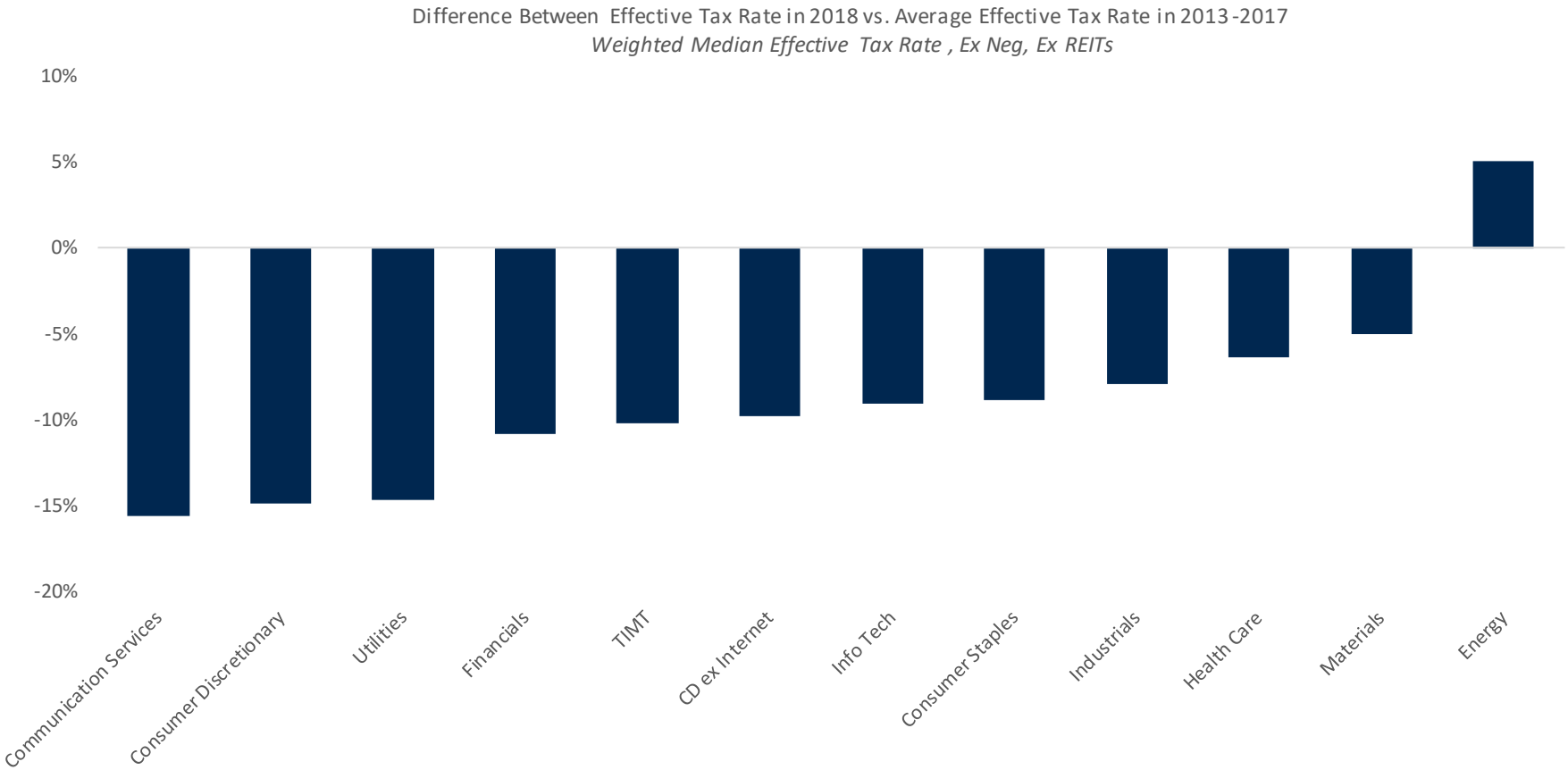


Source: RBC US Equity Strategy, Buyback Yield is calculated as the aggregate sum of quarterly share repurchases as a percent of aggregate sum of market cap.

S&P 500 Sector Sensitivity To Tax Reform

Key Takeaways

- We compared the effective tax rates for the S&P 500 sectors in 2018 (which reflects the enactment of the Tax Reform Act of 2017, which significantly lowered taxes for most companies) to their average tax rate in 2013-2017. Aside from Energy, all major sectors benefited from tax reform, with Communication Services, Consumer Discretionary, and Financials seeing the biggest impacts. Note that while Energy's effective tax rate was low in the immediate period prior to tax reform due to losses/low oil prices, the sector historically was a high tax payer and so like most other sectors we think higher corporate taxes would be a negative for the sector.
- Utilities companies' tax savings are passed through to customers, meaning it did not end up benefiting from tax reform.



Source: RBC US Equity Strategy, CapitalIQ/ClariFi, Compustat

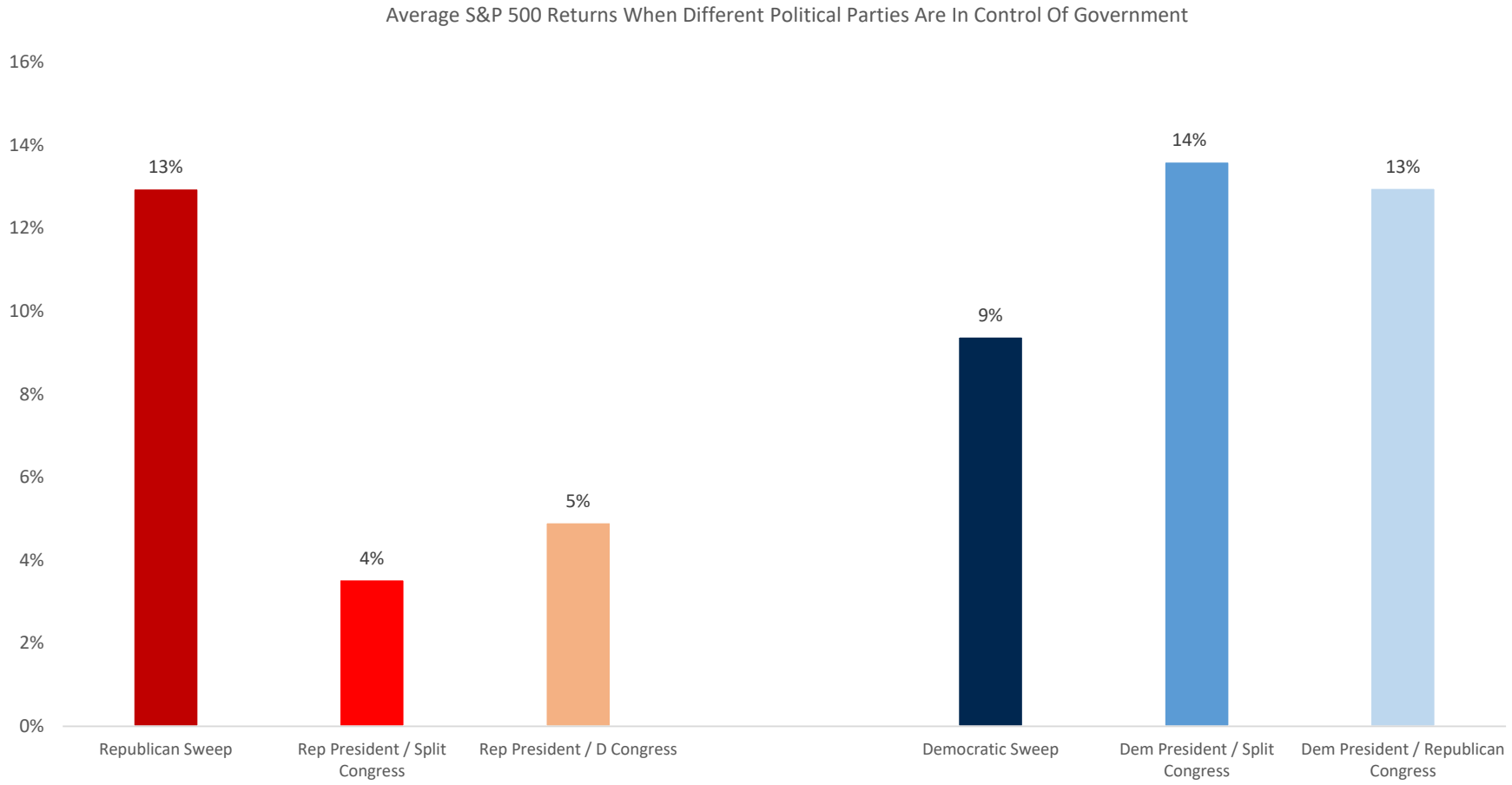
The Relationship Between Politics & The Stock Market Over Time

RBC Capital Markets

Historical Stock Market Returns Under Different Political Leadership Environments

Key Takeaways

- A Republican President with a split or Democratic Congress – as is the case today – is often challenging for stocks. Average returns have been best under a unified Republican government or a government with a Democratic President and split or Republican Congress.
- A Democratic President with a Democratic Congress falls in the middle – average returns are close to historical trend.

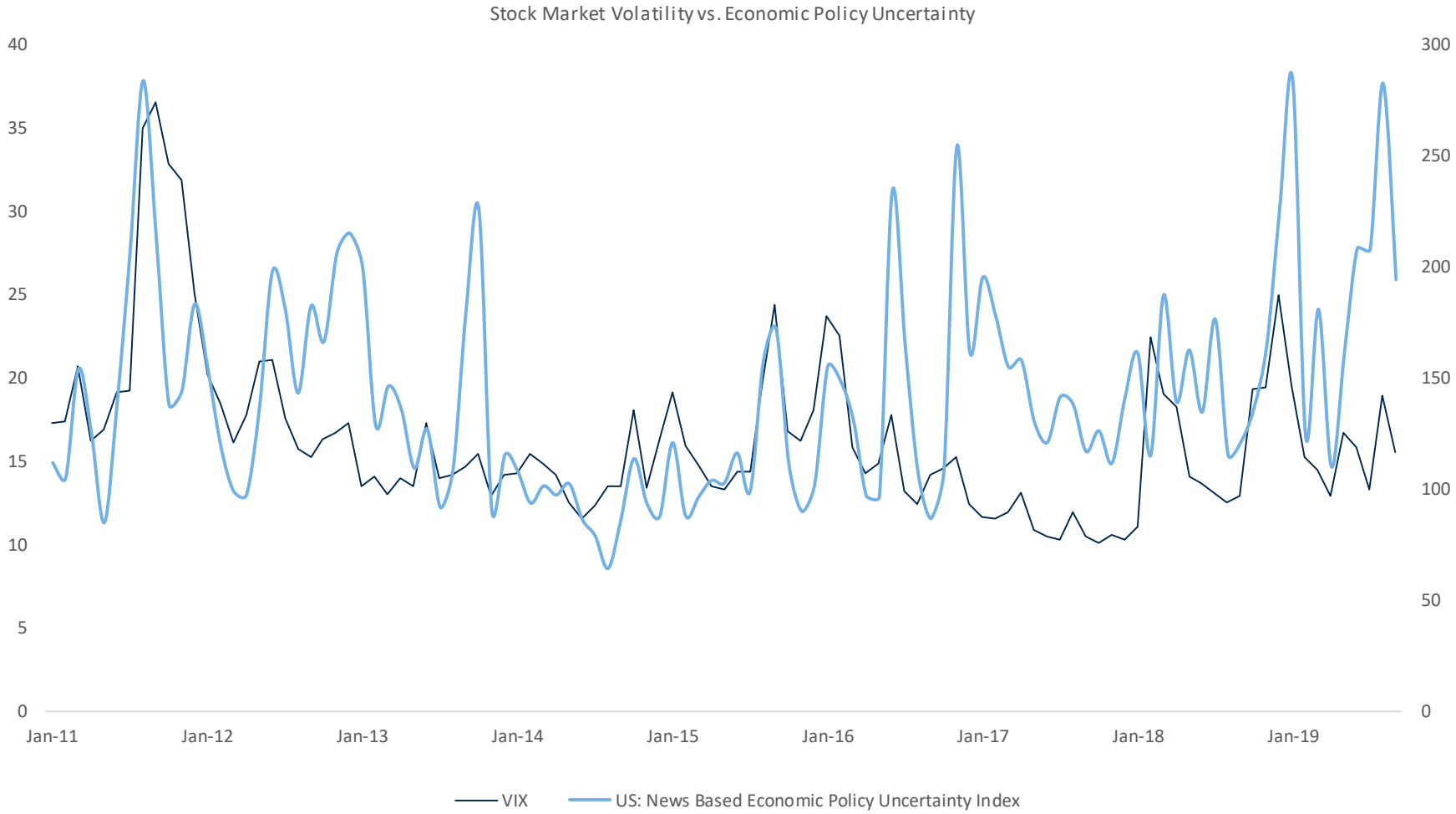


Source: RBC US Equity Strategy, Haver, Includes years since 1933; the 2000 election resulted in a 50/50 tie in the Senate (with a Republican VP acting as the deciding vote after inauguration). However, midway through 2001 one Republican Senator left to become an independent and caucus with the Democrats.

Heightened Policy Uncertainty Tends To Be Accompanied By Higher Stock Market Volatility

Key Takeaways

- Historically, elevated policy uncertainty has been associated with higher levels of stock market volatility. 4Q18's pullback in the S&P 500 was accompanied by a major spike in policy uncertainty, primarily on trade policy with China. Uncertainty retreated in the first two months of 2019, then picked back up in May through July, foretelling the spike in volatility seen so far in August. Policy uncertainty seems likely to keep rising in coming quarters, with the 2020 US elections coming into focus.

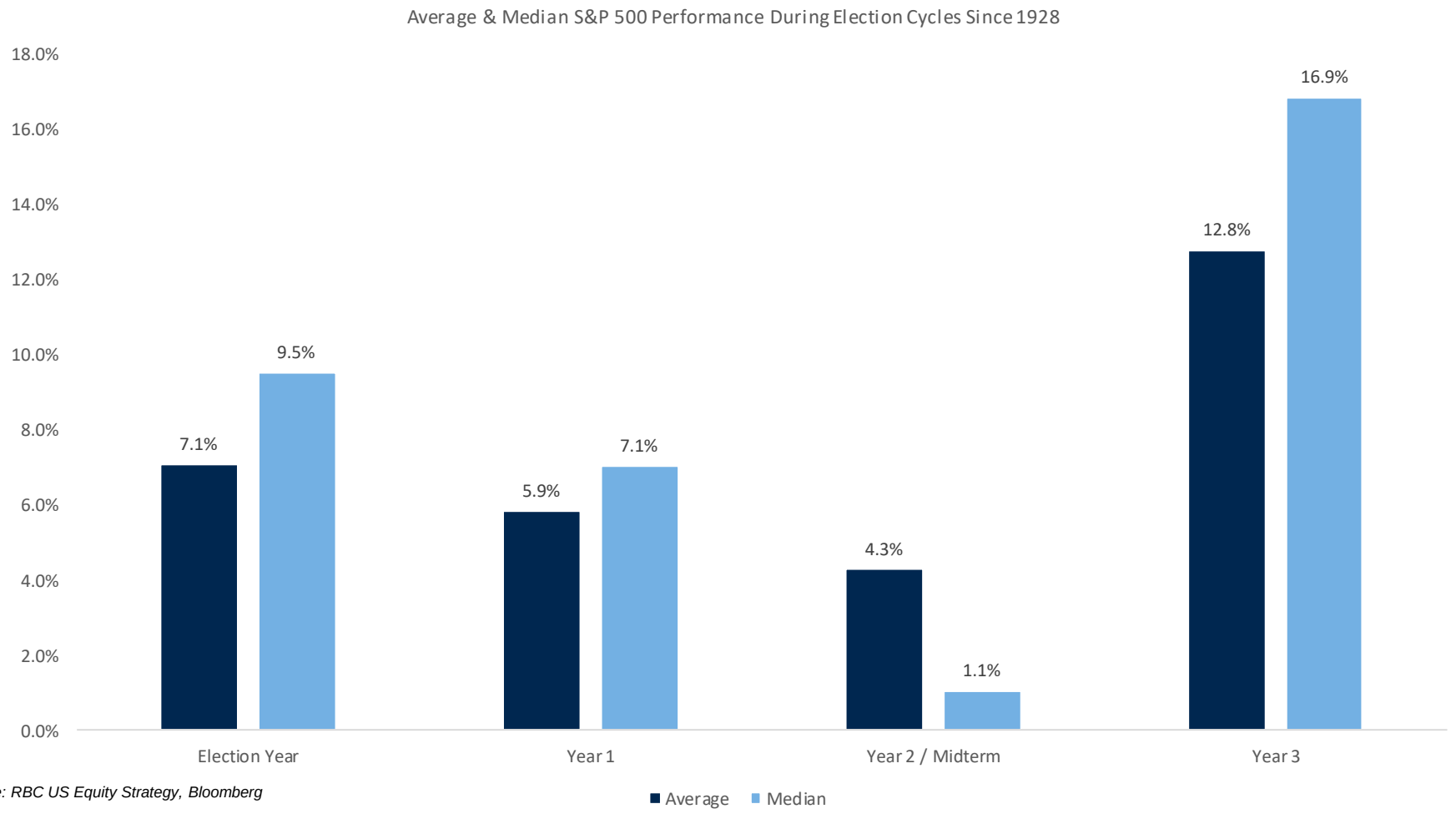


Source: RBC US Equity Strategy, Haver

3rd Year of a Presidential Cycle Typically The Strongest For Stocks, Election Years Less Robust

Key Takeaways

- So far in 2019, the Presidential Cycle playbook is working. The S&P 500 is up 18% YTD, similar to the average and median gain in the S&P 500 during years that precede Presidential elections (Year 3 of the Presidential cycle).
- The Presidential election year tends to be strong as well, but less robust than Year 3 with trend line returns.
- Mid term election years (which 2018 was) tend to be the weakest.

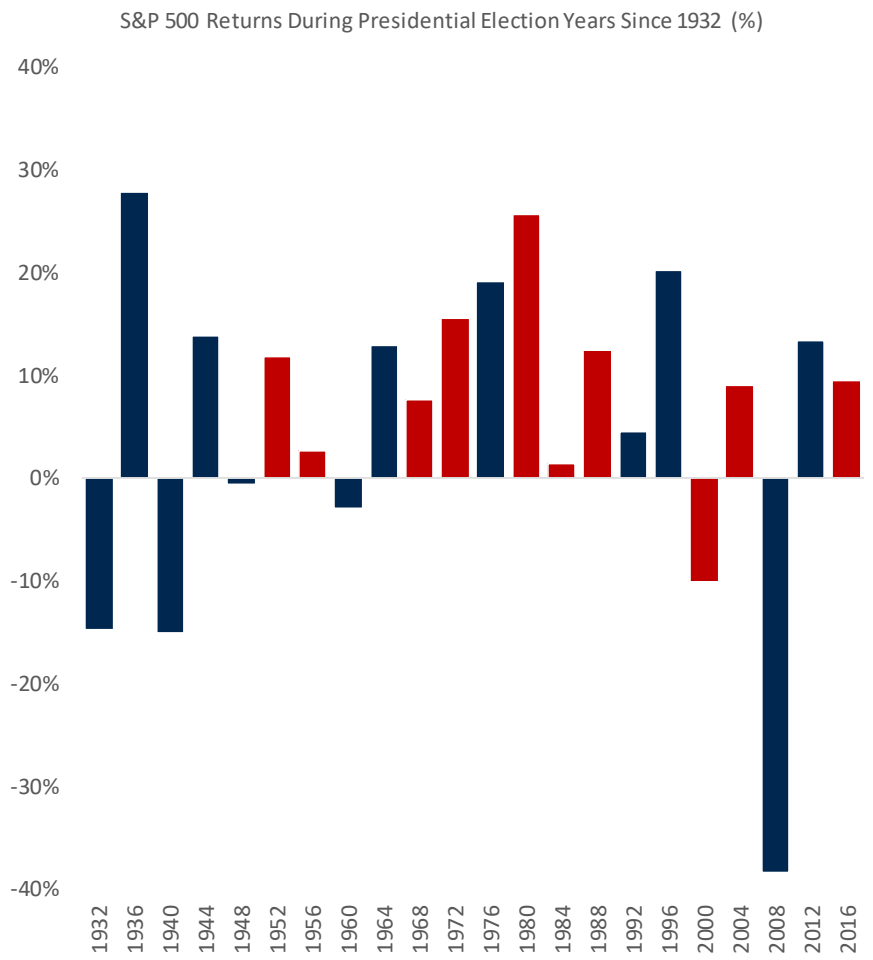


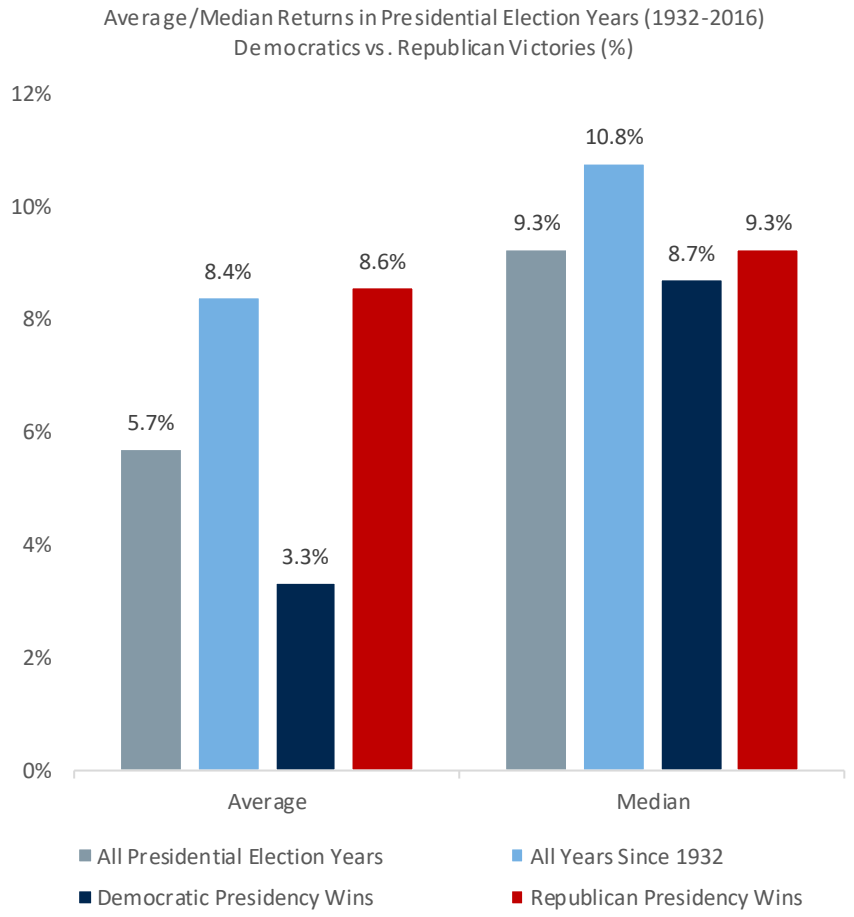
Source: RBC US Equity Strategy, Bloomberg

Historical Full Year S&P 500 Performance in Presidential Election Years

Key Takeaways

- During the Presidential election years from 1932-2016, the average return on the stock market has been positive, but a bit weaker than the average of all years in the stock market. The same is true using medians.
- If 2000 is included, Presidential election years in which Democrats win are weaker than those that see Republicans emerge victorious. But that gap disappears if we look at a median, which reduces the impact of 2008 (a clear outlier).



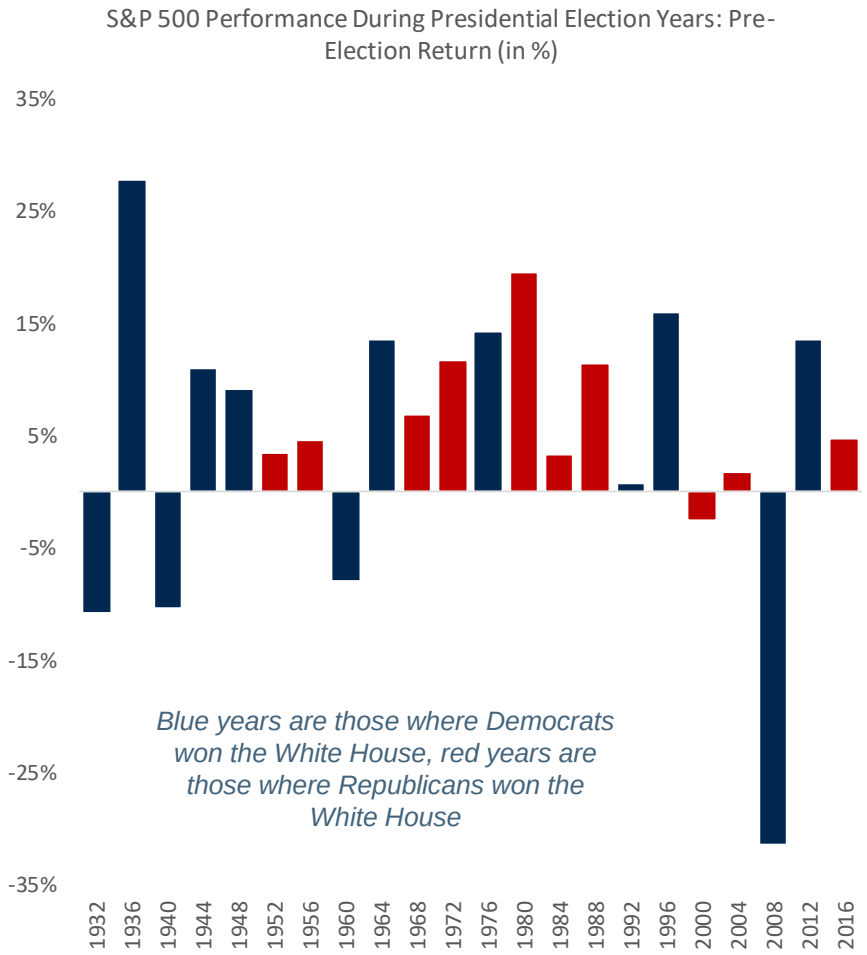


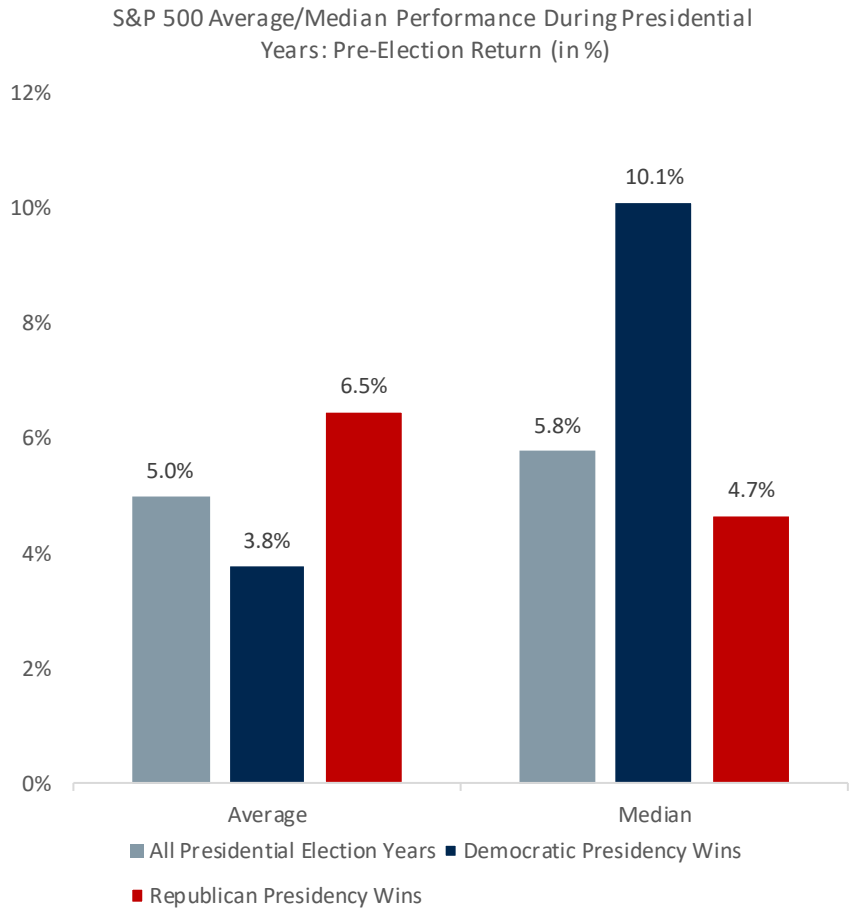
Source: RBC US Equity Strategy, Bloomberg

Historical S&P 500 Performance Ahead of Election Day

Key Takeaways

- Historically, the stock market tends to be strong head of Election day. The historical playbook hasn't worked well over the past two decades, however, with weak pre-Election returns seen in 1992, 2000, 2004, and 2008.
- The weaker pre-election moves from the past two decades have been split between years in which Republicans and Democrats were victorious.



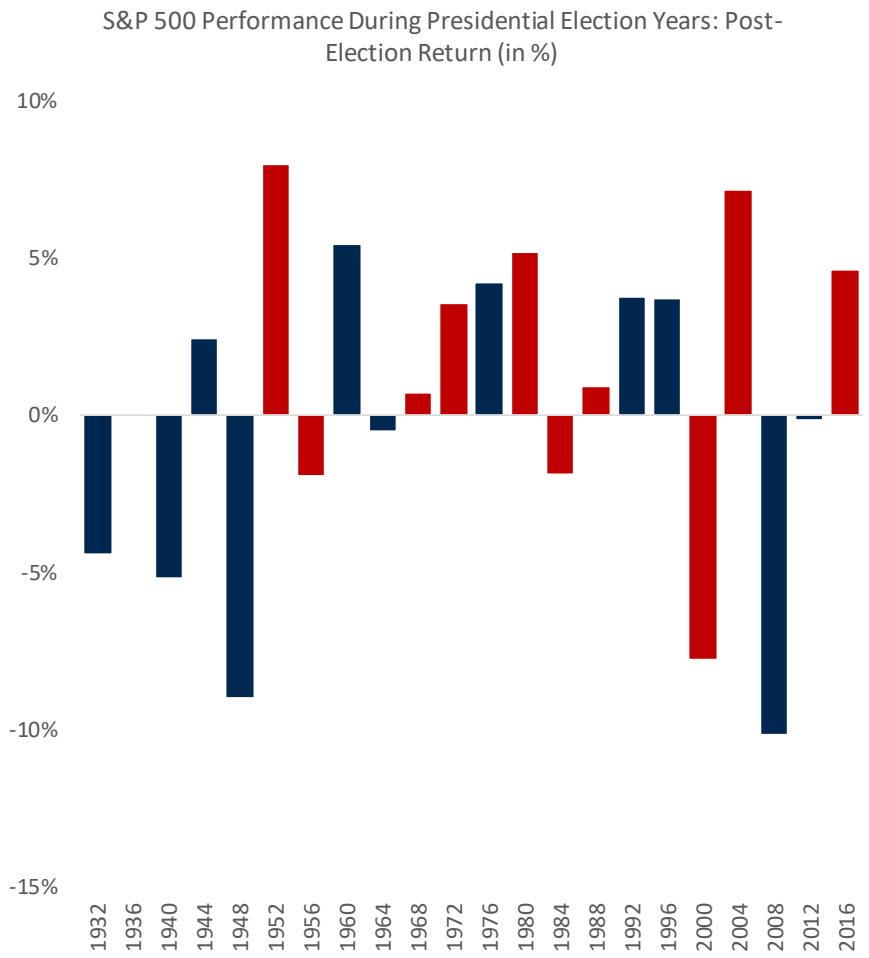


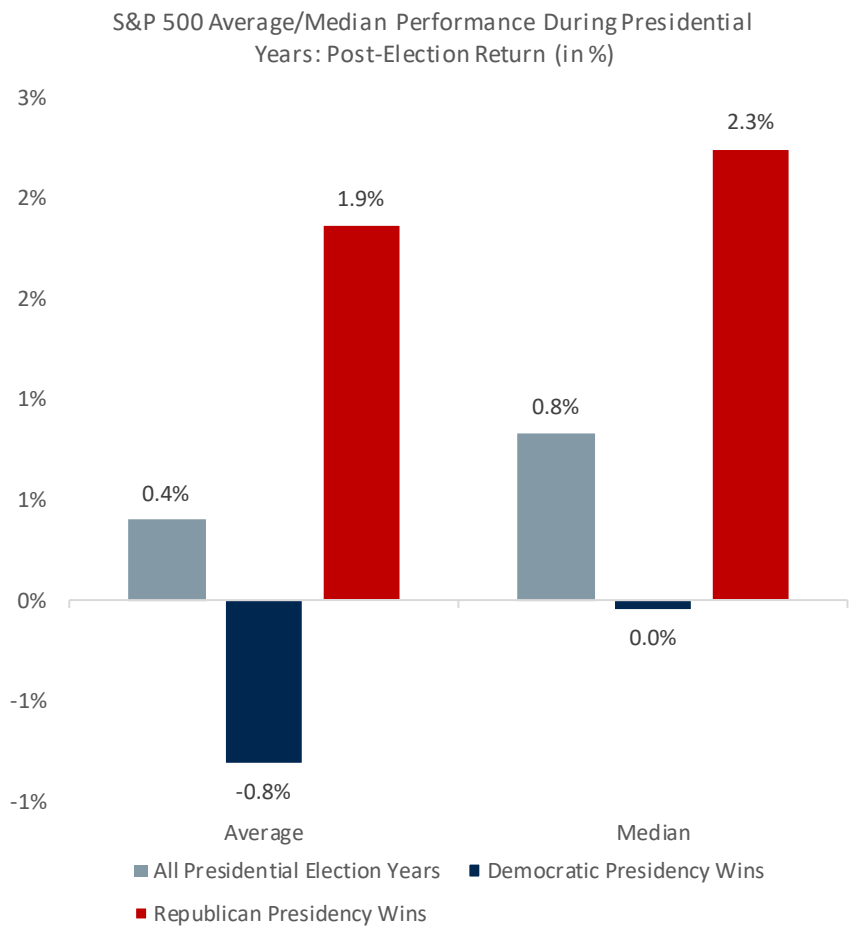
Source: RBC US Equity Strategy, Bloomberg, Pre-Election return captures performance from the close on Dec 31st of the prior year, through the Election Day close.

Historical S&P 500 Performance After Election Day

Key Takeaways

- Post election returns, through year-end, tend to be positive, using both averages and medians.
- Post election gains tend to be more common in years when Republicans win the White House than those in which Democrats when the White House. That patterns has been intact over the past four Presidential election years.





Source: RBC US Equity Strategy, Bloomberg, Post-Election return captures performance from the Election Day close through year end

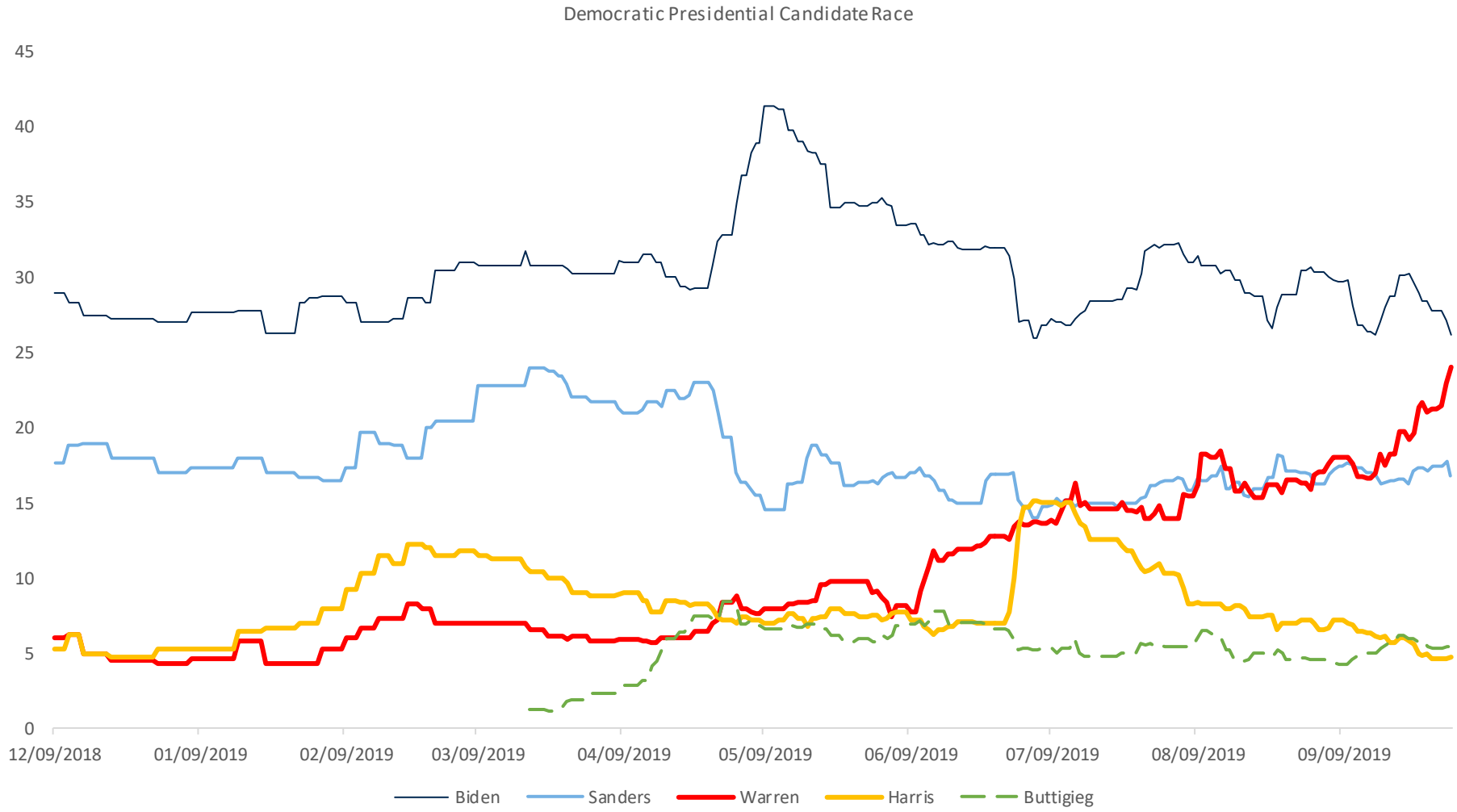
Expectations Regarding The Democratic Nominee For President

RBC Capital Markets

Warren Has Surpassed Sanders In The Polls, Is Close To Catching Biden

Key Takeaways

- Biden initially expanded his lead after officially launching his campaign. Since then, however, his numbers have faded. Sanders initially benefited from Biden's fade, but his numbers have stalled in recent months. Warren's polling numbers have steadily improved and she's now in second place – closing the gap with Biden rapidly and pulling well ahead of Sanders.
- As of October 2nd, 2019.

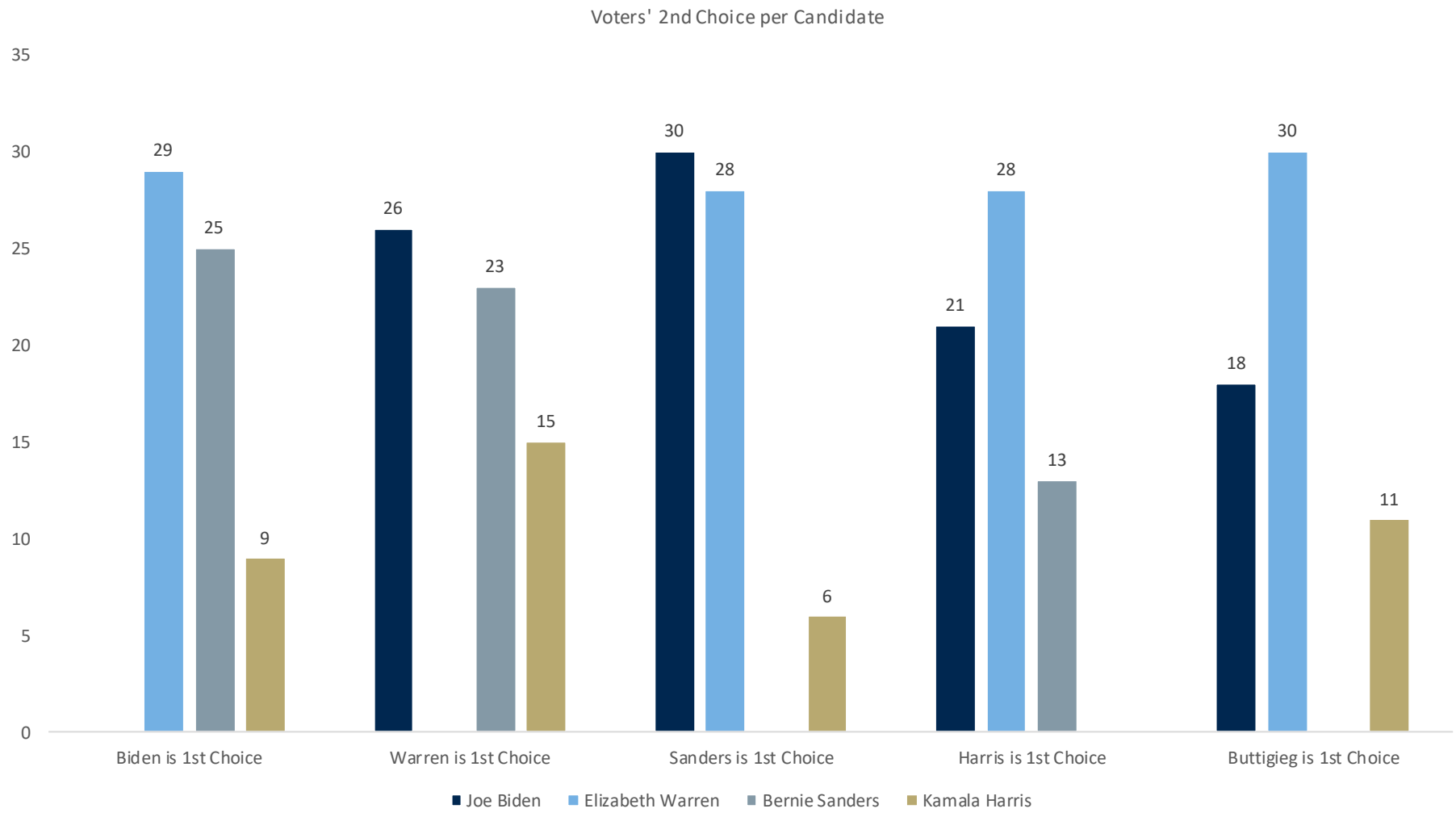


Source: RBC US Equity Strategy, Real Clear Politics. RCP Poll represents the average of the last four 2020 Democratic Presidential Polls

Warren Is The 2nd Choice For The Supporters of Most Top Tier Candidates

Key Takeaways

- Elizabeth Warren is the 2nd choice for voters whose 1st choice is Biden, Harris, and Buttigieg.
- Sanders voters are split on whether Biden or Warren is their 2nd choice, with a very slight edge to Biden. If Sanders drops out, both Biden and Warren may benefit.

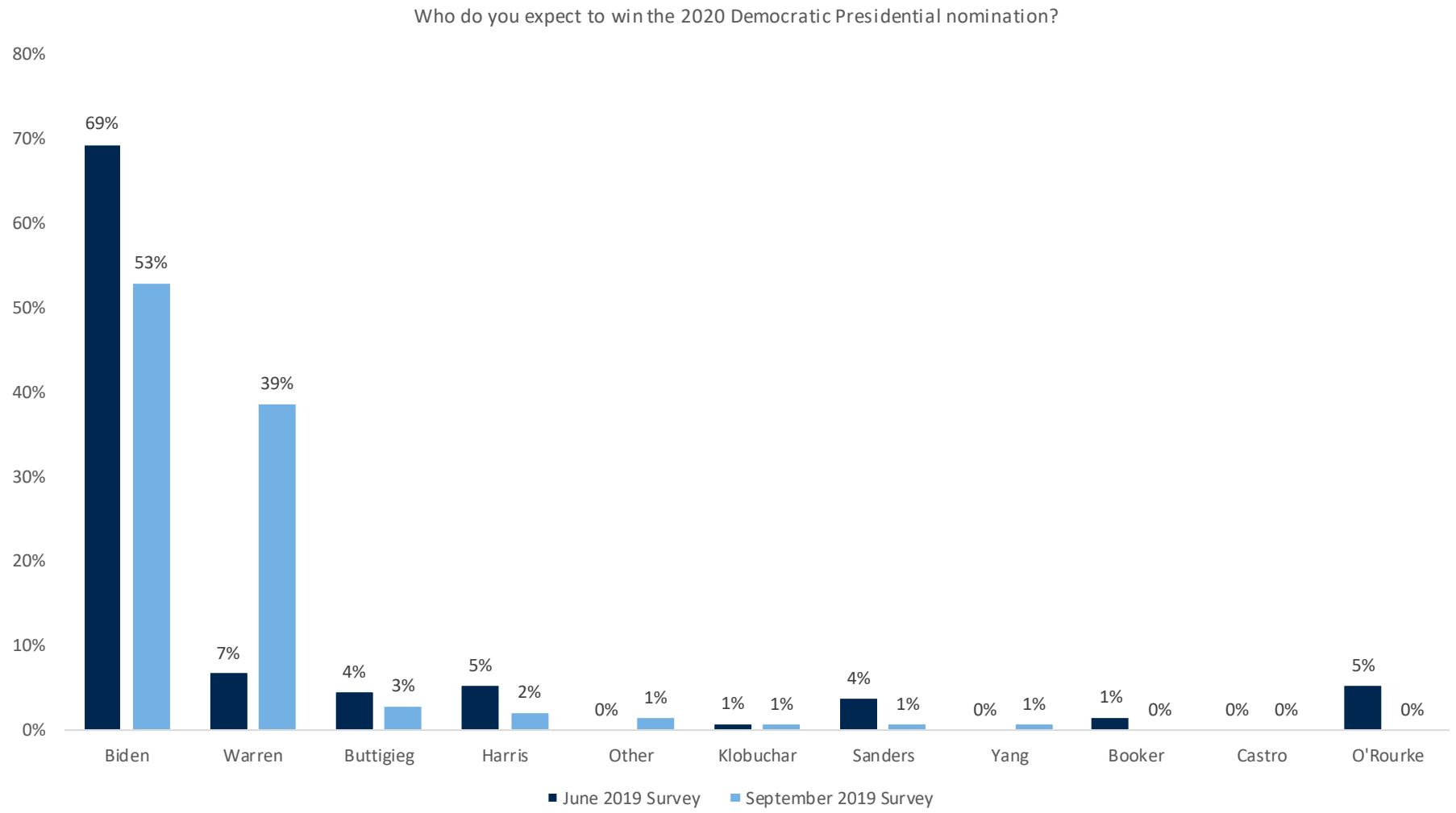


Source: RBC US Equity Strategy, Morning Consult as of 09/30/2019

Expectations That Biden Will Win the Democratic Nomination Have Faded Since June

Key Takeaways

- Prior to the first debate, Biden was widely expected by our June 2019 survey participants to win the Democratic nomination. Warren came in a distant second. In our September 2019 poll, those expecting Biden to win the nomination were still a majority (53%), but had fallen sharply. Meanwhile, while those expecting Warren to win rose substantially, accounting for 39% of respondents (up from 7% in our June poll).

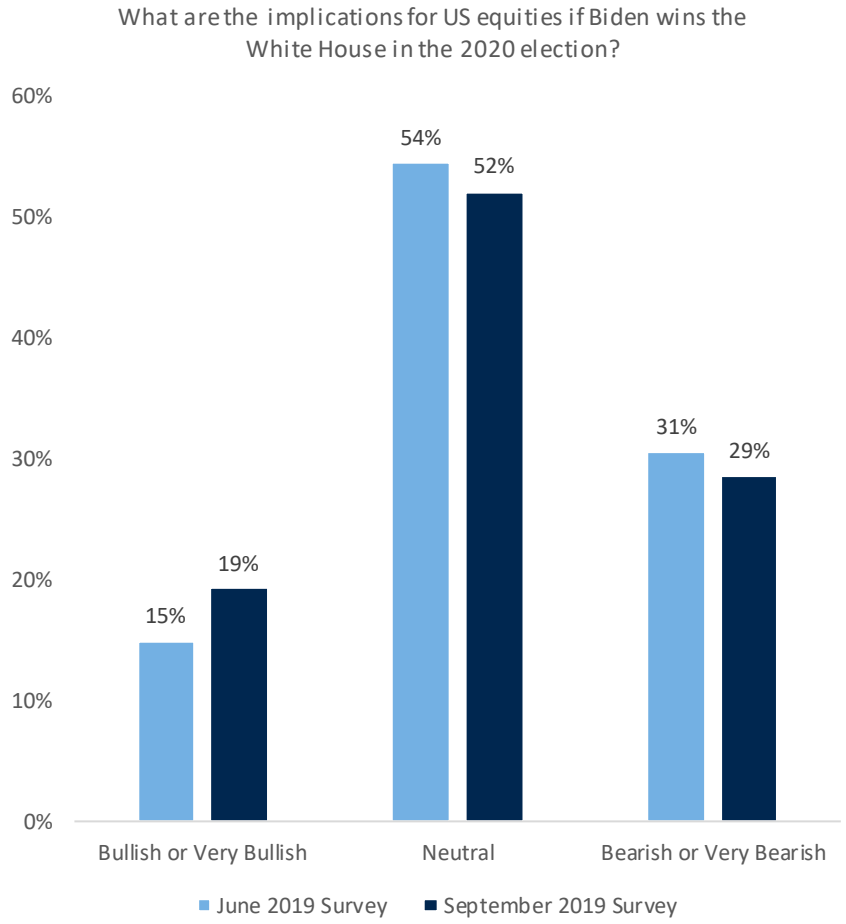


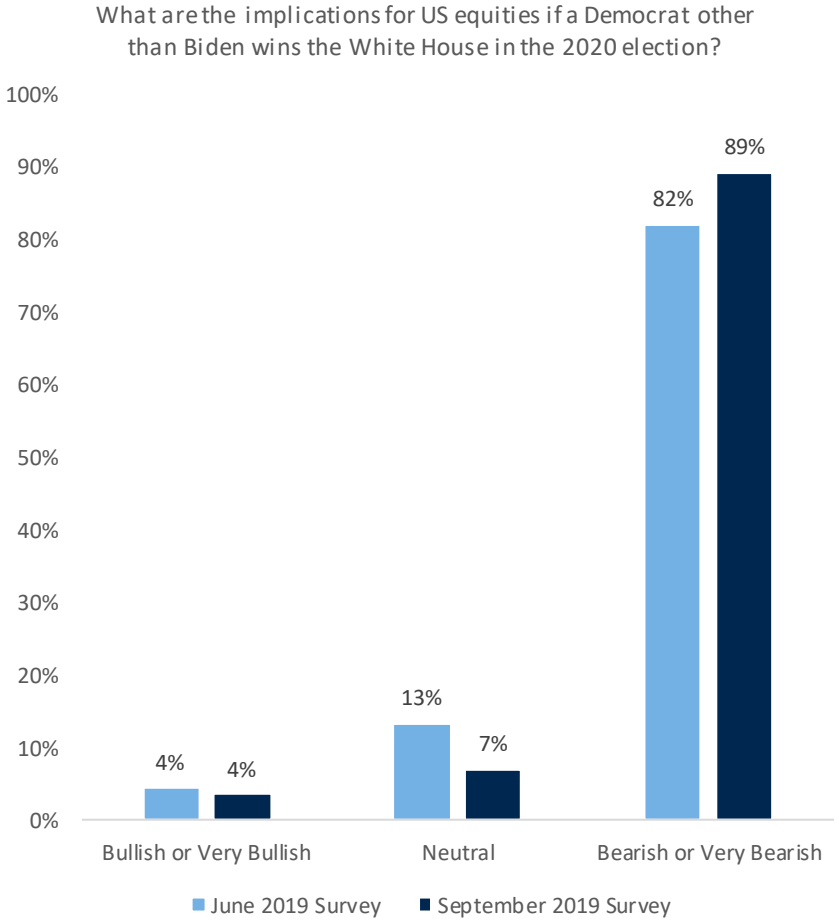
Source: RBC US Equity Strategy, Candidates listed are those who made the September Democratic debate plus an other category

Most Have Seen A Biden Victory As Neutral For Stocks, But A Victory By Another Dem As Negative

Key Takeaways

- 52% of our September 2019 respondents view a Biden victory in 2020 as a neutral event for US equities, similar to our June poll. Those in the bearish/very bearish camp still outweigh those in the bullish/very bullish camp.
- Our September survey suggests that investors' comfort level with a Democrat other than Biden continues to be much lower. 89% see victory by another Democrat as a negative event for stocks (a little bit more than our June poll).



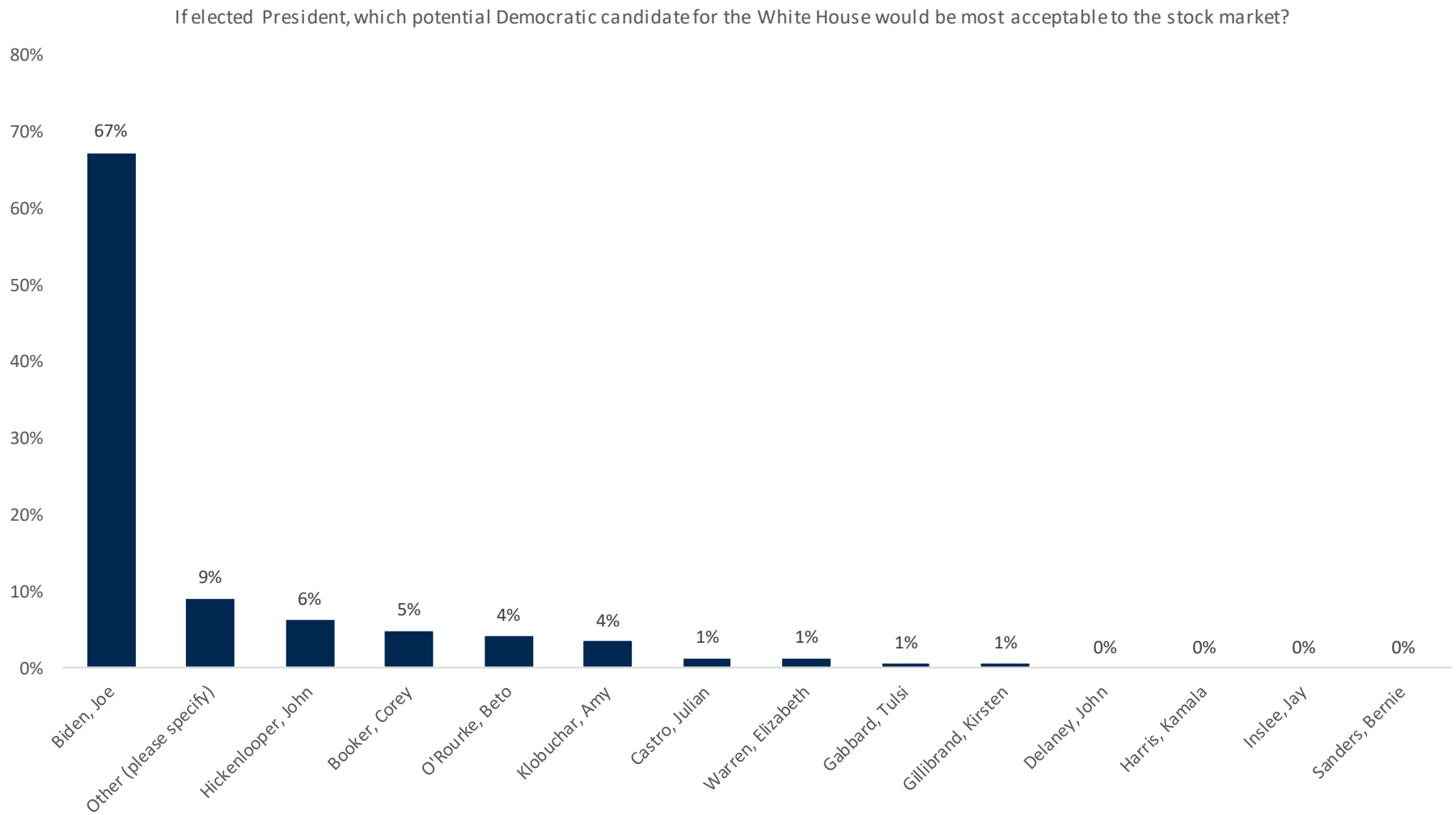


Source: RBC US Equity Strategy

Biden Has Been Perceived As The Most Stock Market Friendly Democrat

Key Takeaways

- 67% of our March 2019 investor survey respondents believed that Joe Biden was the most acceptable Democratic candidate by the stock market for the White House. No other candidate got a significant number of votes.

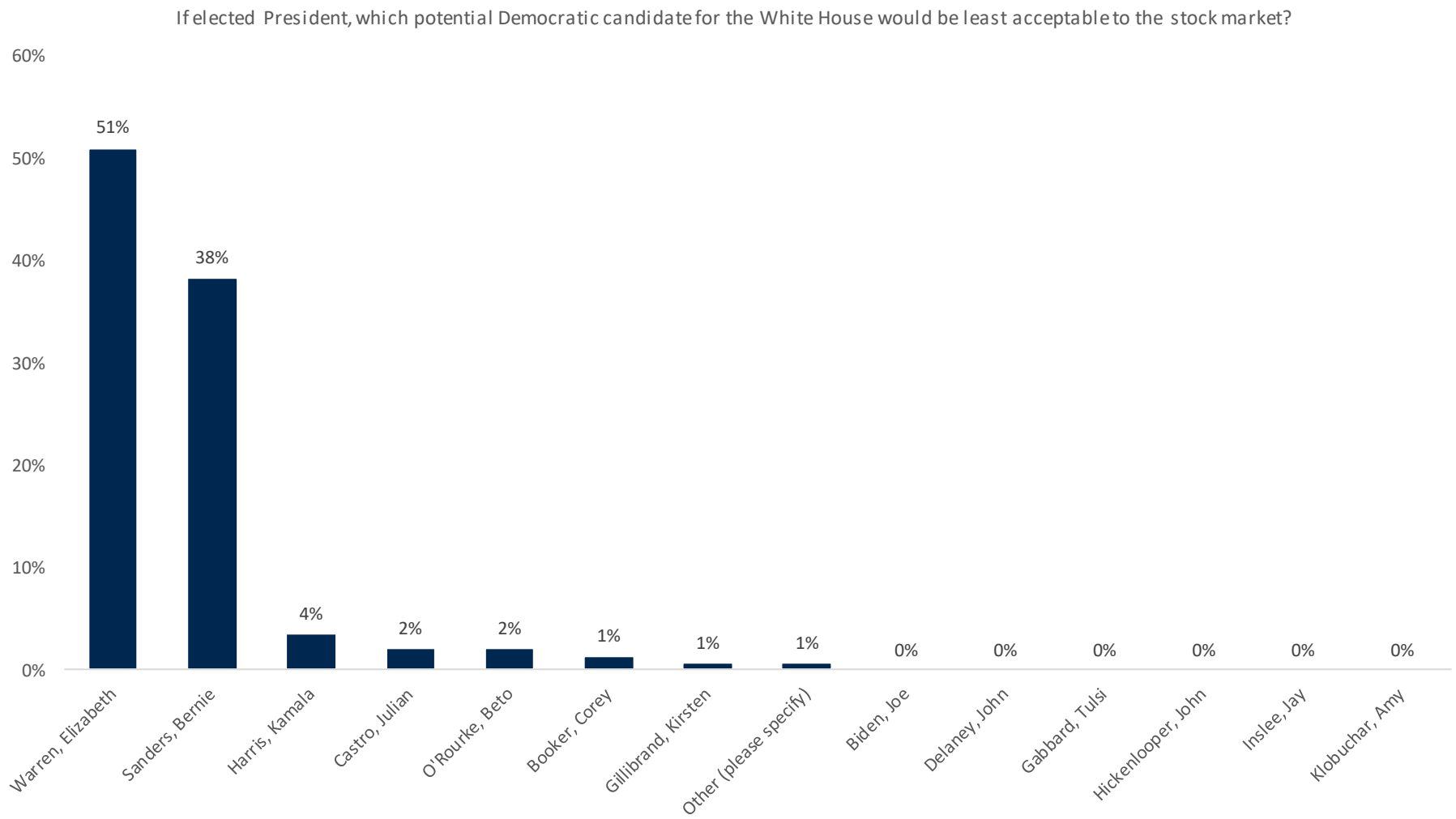


Source: RBC US Equity Strategy

Warren Has Been Perceived As The Least Stock Market Friendly Democrat

Key Takeaways

- Elizabeth Warren was seen as the least acceptable Democratic candidate for the stock market in our March 2019 investor survey (by half of our survey respondents), followed by Sanders (by well over a third). No other candidate got a significant number of votes.



Source: RBC US Equity Strategy

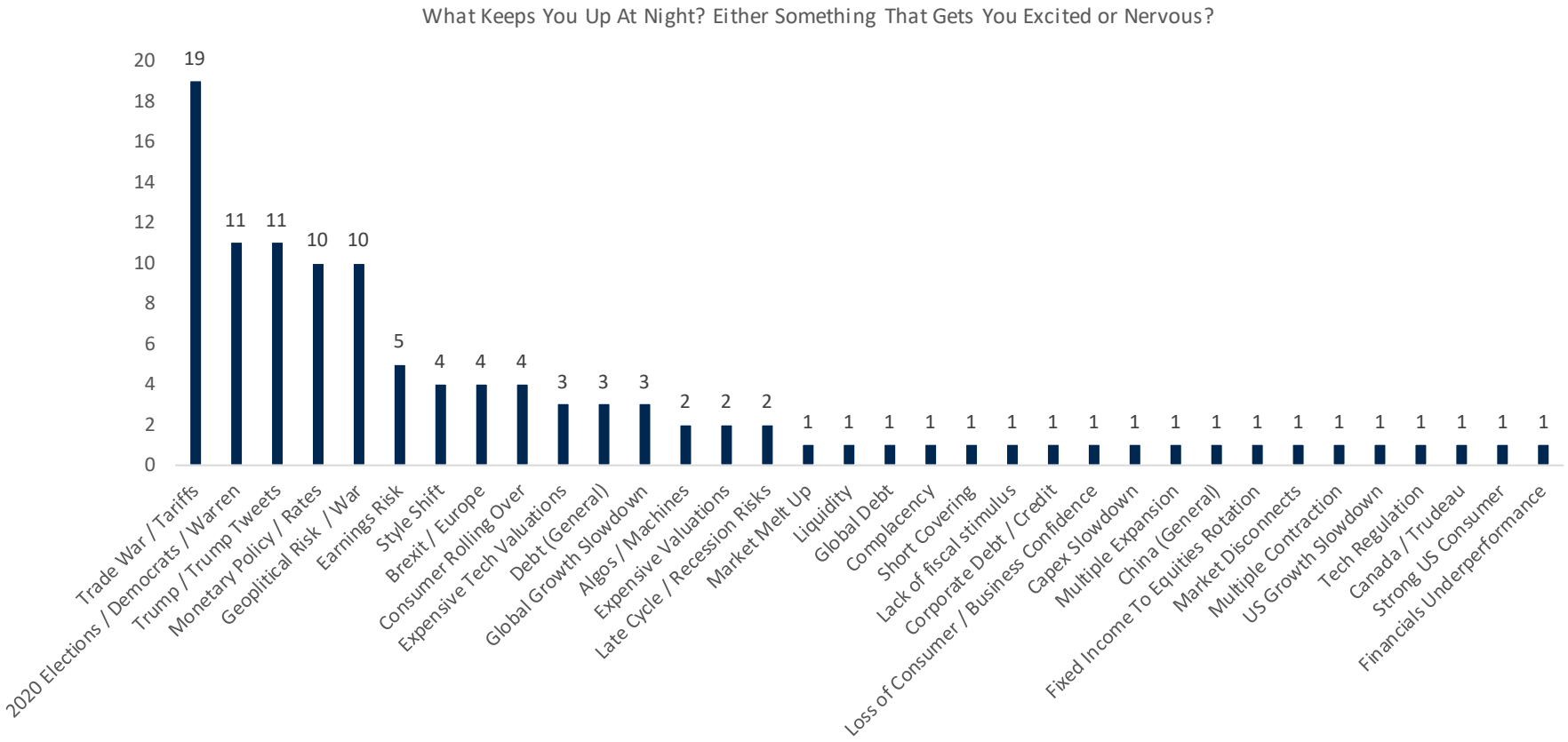
Expectations Regarding The 2020 Race For The White House

RBC Capital Markets

The 2020 Election Is Starting To Keep US Equity Investors Up At Night

Key Takeaways

- In our quarterly investor surveys we usually ask participants to list what is keeping them up at night, either something that is getting them nervous or excited about the stock market. We did this again in our Sept 2019 survey.
- The trade war, the 2020 election, Trump, monetary policy / interest rates, and geopolitical risk / war received the most mentions this quarter. Trump is always near the top of this list. The 2020 elections and geopolitics/war saw more mentions than prior survey. Many of the mentions on the 2020 election were related to the risk of Democrats (specifically Elizabeth Warren) winning the White House.

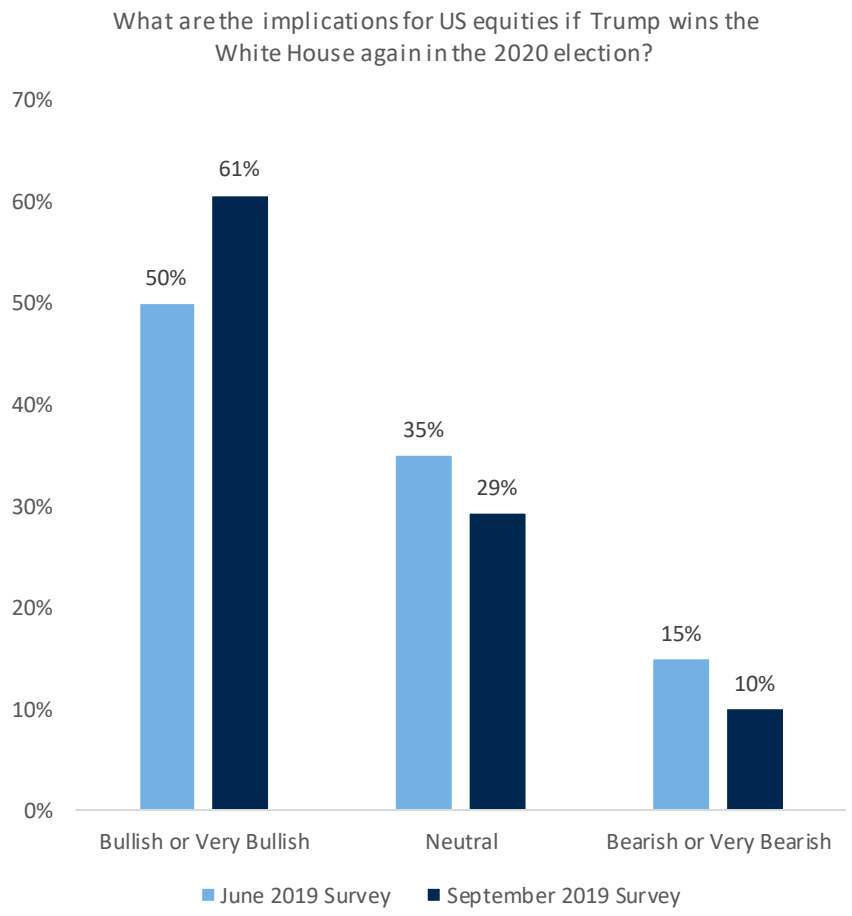


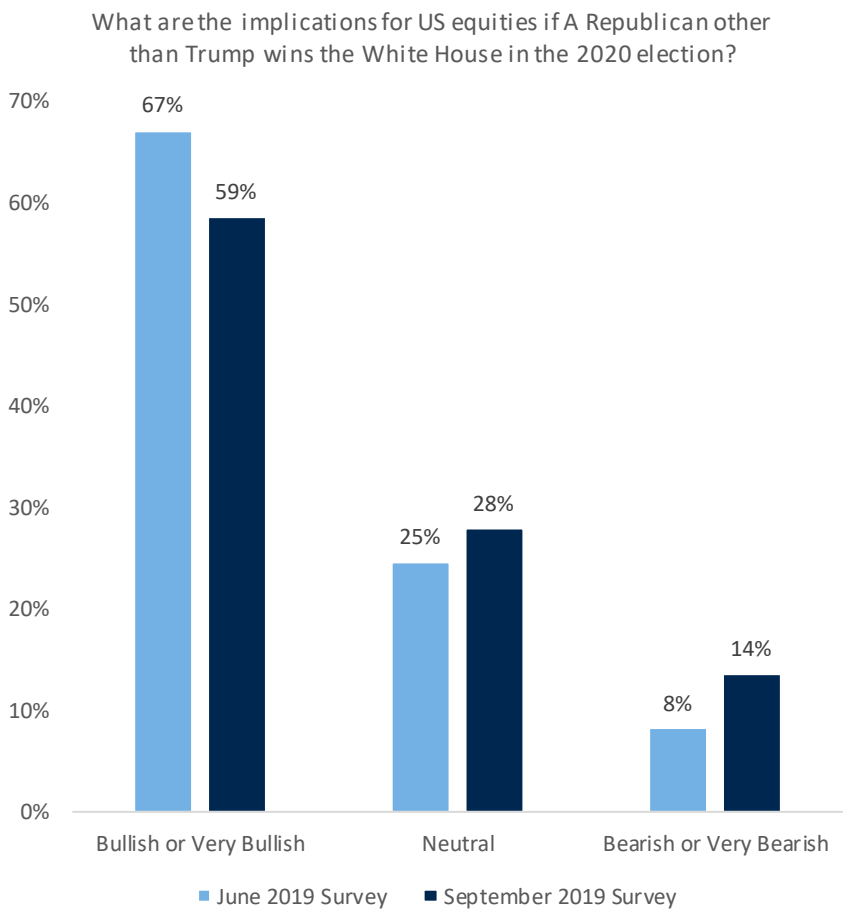
Source: RBC US Equity Strategy

Most Have Viewed A Trump Victory in 2020 as Good for Stocks

Key Takeaways

- 61% of our September 2019 survey respondents believe Trump winning the election would be bullish or very bullish for stocks. This was up a bit from our June survey. Very few view a Trump re-election as a negative market event.
- In our September poll a similar percentage (59%) believe that a Republican other than Trump winning in 2020 would be very bullish or bullish for US equities.



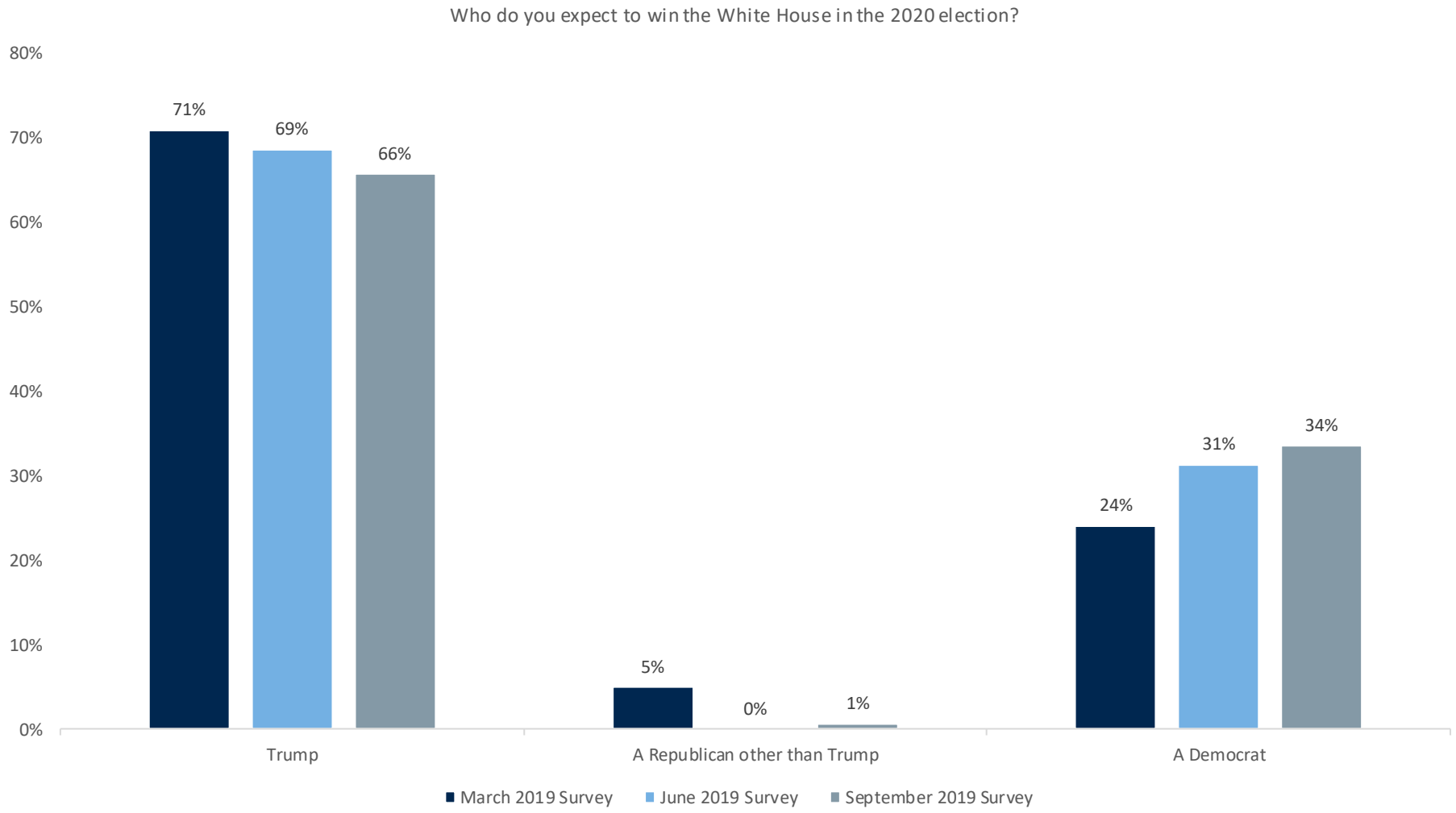


Source: RBC US Equity Strategy

Most Investors Have Expected Trump To Be Re-Elected – But Doubts May Be Creeping In

Key Takeaways

- In September, two thirds of our survey respondents said that they expect Trump to get re-elected in 2020. But this is the 2nd survey in a row where we've seen a modest decline in those who hold that view. Those who say a Democrat will win came in at 34% in our September poll, up from 31% in our June poll and 24% in our March 2019 survey.

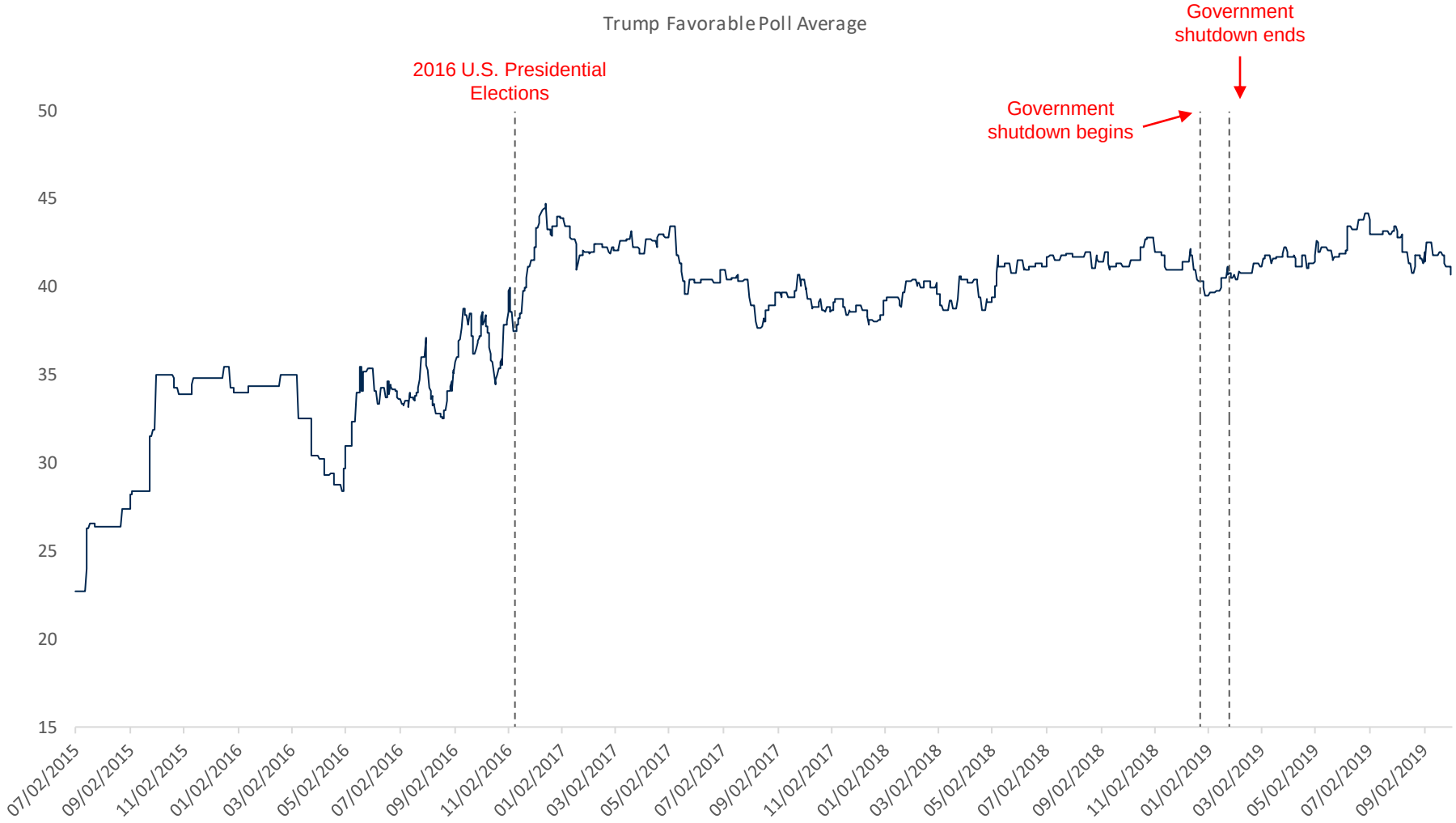


Source: RBC US Equity Strategy

Trump's Favorability Has Slipped, But Only Modestly

Key Takeaways

- Trump's favorability has been stuck in a rather narrow range throughout most of his Presidency.
- It trended lower in 3Q19, but only modestly so.
- Chart updated through October 2nd, 2019.



Source: RBC US Equity Strategy, Real Clear Politics, Bloomberg

The States We're Watching Closely

Key Takeaways

- 270 electoral votes are needed to win the Presidency. Trump won 306 in 2016 while Clinton won 232. Assuming they win all of the states that they won in 2016, the Democrats would need another 38 electoral votes to take the White House.
- In the 2016 election, there were 17 states where the margin for Trump was +/-10%. Trump won 10 of those, while Clinton took 7. We don't see any problems for Democrats in the 7 that they took in 2016. The party picked up seats in the House in most of these states in 2018, and Trump's approval is negative and has been deteriorating in all of them.
- But Trump does appear to have problems in the 10 closer states that he won in 2016. Five (representing 75 electoral votes) elected Democrats to the Senate in 2018. Additionally, Trump's net approval rating is negative in all but two of the ten. His net approval rating has also deteriorated in all of the ten we are watching. Democrats gained House seats in most in 2016.
- If the Democrats keep all of their 2016 states, and take Michigan, Wisconsin, and Pennsylvania, they would win in 2020.

States That Voted For Trump in 2016, Margin Less Than 10%

State	Electoral Votes	2016 Presidential Race (Party)	2016 Presidential Margin (Trump)	2018 Senate Race	2018 House Race: Net Gain/Loss For Dems vs. 2016	2018 House Race: Net # Seats For Dems vs. Reps	Trump Net Approval (August 2019)	Net Change In Trump Approval (vs. Jan 2017)
Michigan	16	Republican	0.3	Democrat	2	0	-13	-20
Wisconsin	10	Republican	1	Democrat	0	-2	-14	-20
Pennsylvania	20	Republican	1.2	Democrat	4	0	-9	-19
Florida	29	Republican	1.3	Republican	2	-1	0	-22
North Carolina	15	Republican	3.8	N/A	0	-6	-2	-19
Arizona	11	Republican	4.1	Democrat	1	1	-4	-23
Georgia	16	Republican	5.7	N/A	1	-4	-1	-19
Ohio	18	Republican	8.6	Democrat	0	-8	-5	-19
Texas	38	Republican	9.2	Republican	2	-10	4	-17
Iowa	6	Republican	9.6	N/A	2	2	-9	-18

States That Voted For Clinton in 2016, Margin Less Than 10%

State	Electoral Votes	2016 Presidential Race (Party)	2016 Presidential Margin (Trump)	2018 Senate Race	2018 House Race: Net Gain/Loss For Dems vs. 2016	2018 House Race: Net # Seats For Dems vs. Reps	Trump Net Approval (August 2019)	Net Change In Trump Approval (vs. Jan 2017)
New Hampshire	4	Democrat	-0.4	N/A	0	2	-20	-21
Minnesota	10	Democrat	-1.5	Democrat	0	2	-14	-17
Nevada	6	Democrat	-2.4	Democrat	0	2	-14	-24
Maine	4	Democrat	-2.7	Independent	1	2	-13	-21
Colorado	9	Democrat	-2.8	N/A	1	1	-18	-19
Virginia	13	Democrat	-4.9	Democrat	3	3	-7	-15
New Mexico	5	Democrat	-8.3	Democrat	1	3	-17	-34

Source: RBC US Equity Strategy, Politico, CNN, Britannica; note that in 2016, 1 of Maine's electoral votes went to Trump while the other three went to Clinton

Biden Has Been Polling Better Against Trump Than Sanders or Warren In Critical Red States

Key Takeaways

- For the states that went to Trump in 2016 by a margin of 10% or less (and where there is polling data available), Biden has mostly been beating Trump in head to head polling in recent months.
- The head to head polling data for Sanders and Warren has been more mixed.
- For states that have multiple polls, there's been some inconsistency, reinforcing our view that it's too early to make a call on what will happen next November.

Head To Head Match Ups For Key States in August, September & October - States That Voted For Trump in 2016

	Trump vs. Biden	Trump vs. Sanders	Trump vs. Warren	Pollster	Date
Michigan	-1	3	1	Firehouse Strategies/Optimus	09-Sep
Michigan	-10	-4	-6	Epic-MRA	28-Aug
Wisconsin	-2	-6	-1	Firehouse Strategies/Optimus	09-Sep
Wisconsin	-9	-4	0	Marquette Law School	29-Aug
Pennsylvania	-4	-2	-2	Firehouse Strategies/Optimus	09-Sep
Florida	1	1	-2	Florida Atlantic University	15-Sep
North Carolina	-8	-4	-1	Civitas/SurveyUSA	09-Aug
North Carolina	1	1	3	Harper Polling	04-Aug
Arizona	1	8	0	Bendixen & Amandi International	12-Sep
Arizona	-2	10	1	OH Predictive Insights	14-Aug
Ohio	-5	-6	-3	Emerson	02-Oct
Texas	-2	2	3	University of Texas at Tyler	15-Sep
Texas	-4	-6	-2	Univision/University of Houston	06-Sep
Texas	0	4	6	Climate Nexus	25-Aug
Texas	-4	-5	1	University of Texas at Tyler	04-Aug
Texas	-2	-1	5	Emerson College	03-Aug

Source: RBC US Equity Strategy, RealClearPolitics.com, FiveThirtyEight.com, Only states shown for which head to head polls are available so far

Biden & Sanders Have Been Polling Better Against Trump Warren In Critical Blue States

Key Takeaways

- For the states that went to Clinton in 2016 by a margin of 10% or less (and where there is polling data available), Biden and Sanders have mostly been beating Trump in head to head polling in recent months.
- The head to head polling data for Warren has been more mixed.

Head To Head Match Ups For Key States in August, September & October - States That Voted For Clinton in 2016

	Trump vs. Biden	Trump vs. Sanders	Trump vs. Warren	Pollster	Date
New Hampshire	-9	-5	2	Emerson College	09-Sep
New Hampshire	-13	-10	-5	Gravis Marketing	06-Aug
Nevada	-6	-3	1	Gravis Marketing	16-Aug
Colorado	-10	-10	-7	Emerson	19-Aug
Virginia	-17	-13	-13	Research America Inc	15-Sep

Source: RBC US Equity Strategy, RealClearPolitics.com, FiveThirtyEight.com, Only states shown for which head to head polls are available so far

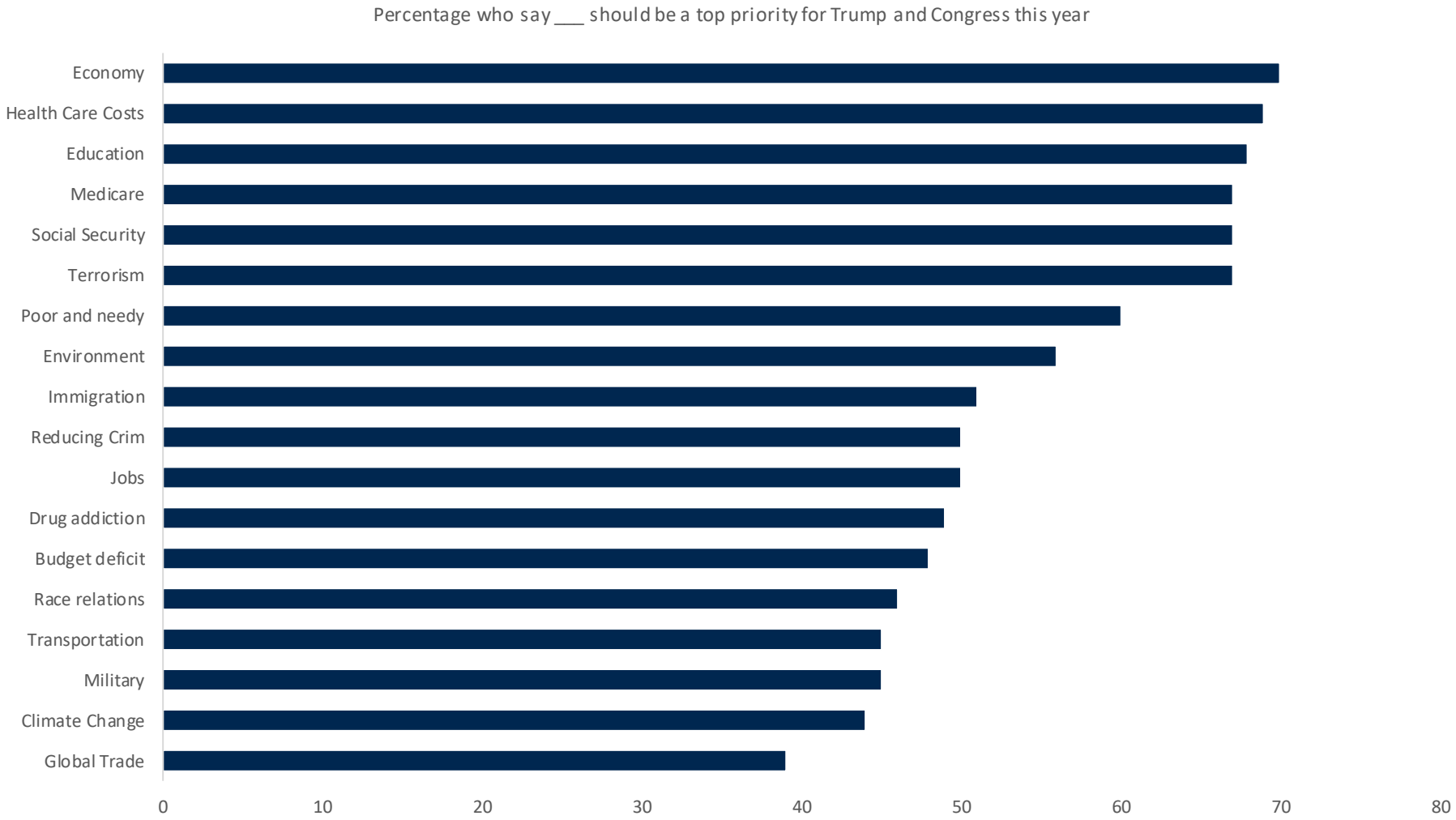
The Role of the Economy & The Consumer

RBC Capital Markets

Priorities For The Electorate As 2019 Began

Key Takeaways

- A survey conducted in early January of 2019 by the *Pew Research Center* showed that Americans viewed the Economy as Trump and Congress' top priority, closely followed by Health Care Costs and Education.
- Global Trade and Environment/Climate Change were lower on the list.

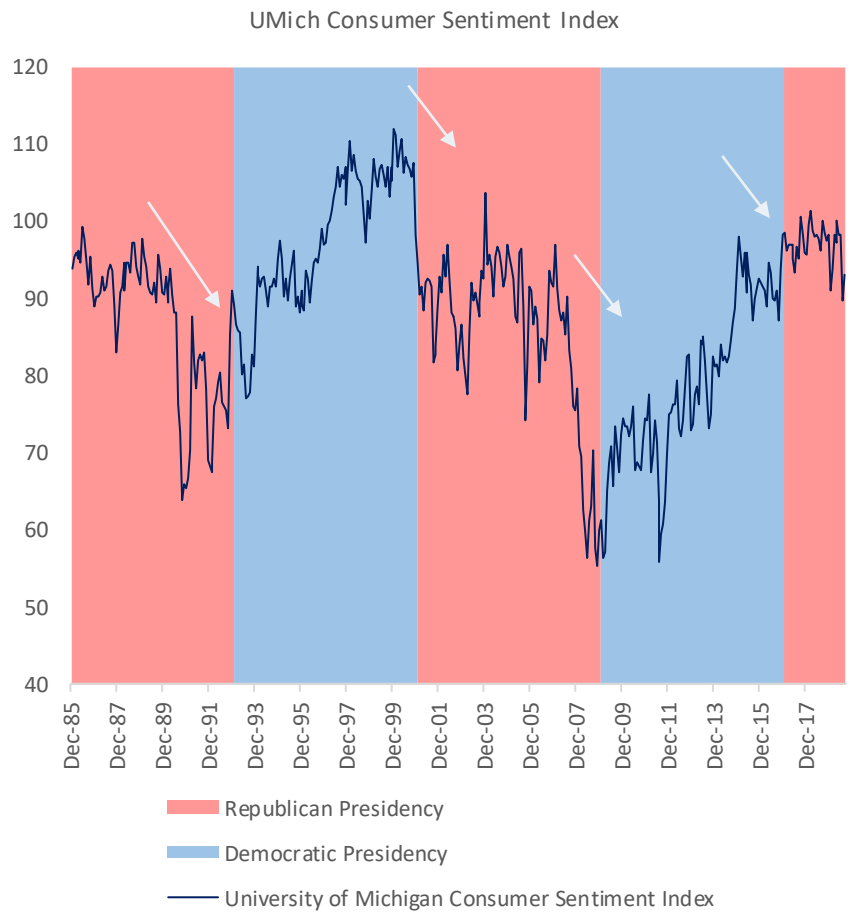


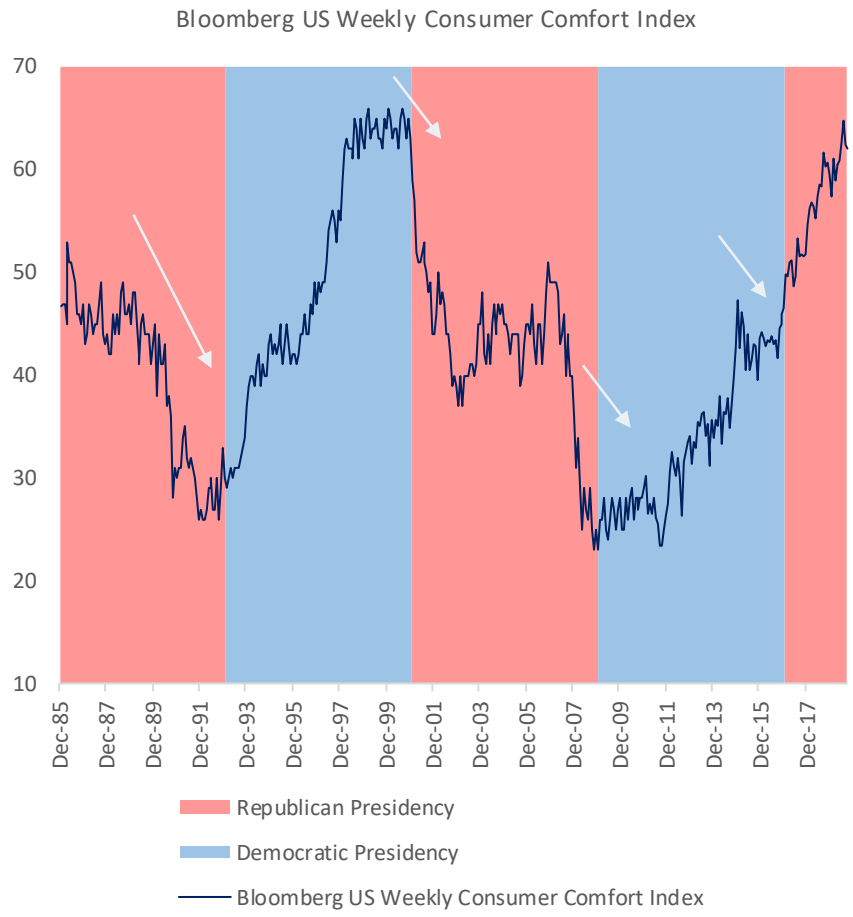
Source: RBC US Equity Strategy, Pew Research

Dips In Consumer Confidence Usually Seen When The White House Flips

Key Takeaways

- Over the past few decades, consumer confidence has declined either just before, or just after, the party controlling the White House changes.
- Consumer confidence is currently elevated on both the University of Michigan and Bloomberg time series. On the former, it's started to slip, similar to what we saw before the last two party changes in the White House. On the latter, it is back to the peaks seen in 2000, the height of the Tech bubble that preceded the election of George W. Bush's victory in the 2000 Presidential race, which ended 8 years of Democratic leadership.



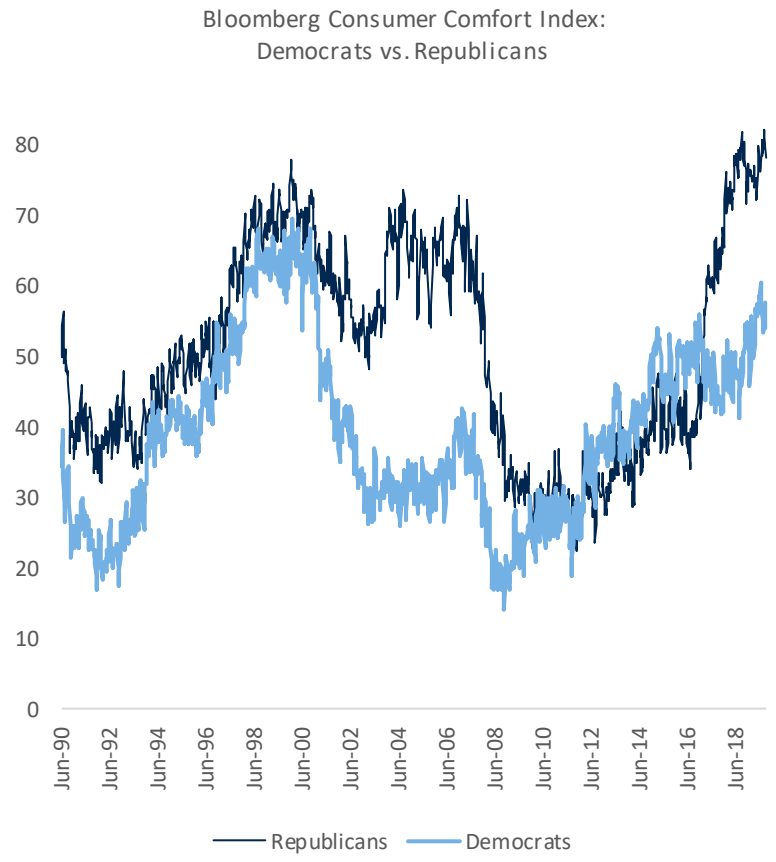


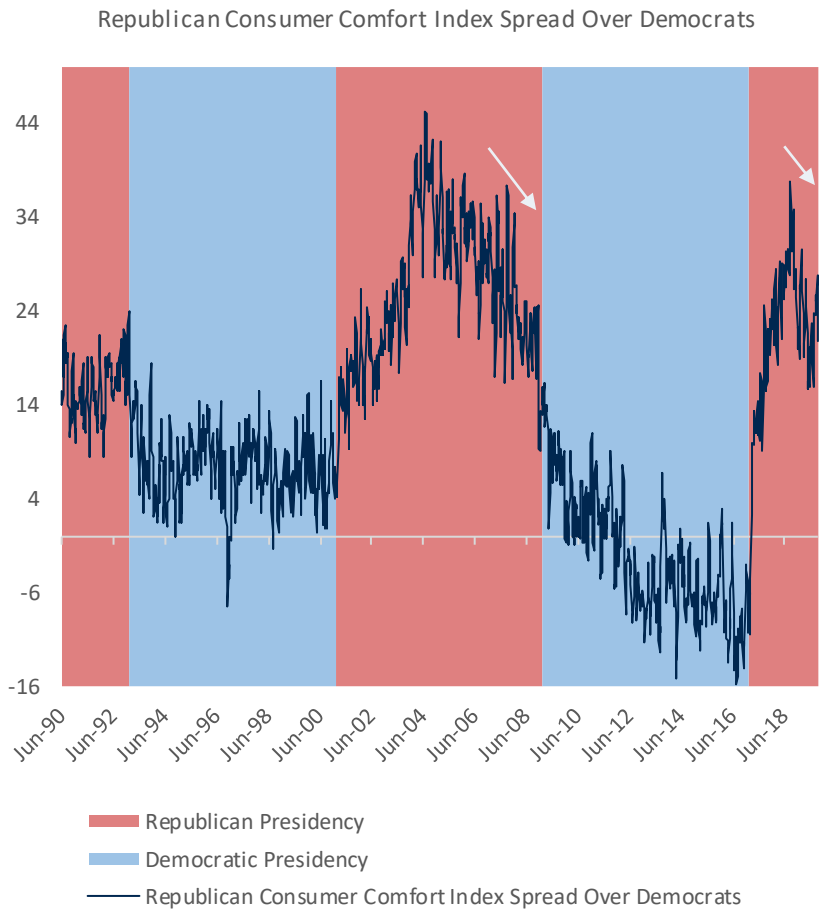
Source: RBC US Equity Strategy, Bloomberg

Republican Sentiment Is Stalling, While Democratic Sentiment Is Starting To Improve

Key Takeaways

- Since the 2016 election, sentiment among Democrats and Republicans has diverged. We are keeping a close eye on Republican sentiment, which has stalled at all time highs. Meanwhile, sentiment among Democrats has improved.
- Ahead of the 2008 election, when Democrats took the White House from Republicans, sentiment among Republicans was fading relative to Democrats, similar to what we are seeing today.



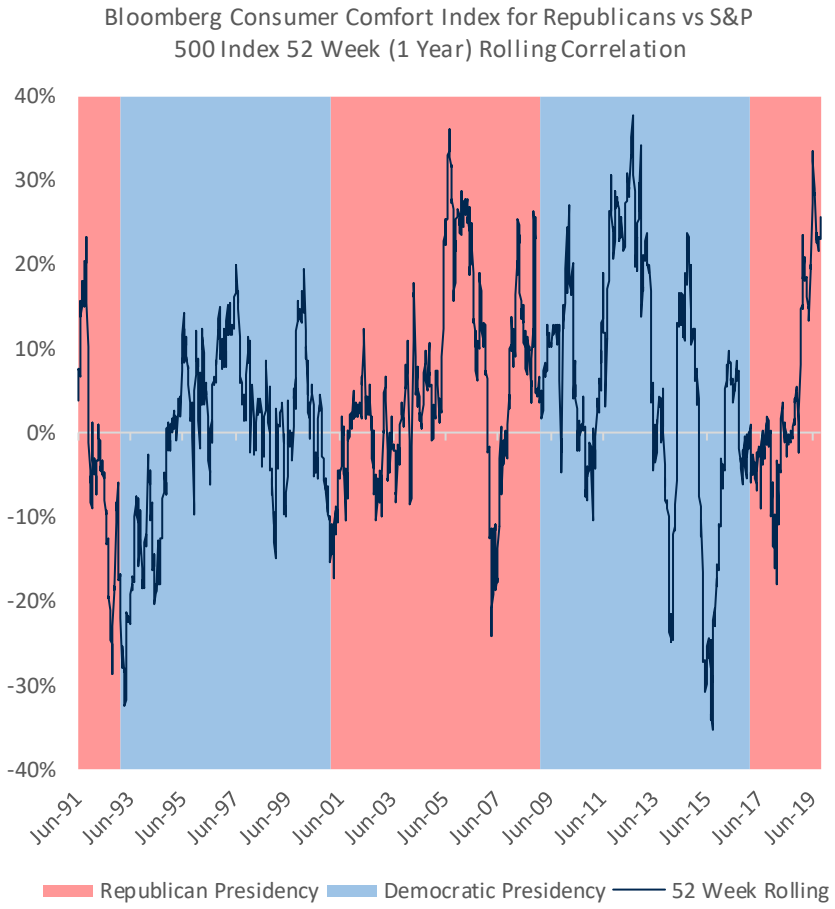


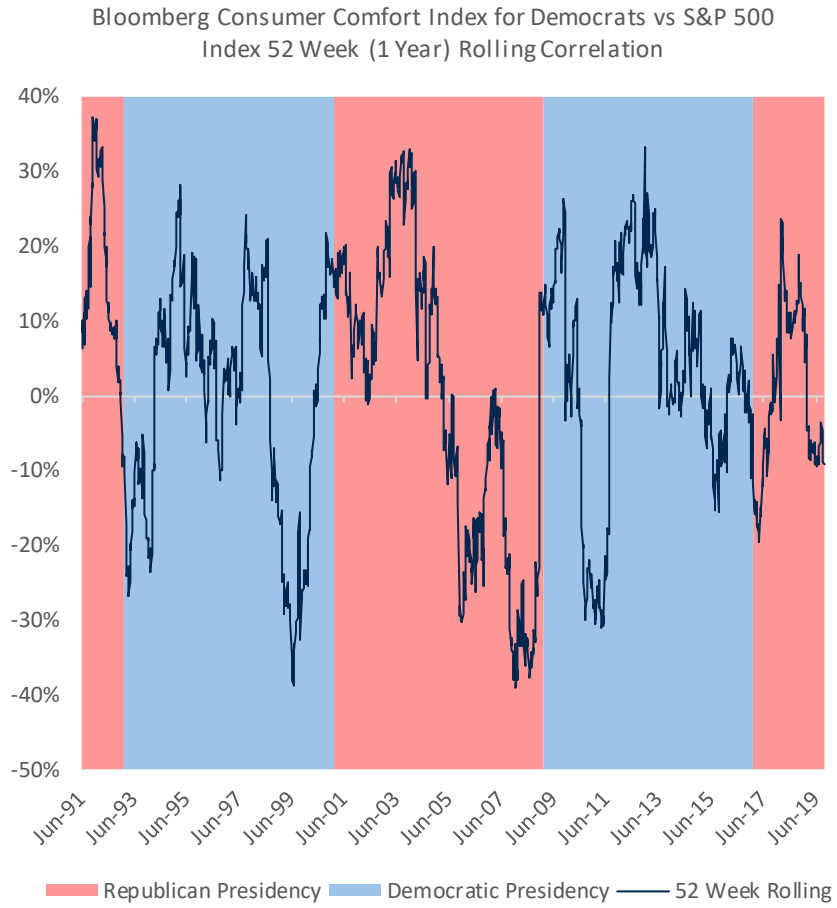
Source: RBC US Equity Strategy, Bloomberg

Republican Sentiment Closely Correlated With The Stock Market During Trump's Presidency

Key Takeaways

- The stock market and Republican sentiment have been closely correlated during the Trump Presidency. We think it is reasonable to expect a decline in Republican sentiment (which seems likely if Republicans lose the White House) to be accompanied by a decline in turbulence in the stock market near term.
- The stock market and Democratic sentiment haven't been aligned in recent years, but a positive correlation was generally seen throughout the Clinton and Obama administrations, suggesting to us that any turbulence in the market associated with a transition in leadership would be temporary.



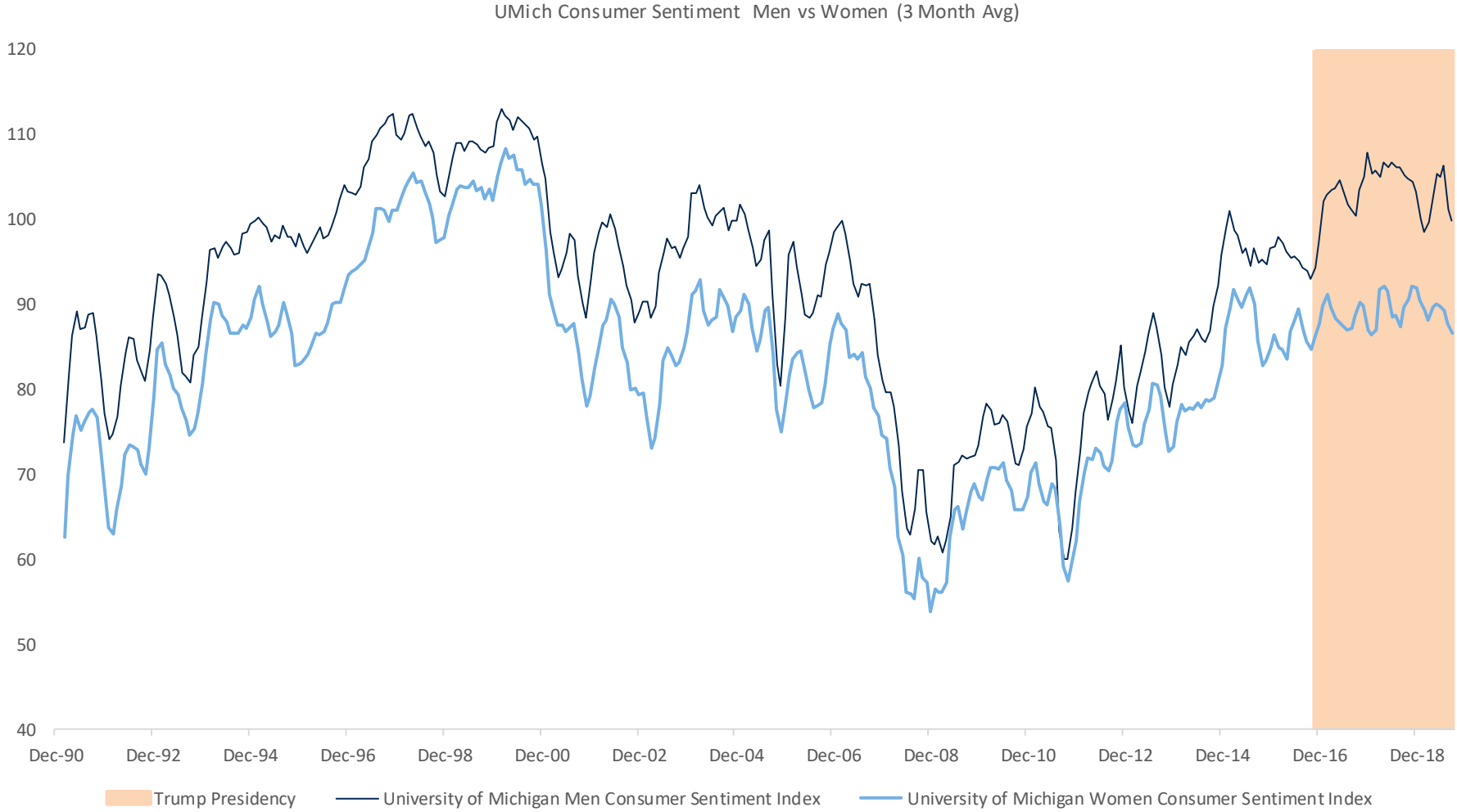


Source: RBC US Equity Strategy, Bloomberg

Diverging Trends In Consumer Sentiment Seen by Gender

Key Takeaways

- Consumer sentiment for men has been extremely high, near levels last seen heading into the Tech bubble. It's moved meaningfully higher since Trump was elected. By contrast, sentiment among women is back to pre-Financial crisis highs but hasn't risen back to Tech bubble highs. It hasn't moved much during the Trump Presidency. The spread between men and women is the highest seen over the past few decades.
- In the 2018 midterms (House races), data from the *Pew Research Center* indicates that 59% of women voted for Democrats, compared to 47% of men.



Source: RBC US Equity Strategy, Bloomberg, University of Michigan

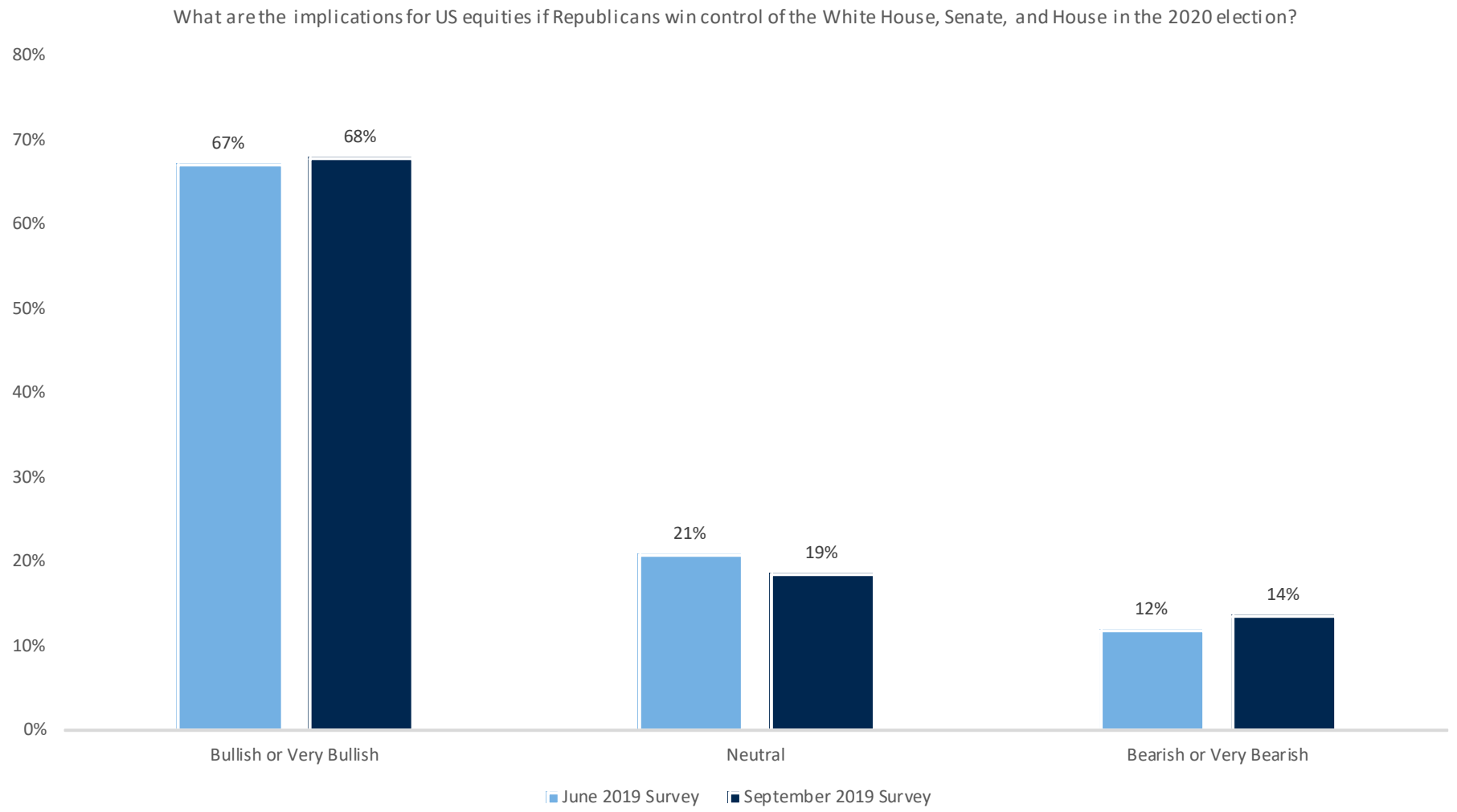
Expectations Regarding The Congressional Elections

RBC Capital Markets

Most Have Viewed a Republican Sweep in 2020 As Good for the Stock Market

Key Takeaways

- In total, 68% of our September 2019 survey respondents view a Republican sweep (winning control of the White House, Senate, and House in 2020) as bullish or very bullish for stocks. This is similar to our June survey.
- Few see it as a bearish or very bearish development.

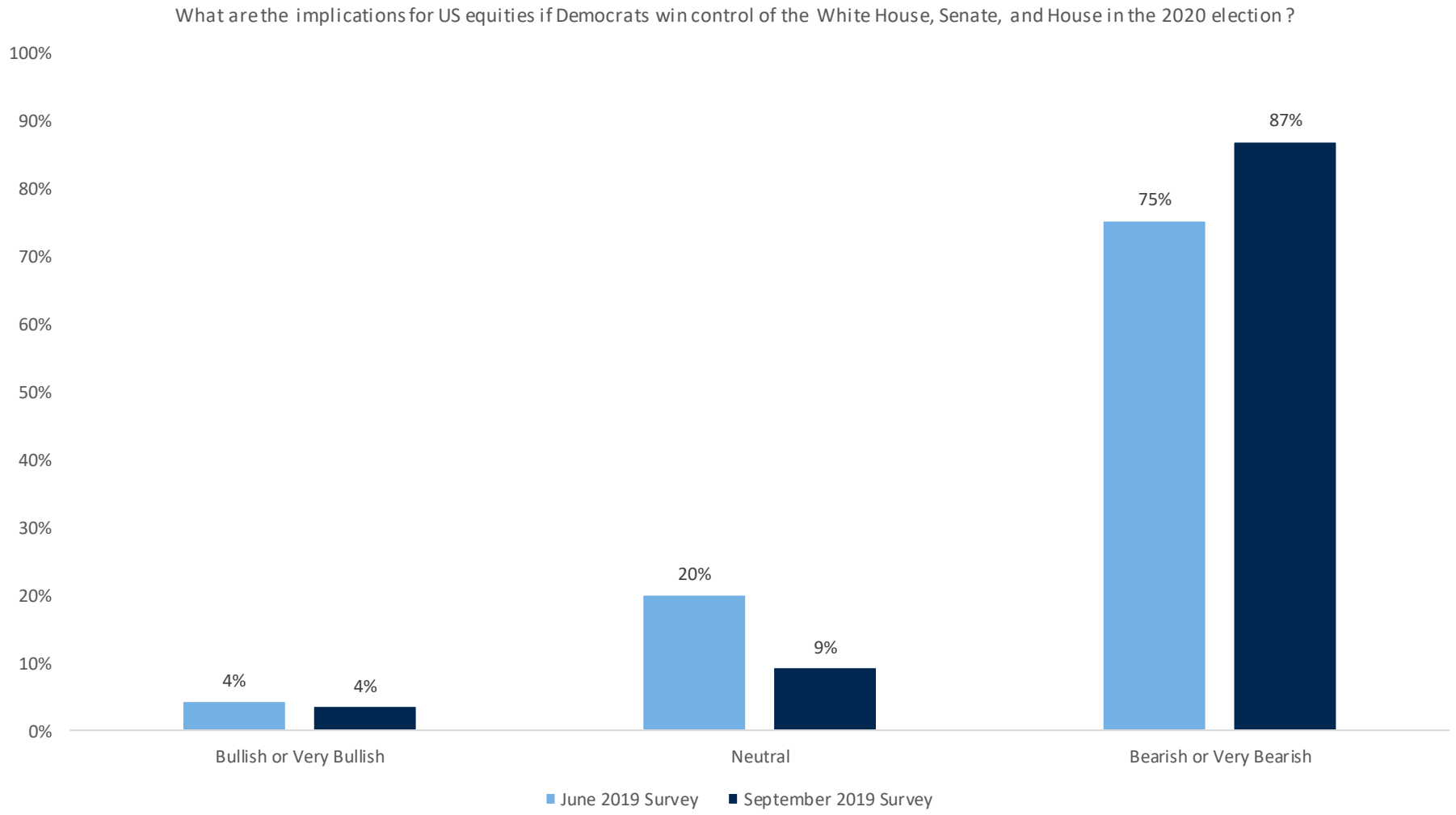


Source: RBC US Equity Strategy

An Expanding Majority Have Seen a Democratic Sweep in 2020 As Bad for the Stock Market

Key Takeaways

- In total, 87% of our September 2019 survey respondents view a Democratic sweep (winning control of the White House, Senate, and House in 2020) as bearish or very bearish for stocks. This is up significantly relative to our June 2019 survey.
- Few see it as a bullish or very bullish development. Those who view it as a neutral event for stocks have slipped.

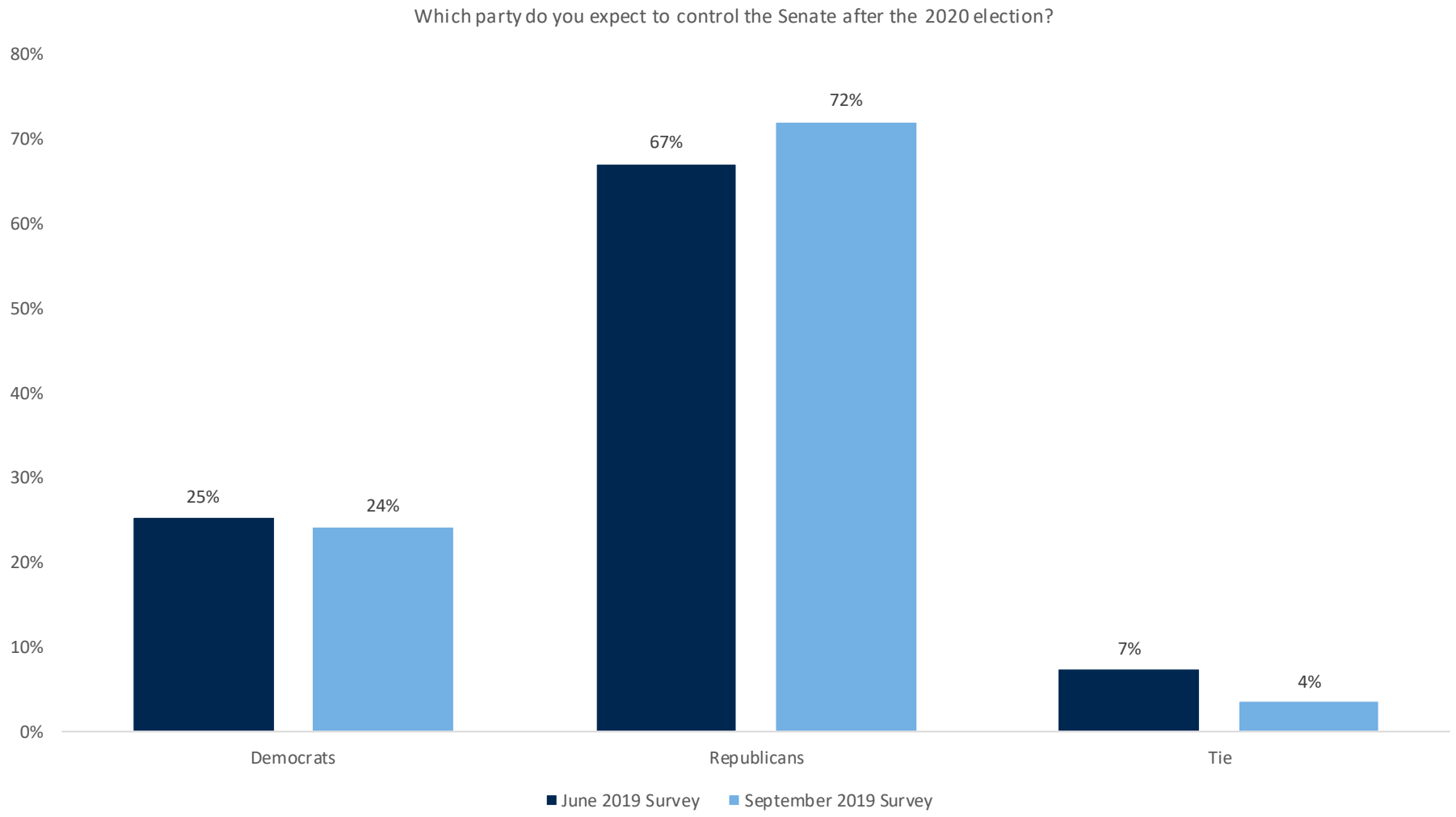


Source: RBC US Equity Strategy

Most Have Expected the Senate to Remain Under Republican Control

Key Takeaways

- Almost three-quarters of the investors who participated in our September 2019 survey expect Republicans to control the Senate after the 2020 election – a little more than our June 2019 survey.

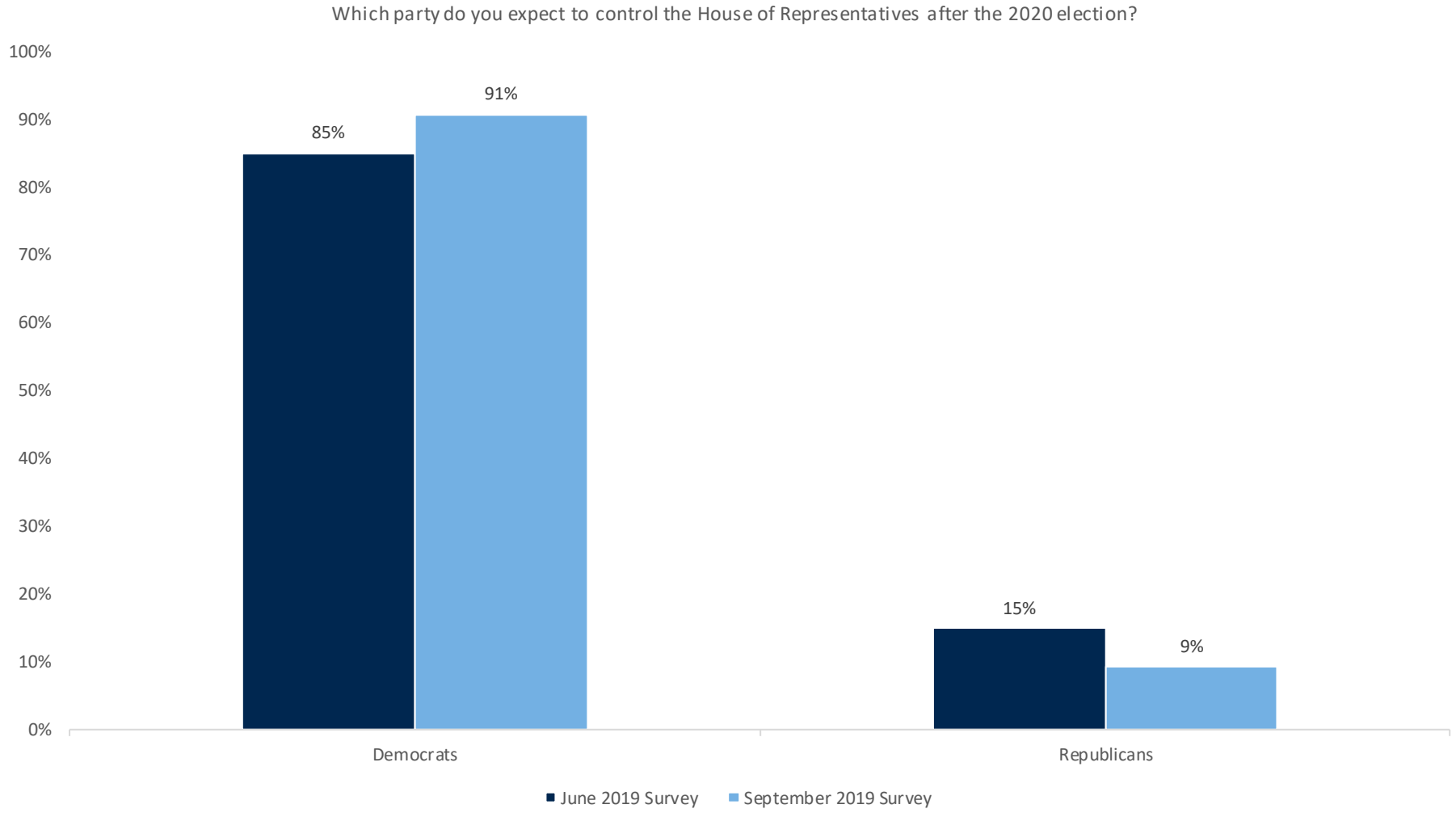


Source: RBC US Equity Strategy

Most Have Expected the House of Representatives to Remain Under Democratic Control

Key Takeaways

- The vast majority of our September 2019 survey respondents believe that Democrats will be in control of the House of Representatives after the 2020 election – similar to our June 2019 survey.

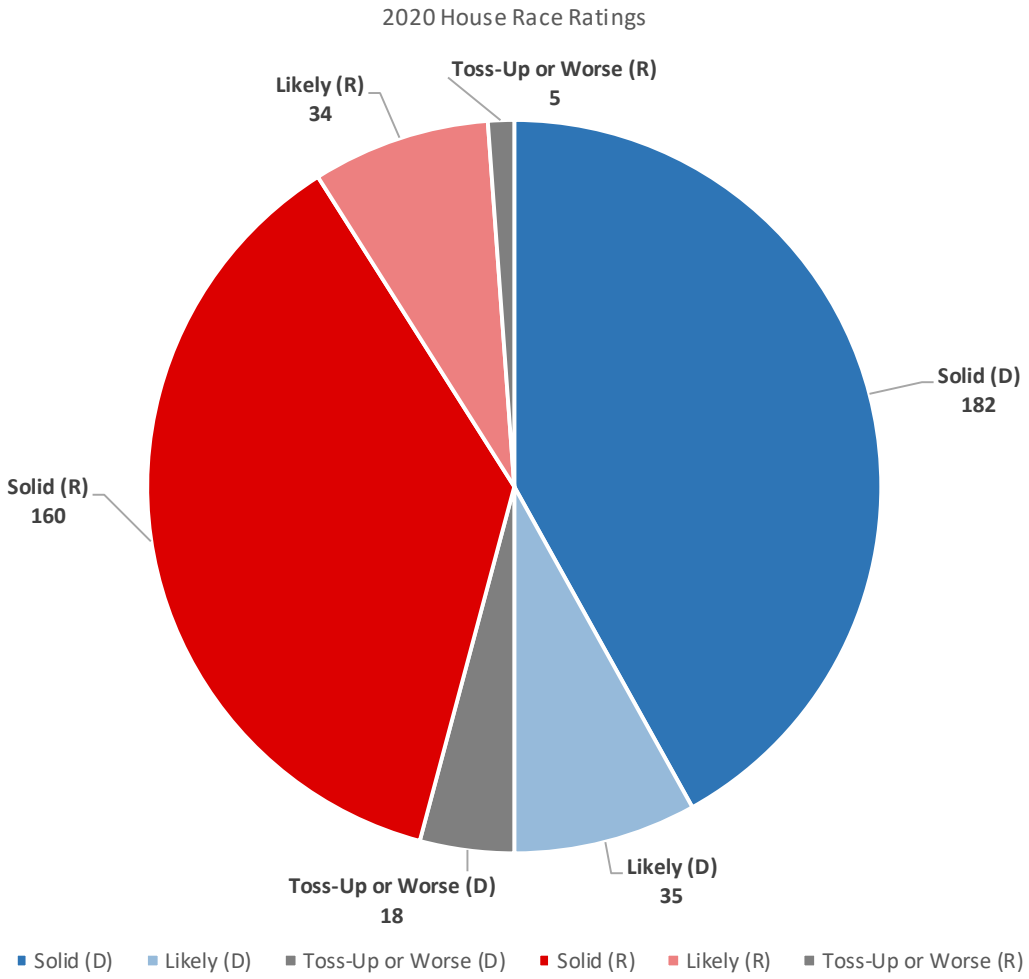


Source: RBC US Equity Strategy

Democrats Appear To Have An Edge In The House

Key Takeaways

- There are 435 voting members of the House of Representatives. 218 are needed for a simple majority, or 290 for a 2/3's majority.
- In the current Congress, the Democrats have 235 House seats while the Republicans have 199.
- As of September 30th, the *Cook Political Report* rated 217 seats as solid or likely for the Democrats.

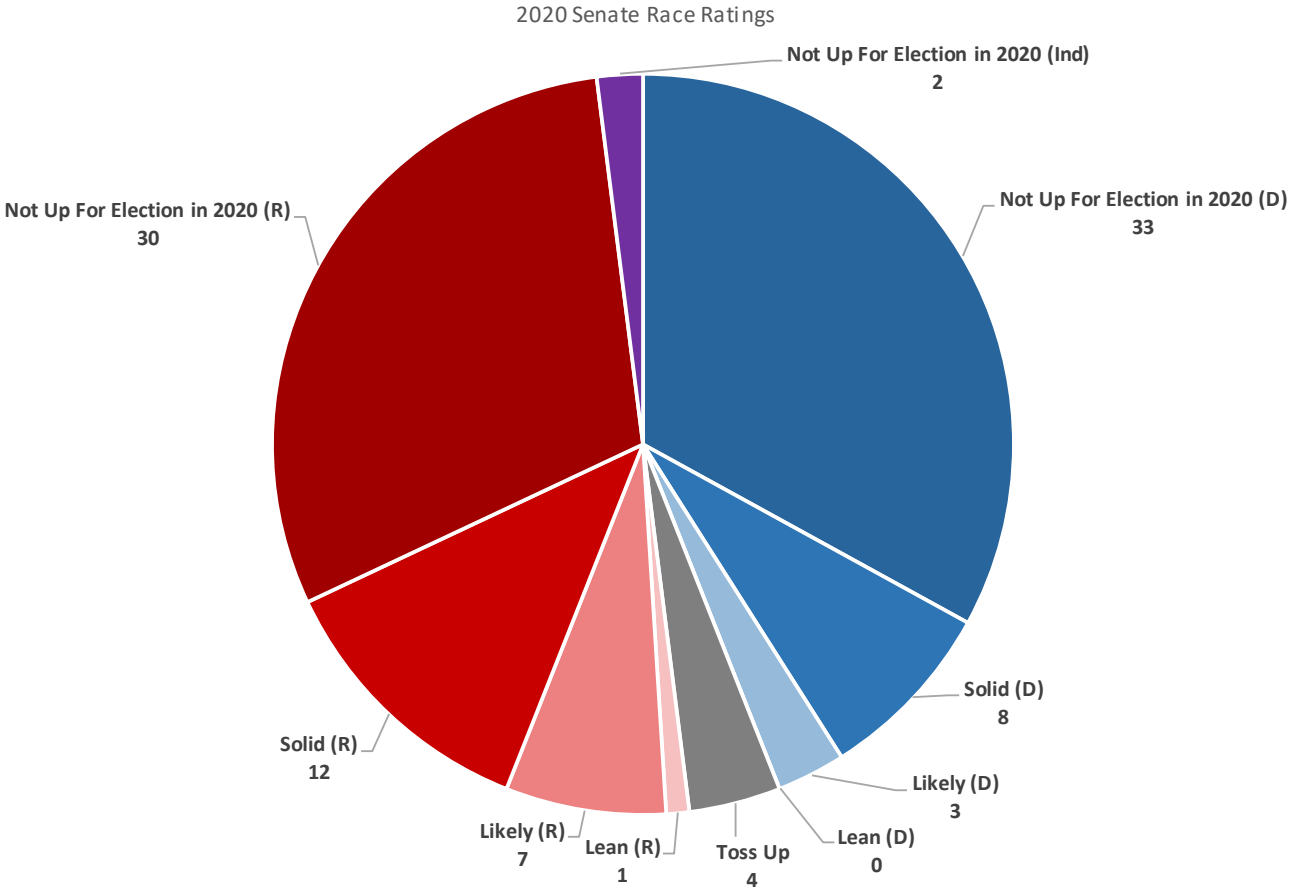


Source: RBC US Equity Strategy, The Cook Political Report

Republicans Appear To Have An Advantage In The Senate

Key Takeaways

- In the current Congress, there are 53 Republicans, 45 Democrats and 2 Independents that caucus with the Democrats.
- It's a tough Senate map for Democrats in 2020 – 35 Senate seats will be up for election in 2020, 12 currently occupied by Democrats and 23 currently occupied by Republicans. As of September 20th, *Cook Political Report* rates 11 of those as solid, or likely for Democrats, 4 as toss-ups (AL, AZ, CO, and ME), and 20 as solid, likely or leaning for Republicans.
- If *Cook's* predictions pan out, the Republicans would exit the 2020 election with 50 seats – possibly more depending on how the toss-ups go.
- If the Senate is split 50-50, the Vice President casts the deciding vote.



Source: RBC US Equity Strategy, The Cook Political Report, United States Senate

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