



# **THE ELECTION: SCENARIOS & SECTOR OUTLOOK**

## ***THE MONTHLY RESEARCH CONFERENCE CALL***

**MODERATOR:**

**John Eade**

**President of Argus**

***Wednesday, October 7, 2020***

***11:00 a.m. ET***

**61 Broadway • NYC, N.Y. 10006**

**Telephone: (212) 425-7500**

## ■ **The Election: Scenarios & Sector Outlook**

- Stephen Biggar, Director of Financial Research
- David Toung, Senior Analyst
- Joe Bonner, CFA, Senior Analyst
- Bill Selesky, Senior Analyst

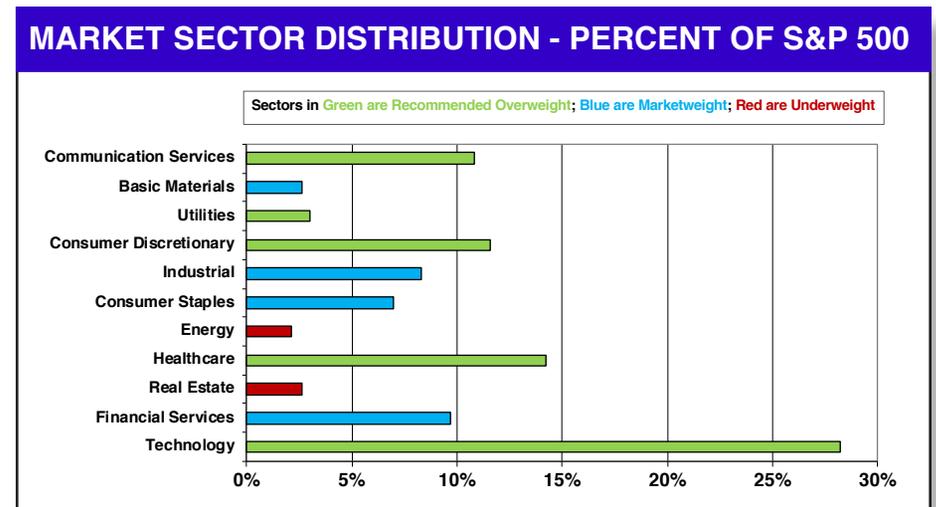
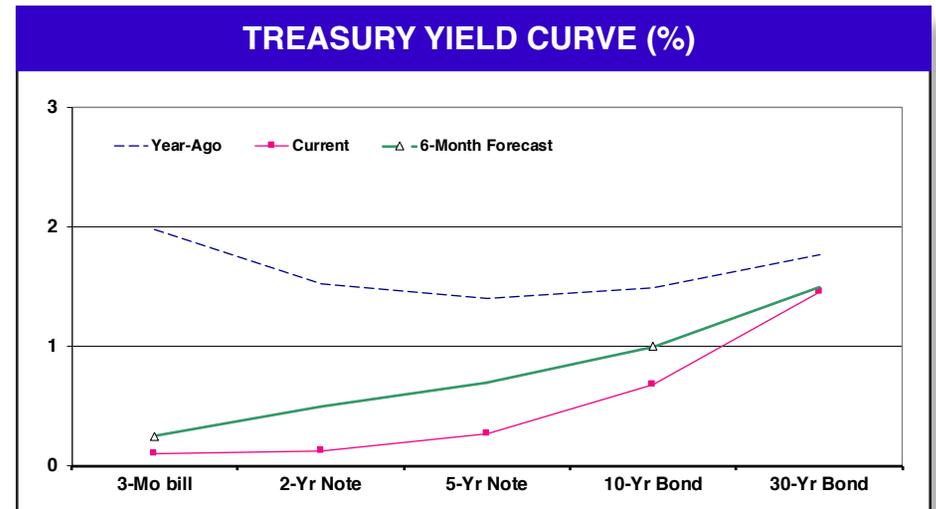
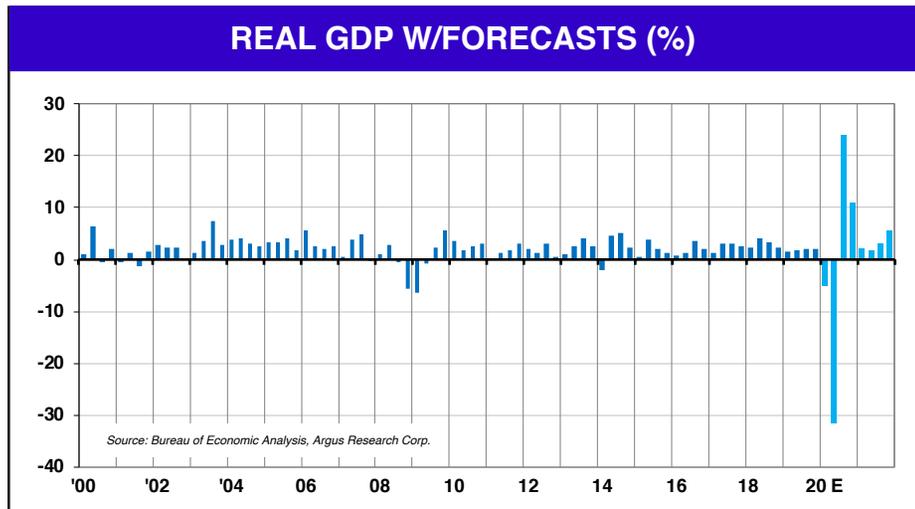
## ■ **Argus Quick Notes**

- Consumer Discretionary stocks
- Double-Digit Dividend Growers
- Companies Raising Guidance
- Find these on the homepage of our website

## ■ **Argus Dividend Growth Portfolio**

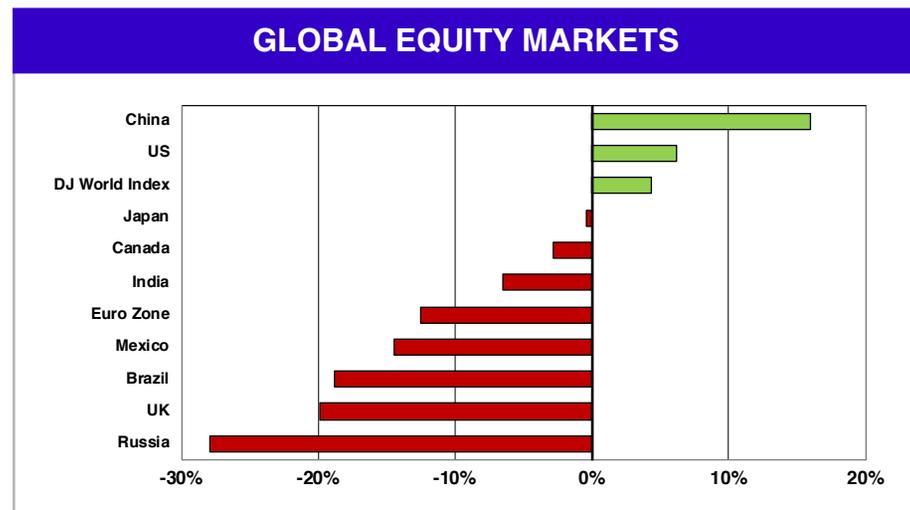
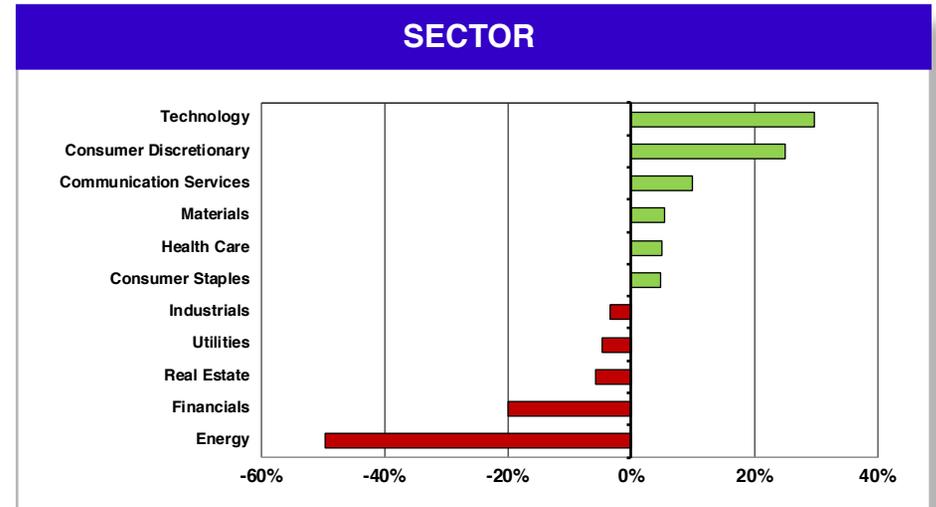
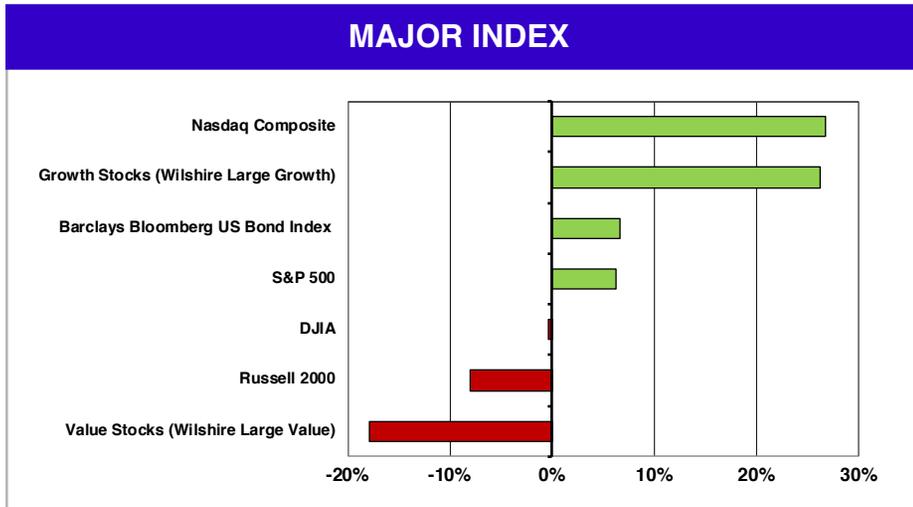
- Dividend Income: important element of total return
- 1930-2012: dividends accounted for 42% of S&P 500 total return
- Prefer high dividend growth over high yield, which may be at risk
- Dividend Growers: strong cash flows, clean balance sheets
- Find our Theme Portfolios under Portfolio Strategy on our website

# MACRO FORECASTS



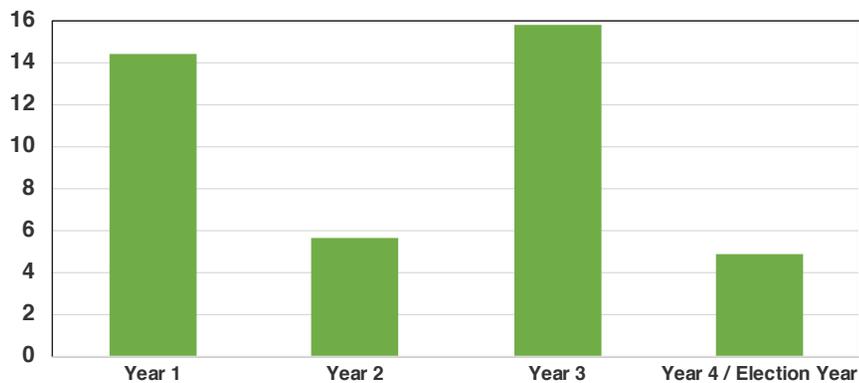
# MARKET PERFORMANCE

DATA AS SEPTEMBER 30, 2020

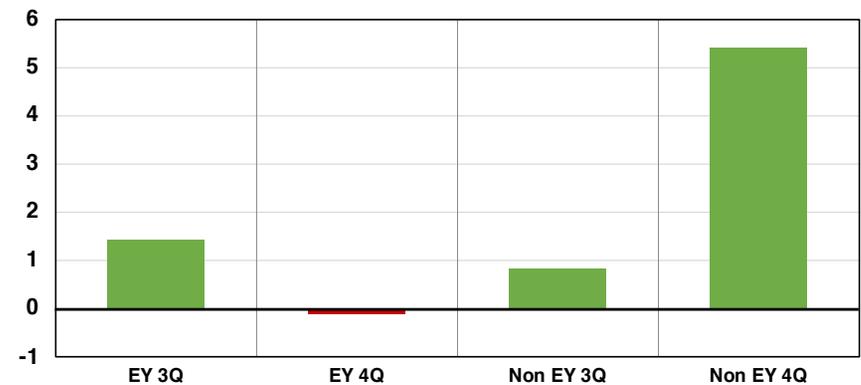


# THE ELECTION: SCENARIOS & SECTOR OUTLOOK

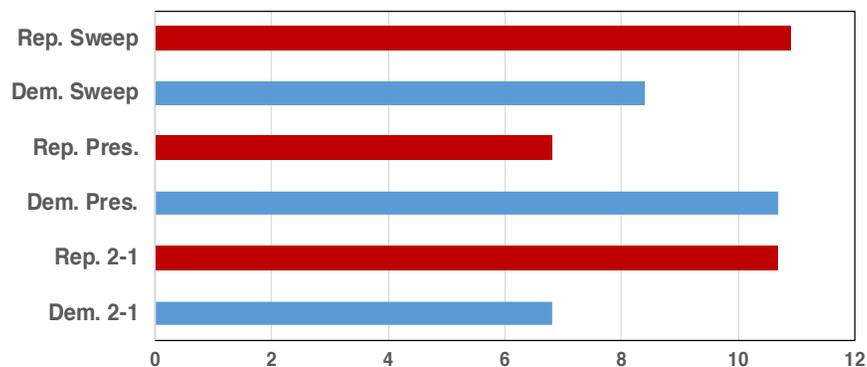
**STOCK MARKET ANNUAL RETURNS THROUGH THE PRESIDENTIAL CYCLE (%)**



**STOCK MARKET RETURNS IN 2H OF ELECTION YEARS (% CHANGE IN S&P 500)**



**STOCK PERFORMANCE IN POLITICAL SCENARIOS (AVG ANNUAL S&P 500 % CHANGE)**



## ■ **Trump wins:**

- **More relaxed financial regulation likely to continue.**

- » Pendulum swung in favor of banks under the Trump administration (relaxed Volcker Rule, fewer banks subject to stress tests, etc.).

- **Trump policies have generally been expansionary for the domestic economy, but trade battles could increase and further reduce money flows globally.**

## ■ **Biden wins:**

- **Raising corporate taxes would fall proportionally harder on Financial sector, which has largely domestic operations, pays closer to statutory tax rates, and was among the larger sector beneficiaries of lower corporate rates.**

- **Regulatory enforcement likely to increase, such as with the Consumer Financial Protection Bureau.**

## ■ **Other issues: US Deficits and deficit spending**

## ■ **Trump wins:**

- Affordable Care Act will likely be overturned by the Supreme Court.
- Pharmaceutical industry could be targeted by presidential executive orders to control prices.
- Trade tensions with China could worsen.

## ■ **Biden wins:**

- If Biden wins, and the Democrats take control of the Senate and retain control of the House, the federal government could enact legislation to fix the parts of the ACA that are being challenged by plaintiffs.
- There could be pressure on pricing of U.S. pharmaceutical companies under the Biden Administration, but there would be more likelihood of consensus legislative solution with participation by all parties.
- Biden does not support Medicare For All, so there is less likelihood of damage to U.S. insurers if this notion is not on the table.
- Improved trade relations with China and other trading partners.

## ■ Trump wins:

- No meaningful changes to energy policy or oil & gas regulations and a continuation of current federal lands leasing policy.
- The US will continue to avoid the Paris Climate Agreement.
- Environmental/regulation: minimal changes; A Trump win would leave US shale production mostly driven by what happens with oil prices.
- Current tax legislation favors fossil fuel subsidies.
- Foreign policy: honor sanctions versus Iran/Venezuela; threats to those helping Russia build a natural gas pipeline into Europe.

## ■ Biden wins:

- Increased regulatory oversight; Extensive environmental reviews; Potential changes to federal lands leasing policy and potential reversal of fuel efficiency standards.
- Rejoining the Paris Climate Agreement.
- Restrictions on fracking/energy exports and the potential to bring the US back into the Joint Comprehensive Plan of Action (Iran Nuclear Agreement).
- Biden's tax policy includes an increase in the corporate rate (to 28%), elimination of oil & gas subsidies and a new 15% book tax (on corporates with reported income over \$100 million).
- Foreign policy could look more like the Obama era, with easing of restrictions for key oil producing countries.

## ■ Trump wins:

- **The Trump administration is taking multiple actions that are detrimental to the interests of the technology industry and presumably these actions would pick up steam with an electoral win in November.**
  - » Antitrust investigations.
  - » The DOJ's proposal to Congress to limit Section 230 of the Communications Decency Act of 1996.
  - » Restrictions on HB1 work visas.
- **A Biden electoral victory would, at a minimum delay, and perhaps even derail Trump administration initiatives threatening the tech industry.**
- **Another election debacle ala Facebook 2016 would be a negative for IT.**

## ■ Biden wins:

- **A Biden election victory will likely, though not completely, provide a more benign regulatory environment for the tech industry.**
- **Political Realities:**
  - » Trump has some major tech industry supporters though these are dwarfed by the overwhelming support of Silicon Valley for Biden.
  - » Silicon Valley support for Biden is logical given the relatively benign stance of the Obama administration and the anticipation that a Biden administration could be Obama Part II.
  - » Silicon Valley's primary political objective, i.e. to just be left alone as much as politically possible, remains the same.

## ■ **Trump wins:**

- Back to trade wars.
- Rebuild supply chain due to tariffs.
- Continued lower tax rates.
- Continued spend on Defense.
- Potential infrastructure rebuilding program.

## ■ **Biden wins:**

- Trade war uncertainty eases.
- Rebuild supply chain due to COVID-19.
- Higher corporate tax rates a negative.
- Defense companies will navigate Democratic environment.
- Potential infrastructure rebuilding program.

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