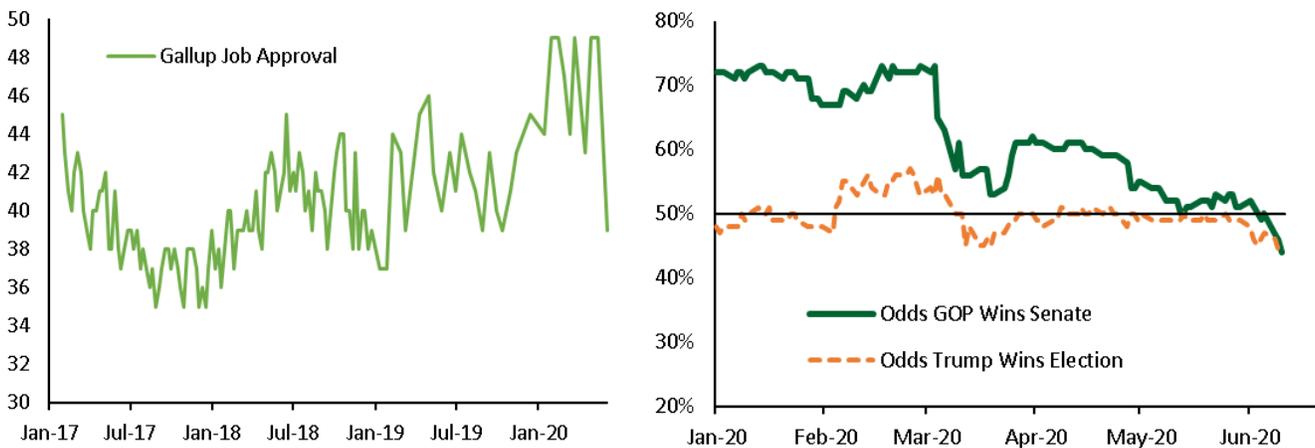


2020 BIDEN AND TRUMP ELECTION PORTFOLIOS

Joe Biden has his biggest lead of the year in the RealClearPolitics average of polls and Trump's approval has taken a nosedive in the Gallup poll. What could a Biden win or a Democratic sweep mean for investors? What would the investment implications be if Trump pulls it off? We try to answer those questions in today's report, where we present our Biden and Trump election portfolios.

The left graph below shows Trump's job approval rating fell 10 percentage points from the last Gallup poll. Even adjusting for the fact Gallup does not use fixed weights for party ID in its polls, which can cause larger swings, his approval is down eight percentage points from May. The graph shows his job approval has been in a narrow range his entire presidency, and he now sits closer to the lower end of that range. The odds of a Biden win and a Democratic sweep have, not surprisingly, risen considerably in recent days. In fact, a Democratic sweep is now the base case in the betting markets. It's an opportune time to consider the implications of a Biden presidency and a Democratic sweep.

TRUMP'S JOB APPROVAL PLUMMETS AND ONLINE ODDS OF A GOP SENATE ARE NOW BELOW 50%



Sources: Gallup and PredictIt.

Another recent development worth mentioning before looking at the specifics of the Biden and Trump portfolios is the fact that Biden has been moving to the left. He has shifted his positions to appeal to Bernie Sanders supporters, including lowering the eligibility age for Medicare (down to 60), forgiving some student debt, and calling for an immediate increase in Social Security benefits. Even more importantly, numerous well sourced press accounts, and to a lesser extent, Biden's own interviews, have confirmed

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that Biden sees more of a need and more of an opportunity for a transformational presidency. He and his closest aides have been talking in terms of an FDR-size agenda.

The fallout from the coronavirus has Biden and many other Democrats believing it is even more important than ever that they address what they see as systemic problems in the economy, income inequality, racial inequality and environmental justice. Biden is working on an economic program that could mean much higher government spending and a tougher regulatory environment than he initially proposed. There is no sign he is backing off the tax increases he initially proposed, the robust labor agenda, or the ambitious climate change agenda.

This is a major shift that investors should take seriously. As we have pointed out many times before, Biden is not a centrist. He has consistently found himself in the *center of the Democratic Party*. As it has moved left, he has moved left with it. Rather than the recent shock to the economy causing Democrats to rethink whether the economy can afford big tax increases, Biden and other Democrats are concluding a much more progressive policy mix is needed to dig the economy out of the hole and help the average person.

Let's turn now to some of the specifics of the election indexes, starting with the Biden portfolio. Energy is a major theme of the Biden portfolio because Democrats would be likely to heavily subsidize alternative energy. The other major themes of the Biden portfolio include the risk of drug price controls, the labor agenda, the risk to certain for-profit targets, and the upside for companies involved in infrastructure.

Some might ask why infrastructure stocks aren't included in the Trump portfolio since the president also supports a big boost in infrastructure spending. Because the better Democrats do, the more infrastructure spending is likely to go up. We apply similar reasoning to evaluate the risk of drug price controls, which Trump supports, but are much more likely under a Democrat sweep. That's why the better Democrats do in the election, the better the Biden portfolio should perform; the converse is true of the Trump portfolio.

It's worth mentioning that many of the long ideas in the Trump portfolio could have been shorts in the Biden portfolio and vice versa. We made the drug companies a short in the Biden portfolio rather than a long in the Trump portfolio because the downside under Democrats is greater than the upside under Republicans. Also, the weight of each sector or issue is designed to reflect how important that theme might be for investors.

That's why the biggest weight in the Trump portfolio is the preservation of the market-friendly tax and regulatory environment. Naturally, China trade risk is another major theme, along with energy, financials, and defense. The tables on the next page include the tickers in each portfolio along with a brief discussion of the rationale behind the sectors and individual names included in each index.

The portfolios consist of 20 stocks or ETFs, each equal dollar weighted. Companies that appear in parenthesis (and in red) are short positions. Historically, the performances of the portfolios have tended to track investor expectations of the election outcome after Labor Day. In recent months, other issues outweighed elections risks, as well as Biden's perceived centrism. However, our options desk has seen a lot of trades that indicate investors see an increasing risk of volatility after the election, which would be most likely under a Democratic sweep. We expect individual stocks will increasingly reflect election risks.

BIDEN PORTFOLIO

Sector or Issue	Share of Portfolio	Companies or ETFs	Policy Rationale
Energy	20	TSLA, FSLR, VWS DC, TOT	Like the other Democratic presidential candidates, Biden has made climate change a major theme. If Democrats sweep, subsidies for electric vehicles, solar and wind are likely to go up substantially. Even with divided government, their prospects brighten if Biden wins. We don't think Biden will seek to ban fracking outright, but if he does it will help foreign oil companies like TOT.
Drug prices	15	(IBB, PFE, GILD)	Drug stocks are the sector most at risk after the election no matter who wins. But this risk is much higher under Democrats. Not only is price control legislation more likely the better Democrats do, the severity of those measures increases the better Democrats do.
Labor	15	(MCD, DG, UBER)	The Democratic labor agenda is probably the most underappreciated election-related risk. A higher minimum wage and new laws to organize workplaces will be high priorities. Joint employer rules (which could especially hurt MCD), overtime rules, and more labor protections for gig economy workers are priorities.
Infrastructure	15	VMC, GVA, MLM	While Trump favors more infrastructure spending (and it will probably go up if he wins), this is an issue where control of Congress matters even more.
For-profit targets	15	(GEO, STRA, NAVI)	Democrats have not been shy about criticizing certain industries, especially for-profit prisons and for-profit colleges. Plans to forgive student debt and make college free would hurt student lenders.
Big Tech	10	(AMZN, FB)	While Trump has been a critic of some big tech companies, Biden would be much more likely to pursue an antitrust case more aggressively. The Senate also matters. Will Biden need to get his nominees by McConnell or Warren to be confirmed in the Senate? Moreover, Democrats have pledged to target companies that don't pay much in taxes, and tech is the worst offender and most at risk.
Volatility	5	VXX	So far, the area where investor concern over the election has shown up most prominently is investors buying protection against higher volatility after the election. If there is a Democratic sweep, there will be a bid for vol.
Cannabis	5	MJ	This cannabis ETF is a way to play the likelihood that Democrats would relax banking laws and the possibility they would delist cannabis from the Controlled Substances Act, which Biden might do by executive action.

Note: The portfolio consists of 20 stocks (or ETFs), each equal-dollar weighted. Companies in parenthesis and red are short positions.

TRUMP PORTFOLIO

Sector or Issue	Percent of Portfolio	Companies or ETFs	Policy Rationale
Tax and regulatory environment	25	IWM, QQQ, XLF, MO (LNC)	The biggest theme of the Trump portfolio is the more market-friendly tax and regulatory environment shift that has occurred on his watch. Smaller companies, tech, and financials are all disproportionately more at risk from higher taxes and increased regulation (should Dems win) than the market overall. Tobacco is at risk of higher taxes and more regulation. Higher estate and personal tax rates could boost life insurance and annuity sales, so LNC could do better under Dems and is a short in the Trump portfolio.
China trade	15	(FXI, AAPL, XRT)	China trade risks are not low under Biden, but they are much higher should Trump win reelection. Higher tariffs would disproportionately hurt China, could lead to retaliation against companies like AAPL, and could impose higher costs on retail goods.
Energy	15	XOM, ET, PTEN	Traditional energy will have a much friendlier tax and regulatory environment under Republicans. XOM is an obvious energy play, but also has been targeted by progressives and has exposure to public land in NM. Energy MLPs are especially at risk to adverse tax and regulatory changes. The fracking revolution is safe under Trump.
Financials	15	GS, SLM, WRLD	Financials were big beneficiaries of the Trump tax cut and more laissez-faire regulatory approach. What's more, Democrats would specifically target Wall Street, student lenders, payday lenders, so the better the GOP does the safer they are.
Defense	15	LMT, NOC, GD	Trump made rebuilding America's defense a theme in his 2016 campaign and he followed through with a step function increase in the size of the Pentagon budget. It will get bigger if he wins. Dems would grow it more slowly and perhaps even accede to progressive demands to cut it.
Health care	10	XLV, (HCA)	Both parties pose some risks to health care. A public option is the biggest risk to health care stocks. It will not happen under GOP control, so the health sector has more upside under the GOP. Under a GOP sweep (albeit unlikely), the ACA could be at risk, which would be negative for hospitals and Medicaid HMOs.
Tech	5	(TWTR)	Trump's executive order won't likely stand legal scrutiny and the GOP probably wouldn't revoke the legal protections for companies like TWTR, but the risk for the company is higher under Trump.

The index consists of 20 stocks (or ETFs), each equal-dollar weighted. Companies in parenthesis are short positions.