

Post-Election Roadmap For U.S. Equity Sectors

Today is the U.S. presidential election, and the investment community will be focused on the outcome in what has been another close race. The U.S. election and the implications of either party winning have been a core area of MRB's research this year.

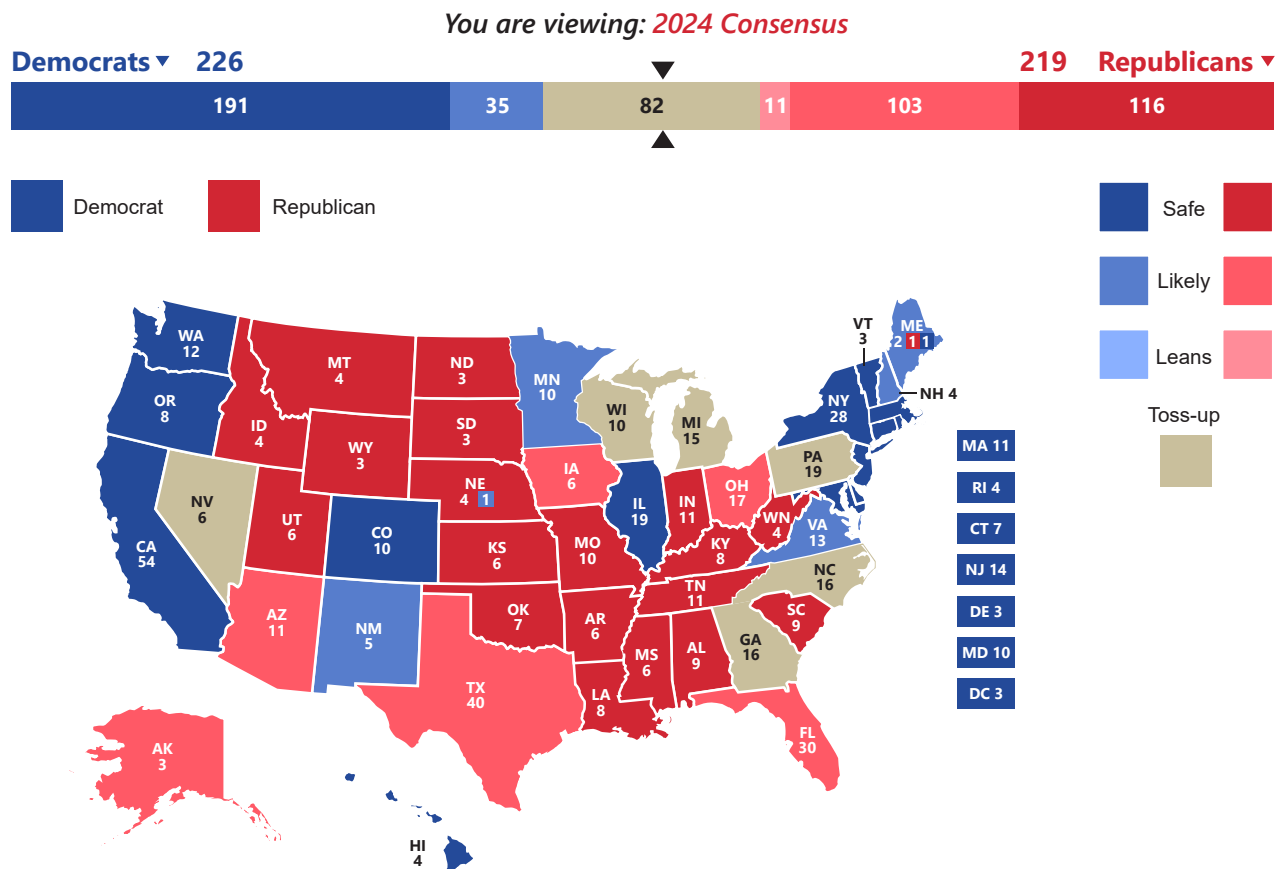
SPECIAL WEBINAR
U.S. Post-Election Discussion: Q & A With MRB
 Nov 6, 2024 - 11:00 (EST)



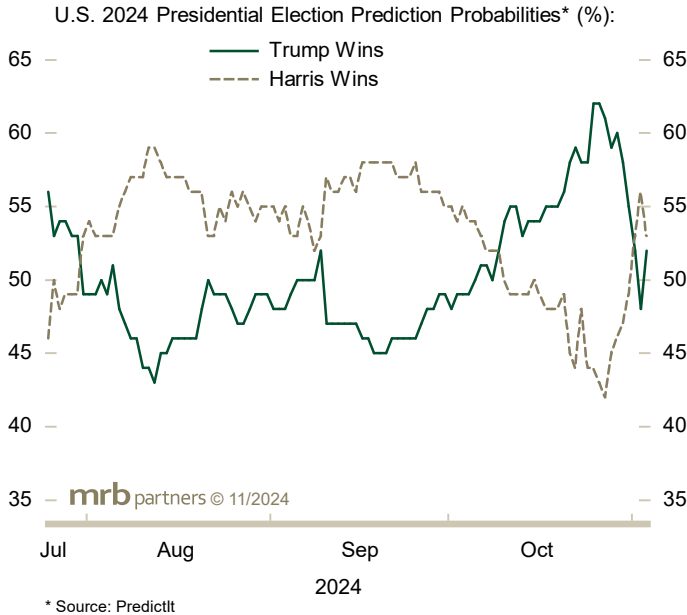
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Phillip Colmar
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Seven Toss-Up States Will Determine The Presidency



The Betting Markets Are Tight



The September issue of [MRB Charts Of The Month](#) highlighted two key risk areas that both parties have in common, namely the desire to run wider government budget deficits, and the pursuit of protectionist policies. Both could lift U.S. inflation and the Treasury market term premium.

Today's report showcases our latest research on the potential impact for U.S. equity sectors from the election, which we expect will serve as a roadmap for clients when the election outcome is ultimately decided.

Note that we will be hosting a **Special Webinar** tomorrow, November 6, 2024 - 11:00 (EST) "[U.S. Post-Election Discussion: Q&A With MRB](#)". Please make sure to register.

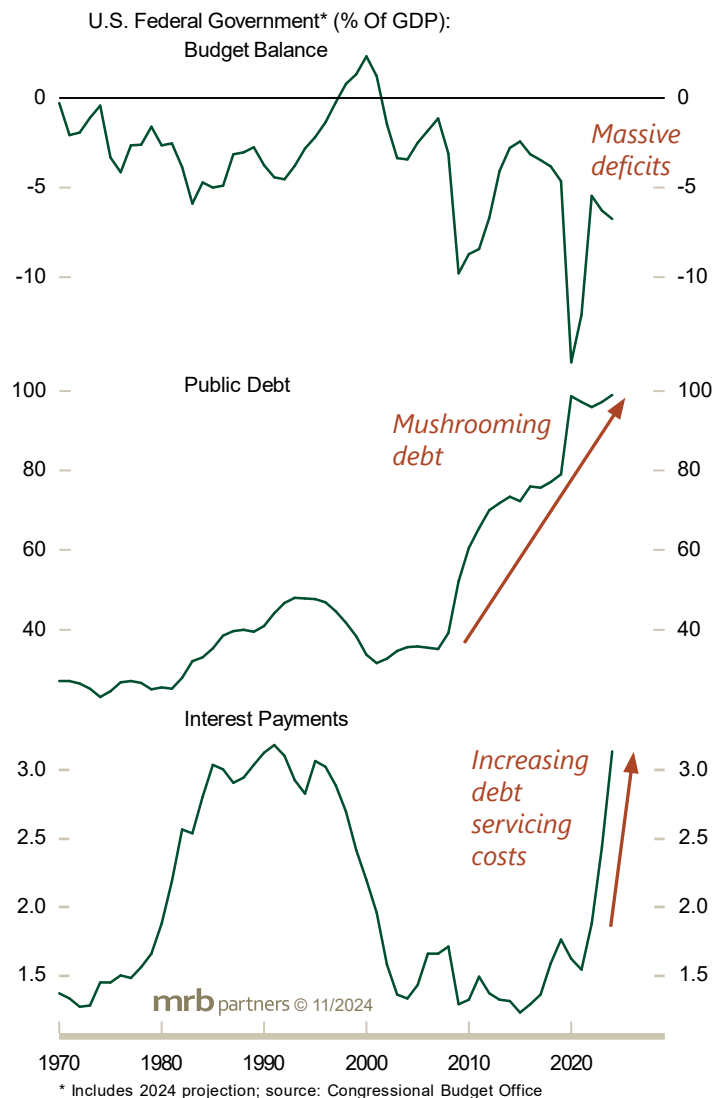
Within The Margin Of Error

	Swing State Polling Averages* (%)			Last Polls
	Harris	Trump	Unallocated	
Arizona	46.8	48.4	4.8	04-Nov
Georgia	47.5	48.7	3.8	04-Nov
Michigan	48.6	46.8	4.6	04-Nov
Nevada	47.6	48.2	4.2	04-Nov
North Carolina	47.3	48.6	4.1	04-Nov
Pennsylvania	48.2	48.2	3.6	04-Nov
Wisconsin	48.8	47.7	3.5	04-Nov
National	48.4	47.2	4.4	04-Nov

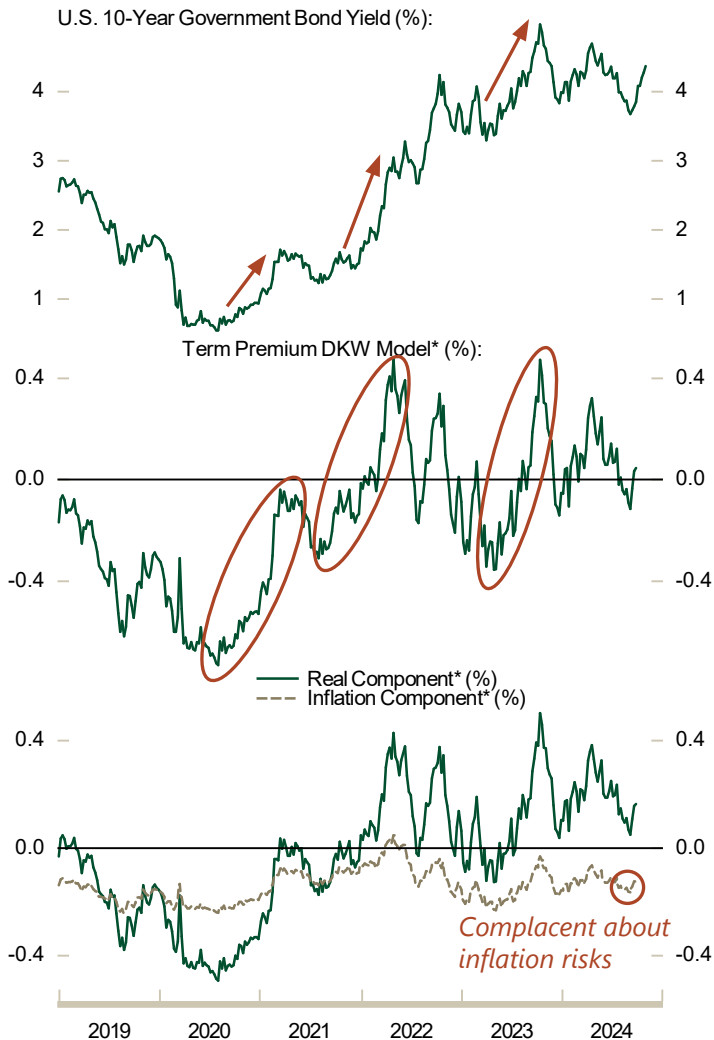
* Includes other candidates; source: 270toWin
The polling margin of error is generally 3-4%

Source: MRB Partners © 11/2024

U.S. Federal Government: Alarming Debt Trends



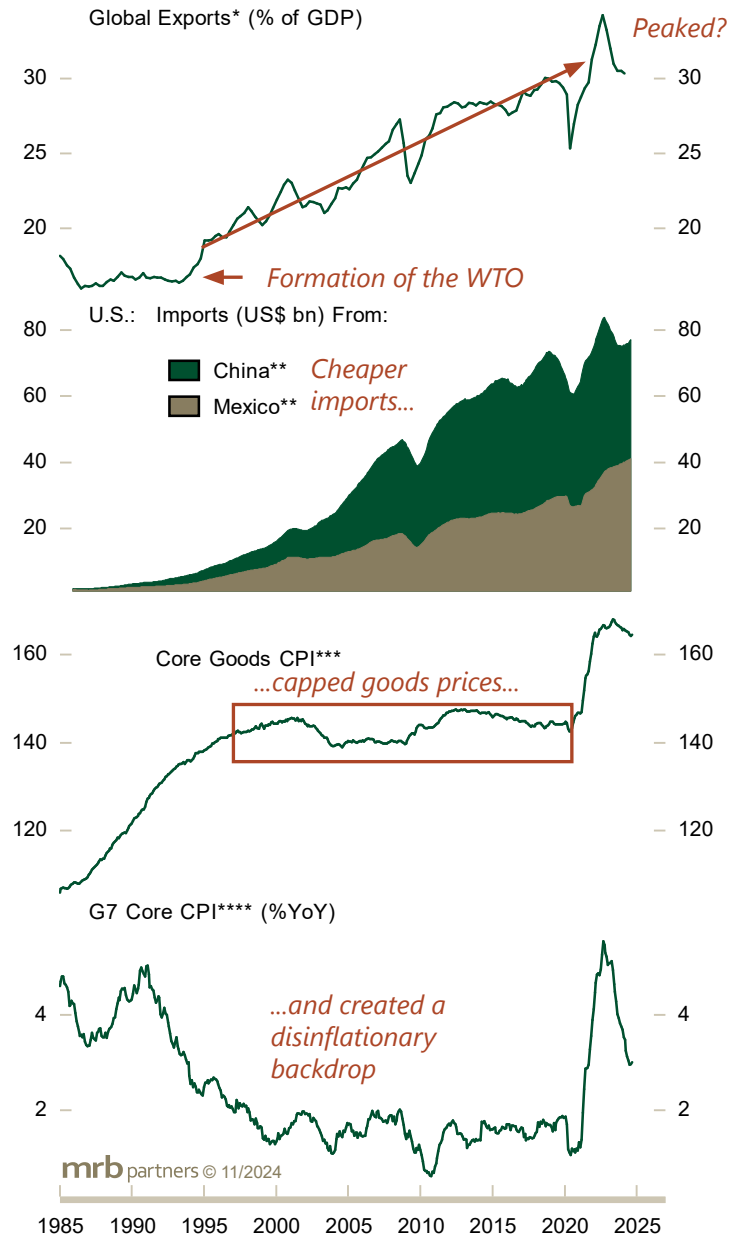
The Term Premium Has Already Impacted The 10-Year Treasury Yield This Decade



* D'Amico, Kim & Wei (DKW) No-Arbitrage Term Structure Model;
source: U.S. Federal Reserve

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Has Globalization (And Disinflation) Peaked?



* Source: OECD

** Smoothed; sources: U.S. Census Bureau; U.S. Bureau of Economic Analysis

*** Excludes energy and food; source: U.S. Bureau of Labor Statistics

**** Excludes energy and food; source: OECD

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Energy & Climate Change

- Energy and climate policy are near the top of the list of issues that could face changes depending on election outcomes. The two presidential candidates differ on how to address climate change and energy security.
- Vice President Kamala Harris is an anti-pollution advocate, who cast the tiebreaking vote that resulted in the passage of the Inflation Reduction Act (IRA), President Joe Biden's signature climate legislation.

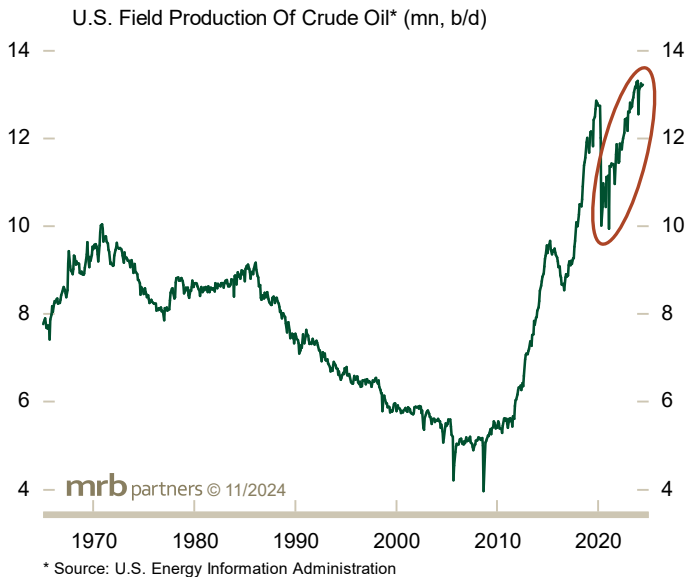
Summary Of Energy/Climate Policy Proposals And Their Impact On The Energy Sector And Other Associated Groups

Proposal/Policy Stance	Candidate	Impact On Energy Sector And Related Groups	Comments
Implement the provisions of the IRA in a manner that is consistent with fighting climate change	Harris	Positive for renewable energy companies, EVs, and industrials leveraged to the buildout of renewable energy infrastructure and grid modernization; long-term positive for utilities	Subsidies for renewable energy and EVs could be modestly expanded in a Democratic-sweep scenario
Keep restrictions on oil and gas drilling on public lands and waters	Harris	Negative for the broad energy sector at first, but may be positive in the longer term if decreased supply levels contribute to higher oil and gas prices	Oil production grew rapidly under Biden, underscoring that lower lease approvals do not spur an immediate drop in output
Continue efforts to reduce greenhouse gas emissions through the actions of the EPA	Harris	Negative for oil and gas producers, chemical companies, ICE vehicle manufacturers, and utilities with coal-fired plants	The overturn of the Chevron Doctrine will expose the EPA to more court challenges
Boost domestic oil and gas production by reducing the regulatory burden on fossil fuel industries	Trump	Positive for the broad energy sector in the near run, but may be negative over the longer term if increased supplies pressure oil and gas prices	Not clear that oil and gas producers will follow Trump's directive to produce more given their embrace of greater capital discipline in recent years
Rescind the unspent funds under the IRA and repeal certain tax credits and subsidies for renewable energy and EVs	Trump	Negative for renewable energy companies, EVs, and industrials leveraged to the buildout of renewable energy infrastructure and grid modernization; long-term negative for utilities	Easier to accomplish with Republican control of Congress; even so, a full repeal of the IRA is unlikely given that several Republican states are benefiting from the law's climate investments
Weaken the power of the EPA and roll back environmental regulations	Trump	Positive for oil and gas producers, chemical companies, ICE vehicle manufacturers, and utilities with large carbon footprints	Mostly achievable through executive actions, but it could still take time to roll back environmental regulations given the rulemaking process and likely legal challenges

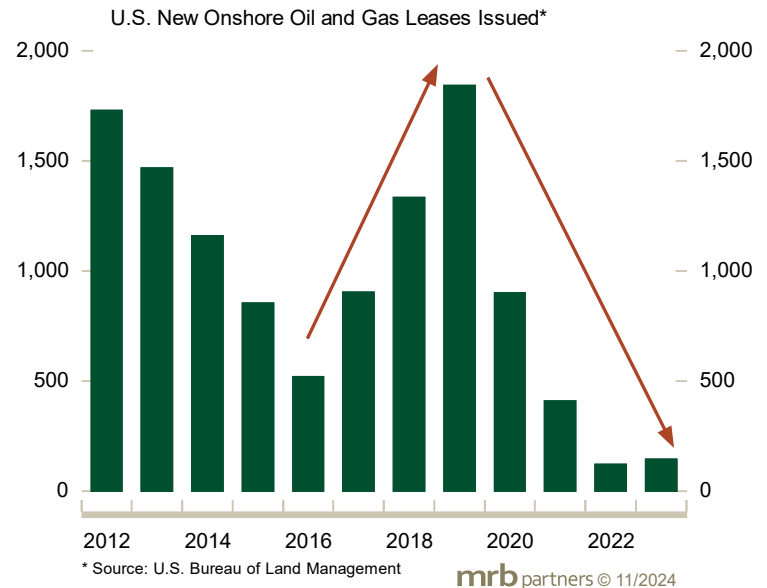
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- A Harris victory would mean a continuation of the Biden Administration's climate and energy policies, which would favor renewable/green energy stocks and industrial sub-groups leveraged to the buildout of clean energy infrastructure and grid modernization at the expense of the conventional energy sector.
- Former President Donald Trump, on the other hand, is a climate skeptic who supports the development of fossil fuels, extensive rollbacks of environmental regulations, and a scaling back of renewable energy policies.
- Under Trump, efforts to decarbonize would slow, and there would be an easier regulatory environment for fossil fuels, with conventional energy companies and automakers benefiting, while the share prices of renewable/green energy and industrial firms linked to clean energy investments would weaken on fears that some of the government subsidies supporting these investments will be at risk.

Oil Production Has Reached An All-Time High Under The Biden Administration

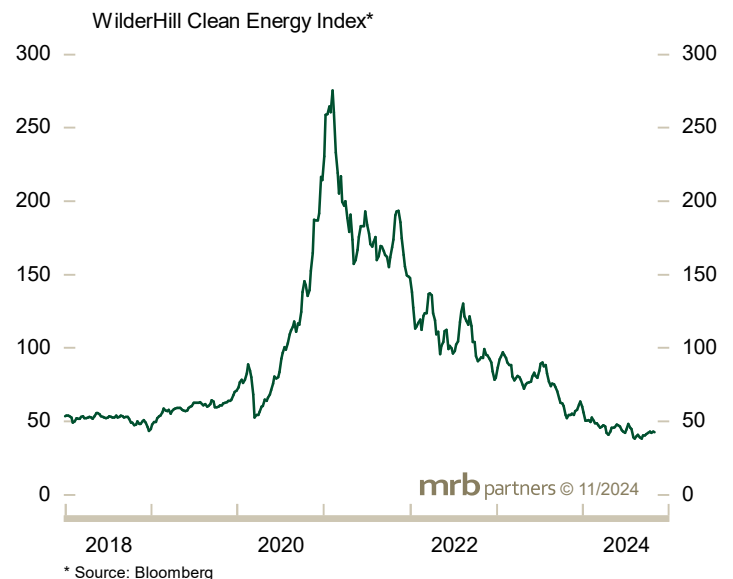


Lease Sales Rebounded During Trump's Term, But Have Slowed Under Biden



- However, a full-scale repeal of the climate provisions of the IRA is unlikely, even in a Republican-sweep scenario.
- The actions of either candidate will have a limited impact on oil prices, which are determined in international markets and are influenced by other factors including global economic prospects, geopolitical events, and the behavior of producers.

Clean Energy Stocks Have Been In A Bear Market Since Early-2021



Potential Winners And Losers Under Each Candidate's Energy/Climate Policies

Harris Victory		Trump 2.0	
Winners	Losers	Winners	Losers
Solar, wind, and EV companies Electrical Equipment Engineering & Construction Building Products (HVAC companies)	Broad energy sector Chemicals ICE vehicle manufacturers	MLPs, LNG Producers Energy Equipment & Services Coal producers Chemicals ICE vehicle manufacturers	Solar, wind, and EV companies Electrical Equipment Engineering & Construction Building Products (HVAC companies)

Summary Of Major Health Care Policies And Their Impact On The Health Care Sector

Proposal/Policy Stance	Candidate	Impact On Health Care Sector	Comments
Extend enhanced ACA subsidies	Harris	Positive for hospitals, Medicaid insurers	Requires Congressional approval; in a split Congress some subsidy extension is possible in exchange for Republican priorities
Increase the scope of Medicare drug price negotiations	Harris	Negative for pharma and biotech companies	Unlikely to be passed in a split Congress
Extend out-of-pocket drug spending caps to the commercial insurance market	Harris	Negative for commercial market health insurers and PBMs	Requires Congressional approval
Expand health insurance options by increasing access to non-ACA compliant plans	Trump	Positive for commercial market insurers; negative for insurers benefiting from ACA marketplaces, hospitals	Similar initiatives had a limited impact in undermining the ACA during Trump's first term
Roll back Medicaid expansion; reduce federal funding for the program	Trump	Negative for Medicaid insurers, hospitals	Medicaid expansion is entrenched, thus making significant cuts to the program politically difficult to undertake

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Potential Health Care Winners And Losers Under Each Candidate

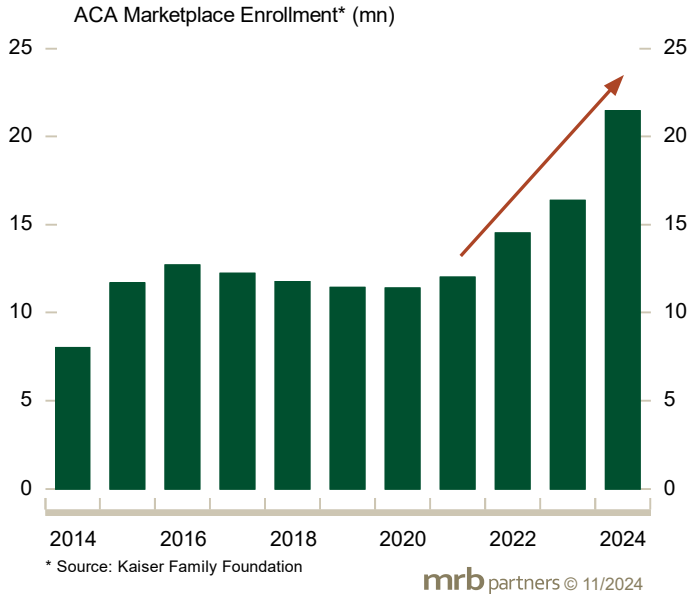
Harris Victory		Trump 2.0	
Winners	Losers	Winners	Losers
Medicaid-exposed insurers Hospitals	Pharma, Biotech Medicare Advantage carriers	Medicare Advantage carriers	Medicaid-exposed insurers Hospitals

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Health Care

- Health care reform has not been a central focus of this election campaign, but rising medical and prescription drug costs remain major issues for voters.
- Democrats and Republicans have distinctly different visions about how to lower health care costs, with the former favoring a greater role for government in the provision of health care services, while the latter support a more de-centralized system and market-based solutions, arguing that price controls stifle innovation.
- Absent a unified government, significant changes to health care legislation are unlikely under either a Harris or Trump victory.
- A Harris win would potentially result in more regulatory headwinds for parts of the health care sector if accompanied by a Democratically-controlled Congress, especially

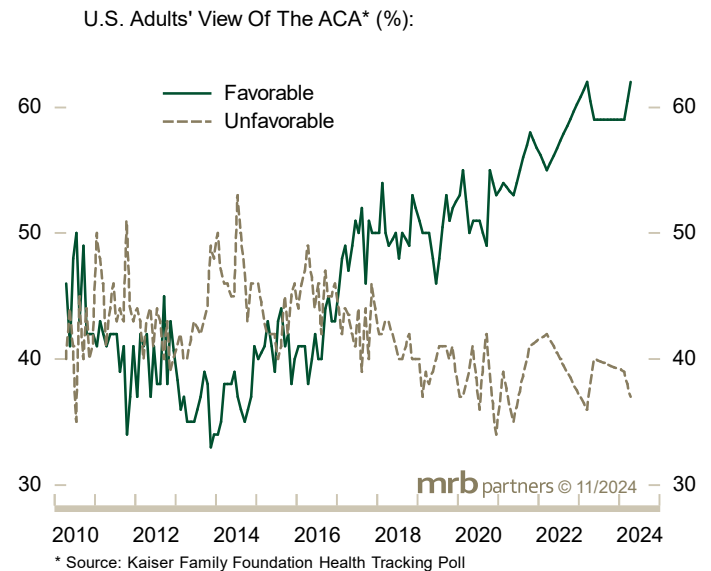
Enhanced Subsidies Have Provided A Big Boost To ACA Enrollment



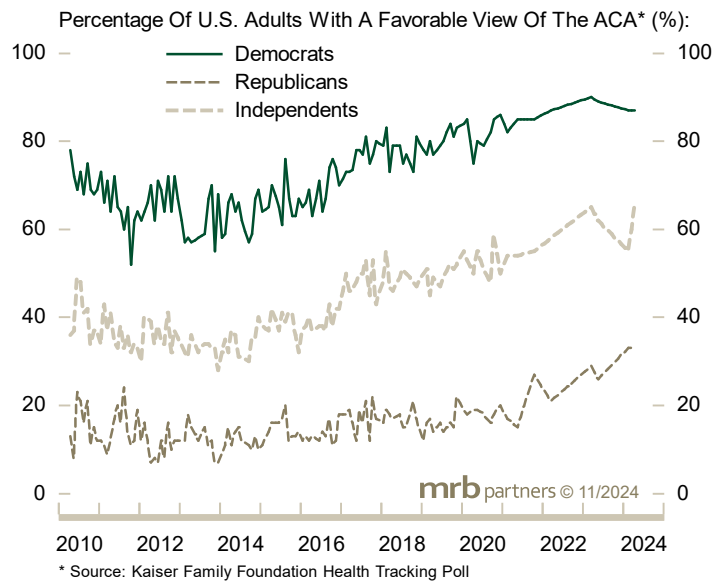
the pharmaceutical and biotechnology sub-groups, which would face an expansion of drug price negotiations.

- A Republican sweep would put the enhanced subsidies for the ACA and federal funding for Medicaid at risk, with negative consequences for hospitals and Medicaid-exposed health insurers. However, a significant scaling back of support for these programs is unlikely given their popularity with the public.
- The lack of agreement on a replacement plan for the IRA within the Republican Party means that Trump is likely to retain Medicare drug price negotiations, albeit with a more industry-friendly approach.
- As a result, our working assumption is that the impact of the election on the health care sector will be minor and its performance will be dictated to a greater degree by the prospects for underlying earnings and the appetite of investors for defensive or high-quality equities.

The Popularity Of The ACA Has Increased In The Past Decade



Favorable Views About The ACA Have Grown Among Democrats And Republicans



Summary Of Financial Policy Proposals And Their Impact On The Financial Sector

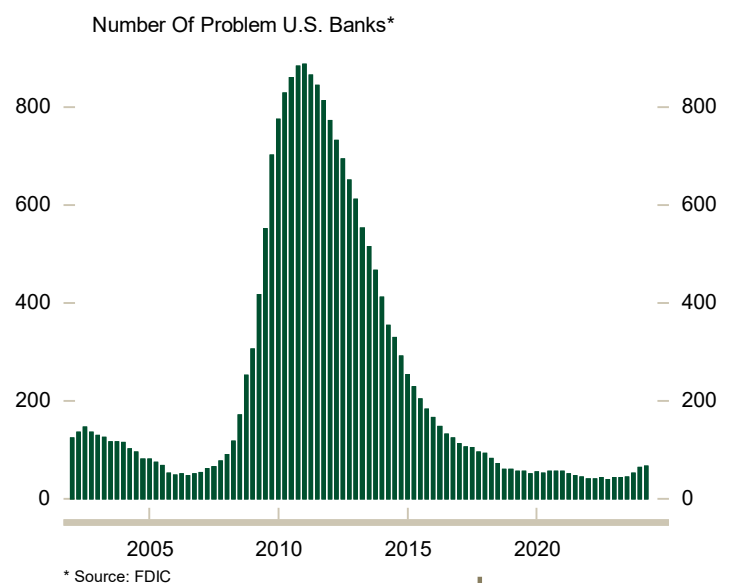
Proposal/Policy Stance	Candidate	Impact On Financial Sector	Comments
Finalize and implement Basel III Endgame bank capital rules and requirement that regional banks issue long-term debt	Harris	Negative for GSIBs, regional banks, broker-dealers	Ongoing disagreements among regulators and additional lobbying/possible litigation by the banks could delay implementation or result in a further softening of the rules
Greater regulatory oversight of financial industry; renewed pursuit of policy goals by the CFPB and other regulatory agencies such as the SEC	Harris	Negative for banks, credit card companies, alternative asset managers, crypto exchanges, non-bank entities	Rules by regulatory agencies will continue to be subject to litigation by the financial industry
Delay or possibly withdraw the revised Basel III Endgame bank capital rules	Trump	Positive for GSIBs, regional banks, broker-dealers	Republican control of the Senate will facilitate a further watering down or a shelving of the rules
Pursue deregulation by appointing new leadership at regulatory agencies; regulation of non-bank lenders a lower priority	Trump	Positive for banks, credit card companies, alternative asset managers, and non-bank entities	Impact depends on the timing of leadership changes at regulatory agencies
Ease regulatory crackdown on crypto industry; build a national strategic Bitcoin reserve	Trump	Positive for Bitcoin and crypto exchanges	Regulatory relief could take time, depending on changes in leadership at the SEC; national strategic Bitcoin reserve unlikely to gain traction
Pursue policies that discourage adherence to ESG principles	Trump	Negative for asset managers with large ESG businesses	Can be accomplished through executive orders

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Financials

- Financial regulation has not been prominent in this year's election campaign, owing to the strong health and resiliency of the U.S. banking system. Nevertheless, the outcome of the election will have important implications for the future of financial industry regulation.
- The financial sector will fare better if Trump wins the election, especially in a Republican-sweep scenario.
- Under Trump, banks would face an easier regulatory environment including a further watering down or even a possible withdrawal of the Basel III Endgame capital rules, as well as more industry-friendly regulatory agencies such as the CFPB.

The Number Of Banks At Risk Of Failing Remains Very Low



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Potential Financial Sector Winners And Losers Under Each Candidate

Harris Victory		Trump 2.0	
Winners	Losers	Winners	Losers
	GSIBs, regional banks Broker-dealers Consumer finance companies* Non-bank financials Alternative asset managers Crypto exchanges	GSIBs, regional banks Broker-dealers Consumer finance companies* Non-bank financials Alternative asset managers Crypto exchanges	ESG-focused asset managers

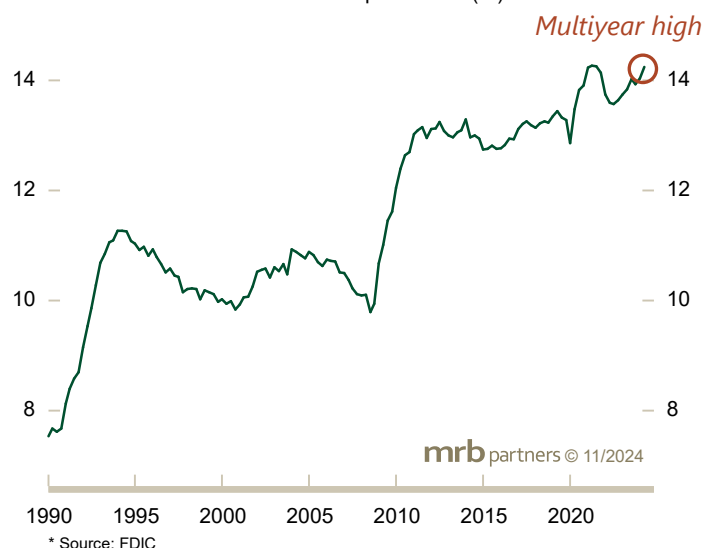
*Mostly credit card issuers

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- A more lenient regulatory apparatus would also benefit consumer finance companies (credit card issuers), broker-dealers, non-bank entities, and possibly alternative asset managers and crypto exchanges, depending on how quickly there is a change in leadership at the SEC.
- Conversely, a Harris win would bring stricter regulations and greater oversight of the financial industry.
- However, absent Democratic control of the Congress, a Harris Administration would be limited in passing significant new financial legislation.

Banks Are Already Well Capitalized

U.S. Banks: Tier 1 Risk-Based Capital Ratio* (%)



Technology

- Technology regulation will present a set of complex and challenging policy issues for the next president. The new administration will need to strike a balance between reining in the market power of Big Tech and putting guardrails around emerging technologies such as A.I., while fostering an environment that continues to support innovation and maintains the economic competitiveness of the U.S.
- Neither a Harris win nor a Trump victory will materially change the policy outlook for the technology sector in the next 1-2 years. The government's anti-trust cases against Big Tech will continue, irrespective of the election outcome.

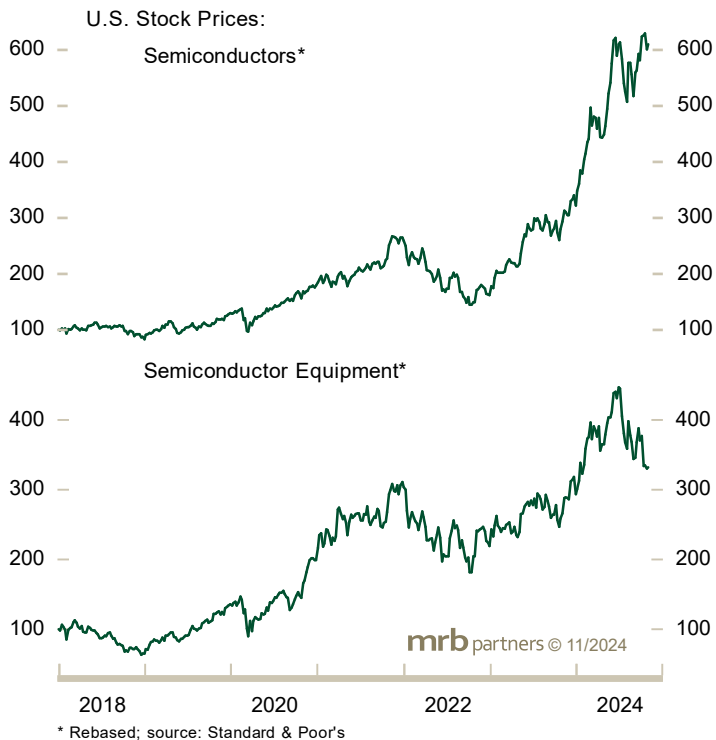
Summary Of Tech Policies And Their Impact On The Tech Sector And Other Related Companies

Proposal/Policy Stance	Candidate	Impact On Technology Sector And Other Related Companies	Comments
Continue anti-trust enforcement cases against Big Tech	Harris/Trump	Negative overhang for companies such as Alphabet, Apple, Amazon, Meta	Reining in the market power of Big Tech has bipartisan and public support
Expand broadband access to underserved communities under the US\$43 bn BEAD program of the 2021 infrastructure bill	Harris	Positive for ISPs (telcos and cablecos) and network equipment vendors	Disagreements over the BEAD program's requirements have delayed its rollout, but groundbreakings for broadband buildouts should begin in 2025
Support the self-sufficiency of the U.S. in critical technologies such as semiconductor manufacturing	Harris/Trump	Positive for semiconductor and chip equipment companies	Has bipartisan support; most of the grants under the 2022 CHIPS Act have been allocated and any additional funding will require Congressional approval
Implement Biden's executive order on A.I., which calls for the safe and responsible development of the technology	Harris	Could slow the pace of A.I. adoption at the margin; potentially negative for A.I. start-ups	Impact of the executive order is likely to be limited without Congressional actions to develop a comprehensive set of enforceable regulations
Restrict the flow of cutting-edge technologies to China	Harris/Trump	Negative for companies with revenue exposures to China (i.e. semiconductor and select tech hardware companies).	Harris favors "de-risking" from China versus Trump's more aggressive decoupling agenda, which could have more adverse consequences for U.S. tech companies
Revoke the Biden executive order on A.I.	Trump	Positive for Little Tech (i.e. A.I. start-ups)	A full repeal may be difficult given the rulemaking process and bipartisan support for developing responsible standards around the use of A.I.

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- However, efforts to regulate these companies will remain slow-moving given the prospect of lengthy anti-trust court cases, the lack of easy remedies to rein in Big Tech's market power, national security considerations, and ongoing disagreements among policymakers about how to increase oversight of emerging technologies such as A.I. without stifling innovation.
- Both parties support public investments to increase the self-sufficiency of the U.S. in semiconductor manufacturing, while preventing China from acquiring cutting-edge technologies, although Trump's approach to the latter is more aggressive and could potentially be more disruptive for the tech sector.
- If Harris wins, internet service providers and network equipment companies should begin to see tailwinds from the rollout of projects to build out broadband infrastructure in underserved communities, while the timing of these benefits would be more uncertain under a Trump victory.

The CHIPS Act Will Benefit Semiconductor And Semi Equipment Companies



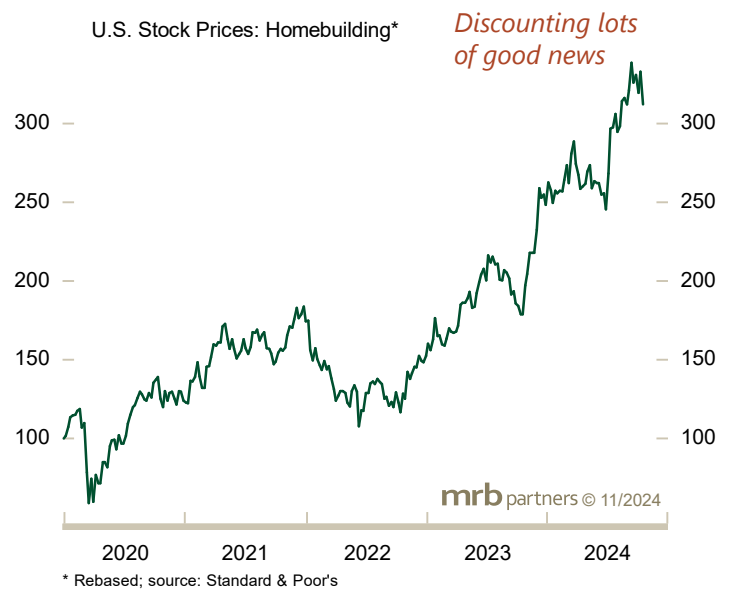
Broadband Buildouts Should Boost Telcos And Comm. Equipment Companies



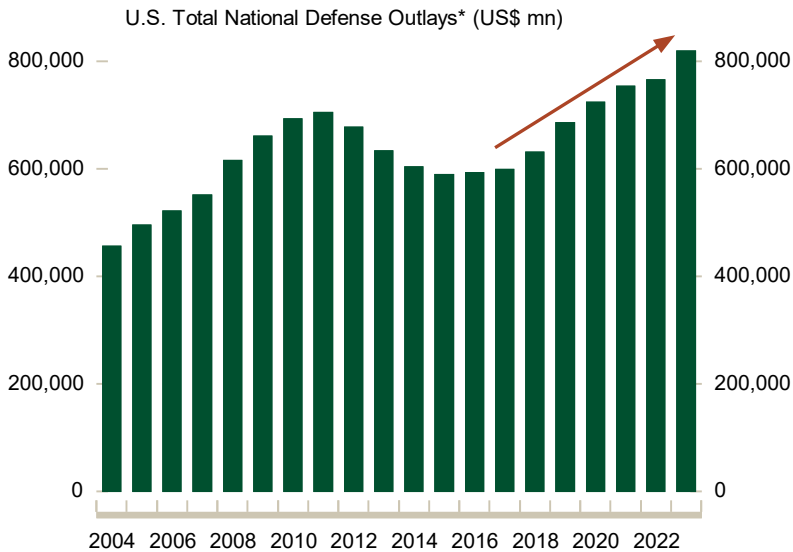
Other Sectors

- Homebuilders would benefit from the policies of either candidate to increase home ownership, but Harris has proposed a more comprehensive plan to address housing affordability. As a result, homebuilding stocks are likely to react more positively if Harris wins the election.
- Trump's more restrictive immigration policies would tighten the supply of labor, thus pushing up wages and potentially squeezing the profit margins of industries dependent on immigrant work forces such as construction, retail, leisure and hospitality, and agriculture.
- Trump's plan to impose tariffs more universally on imported goods would negatively impact the consumer discretionary sector, especially retailers, as well as manufacturers that rely on imported inputs, while

Homebuilder Stocks Have Been In A Bull Market



Defense Spending Climbed Under Both Trump And Biden

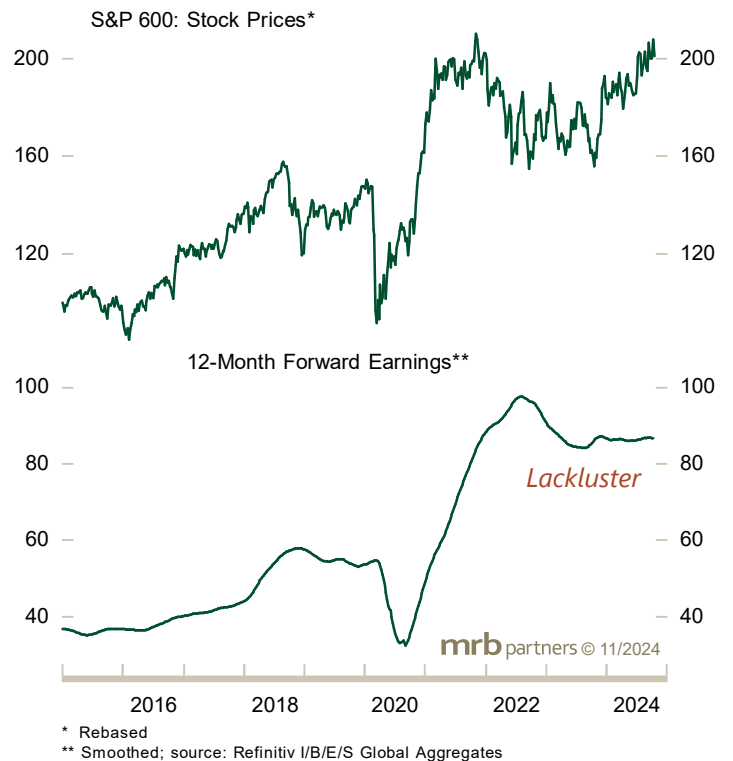


* Source: Office Of Management and Budget

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leaving companies with exposure to the Chinese market vulnerable to retaliatory actions.

Better Earnings Will Be Needed For Small-Cap Stocks To Sustainably Rally



- Although both candidates support strengthening the capabilities of the U.S. military, Trump is likely to be viewed as more positive for defense spending.
- U.S. small-cap stocks look like the ultimate Trump trade, especially if Republicans sweep the Congressional elections. In such a scenario, small caps would benefit from Trump's pro-growth policies (i.e. lower corporate taxes, deregulation, more M&A activity), while being relatively more insulated from trade tariffs.
- However, a post-election Trump victory-driven rally in small-cap stocks could prove to be short lived if the lackluster earnings of the S&P 600 do not materially improve and the animal spirits unleashed by a Trump victory put significant upward pressure on bond yields and cause the Fed to turn more hawkish.

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