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Independent Investment Strategy
WEEKLY MACRO STRATEGY
October 25, 2024

Leading, Not Following The Fed

- Positive global corporate profits and lower DM policy rates favor risk asset markets.
- There has been an unprecedented gap between hard economic data (positive) and surveys (weak). Investors should continue to focus on the former.
- Leaning against the Fed has periodically paid off as it has been persistently too bearish on growth and too optimistic on its ability to lower policy rates.
- To this end, the recent rise in U.S. Treasury yields and rate expectations is a taste of what looms as our upbeat economic and sticky inflation forecast pans out.

MRB *TradeBook Update* *p.8*

- There were several positioning changes this week.

A positive global corporate profit backdrop and aggressive Fed rate cut ***expectations*** have sustained the risk-on phase. Meanwhile, other DM central banks are following the Fed's dovish move at its last FOMC meeting, with the BoC cutting rates by 50 bps this week as we expected (more below), and the ECB hinting of a more forceful rate-cutting cycle than it has previously been suggesting.

The near-run outlook is bearish for bonds and bullish for risk assets:

- U.S. growth is strong, and activity is decent and expected to firm modestly outside the U.S., although global manufacturing activity has been weak.
- Although policy rate cuts will not match the expectations priced in the U.S. forward market, the

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Fed is still likely to ease a bit more and many other DM central banks will ease considerably further.

Our title this week refers to the fact that if one sets investment strategy by following the Fed, it means that you will always lag and be chasing trends. In other words, one risks being wrongfooted by a central bank with a track record of whipsawing investors.

The Fed has been whipped around because it has no clear framework and has become "data dependent", with a strong bias to believing that policy is restrictive. The latter means that the Fed has believed that the odds have been persistently tilted towards weaker activity, and it also anticipates that a return to the 2010s' low inflation backdrop is inevitable.

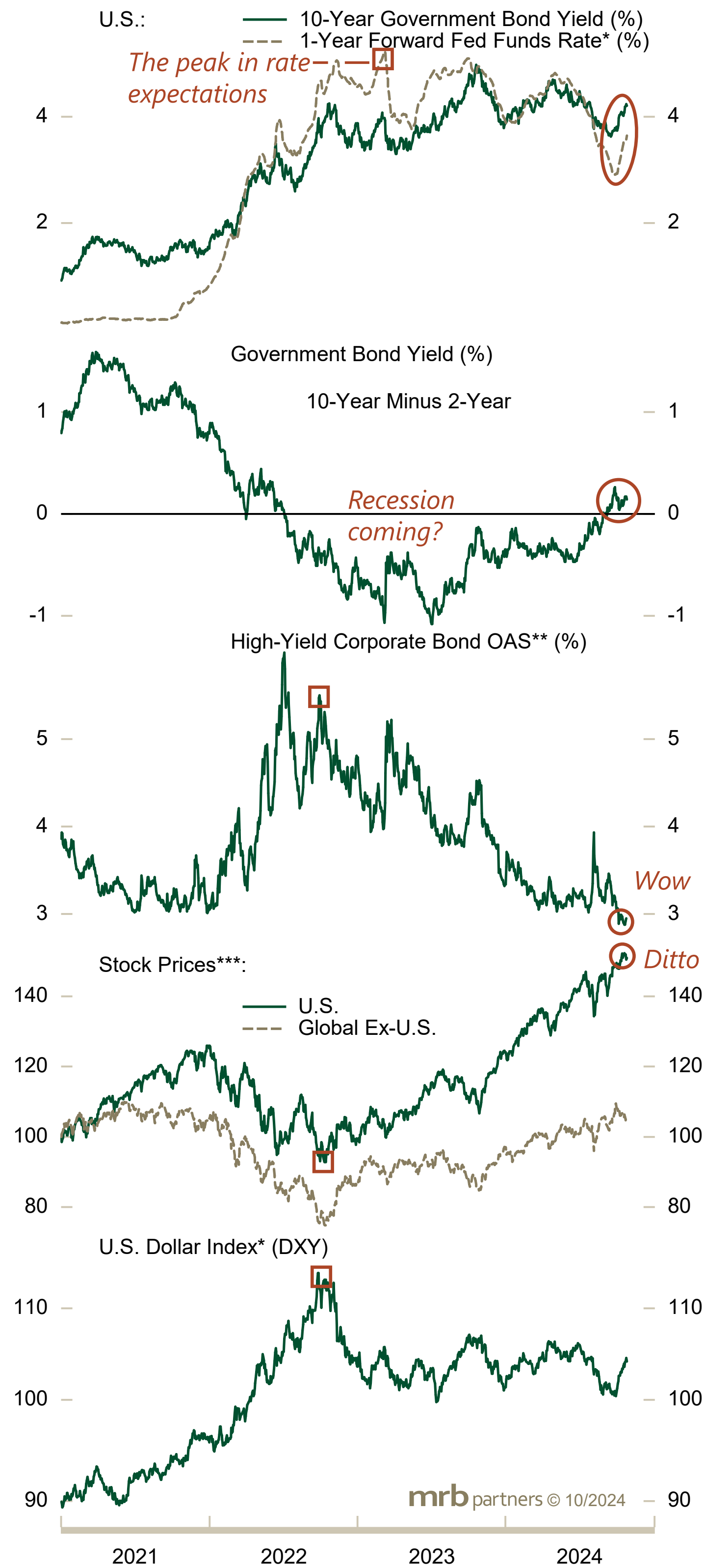
The Fed is once again being forced to shift to less dovish rhetoric, because U.S. economic growth has stayed robust (estimated to be 3.4% in real terms in Q3[1]) and inflation is sticky. With near perfect timing, U.S. rate expectations and Treasury yields have actually ***risen*** since the Fed delivered its 50 bps rate ***cut*** in September, consistent with our warning that the first rate cut would represent a sell on the news event for Treasurys (**chart 1**[2]).

The rise in U.S. yields has had some knock-on effect on DM rate expectations and bond yields, even in economies where easier policy conditions are warranted. However, so far it has not undermined equity and credit markets, which remain in a choppy risk-on phase.

[1] According to the Atlanta Fed's GDPNow model as at October 18, 2024.

[2] The chart also shows that the peak in fed funds rate expectations in late-2022 coincided with: the peak in DXY; the trough in stock prices; and occurred near the peak in high-yield corporate bond spreads.

Chart 1 **Treasury Yields Track Fed Funds Rate Expectations**



* Source: Bloomberg
** Option-adjusted spread; source: BofA Merrill Lynch
*** U.S. dollars; rebased; source: MSCI

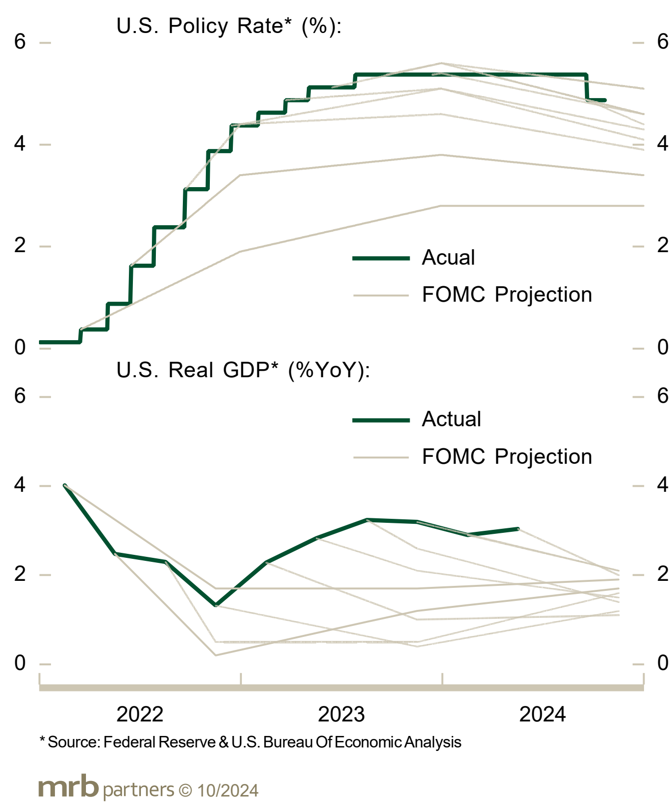
For those such as MRB with a consistently positive macro outlook, it has periodically paid to lean against the Fed. This was true when inflation gained momentum earlier this decade, and now again with the Fed's poorly-timed 50 bps rate cut given the subsequent positive economic data. The recent winners have been bond-bears and those betting on asset price inflation.

Further to this point, **chart 2** shows that the Fed has consistently been too negative on the growth outlook, and too optimistic on the path for policy rates (i.e. persistently expecting much lower rates). This, in turn, has meant that the Fed has frequently been forced to turn less dovish than it had desired, which has chronically caught bond-bulls off-side.

It will eventually pay to bet on a U.S. recession and a return to much lower policy rates and bond yields; however, ***such an outcome is still not on the horizon and the underlying risks to rate expectations and bond yields remain to the upside***.

The implication is to stay pro-growth in terms of investment positioning. Still, there are important divergences developing between the healthy and less healthy DM economies, which are benefitting various pair-trades in the **MRB *TradeBook***. One interesting divergence is underway within the euro area, with the now-sick German economy lagging the healthier four southern economies (see page 13). Note that we will update our multi-asset recommendations in next Friday's **MRB *Asset Allocation Strategy***.

Chart 2 Fed Projections: Too Bearish On Growth And Too Optimistic On Lower Rates



In fairness to investors, forecasting economic trends has been particularly challenging this decade, with the unprecedented global economic shutdown and the subsequent staggered re-opening due to the pandemic. The task has been made more difficult by a large and persistent divergence between weak global manufacturing activity and good service sector growth since 2022. This divergence has been consistent in all the large economies.

Another divergence has been between soft economic indicators, such as business and consumer surveys, and the hard economic data that measures actual spending, investment, output and incomes. We developed gauges to measure the hard and soft economic indicators for the U.S. (**chart 3**): when these risk indexes are high, it signals economic weakness/recession ahead, whereas low readings indicate healthy growth[3].

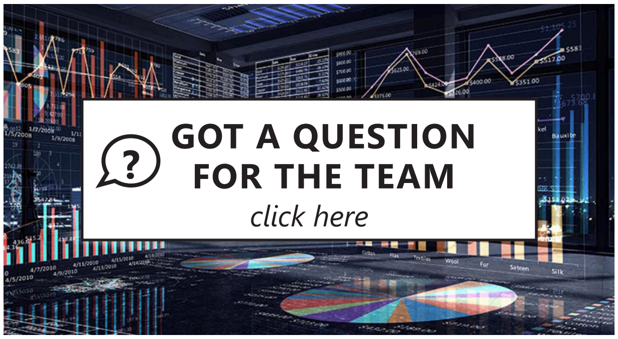
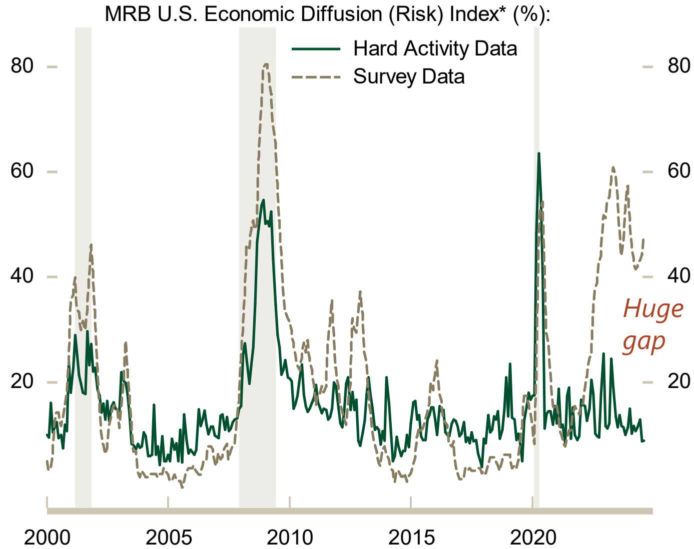


Chart 3 **Bullish Hard Economic Data, And Misleadingly Bearish Survey (Soft) Data**



* Percent of standardized components over 1 standard deviation below mean; MRB calculation based on 580 underlying data series
Note: Shaded for NBER-designated U.S. recessions
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The chart shows an unprecedented divergence in recent years: U.S. survey data have been consistently warning of significant weakness, yet the hard data has caused the risk index to hold at low levels. The latter, needless to say, has provided a far more accurate read on the economy's trajectory, which is why we continue to focus on such indicators. The current message is to expect above-potential growth to persist, even without more Fed rate cuts.

For investors, the message is to stay pro-growth despite stretched technical conditions and historically-elevated valuations (primarily U.S. equities, and U.S. and global credit). The combination of positive corporate earnings and falling policy rates is unusual, and unambiguously positive for risk assets.

Moreover, the ongoing strength in global financial stocks is a positive coincident indicator for the overall global equity market (**chart 4**). To sustain this backdrop, DM bond markets must stay relatively calm, which seems likely with DM central banks easing policy. As always, monitor the U.S. Treasury market for warning signs for the next risk-off phase, i.e. when Treasury yields gain strong upward momentum.

The combination of positive corporate earnings and falling policy rates is unusual and positive for risk assets

The recent backup in bond yields in the face of policy rate cuts is unusual and may well be a taste of what looms once investors and the Fed realize that their key assumption of a return to stable, low inflation is ***not*** occurring. However, for now, the Fed is not interested in taking any action that would jeopardize the economic expansion, which should limit the upside in Treasury (and DM) yields.

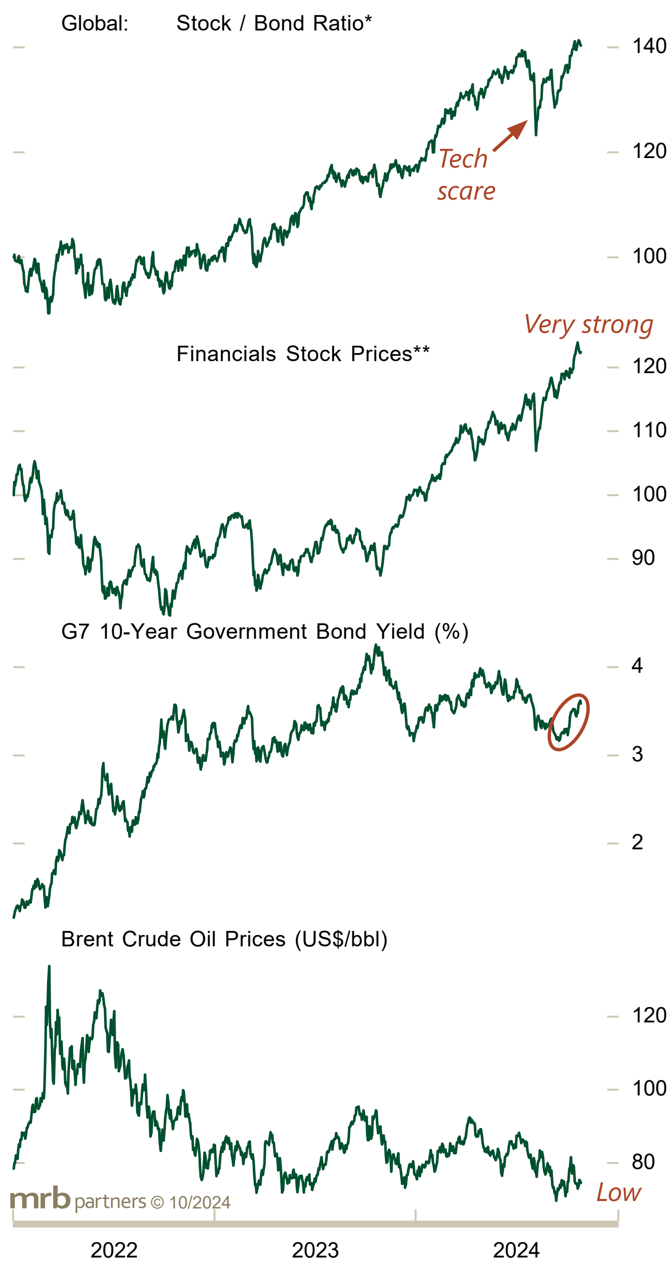
[3] For more, please see: **MRB:** "***U.S. Economy: Revisiting Recession Risks***", April 27, 2023

Aside: it is most unusual for the U.S. yield curve to ***bear*** steepen[4] after being inverted (**chart 1**, panel 2). Usually, the curve ***bull*** steepens after inversion as the economy sinks into recession and bond yields decline less quickly than the steep drop in the fed funds rate. As we repeatedly warned in recent years, the yield curve lost any forecasting power once investors decided to persistently front-run future rate cuts, even as the Fed was in the early stages of its rate-hiking cycle.

The BoC stepped up the size of its rate cuts to 50 bps this week, as we had anticipated (see page 12). The Canadian economy has been negatively diverging from the U.S., having previously gone in the opposite direction during the U.S. deleveraging phase last decade (i.e. Canada was still massively adding to household debt and inflating its housing market). Now, in contrast with the U.S., Canadian debt-servicing burdens are a huge headwind and a painful debt deflation phase looms absent sizable interest rate relief.

Chart 5 from our report earlier this week shows the conundrum for Canada: if Canadian longer-term bond yields get dragged up by U.S. yields, then the BoC will need to significantly lower short rates and encourage mortgage holders to move to the short end of the yield curve.

Chart 4 Risk-On Until The Bond Market "Riots"



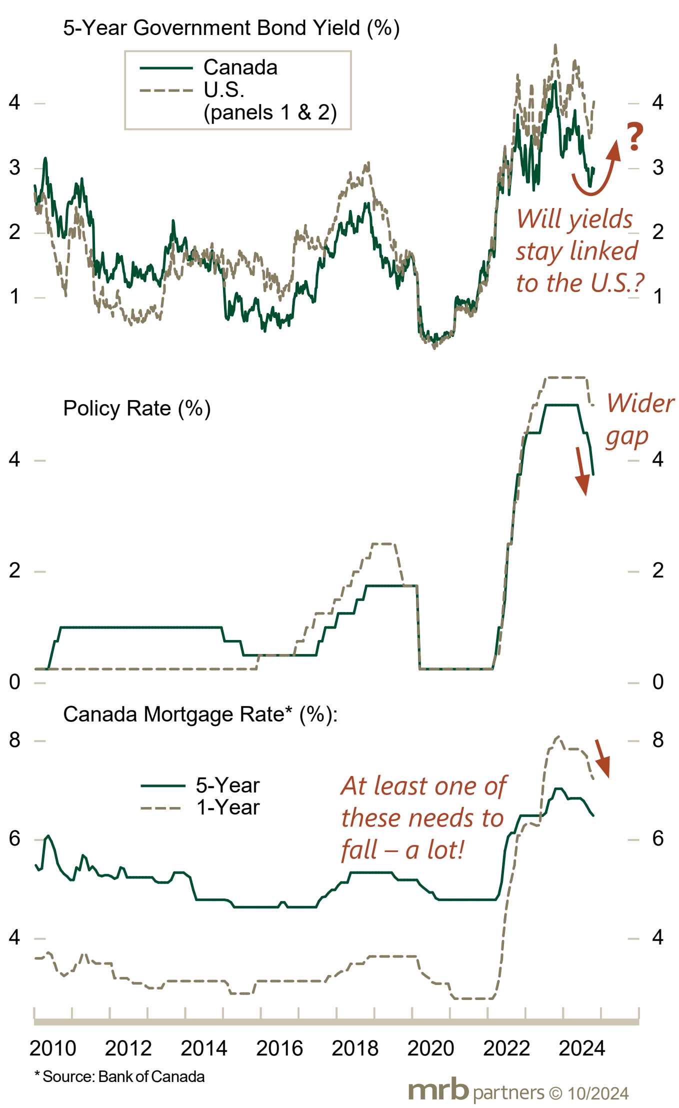
* Global MSCI stock market total return index divided by G7 10-year government bond total return index; local currency; rebased; source: MSCI
** Local currency; rebased; source: MSCI

The shoe is on the other foot for Canada after the country "benefitted" from depressed U.S. bond yields last decade, i.e. the Canadian economy was strong as low borrowing rates fueled a debt binge. Now, higher U.S. bond yields risk worsening the Canadian economic outlook, unless the BoC continues to lower rates at the front end of the yield curve to provide an offset (which will cause the CAD to depreciate).

[4] **Bear** steepening means that the 10-year Treasury yield moves higher and also rises relative to two-year Treasury yields; **Bull** steepening means that the 10-year Treasury yield declines but by less than the drop in two-year Treasury yields.

The euro area also has some need for lower rates, at least in the weakest parts of the region, which includes the largest economy – Germany. However, the overall region is not in poor shape, after having deleveraged last decade. The foundations under the consumer sector are particularly solid: they have not spent their excess savings built up earlier this decade and have solid income and employment growth[5].

Chart 5 **The BoC Will Diverge From The Fed**



Euro area consumer confidence has been steadily improving (**chart 6**), after suffering a huge shock in 2022 due to the war in Ukraine and related energy crisis. Still, consumers are hesitant to spend, and while the economy is not especially interest rate sensitive, the ECB is expected to steadily lower rates in any case.

ECB rate cuts should gradually lift some of the lagging economic areas/sectors, creating better overall growth. At that point, the ECB is likely to move to the sidelines, as the region only has modest economic slack and service sector inflation is sticky. For now, we are playing the prospects for a divergence between the ECB and the Fed in the next six months or so via a long German Bund/short U.S. Treasury 5-year bond trade[6].

Geopolitical and/or the U.S. political developments may yet disrupt the cycle. The risk-on phase has proven remarkably resilient in the face of heightened geopolitical tensions and growing political uncertainty.

Whoever wins the U.S. presidency will initially benefit from a solid economy and a dovish Fed

One conduit for current elevated geopolitical tensions to undermine global growth would be via a surge in energy prices. This has not happened, with oil (and natural gas) prices at the low end of their range, which is also helping to sustain risk-on. This backdrop has benefitted zero-yielding assets such as gold and bitcoin, which are perceived to benefit from cheaper money and chaos.

Turning to the U.S. election, whoever wins the presidency will initially benefit from a solid economy and a dovish Fed. The cliché is that a gridlock or status quo

[5] See **chart 6** in the **MRB*:*** "***Weekly Macro Strategy: Extending The Cycle***", September 27, 2024

[6] **MRB*:*** "***Absolute Return Strategy: Extending Goldilocks***", September 26, 2024

government, with no party in control of both the White House and Congress, is fine for asset markets if economic stresses are low, such as at present.

While some of Harris' stated policies will likely generate modest economic headwinds, the odds of a Democratic sweep in Washington are low, implying mostly gridlock if she were to win. There could be a temporary equity setback with a Harris win since some of the recent exuberance in risk asset markets could unwind as investors (in aggregate) seem to be keener on a Trump win (and the polling numbers have recently been in his favor).

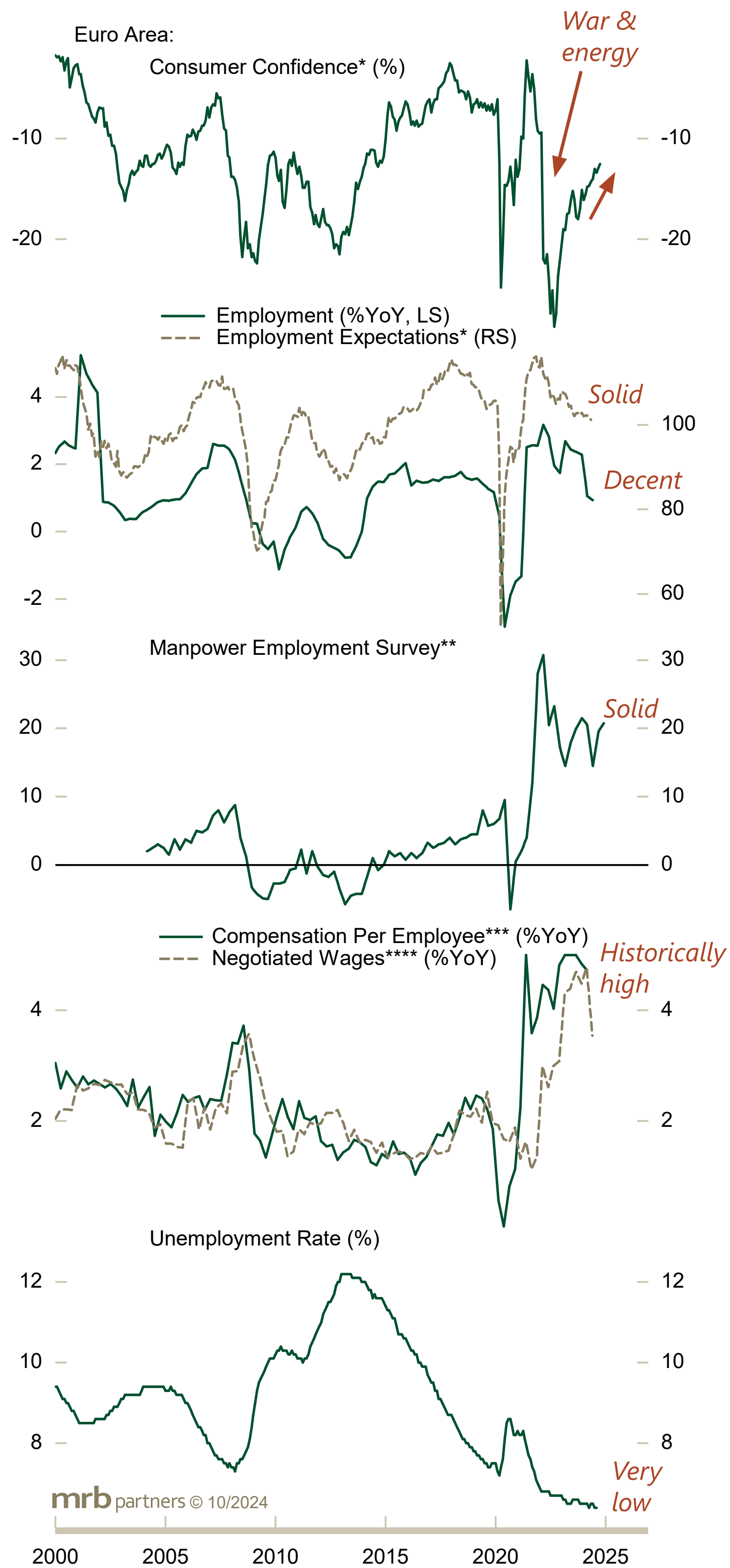
A Trump win is more of a wild card. He will pursue pro-growth and lighter-touch policies, yet Trump also claims that he will pursue aggressive protectionism – more so than during his first term (the latter was bearish for global trade, but not sufficient to derail the 2010s' economic expansion).

There is considerable uncertainty about what might actually occur on the tariffs/trade front (and other issues) should Trump win. Clearly, a stagflationary outcome would be bearish for all asset markets, both at home and abroad, but it is premature to make such a bet.

In terms of the possible investment implications of the U.S. election, we have published a series of detailed reports that examined a broad range of issues in recent months. Pages 10 and 15 highlight this week's reports, and all the reports are available here: ***MRB - U.S. Election 2024 Research***

Final Word: *Positive global corporate profits and lower DM policy rates favor risk assets. There has been an unprecedented gap between hard economic data (positive) and surveys (weak). Investors should continue to focus on the former.*

Chart 6 **Euro Area Consumers: Cyclically In Good Shape**

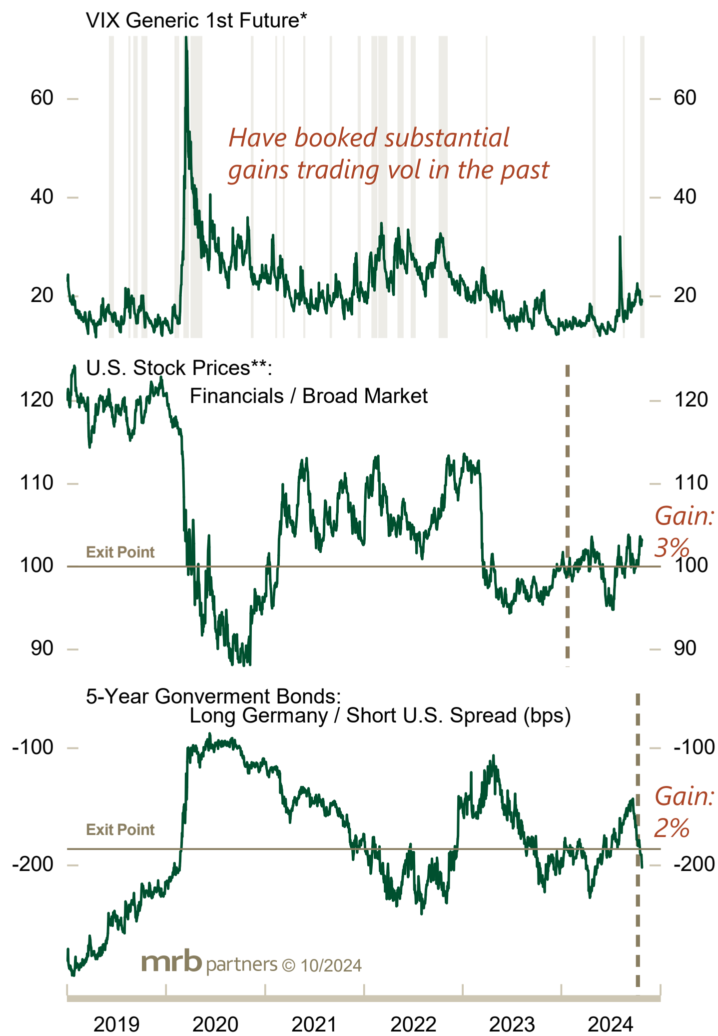


* Source: European Commission
** Equally-weighted aggregate of France, Germany, Italy and Spain
*** Truncated below 0% and above 5%; source: Eurostat
**** Source: ECB

Leaning against the Fed has periodically paid off as it has been persistently too bearish on growth and too optimistic on its ability to lower policy rates.

To this end, the recent rise in U.S. Treasury yields and rate expectations is a taste of what looms if our upbeat economic and sticky inflation forecast pans out.

Chart 7 MRB *TradeBook*: Positioning Changes



* Source: Chicago Board Options Exchange
** Rebased; source: MSCI
Note: Vertical line denotes when MRB initiated trade and shading denotes when MRB previously held trade

MRB *TradeBook Update*

Positioning Update

There are several changes to positioning in the ***MRB TradeBook*** this week (**chart 7**):

Closed Position:

- **Long VIX Index Generic First Futures:** The exit point on our long VIX first generic future recommendation was triggered early this week as equity volatility has eased a bit. We noted that if stopped out[7], we would move this position to the *Shadow Trades* and continue to use our strategy of adding a 5-point trailing stop-buy to capture spikes in implied volatility, and 4-point exit point if/when we are triggered into the position. We will continue to apply this vol strategy as we head into the U.S. election and anticipate another bout of volatility.

Tightening Stops:

- **Long U.S. Financials Stocks Vs Broad Market:** This equity pair trade has regained strength in recent months (up 3%) on the back of stronger earnings (as we forecasted). The U.S. election may have important implications for the future of financial industry regulation, although any such changes will take time to have an impact regardless of the outcome[8]. For now, we see further upside on this position, but will take this opportunity to tighten stops to the entry level to protect against market volatility.

Euro area theme: long Greece, Italy, Portugal and Spain, and short Germany

[7] **MRB:** "*TradeBook: Positioning Changes*", October 11, 2024

[8] **MRB:** "*U.S. Elections 2024: How Will The Vote Shape Financial Regulation?*", October 10, 2024

- **Long 5-Year German Bonds Vs. US Treasurys:** This spread trade has performed exceptionally well since we initiated the position last month, and a digestion phase is increasingly likely before further generating additional gains. Therefore, as a risk control measure, we will now tightening the stop to 186 bps (to protect 30 bps profits).

New Positions:

- **Southern Euro Area Risk Assets:** We added two new positions to the **MRB *TradeBook*** this week[9], including an equity pair trade of long SEU-4 (i.e. Greece, Italy, Portugal and Spain) versus Germany, and a long position in SEU-4 home prices (see also page 13).

This Week's Research

Webinar - Asset Allocation Strategy: How Much Portfolio Risk Is Appropriate?

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In Wednesday's **MRB *Webinar***, global strategist Peter Perkins discussed the economic and policy outlook, and the implications for global asset allocation strategy on a 6-12 month horizon, including prospects for G7 government bonds, global equities and currency markets.

The key issues that were addressed included:

- Will the Fed have to scale back its forward interest rate guidance following the latest strong employment data?
- Can the rest of the world gain economic momentum to complement the strength of the U.S.?
- Are G7 government bonds a buy on weakness, or sell on strength?
- Is a shift in equity market leadership from the U.S. and tech/A.I. stocks underway, and if so, who will be the winners?
- What is the risk of a breakdown in the U.S. dollar, and what would be the implications?
- How important for capital markets is the upcoming U.S. election outcome?

How important for capital markets is the upcoming U.S. election outcome?

[9] **MRB:** "*Euro Area Member Divergences Provide Opportunities*", October 23, 2024

U.S. Election 2024: Where Harris And Trump Stand On Technology Regulation

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.

If Harris wins, internet service providers and network equipment companies should benefit

Our report took stock of where the two presidential candidates stand on issues such as technology regulation and strategic competition with China, and examined the implications for the IT sector and related companies (**table 1**). Highlights included:

- Neither a Harris win nor a Trump victory will materially change the policy outlook for the technology sector in the next 1-2 years.

Table 1 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 biparisan 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 excutive 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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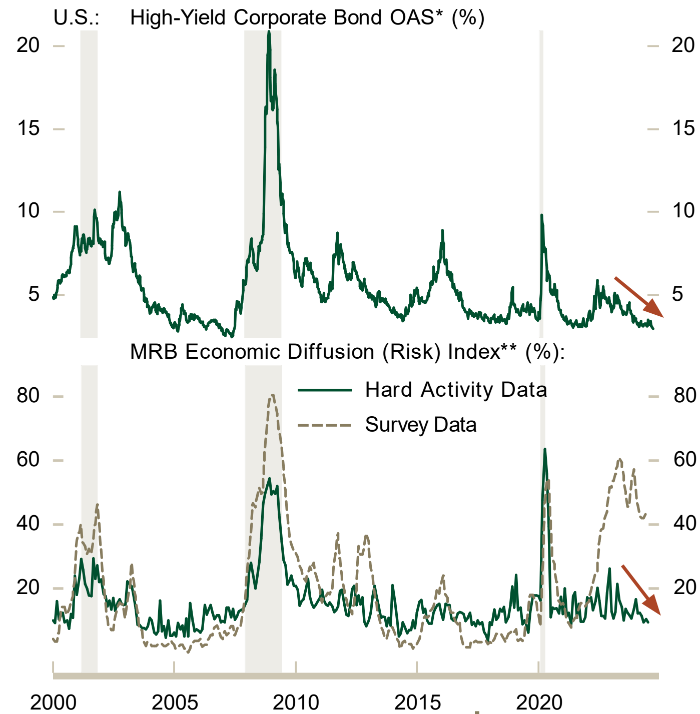
- The government's anti-trust cases against Big Tech will continue, irrespective of the election outcome.

- 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.

Chart 8 **Spreads Are Consistent With Ongoing Economic Expansion**



* Source: BofA Merill Lynch
** Percent of standardized components over 1 std. deviation below mean; MRB calculation based on 580 underlying data series
Note: Shaded for NBER-designated U.S. recessions

U.S. Corporate Bonds: Solid Fundamentals Will Keep Spreads Tight

A major default cycle is not on the horizon and, thus, corporate bond spreads should remain tight

U.S. corporate bonds have generated solid returns over the past year, boosted by narrower spreads and lower U.S. Treasury yields since their October 2023 peak. This has materially benefited our overweight allocation to U.S. high-yield (HY) and investment grade (IG) debt ***relative*** to U.S. Treasurys within the **MRB *Asset Allocation Strategy***, as well as our long ***absolute*** recommendation in HY debt within the **MRB *Absolute Returns Strategy***.

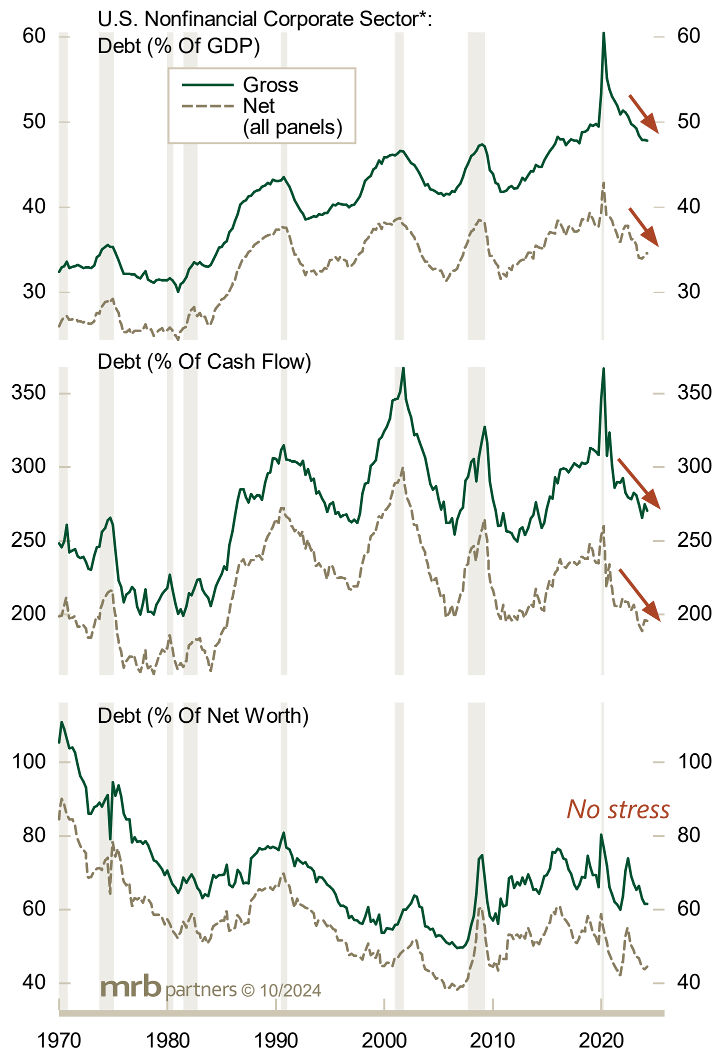
Monday's report provided our latest analysis on this asset class, and the key takeaways included:

- Our constructive U.S. economic outlook implies continued support for corporate debt over the next 6-12 months (**chart 8**). Ongoing above-potential U.S. GDP growth and healthy corporate balance sheets (**chart 9**) indicate that a major default cycle is not on the horizon, and that corporate profits and cash flows will continue to rise over the next year. A material widening in corporate bond spreads is unlikely.

- That said, corporate bond spreads are already historically extremely tight, and we expect Treasury yields to move higher as the bond market unwinds overly aggressive expectations of Fed rate cuts. The net impact will be only modest ***absolute returns*** for HY corporate debt and negligible returns for IG bonds on a one-year horizon. For now, we are maintaining a long position on HY corporate debt within the **MRB *TradeBook***.

- Prospects for ***relative returns*** for corporate bonds are more upbeat, albeit partially owing to our comparatively negative outlook for U.S. Treasurys over the next 6-12 months. Maintain an overweight stance on HY and IG corporate bonds within a U.S. fixed-income portfolio.

Chart 9 Healthy Corporate Balance Sheets



* Source: U.S. Bureau of Economic Analysis
Note: Shaded for NBER-designated U.S. recessions

Bank of Canada: A Case For Frontloaded Easing

Our view has been that the Federal Reserve's 50 bps cut last month would encourage select other developed market central banks with weaker economies to ramp up their dovishness and pull forward or frontload rate cuts. We identified the BoC as a likely candidate, and recommended positioning for wider Canadian versus U.S. interest rate (CORRA/SOFR) spreads over time, which has panned out (**chart 10**).

Expect even wider spreads in shorter-term interest rates (i.e. CORRA/SOFR spreads)

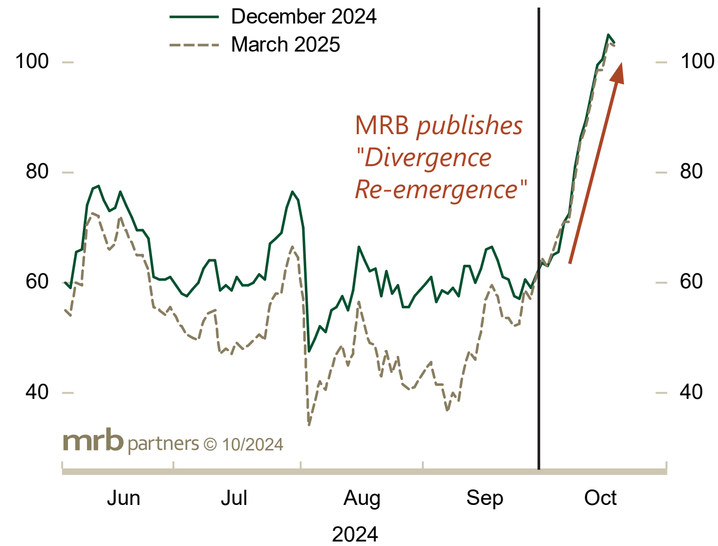
Tuesday's report provided our latest outlook for the BoC, government bond market, and the currency. Key takeaways included:

- The Bank of Canada has a much stronger case than the Federal Reserve to deliver sustained and/or deep rate cuts (**chart 11**). Canada is the poster child of MRB's weak-link economies theme, and cracks have already been evident. We expect that the central bank will bring forward its easing, rather than risk a housing fallout and painful deleveraging adjustment.

- The BoC can justify cutting 50 bps this week (Note: it did 50 bps) and another 50 bps by yearend or early-2025, given strains from the ongoing mortgage refinancing wave and ample economic slack which will contain inflationary pressures.

- We remain overweight Canadian government bonds relative to U.S. Treasurys (hedged for currency exposure) and expect somewhat wider spreads in shorter-term interest rates (i.e. CORRA/SOFR spreads) over time. We also have an underweight allocation to the Canadian dollar.

Chart 10 **Market Implied Policy Expectations Have Moved Considerably In Our Favor**



Note: CORRA/SOFR spreads

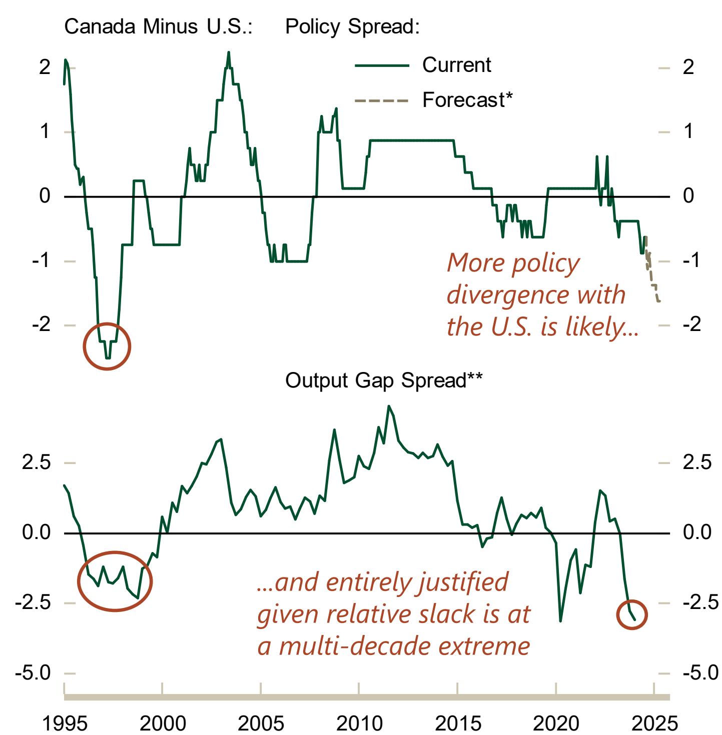
Euro Area Member Divergences Provide Opportunities

The euro area economy is widely perceived to be driven by Germany and particularly by its large manufacturing and industrial sector. However, this has ***not*** been true for many years. Nonetheless, German manufacturing activity and sentiment gauges remain the go-to business cycle indicators for many investors, and the persistent weak readings have caused concerns regarding the trajectory of the aggregate euro area economy.

Fixation on the region's sickest member provides a misleadingly pessimist perspective and risks missing substantial investment opportunities within the region and relative to global benchmarks.

Wednesday's report delved into the growing divergences between Germany and the key relatively healthy four southern euro area countries (SEU-4, which includes Greece, Italy, Portugal and Spain). It also analyzed France which ***currently*** provides a better barometer than Germany for the overall region.

Chart 11 **The BoC Can Justify Greater Policy Divergence**



* MRB calculation based on Fed's own policy projection and assumed BoC policy profile of back-to-back 50bp cuts
** Sources: Bank of Canada, U.S. Congressional Budget Office
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Moreover, the report outlined how easier ECB monetary policy, driven by weakness in Germany, will create investment opportunities within the region and should ultimately lead to a more constructive shift in aggregate euro area economic trends in the coming 6-12 months. The latter will be crucial in reshaping the investment narrative for the region.

Other key highlights included:

- Monetary policy has ***not*** been a drag in the euro area, but regardless, the ECB is cutting rates to help support the regional economy. This, in turn, will fuel stronger activity among SEU-4 member nations, providing investment opportunities in their equity and housing markets.

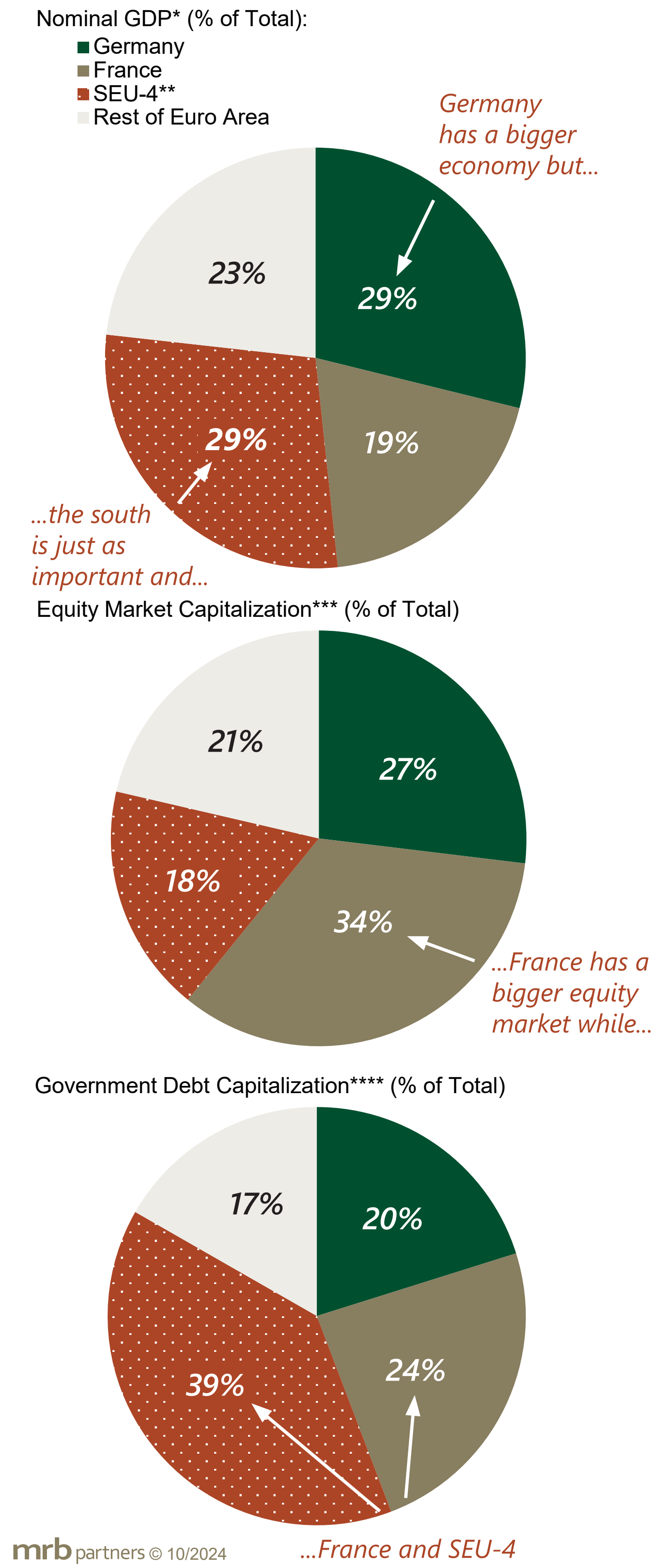
- To the extent that the central bank tries to shore up activity in the currently sick German economy, it should provide a boost for France. Better growth in the latter would meaningfully improve the investment narrative for the aggregate euro area, supporting regional equity and currency outperformance.

- We are adding an equity pair trade of long SEU-4 versus Germany in the **MRB *TradeBook***. We will also add a long position in SEU-4 house prices to reflect this theme, albeit recognize that not all of our clients directly purchase real estate.

- In term of fixed income, the improvement in the SEU-4 will ensure that government bond spreads versus the anchor, Germany, remain tight for the foreseeable future.

- Lastly, we continue to favor the euro versus our list of economic "weak-link" currencies, including the Canadian dollar. We also favor the euro to the U.S. dollar, albeit material gains will likely await evidence that France and the overall euro area economy are gaining greater traction. We hold long EUR/CAD and long EUR/USD positions in the **MRB *TradeBook***.

Chart 12 Euro Area Is Not Just About Germany

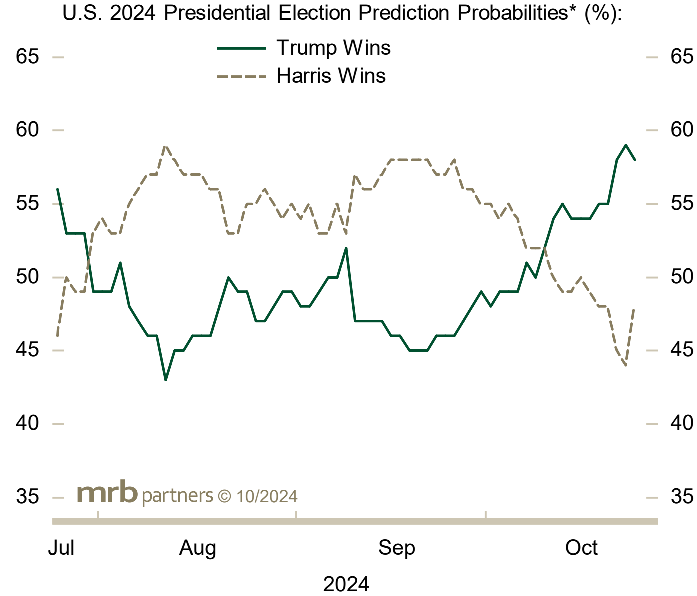


* Source: Eurostat
** GDP-weighted aggregate of Greece, Italy, Portugal & Spain
*** Source: MSCI
**** Source: IMF

U.S. Election 2024: Looking At A Few More Policy Issues As The Race Enters The Homestretch

With election day less than two weeks away, the race for the White House remains close. Trump has recently pulled ahead of Harris in the betting markets (**chart 13**), and the polls show him leading in the majority of battleground states. However, his lead in swing-state polls is thin and within the margin of error, indicating that the election is a statistical dead heat.

Chart 13 The Betting Markets Think That Trump Has A Much Higher Probability Of Winning



* Source: PredictIt

Thursday's report was the last in our series of pre-election policy research highlights. It examined the potential sectoral implications of the candidates' policies addressing issues such as housing affordability, immigration reform, trade and tariffs, and defense spending. We also provided some overarching conclusions about equity market trades linked to different election outcomes.

Highlights included:

Homebuilding stocks are likely to react more positively if Harris wins the election

- 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.

However, Trump is likely to be viewed as more positive for defense spending

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

- Although both candidates support strengthening the capabilities of the U.S. military, Trump is likely to be viewed as more positive for defense spending.

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