The home stretch

The final weeks of a presidential campaign are akin to running the last mile of a marathon. The final sprint to the finish line is often made despite an overwhelming sense of physical and mental exhaustion. In the midst of a global pandemic and a disheartening absence of civility in public life, voters this year may welcome the end of a grueling campaign almost as much as the candidates.

The introduction of early voting options has altered the dynamics of US presidential contests. With less than two weeks to go before Election Day (see Fig. 1 on the next page), more than 50 million Americans have already cast their ballots, either in person or by mail. The early voter turnout was at one point running six times higher than the pace set four years ago. Based on available data from those states that report the party affiliation of returned ballots, Democrats are using the mail-in ballot option more often than Republicans. What remains to be seen is whether they are voting in higher numbers or just doing so earlier in the process to avoid the risk associated with postal service delays.

State of the race

Former Vice President Joe Biden now enjoys a bigger lead in national polls than any prior candidate facing an incumbent president. The key question is whether it will translate into victories in battleground states where the race is tighter, and where the election ultimately will be decided (see Fig. 2 on page 3). Secretary Clinton won the national popular vote by 2.1% but lost three critical contests in the Midwest by a narrow margin, costing her the election. Biden appears intent on avoiding a repeat of that dynamic, frequently stump...
While a contested election cannot be completely discounted, the probability of it happening has declined in recent weeks, which has buoyed financial markets anxious to avoid the uncertainty associated with protracted litigation.

A referendum on COVID-19

The federal government’s ongoing response to the global pandemic will be the first order of business, regardless of who wins the election. The immediate threat to public health transcends other considerations, but the adverse economic impact of COVID-19 is hard to overstate. The lapse in enhanced unemployment benefits resulted in an abrupt decline in aggregate personal income in August, while more layoffs are becoming permanent. In short, fiscal support is fading and the US economic recovery has begun to lose traction as we enter the home stretch of this year’s election. The service sector, in particular, has been badly battered, and will require additional rounds of stimulus until a vaccine or more effective therapeutics are introduced.

Unfortunately, the two houses of Congress thus far have failed to agree on the size and scope of a fiscal package. Democrats in the House passed a bill that revives the enhanced federal unemployment...
benefit and would send additional fiscal stimulus checks to many Americans. The House bill also provides more financial aid for states and local governments, a provision that holds less appeal for the GOP. Despite intermittent prodding from the president, a majority of Senate Republicans prefer a smaller fiscal stimulus package that includes enhanced unemployment benefits and liability protection for businesses, but excludes additional stimulus checks.

Financial markets have reacted in sync with the prospects of a deal between the White House and Congress. Equity prices have responded positively to optimistic statements that a deal might be struck, and have fallen on news of an impasse. That reaction function alone suggests that investors have begun to attach more importance to another round of fiscal stimulus than to the prospect of a higher tax bill in the future.

The composition of Congress will be just as important to the development of fiscal policy as the winner of the presidential election. To the extent that Democrats assume control of the Senate in January, which now appears likely, they will still have to negotiate with their GOP brethren. Parliamentary rules in the upper house of Congress require 60 votes to suspend debate for most legislation. Whether or not the Democrats have enough votes in their own caucus to eliminate the filibuster is an open question that will not be resolved until early next year. Our colleagues in the UBS US Office of Public Policy believe that some moderate Democrats will oppose such an effort, but they might be willing to add limitations to the use of the parliamentary maneuver instead of eliminating it entirely.

The use of the filibuster is an arcane issue for many investors, but one that is likely to preoccupy financial markets in 2021. To the extent that it is retained in any meaningful form, tax legislation will be deferred until later in the calendar year and addressed through budget reconciliation. This will allow more time for an economic rebound on the heels of a fiscal stimulus package and the introduction of a vaccine. The net effect, we believe, will be better investor sentiment.

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**Figure 2**

2020 battleground states

<table>
<thead>
<tr>
<th>State</th>
<th>Trump</th>
<th>Biden</th>
<th>Trump vs. Clinton in 2016</th>
<th>Trump vs. Biden in 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wisconsin</td>
<td>43.5%</td>
<td>49.7%</td>
<td>+0.7</td>
<td>-6.2</td>
</tr>
<tr>
<td>Florida</td>
<td>47.3%</td>
<td>48.3%</td>
<td>+1.2</td>
<td>-1.0</td>
</tr>
<tr>
<td>Michigan</td>
<td>42.7%</td>
<td>50.0%</td>
<td>+0.3</td>
<td>-7.3</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>45.0%</td>
<td>48.8%</td>
<td>+0.7</td>
<td>-3.8</td>
</tr>
<tr>
<td>North Carolina</td>
<td>46.4%</td>
<td>48.4%</td>
<td>+3.7</td>
<td>-2.0</td>
</tr>
<tr>
<td>Arizona</td>
<td>46.2%</td>
<td>49.3%</td>
<td>+3.5</td>
<td>-3.1</td>
</tr>
<tr>
<td>Iowa</td>
<td>46.3%</td>
<td>47.5%</td>
<td>+9.5</td>
<td>-1.2</td>
</tr>
<tr>
<td>Ohio</td>
<td>46.6%</td>
<td>46.4%</td>
<td>+8.1</td>
<td>+0.2</td>
</tr>
<tr>
<td>Texas</td>
<td>49.2%</td>
<td>44.8%</td>
<td>+9.0</td>
<td>+4.4</td>
</tr>
<tr>
<td>Georgia</td>
<td>46.3%</td>
<td>47.5%</td>
<td>+5.1</td>
<td>-1.2</td>
</tr>
<tr>
<td>Minnesota</td>
<td>41.5%</td>
<td>47.8%</td>
<td>-0.3</td>
<td>-6.3</td>
</tr>
<tr>
<td>Nevada</td>
<td>43.8%</td>
<td>49.0%</td>
<td>-2.4</td>
<td>-5.2</td>
</tr>
</tbody>
</table>

Source: RealClearPolitics, UBS, as of 20 October 2020
Revised probabilities

The UBS US Office of Public Policy has revised its forecast for the election. The new forecast assigns a 55% probability to a Blue Wave, where Democrats capture the White House and both chambers of Congress. A status quo result, with the president eking out narrow wins in battleground states and control of Congress remaining divided, is less likely than it was just four weeks ago but still the next most likely outcome. The probability of a Biden victory with a Republican Senate is marginally higher than it was last month but remains unlikely because many GOP incumbents are facing difficult races. To the extent Biden does win, the ability of GOP candidates to fight the tide becomes more difficult. The prospects for a Red Wave have all but disappeared, a far cry from how we began the year before the pandemic scrambled the presidential campaigns.

Democrats ride Biden’s coat-tails to a narrow majority in the US Senate. A tax bill is enacted through budget reconciliation. The maximum marginal rate is raised to 39.6%. The corporate tax rate is raised to 28%, and an alternative minimum tax on book income is levied at 15%. Capital gains taxed at higher rates at higher income levels.

A less likely scenario where Biden wins but Democrats fail to assume control of the Senate. GOP retains control but its majority shrinks further. Biden implements policies through regulation. Taxes remain unchanged. Expiring provisions of Tax Cuts and Jobs Act unaddressed.


An unlikely outcome, as Democrats are expected to retain control of the House of Representatives. However, if the scenario occurs, expiring provisions of the Tax Cuts and Jobs Act would be made permanent. Defense Department budget would be increased.

Globally, more investors want Biden to win

<table>
<thead>
<tr>
<th>Region</th>
<th>Preferred winner</th>
<th>Biden</th>
<th>Trump</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>50%</td>
<td>50%</td>
<td></td>
</tr>
<tr>
<td>Asia</td>
<td>51%</td>
<td>49%</td>
<td></td>
</tr>
<tr>
<td>Latin America</td>
<td>56%</td>
<td>44%</td>
<td></td>
</tr>
<tr>
<td>Europe (except Switzerland)</td>
<td>62%</td>
<td>38%</td>
<td></td>
</tr>
<tr>
<td>Switzerland</td>
<td>66%</td>
<td>34%</td>
<td></td>
</tr>
</tbody>
</table>

Source: UBS Investor Sentiment, 3Q 2020
Note: Marketing material. A survey of global high net worth investors and business owners on their needs, goals, concerns, and sentiment. The views expressed may be different than those of UBS.
Equities

Elections have consequences, but the defeat of the pandemic and subsequent economic recovery will continue to be one of the main market drivers in any election outcome, which bodes well for the equity market over time. That said, a Blue Wave or status quo outcome would likely be modestly better for stocks because it would lead to larger fiscal support relative to a Biden win with a divided Congress.

Blue Wave
A Biden administration would emphasize economic recovery with a focus on infrastructure, green initiatives, and potentially healthcare coverage expansion. Trade tensions could also cool, providing an additional boost. This should offset the impact of tighter regulation and higher taxes. We believe industrials, materials, and utilities sectors would benefit. The energy sector could lag due to green policies. Financial regulation would likely be fairly limited in scope. For healthcare, uncertainty about the impact of a potential “public option” health insurance plan and drug price cuts could weigh on the sector, but we think the most dire policy outcomes are already priced in and, ultimately, greater healthcare coverage would benefit the sector.

Biden (divided Congress)
In a Biden victory with a divided Congress, equities could have a modestly negative reaction. This constellation might produce the smallest fiscal package if the Senate Republicans opt to block most legislation. Still, industrials and materials could benefit from reduced trade tensions. On the regulatory front, utilities would benefit from green initiatives. However, energy, and, to a much lesser extent, financials, could see some regulatory headwinds. Healthcare stocks would likely react favorably to the prospect of more limited than expected policy changes.

Trump (status quo)
In a status quo scenario, policy shifts would likely be fairly small. Fiscal stimulus that supports the recovery would likely come through, but it would be smaller than a Blue Wave outcome. Renewed trade tensions with China are a risk and would have a slightly negative impact on the industrials and materials sectors. Companies in the energy, financials, and healthcare sectors could benefit from a relief rally as some of the policy uncertainty associated with a Biden victory dissipates.

Figure 5

Faster GDP growth from fiscal stimulus and relaxed tariffs could offset tax impacts

Potential impact on S&P 500 earnings, CIO estimate (%)

<table>
<thead>
<tr>
<th>Biden corporate tax proposals</th>
<th>Fiscal stimulus: every 1% increase in GDP</th>
<th>Tariffs</th>
</tr>
</thead>
<tbody>
<tr>
<td>-8</td>
<td>2</td>
<td>-4</td>
</tr>
<tr>
<td>-6</td>
<td>4</td>
<td>-2</td>
</tr>
<tr>
<td>-4</td>
<td>6</td>
<td>0</td>
</tr>
<tr>
<td>-2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Bloomberg, UBS, as of 20 October 2020

Key takeaways

- Recovery from the pandemic will remain one of the key market drivers, therefore stocks should have upside in any election outcome as the pandemic begins to wind down next year.
- The Blue Wave and status quo outcomes would be more supportive for US stocks due to greater fiscal stimulus relative to a Biden win with a divided Congress.
Energy policy has been a front-burner issue in the 2020 presidential election. Investor perception appears to have resolved that a Biden victory is negative for the US oil and gas industry, while a Trump victory is positive. We discuss the impact of the three most likely election outcomes below.

**Blue Wave**
US energy equities associated with fossil fuels have underperformed recently and appear to be discounting the risks of our Blue Wave scenario. While there are risks for the energy industry, we believe they may be tempered by practical limitations to making sweeping changes given the fragile state of the US economy. Economic stimulus and renewable energy would take top priority. But beyond a moratorium on new leases for fossil fuel exploration on federal lands, we expect most energy risks will stem from regulatory policy rather than congressional action.

Renewable energy including wind and solar is likely the biggest energy winner, though batteries, hydrogen, carbon capture, advanced nuclear, and other less developed technologies are likely to be promoted. We believe natural gas will remain an important bridge fuel and relatively cleaner alternative to coal for US power generation, which should limit risks. Further, US natural gas exports (LNG) support cleaner energy policies in the developing world. Importantly, a legislative ban on fracking is not on the agenda.

We expect regulation of the oil and gas industry will increase, though this will take time. Many states rely on the significant revenues from oil and gas production—a reality that may make restrictions on the industry more difficult under current economic conditions.

For oil, a key macro risk is the potential restoration of the 2015 Joint Comprehensive Plan of Action (JCPOA) nuclear deal with Iran. If restored, Iran could increase global oil supply by 2–3% in a weak demand environment.

**Biden (divided Congress)**
The issues confronting the oil and gas industry would be similar to those in the Blue Wave scenario, though a divided Congress could alter the discussion and slow the pace of change. However, we expect most energy risks will stem from regulatory policy rather than congressional action, which limits the difference between the two blue scenarios.

**Trump (status quo)**
While we do not expect any changes to the policies in place, this outcome would be seen as relatively supportive for the oil and gas sector, resulting in a relief rally. It could be viewed as negative for renewables, though we do not expect the rapid growth in renewable fuels and technologies to slow.

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**Figure 6**
Clean energy has outperformed oil and gas
Clean Energy ETF vs. Energy select—values indexed to 100

- Renewable energy, including wind and solar, is likely the biggest energy winner in a Blue Wave scenario.
- Natural gas is an important bridge fuel, which suggests limited risks for this sub-sector in most scenarios.
- A key oil risk is the potential restoration of the JCPOA with Iran, which could increase global oil supply.

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Source: Factset, UBS, as of 12 October 2020
Election implications for US financials can be framed along two main lines: legislative risk and regulatory risk. While the Dodd Frank Act (DFA) of 2010 will likely remain unchanged under any of the potential election outcomes, the interpretation and implementation of DFA provisions may vary according to the composition of the administration and Congress. Personnel is policy, and any leadership changes at the key regulatory agencies (the Fed, OCC, FDIC, and SEC) could have broad implications for compliance costs and capital/liquidity requirements going forward.

**Blue Wave**

Higher taxes, reregulation, and generally negative political rhetoric (headline risk) toward financial services companies would likely be offset by macroeconomic benefits from increased government spending. The threat of Democratic initiatives like a transaction tax, higher carried interest tax, and a strengthened Consumer Financial Protection Bureau (CFPB) could be negative for financials’ fundamentals and valuation. Nevertheless, higher inflation and potentially higher long-term interest rates would provide positive support for US financials’ earnings growth and profitability.

**Biden (divided Congress)**

The benefits of fiscal expansion, limited somewhat by a Republican Senate, would likely be offset slightly by more regulation. Also, lower trade tensions and global macroeconomic stability may be dampened by higher compliance costs. While legislative changes to the DFA would be unlikely, regulatory leadership changes could lead to stricter interpretation of existing rules and regulations. US financials may be more challenged.

**Trump (status quo)**

More limited fiscal expansion along with sustained lower taxes and more lenient regulation should support somewhat higher earnings growth and profitability for US financials. Resistance from house Democrats would likely limit macroeconomic benefits; however, we would expect a degree of a relief rally in a status quo election.

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**Key takeaways**

- Overall, US financials successfully weathered the economic shock of the COVID-19 pandemic with sufficient capital and liquidity to support the broader US recovery.
- Although higher taxes and tighter regulation in targeted areas like consumer finance are possible under a Blue Wave, the sector’s current valuation multiple is quite low compared with history.
- Accordingly, we currently have a preferred view of US financials regardless of the election outcome.
For healthcare, 2020 resembles the 2008 election cycle, after which a unified Democrat-led government undertook significant healthcare policy reform. In 2009, healthcare stocks hit valuation lows only recently matched during the current election uncertainty. Once clarity emerged on moderate healthcare legislation (the Affordable Care Act, or ACA), healthcare stocks outperformed through 2015. We are optimistic that 2020 could set up similarly for the sector.

**Blue Wave**

While we expect a Blue Wave scenario to carry continued near-term headline volatility for healthcare stocks, a Blue Wave also creates the potential for needed clarity on healthcare policy. We believe that meaningful legislation is more likely to occur under unified government. In particular, the composition of the US Senate is critical to determining viable health policy legislation in 2021.

A narrow Democratic majority likely cannot pass strong anti-industry legislation. We are optimistic that a narrow Democratic Senate majority would instead pass moderate healthcare legislation that would provide needed long-term clarity for the sector without being overly punitive, and drive positive long-term stock performance.

**Biden (divided Congress)**

In a Biden win with a GOP-controlled Senate scenario, healthcare likely enjoys a strong initial relief rally. A split Congress likely accomplishes little on healthcare. In the absence of long-term clarity, however, healthcare will likely again be subject to policy uncertainty ahead of the 2022 midterm elections. But if bipartisanship could emerge on healthcare, any compromise on drug pricing would likely be even more moderate, and thus less negative for the pharmaceutical industry. While a low probability outcome, bipartisan legislative compromise on drug pricing would be the best outcome for pharmaceutical stocks.

**Trump (status quo)**

In a status quo election scenario, we also expect an initial relief rally for the healthcare sector. However, we think the current administration’s rhetoric has not been supportive of the healthcare sector, and that ongoing uncertainty around healthcare policy and the future of the ACA could quickly re-emerge in the next Congress, capping the upside to healthcare stocks.

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**Key takeaways**

- The election remains a key risk factor for healthcare stocks with the sector trading at multi-decade valuation lows relative to the market.
- Despite potential near-term election volatility, legislative clarity on moderate health policy reforms would be the best long-term outcome.
- The composition of the US Senate will be critical to determining viable health policy legislation in 2021.
One outcome of the upcoming US elections will likely involve more infrastructure spending regardless of who wins this November. However, the end result could be materially different based on the possible election outcomes.

**Blue Wave**

We believe the recent gridlock to passing a large infrastructure bill is likely to be finally broken with a Democrat sweep as the party views it as a way to inject stimulus into the economy and address climate change. Under this scenario, we would see a wide array of winners as it would impact not only infrastructure, but green energy initiatives as well. Biden’s announced plan is an ambitious USD 2 trillion climate and infrastructure plan that dramatically accelerates prior proposals. However, anything short of this outcome would be negative for the exposed stocks given their outperformance in recent months.

The main industries to benefit are machinery, engineering and construction, chemicals, electrical equipment, and construction materials. The focus on energy efficiency should also be a positive for the climate control and building solutions stocks as building and homes are upgraded for improved efficiency. The plan’s focus on zero-emissions public transportation options should boost spending on emission-free railroads, trucks, and buses. This likely would help companies exposed to hydrogen and fuel cells, electric charging, and battery materials.

**Biden (divided Congress)**

While we see a Biden victory as positive to increased infrastructure spending, a divided government likely reduces the size of any potential program. We would expect spending to be focused more on traditional infrastructure like roads, bridges, and overall construction. Biden’s green initiatives are likely to face more opposition from a divided government and we believe will be scaled back—if they get funded at all. This scenario would be positive for machinery, building materials, and construction and engineering companies, but negative for areas exposed to climate, alternative energy, and green technologies given how well those stocks have done recently.

**Trump (status quo)**

We see this scenario outcome as the most negative relative to current expectations. The Democrats and President Trump have not been able to agree on the size and funding of an infrastructure bill over the last several years. Thus, we do not see a big change in this dynamic with the status quo, but still expect to see some infrastructure bill being passed as a form of stimulus. However, it will likely be much smaller in size and scope than under a Biden presidency. This scenario would be broadly negative for all the exposed names given that a larger and more encompassing plan is reflected in the stocks at this point.

**Key takeaways**

- Infrastructure spending is likely to receive a boost regardless of who wins the election.
- A Blue Wave scenario should have the largest impact on future spending.
- Anything short of a Blue Wave would be negative for infrastructure-exposed stocks in the near term.
Regulatory scrutiny of the mega-cap tech companies has ratcheted higher, and the push for greater oversight is somewhat shared by legislators from both sides of the aisle. Still, we believe regulatory risks are manageable. Any adverse antitrust rulings would likely result in modest remedies, such as fines and some behavioral modifications.

Ultimately, many of these matters may be decided in the courts, rather than by regulators or politicians. The Department of Justice just unveiled an antitrust case against Google. Likewise, the Federal Trade Commission is investigating Facebook on antitrust grounds. The judicial process will likely take years to reach resolution and is somewhat independent of the election outcome.

At the moment, we don’t believe there is much appetite in Washington to pursue new antitrust or tech-specific legislation, regardless of the election outcome. Rather, it seems that politicians may be waiting to see how the ongoing antitrust investigations play out.

**Blue Wave**

Because regulation is somewhat independent of the election, we believe fiscal policy could be the bigger driver of tech stocks coming out of the election. If a Blue Wave leads to a large fiscal stimulus that pushes up long-term interest rates, valuations for some of the most expensive parts of the tech complex could come under pressure. While many tech companies derive a high percentage of income from overseas, limiting exposure to a higher domestic tax rate, Biden’s proposal to institute a minimum tax and raise taxes on overseas income from intangible assets would negate the higher mix of domestic profits. Within the tech sector, semiconductors—the most cyclical segment of the tech sector—could get a modest boost from faster economic growth.

**Divided government**

In the two scenarios that result in divided government—a Biden or Trump victory but with a split Congress—the impact on the sector should be fairly modest. In both of these scenarios, fiscal stimulus would likely be smaller than in a Blue Wave, therefore the risk of lower valuations stemming from higher interest rates would be reduced. While broader trade tensions may cool in a Biden victory, US/China technology tensions will likely continue regardless of who is in the White House. These bipartisan concerns will likely only increase with the growth in 5G wireless deployments, artificial intelligence adoption, and other foundational technologies.

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**Key takeaways**

- Regulatory risks for big tech may continue to rise modestly in any election outcome, but we think they are manageable and will likely take years to play out.
- A large fiscal stimulus in a Blue Wave could prompt a rotation out of mega-cap tech.
- Divided government should have minimal impact on the sector.

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**Figure 10**

Massive size of tech behemoths attracts regulatory scrutiny

Percent of S&P 500 market value
Sustainable investing (SI) strategies have broadly shown equivalent or better performance as compared to conventional peers. Product development and AUM have steadily increased in the US and globally during the current US administration, reaching USD 12 trillion AUM in the US (out of USD 31 trillion globally) in 2018, and exhibiting further growth through 2020. For more on the global trends supporting SI, see “A private investor perspective: Sustainability matters.”

Depending on the outcome, we expect the US election to have a neutral-to-positive impact on SI. While a Blue Wave outcome could boost some sustainable themes and SI strategies, we believe that a status quo or split government result would not bring any significant headwinds to SI.

An acceleration of social policy and regulation by a Biden administration could have a positive impact on ESG Leader strategies. For example, the Democratic campaign outlines plans to raise the federal minimum wage to USD 15/hour, pass legislation to mandate 12 weeks of paid family leave for serious health conditions, or ban the federal use of private prisons and incentivize states to do the same, among other proposals. Additionally, a
potential higher emphasis on **human rights in trade negotiations**, as well as stronger implementation of the rule prohibiting the importation of goods made with prison, forced, and child labor in the Tariff Act of 1930, might bring further attention to how companies manage their supply chains. If enacted, these policies might bring higher adjustment risks for companies that are not managing some of these social issues in their operations, benefiting ESG Leaders. The Biden **USD 2 trillion climate change plan** would increase investment in infrastructure and boost green themes like “Renewable energy,” as we have detailed in “**Biden’s infrastructure plan—a look at the future.**”

We expect a status quo or split government result to have a neutral effect on SI. The Trump administration has **rolled back several environmental rules** in the past four years, but we believe that the effect of this type of policy on environmental themes has likely panned out. For more, see “**Green themes won’t sink without a blue wave.**” Regardless of federal intervention, states and cities are increasing their commitment to addressing the challenges of climate change, thus creating a favorable environment for climate-focused SI approaches. For example, California will phase out the sale of gas-powered vehicles by 2035, while Michigan’s governor announced the state will aim to reach carbon neutrality by 2050. Twenty-four US states including California and New York have joined the US Climate Alliance, pledging to uphold the Paris Agreement commitments, while hundreds of metropolitan centers have joined nearly 100 Clean Cities Coalitions to advance renewable energy and energy efficiency objectives in their local transportation systems.

### Key takeaways

- Depending on its outcome, we expect the US election to have a neutral-to-positive effect on SI strategies.
- Shifting consumer preferences, strong investor attention to ESG, state-led support, and favorable global policy underpin our view that a status quo result would have a neutral effect on SI strategies.
- A Blue Wave scenario could further bolster some sustainable themes or benefit ESG Leader strategies, with expected regulation on social issues and additional federal investment aligned with environmental topics and themes.
Who exactly sits in the Oval Office in January 2021 is certainly relevant for the global economy, as US presidents need not rely on Congress to determine the direction of the country’s trade and geopolitical agenda. Trump and Biden have been explicit about the approach they plan to take, and these look markedly different. Yet, despite their contrasting styles, we are unlikely to observe drastic changes in some key areas of America’s external policy.

A Biden presidency looks set to reduce US external policy uncertainty, improving the visibility on the outlook for global markets. The former vice president may be more reluctant to use tariffs as a trade policy tool, and seems likely to take a more globalist approach where allies are brought together to address matters such as the future of NATO, the WTO, and the issue of digital tax. Partners with less sterling records on human rights and the environment can probably expect more criticism from Biden, though long-standing strategic ties are unlikely to be severed over infringements.

Trump, on the other hand, has highlighted he is willing to continue to use tariffs and sanctions as tools of foreign policy in a second term. He has also threatened to selectively impose tariffs upon, and to strip government contracts from, companies that refuse to relocate their operations to the US. The administration’s critical stance toward richer NATO members will likely continue, and incendiary rhetoric against China will likely remain the norm.

But even if there were a change in control of the White House, it seems unlikely the US will engage in an aggressive push for global trade integration and the signing of fresh major trade agreements. America’s two political parties are now more aligned on the issue of global trade than is widely appreciated. In recent years, amid a shift in citizens’ view on the topic of trade, they have grown skeptical of treaties that might jeopardize
American jobs, and have developed a taste for a Hamiltonian approach to protecting domestic manufacturers from foreign competition. In addition, with nearly 70% of Americans holding a negative view of China, there is little doubt tensions between the US and China will continue to exist. We therefore maintain a view that the post-crisis, post-election world will be less global than the one we have gotten accustomed to.

**Investment implications**

We think investors should build portfolios resilient enough to perform well in a wide range of scenarios, rather than take concentrated positions that would benefit in a particular election outcome. International assets should play a central role in such portfolios, as they help mitigate home bias, promote geographic diversification, and tend to contribute to higher returns than a portfolio without them. In our baseline scenario, we expect equity returns in international markets to surpass those of the US in the coming years. In a yield-starved world, US dollar-denominated emerging market sovereign bonds remain as one of our most preferred asset classes six to 12 months out, as we expect countries to bring the virus under control and commodity prices trade higher.

**Key takeaways**

- While trade tactics will vary by candidate, we do not expect an aggressive push toward global trade integration in any outcome.
- Investors should build portfolios resilient enough to withstand a wide range of trade outcomes, with international assets playing a central role.
- Don’t miss our recent reports on the implications of the US election for Emerging markets, Europe, and Asia Pacific.
The home stretch

State of the race
Market impact on...
Equities
Energy
Financials
Healthcare
Infrastructure
Technology

Spotlight on...
Sustainability
Global trade

UBS Wealth Way

Advocacy groups are on track to spend about USD 10.8 billion on political advertising in the 2020 election, an increase of about 50% from the expenditures recorded four years ago. Regardless of the political party or interest group behind them, the ads are all designed to pull on your heart strings, ramp up your anxiety, and drive home one central point: This election matters.

Of course, all elections do matter, and investors should review their financial plans periodically in light of changes to tax policy (see the next page). However, we are compelled to remind investors that the outcome of this election is unlikely to have a meaningful impact on your investment success over the longer term—unless you overreact to the results. We discussed the importance of insulating your political views from your efforts to construct a durable portfolio in “Keep your politics out of your portfolio,” and it’s worth revisiting the topic in the final weeks of this campaign.

The outcome of this election is unlikely to have a meaningful impact on your investment success over the longer term.

There is ample academic research to support the belief that political affiliation has a direct impact on one’s level of optimism regarding the future direction of the economy. Investors who share an affiliation with the victorious political party are more likely to accept greater risk and earn correspondingly higher returns. They also are more likely to believe that financial assets are undervalued and respond accordingly by increasing their allocation to equities. Conversely, investors disappointed with the outcome of an election often adopt an abrupt risk-off strategy. This type of partisan bias can suppress investment returns.

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Figure 14

UBS Investor Sentiment spotlight

72% of investors globally are considering making portfolio changes ahead of the election

62% of investors globally are planning to make more changes based on the result

Source: UBS Investor Sentiment, 3Q 2020
Note: Marketing material. A survey of global high net worth investors and business owners on their needs, goals, concerns, and sentiment. The views expressed may be different than those of UBS.

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UBS Wealth Way is an approach incorporating Liquidity. Longevity. Legacy. strategies that UBS Switzerland AG, UBS AG and UBS Financial Services Inc. and our advisors can use to assist clients in exploring and pursuing their wealth management needs and goals over different timeframes. This approach is not a promise or guarantee that wealth, or any financial results, can or will be achieved. All investments involve the risk of loss, including the risk of loss of the entire investment. Timeframes may vary. Strategies are subject to individual client goals, objectives and suitability.
The balance of power within the US federal government is just one of many variables that affect the economy and global financial markets. Efforts to determine which political party is better for markets often run aground on disagreements over what time series is appropriate. Do you start before or after the Great Depression? Do you include the nadir of the economic recession in 2008 or exclude it? Putting aside the fact that the sample set is too small to be statistically significant, such debates ignore the impact of broader forces in the economy such as digitization, climate change, and demographics. As we discuss in “The (flimsy) link between US politics and market returns,” correlation is not causation. Elections matter, but their impact on markets is more muted than the political ads would have you believe.

That being said, there are some proposed policy changes that are worthy of close attention. To help put the election into an objective context — and ensure that you are well positioned regardless of the election outcome — we recommend thinking about your wealth through the UBS Wealth Way, which comprises three specific strategies: a Liquidity strategy, to help protect your lifestyle; a Longevity strategy, to help achieve your lifetime goals; and a Legacy strategy, to help impact the lives of others.

Segmenting your wealth into these strategies can help you align your financial resources with your goals, leading to the right balance between risk management and potential wealth accumulation for your family’s objectives. Viewed through this lens, there are two steps that we advise you to discuss with your financial advisor in the coming weeks:

1. **Secure your Liquidity strategy.** The Liquidity strategy consists of resources earmarked to help you meet your short-term cash flow needs. By setting aside 3—5 years of cash flow needs in cash, bonds, and safe borrowing capacity, you can ensure that your spending needs can be met — and that your Longevity strategy assets can remain invested for long-term growth — even in the unlikely event of an extended bear market after the election.

2. **Fund your Legacy strategy.** Today, a married couple can give away USD 23.16 million to others without triggering gift or estate taxes, which have a top tax rate of 40% for amounts over USD 1 million. In a Blue Wave scenario, this lifetime exemption amount is likely to fall significantly, perhaps as low as USD 7 million.

Such a policy change could become effective on 1 January 2021, and shave as much as USD 6.5 million off of a family’s after-tax wealth (Fig. 15), leaving less capital for the next generation or for charitable purposes. Accelerating gifts into 2020 could increase the amount you can pass on, leaving more capital to devote to philanthropy. For more details, please see *Modern Retirement Monthly*, “2020 tax planning for retirees.”

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**Key takeaways**

- The US election matters, but its impact is limited. The most important step is not to overreact, as we discussed in “Keep your politics out of your portfolio.”
- If you are worried about election-related volatility, fund your Liquidity strategy — it is the first line of defense.
- Tax increases are likely under a Biden administration. Accelerating lifetime gifting into 2020 can help to manage the risk of higher estate taxes (see *Modern Retirement Monthly*, “2020 tax planning for retirees.”)
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