

ElectionWatch

25 March 2020
Chief Investment Office GWM
Investment Research

Investment implications of the 2020 US elections

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2020 US elections.



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More clarity, more uncertainty

There is no playbook for how a presidential candidate should run a national campaign during a global pandemic. Traditional strategies are often ineffective. Gatherings of fervent supporters are abandoned. Fundraisers are canceled. Primary elections are postponed. The incumbent is obliged to exhibit leadership while ostensibly disregarding his reelection chances. The challenger must offer a withering critique of the president's performance without minimizing the scale of the crisis, undermining sound public policy, or appearing to be motivated exclusively by self-interest. It's a difficult balancing act, to say the least.

Community transmission of the coronavirus has become a familiar occurrence. As voters are asked to "shelter in place" and to avoid personal contact with friends and neighbors, they have become increasingly apprehensive about their own health and the safety of their families. The presidential

election has naturally faded into the background, often mentioned only in the context of the current crisis. The presumptive Democratic nominee, Joe Biden, has resorted to the use of social media with mixed results and garnered little publicity. This may change in the months ahead, but for now, President Trump commands the media's attention.

We decided to proceed with this edition of *ElectionWatch* because the two candidates' policy platforms are still very important. Voters will be asked to cast their ballots, perhaps by mail, later this year. The winner looks to face an even greater array of economic and geopolitical challenges after COVID-19 runs its course. To that end, we have devoted attention to forecasting each candidate's approach to specific policy areas. We also take a closer look at how to build a resilient investment portfolio, a topic which has gained renewed attention in the wake of the market correction.



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The state of the race amid COVID-19 concerns

Former Vice President Joe Biden and Senator Bernie Sanders bumped elbows as they took the stage on 15 March for what may turn out to be the final Democratic debate of the current campaign. They stood six feet apart in an act of social distancing and promptly engaged in a substantive debate, without the distraction of a live audience eager to applaud the candidates' prepared soundbites. The coronavirus pandemic gripping the globe has altered expectations about many things, and the presidential campaign has not been spared. An amicable argument between two septuagenarians in an empty television studio was just one of the exceptional images to emerge during the past few weeks.

Clarity

Biden set to win the Democratic nomination

Biden won primary elections in three states holding primaries on 17 March. In doing so, he opened up a nearly insurmountable lead in committed delegates and became the presumptive Democratic nominee. Senator Sanders tacitly acknowledged that the race might be over when he announced he was reassessing the future of his campaign. President Trump and the former vice president are each over the age of 70, which makes them more susceptible to serious complications if they contract the coronavirus.

Candidates have abandoned the usual practice of shaking hands and holding rallies with supporters, relying instead on social media to generate popular support. The Biden campaign launched its "New York Virtual Campaign" on 17 March, which presumably heralds more online appearances. Even President Trump has been forced to abandon his rallies in favor of somber appearances before the White House press corps to discuss the government's response to the pandemic. In this environment, the incumbent has an important advantage in terms of exposure. Crisis management forces the national media to provide his administration with ample media coverage. Of course, the voters' perception of the president's handling of the situation will ultimately decide if this aids or detracts from his reelection chances.



UBS Investor Watch Pulse: 71% of investors see management of emergencies (e.g., COVID-19) as one of the most important issues in the upcoming presidential election.






Source: UBS Investor Watch Pulse, [Pessimism not panic](#), 16 March 2020

Uncertainty

COVID-19 clouds the picture

Biden's expected defeat of Sanders is certainly a positive development for financial markets. But while election uncertainty has been curbed in the near term, extreme market volatility has overshadowed the clarity provided by the 17 March slate of primaries. The global COVID-19 pandemic has undermined market confidence and triggered both a bear market in equities and a liquidity crisis in fixed income markets. The chaotic market action is due to a variety of factors but the overriding consideration has been uncertainty over the depth of the coming economic recession. Unlike the financial crisis of 2008–09, which was prompted by inflated asset values and excessive leverage, the current crisis is easier to understand for many Americans. When you are asked to shelter in place and avoid personal interactions with friends and neighbors, the signal is clear. The world has really changed.

[In our central case scenario](#), new cases of COVID-19 peak by mid-April, allowing the most severe restrictions on social interaction to be lifted in mid-May. If the virus proves hard to eradicate, some restrictions may need to be reimposed intermittently in some countries for the remainder of the year. In this scenario, we believe that a coordinated monetary and fiscal response can provide the necessary funding to backstop affected businesses and industries, but it arrives too late to protect all. We would therefore expect a "U-shaped" economic recovery to unfold and gain traction during the fourth quarter of 2020.

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UBS conducted an Investor Watch Pulse survey earlier this month and found that investors' outlook on the economy had already deteriorated significantly (Fig. 1). Only 39% had an optimistic outlook for the next 12 months, down from more than two-thirds just two months earlier. Nearly half of investors were pessimistic, and were clearly prescient in their assessment.

Investors have responded to the abrupt increase in volatility by adopting a risk-off strategy. Equities plummeted and credit risk was jettisoned in favor of cash positions and ultra-safe short-term Treasury securities. Even municipal bonds, which heretofore have enjoyed a reputation as a safe and familiar haven in times of market dislocations, were not spared. As we discuss in *A closer look: Building a resilient portfolio*, the current market sell-off reminds us of the importance of building robust portfolios that can meet liquidity needs during recessions and times of extreme market volatility.

Fortunately, Congress has approved a raft of initiatives to protect small businesses and their employees from financial ruin. Small business loans and stipends to individual taxpayers for basic necessities are just the first steps. The Department of Housing and Urban Development will suspend all foreclosures and evictions until at least the end of April. The US Treasury extended the deadline for filing federal income taxes from 15 April to 15 July, with most states expected to follow suit. The Treasury is also seeking Congressional authorization to provide the airline industry with a secured lending facility. The president has invoked the Defense Production Act, which gives him the authority to require private sector companies to produce products essential to national security. The list of new initiatives is lengthy...and necessary.



UBS Investor Watch Pulse: 69% of investors support the option of choosing between expanded Medicare and keeping existing coverage.

Source: UBS Investor Watch Pulse, [Pessimism not panic](#), 16 March 2020

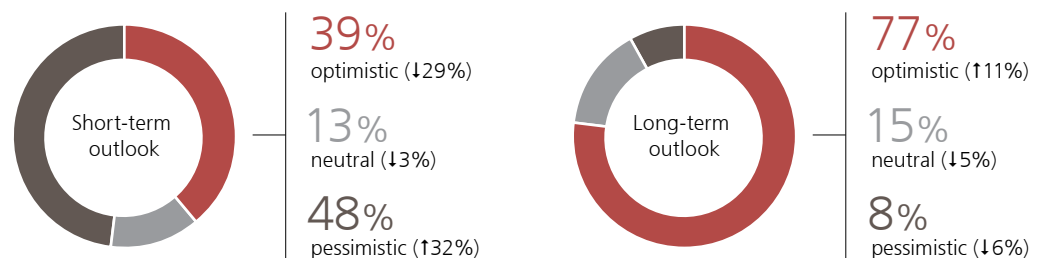
The road ahead

The coronavirus has introduced a novel set of circumstances for a US presidential election. The remaining primary elections will be held in an atmosphere of uncertainty and anxiety. Look no further than Ohio, where Governor Mike DeWine declared a health emergency and shuttered polling stations shortly before they were scheduled to open. He did so over the objections of the Democratic National Committee, which urged states to hold elections but also to take necessary precautions. Eight other states (and counting) have also opted to postpone their primaries in an effort to reduce the risks associated with congested polling stations.






We expect state governments to ease restrictions on absentee voting in the wake of the current pandemic and to investigate the feasibility of using the US Postal Service to deliver ballots for the general election. Two-thirds of the states already permit absentee voting by mail, although some require an excuse to do so. Six states have already converted their systems to tabulate all votes by mail. We expect more to follow. Meanwhile, the Wyoming Democratic Party canceled its caucus scheduled to occur on 4 April. Instead, registered party members will retrieve and deposit their ballots at specified locations. Caucuses are becoming increasingly rare and Iowa's botched effort earlier this year only

Figure 1

Optimism about US economy down from January, but long-term outlook still strong



Source: UBS Investor Watch Pulse, [Pessimism not panic](#), 16 March 2020

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accelerated the rate at which they are abandoned in favor of conventional elections. The current pandemic will only hasten their demise.

The US has experienced 11 economic recessions since 1945 with an average duration of 11 months.¹ Recessions always pose a challenge for incumbents seeking reelection but they are not always disqualifying. Voters do, on occasion, return an incumbent to office despite a contraction in economic activity. President Trump faces the additional impediment of having boasted about the vigor of the US economy in recent years. However, serving as the chief executive in a time of crisis could present an opportunity to bolster his election chances due to the numerous opportunities to communicate directly with American voters. Former Vice President Biden, by contrast, is denied the opportunity to speak before large gatherings and must find alternative means of conveying his policy platform (see p. 5 for more on policies).

According to a recent survey by the Pew Research Center, two-thirds of Americans already feel “worn out” by the incessant barrage of news through conventional and social media channels. The fatigue is shared by journalists, who have voiced their own frustration with the unrelenting stream of news sto-

ries.² Fortunately, despite the apparent exhaustion, more than 60% of both Democrats and Republicans say they are following the campaigns closely. That alone is evidence of the importance that Americans are assigning to the upcoming election.

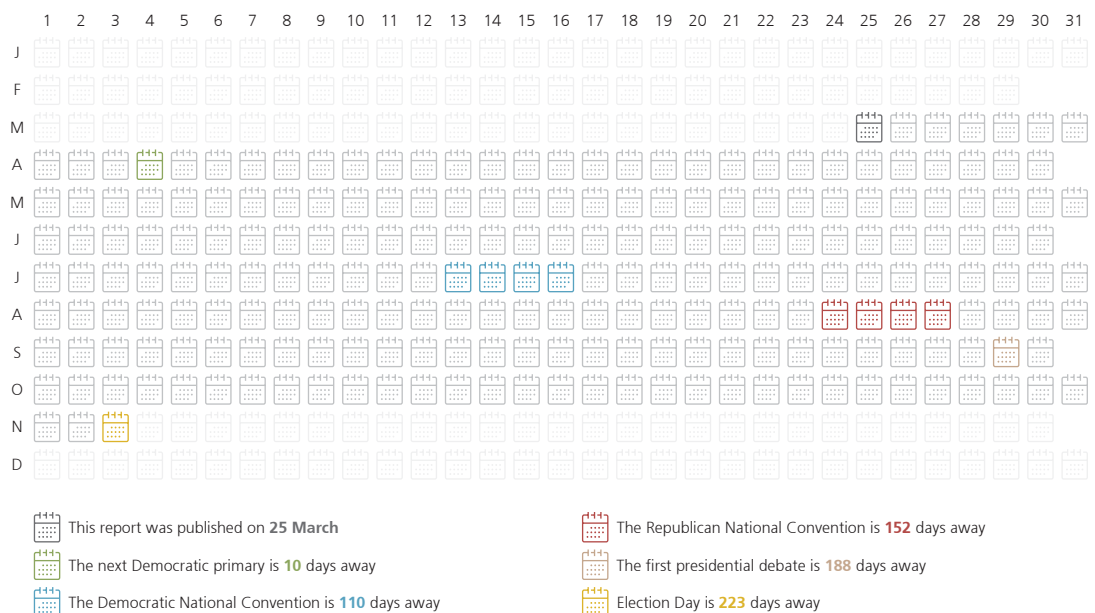
Policies still matter

While COVID-19 may be clouding the near-term picture, it is still important to assess the potential market impact of this election. The elected president will look to shape the policy environment for at least the next four years, and many of those policies will extend beyond the measures being taken by Washington to curb the immediate virus impact.

With this in mind, in the next few pages we examine President Trump’s and former Vice President Biden’s policy agendas across seven key areas, and assess their potential market impact. We also analyze the likelihood of enactment. Control of the US Senate may depend upon the outcome of the presidential election. To the extent that Donald Trump is reelected, the probability of the GOP retaining its majority is higher. If Biden is elected, the odds of a Democratic Senate increase markedly. Republican control of the House is far less likely regardless of who wins the presidential election.

Figure 2

The 2020 countdown








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Figure 3

Biden versus Trump: Likelihood and market impact of policy proposals

This table is a visual representation. Please see commentary on pp. 5–8 for more information.

Policy proposals	Likelihood (if candidate elected)		Market impact (if proposal enacted)	
Corporate taxes (p. 5)	?	×	∨	∨
Drug pricing (p. 6)	✓	✓	∩	∩
Energy and environment (p. 6)	?	?	∩	—
Financial regulation (p. 7)	?	✓	∨	∨
Healthcare coverage (p. 7)	×	✓	∩	∩
Personal taxes (p. 8)	?	?	—	—
Technology regulation (p. 8)	×	?	∨	∨



Joe Biden (D)
Former vice president



Donald Trump (R)
Incumbent president

Likelihood summary ratings

- × *Unlikely* due to potential legislative obstacles
- ? *Plausible* depending on exact proposals and Senate outcome
- ✓ *Likely* due to implementation through executive order or bipartisan support

Market impact summary ratings

- *Low impact* due to status quo outcome or modest terms of proposal
- ∩ *Concentrated impact* due to specific sector being primarily affected
- ∨ *Broad impact* due to impact on various sectors and asset classes

Corporate taxes

Joe Biden

Policy proposal: The Tax Cuts and Jobs Act (TCJA) lowered the top corporate income tax rate from 35% to 21%. Biden would likely try to raise the rate to 28%, and impose a 15% minimum tax on companies' book income. He would also aim to double the minimum tax on profits earned by foreign subsidiaries of US firms from 10.5% to 21%.

Likelihood: Enactment would be plausible, but corporate tax increases would require Democratic control of the Senate. Given the size of the budget deficit and the desire to increase spending in some areas, revenue has to come from somewhere and corporate income tax may be a more attractive choice than an increase in the highest marginal rate for personal taxes.






Market impact: If enacted, Biden's corporate tax policies would reduce after-tax profits of listed companies, especially those hit by the minimum tax, and moderately weigh on equity markets.

Donald Trump

Policy proposal: President Trump wanted to cut the corporate tax rate to 15% but in the end settled for 21% in the TCJA. He has not said anything recently, but it is possible that he will propose 15% again later in the campaign.

Likelihood: Future corporate tax cuts under President Trump would be unlikely as this could only be done in the unlikely event Republicans gain control of the House as well. Given the current high budget deficit and high debt levels, it would be difficult to cut corporate taxes any further on a permanent basis. A temporary tax cut in response to the pandemic is possible.

Market impact: While unlikely, if future tax cuts were enacted, they would significantly increase after-tax profits of listed companies and help equity markets.

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Drug pricing

Joe Biden

Policy proposal: Biden would likely propose more modest drug-pricing reform, similar to the bipartisan proposal from the Senate Finance Committee (SFC).

Likelihood: Biden comes from Delaware, which has a strong pharma presence. He would likely work with industry, supporting a moderate drug-pricing bill that could garner bipartisan support.

Market impact: Pharma/biotech stocks should react positively, especially once the market sees the details of a specific moderate proposal, and can eliminate the worst downside scenarios.

Donald Trump

Policy proposal: Mixed and shifting, but has centered on the International Pricing Index (IPI), in which the government effectively tries to piggy-back on the direct price negotiations that other countries have with pharma/biotech. Trump has also signaled he would support the Senate Finance Committee's bipartisan bill, as indicated in a 10 March White House policy statement and 11 March op-ed from the director of the White House Domestic Policy Council.

Likelihood: Reform is likely as Trump wants to do something on drug prices to burnish his legacy. The bipartisan Senate Finance Committee bill represents a reasonable compromise, most likely after the election.

Market impact: Positive for pharma/biotech, as a compromise bipartisan bill, along the lines of the SFC proposal, would have modest and manageable impact on pharma/biotech margins and earnings, while clarifying the future landscape for an extended period and removing the downside scenario that has been a significant overhang to investor sentiment.



UBS Investor Watch Pulse: 35% of investors see now as a buying opportunity for stocks.

Source: UBS Investor Watch Pulse, [Pessimism not panic](#), 16 March 2020

Energy and environment

Joe Biden

Policy proposal: Joe Biden strives for zero-carbon emissions by 2050. His plan is to invest in clean energy and climate-related infrastructure. His proposal would end fossil fuel subsidies, but does not specify a fracking ban.

Likelihood: It's possible for Biden to find common ground on infrastructure investment and tax roll-backs. Policies that stand to have an outside impact on the energy industry are likely to face opposition and are less likely to pass.






Market impact: We see potential disruption for those companies with operations on US federal land, but oil and gas production will continue, alongside development of renewables. Utilities would likely be viewed as moderate beneficiaries.

Donald Trump

Policy proposal: The Trump administration has expanded offshore oil and gas drilling and opened more leases to develop the US offshore market. This came alongside efforts to increase energy exports and the approval of infrastructure projects to support additional oil and gas production.

Likelihood: A continuation of the status quo under President Trump is most likely. Additional policy proposals supporting fossil fuels could face opposition from environmentalists and will be difficult to pass if Democrats maintain control of the House.

Market impact: This scenario would represent the status quo in our view and would not have significant market impact.

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Financial regulation

Joe Biden

Policy proposal: Biden would look to reverse the deregulatory trend under President Trump, replace the heads of regulatory agencies (Fed, OCC, FDIC, and CFPB), and reimpose Obama-era regulatory interpretations of Dodd-Frank Act rules.

Likelihood: Increased regulation would be possible under Biden. Potential leadership changes at key regulatory agencies could be done by Biden alone and could lead to the reversal of more industry-friendly policies. In particular, we believe the Consumer Financial Protection Bureau (CFPB) could see significant rule changes and further bank consolidation could face greater regulatory challenges. Additionally, regulatory interpretations could change solely based on Biden's ideologies, without congressional input.

Market impact: Reversal of recent regulatory easing would constrain potential for profit growth. Tighter constraints on bank capital and liquidity could spread to the broader market and economy by limiting consumer and business access to loans.

Donald Trump

Policy proposal: President Trump would continue to ease regulatory burdens through personnel choices at key regulatory agencies. He would also continue to take a looser view on regulatory interpretation.

Likelihood: The trend of loosening regulatory policy in the financial sector is very likely under President Trump as his method of loosening regulation through personnel choices and rule interpretations can be done by himself alone.

Market impact: President Trump's agency personnel appointments and broadly loosened financial sector policies have had a positive impact on the economy and markets. As banks have grown and become more profitable, their capital and liquidity strength have supported credit availability and economic growth.

Healthcare coverage

Joe Biden

Policy proposal: Biden would look to expand ACA (Obamacare) and include a public option. A publicly funded health plan option would compete alongside private health insurers, possibly with the ability to operate at a loss, and thus offer healthcare coverage at a significantly cheaper price.

Likelihood: We believe the introduction of a public option is unlikely, given the probability of a narrowly divided Senate, and Biden's likely reluctance to end the filibuster. However, Biden may feel enough pressure from the Sanders wing to push for this option aggressively.






Market impact: During the 2009 ACA debate, investors viewed a public healthcare option as inevitably resulting in single-payer healthcare, effectively putting private health insurers out of business. Despite the barriers that implementation faces, the threat of a public option could reemerge and linger as an overhang on managed care. Given the low likelihood that a public option would survive a narrowly divided Senate, the much more likely resulting status quo scenario would be a strong positive for managed care sentiment.

Donald Trump

Policy proposal: Status quo, although with occasional tweets about replacing the ACA. The Trump administration also is arguing that the ACA is unconstitutional in a case to be heard by the Supreme Court during fall 2020.

Likelihood: Status quo ACA would most likely hold during a second Trump term. Trump likely won't want to use political capital on changing healthcare coverage. Also, with the current Supreme Court composition, it seems unlikely that the Court will strike down the ACA. If one of the more liberal justices steps down ahead of that case, then the risk to the ACA goes up.

Market impact: A Trump reelection will be perceived as positive for managed care stocks, assuming no changes to the Supreme Court and no major changes in Trump's rhetoric.

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Personal taxes

Joe Biden

Policy proposal: Biden would aim to increase the top income tax rate to 39.6% from the current rate of 37%. Under his proposals, capital gains and dividends would be taxed at a rate of 39.6% for taxpayers with income above USD 1 million. Biden would also impose payroll taxes on income above USD 400,000 and cap the tax benefit of itemized deductions at 28%. Unrealized capital gains would be taxed at death.

Likelihood: Passage of Biden's proposals are plausible, but would require Democratic control of both houses of Congress and the support of conservative Democrats in the Senate. However, to the extent Democrats do control both the House and the Senate, some aspects of the Democratic Party platform might be implemented through budget reconciliation.

Market impact: Increased revenue would likely be used to fund new spending proposals rather than cutting the budget deficit. The moderate size of proposals should limit the impact. The overall impact would be neutral to modestly negative for equities.

Donald Trump

Policy proposal: President Trump has hinted that he will propose "Tax 2.0" later in the campaign, with the focus on middle-class income tax cuts. We also expect him to propose making the income tax cuts included in the TCJA permanent.

Likelihood: A broader Tax 2.0 bill would be unlikely to pass if the Democrats keep control of the House, although near-term tax relief may be plausible if the adverse economic impacts from the coronavirus pandemic persist. However, we expect concerns over the size of the budget deficit will emerge again next year in the wake of fiscal stimulus in 2020.

Market impact: If enacted, tax cuts would be neutral to positive for financial assets. However, additional cuts could have a modest adverse impact on Treasury yields if markets get more worried about rising government debt levels.

Technology regulation

Joe Biden

Policy proposal: Biden has not espoused any particular policy relative to the US technology sector. However, he has expressed concern in interviews that there has not been enough antitrust enforcement across a number of industries. The US technology industry has not been singled out specifically, although the media often conflates internet and e-commerce companies with technology.

Likelihood: We believe there could be some concern that a Biden administration would be antagonistic to the industry given its "winner take all" and "winner take most" nature. While this is one potential outcome, we believe the strategic importance of the sector to US growth and security would check regulatory zeal.






Market impact: Increased regulatory focus would have a significant impact on valuations of many companies in the IT sector. Additionally, acquisitions, which historically have been a key tool to growth, would be more difficult to execute in a heightened regulatory environment.

Donald Trump

Policy proposal: We believe President Trump's view on large internet and e-commerce companies is often conflated with "Big Tech." That said, he has expressed concerns around cybersecurity, the outsourcing of manufacturing jobs to Asia, and intellectual property theft. These issues were encapsulated by tariffs placed on China, the major supplier of electronics and IT hardware as well as having the dual role of key part of the supply chain and key end-market. Looking ahead, we believe additional tariffs on China are likely the most significant policy thrust by a second-term President Trump.

Likelihood: Similar to the situation under Biden, we believe the strategic importance of the technology sector to the US economy will curb the possibility of increased regulation. We also note the possibility of increased tariff activity in a second-term Trump presidency.

Market impact: Although the overall IT sector has outperformed under Trump (despite tariffs), we believe further escalation of tariffs would be seen as a negative as it would likely further impair global trade in an already weakened economy.

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A closer look: Building a resilient portfolio

Heading into 2020, the US economy was strong and stable. Leading indicators like jobless claims, housing starts, and consumer sentiment indicated continued economic expansion. Outside of an exogenous shock like war, natural disaster, or pandemic, there was little about the economic picture that indicated risk of a possible recession. Most “year-ahead” reports focused on policy-related risk, and the upcoming US presidential election, as the main sources of volatility during 2020.

Unfortunately, one of those exogenous shocks to the system has occurred with the coronavirus and its disease, COVID-19. The impact has been dizzying. The US economy is now almost certainly in recession due to the reduction in consumer demand that has occurred. Equity markets have suffered steep losses (Fig. 4) and Treasury yields have fallen precipitously. Market volatility has reached near-record levels across all asset classes and daily swings of 5% or more have become commonplace (Fig. 5).

From an investor’s standpoint, navigating such an extreme change in environment is challenging, to say the least. That’s one reason why we believe every investor should build their portfolio on firmer underpinnings than a market forecast. Retirement, college education, a home purchase, or any other financial goal shouldn’t be contingent on anyone’s



UBS Investor Watch Pulse: 25% of investors have revisited their financial situation in anticipation of the US election.

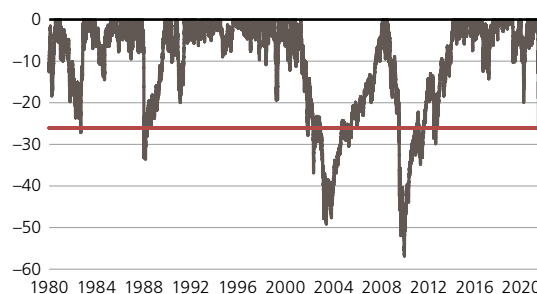
Source: UBS Investor Watch Pulse, [Pessimism not panic](#), 16 March 2020

ability to time the market, or, in the context of this publication, predict the outcome of a presidential election. Unexpected events are always lurking around the corner and a market crisis, quite simply, shouldn’t lead to a personal crisis.

Our preferred method for building a more resilient portfolio is a framework we call Liquidity. Longevity. Legacy.—or “the 3Ls.” The 3L strategy is an institutional process (e.g., pensions and endowments) for managing wealth that we have adapted for the unique circumstances of individuals and families. The ultimate goal is fairly simple—to enable investors to select portfolios that are commensurate with their goals and objectives. Doing so helps ensure that investors enter periods of uncertainty in a strong position, and also ensures they are able to respond in a way to take advantage of bear markets instead of being forced into a more defensive posture.

Figure 4

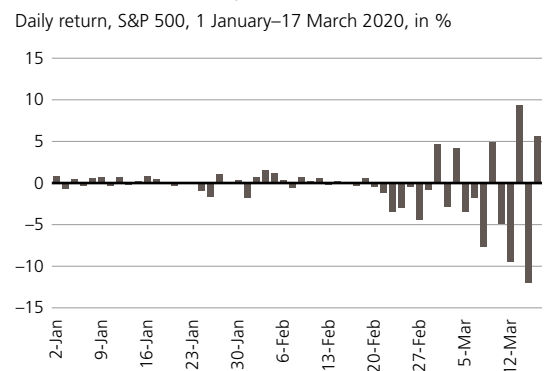
Equity markets have declined 25% or more
S&P 500 drawdowns, 1980–17 March 2020, in %



Source: Bloomberg, UBS






Figure 5

Daily market swings of 5% or more have
become commonplace



Source: Bloomberg, UBS

*Timeframes may vary. Strategies are subject to individual client goals, objectives and suitability. This approach is not a promise or guarantee that wealth, or any financial results, can or will be achieved.

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Liquidity. Longevity. Legacy.

We define a Liquidity strategy as enough safe assets to cover an investor's spending for long enough to get them through a market crisis—likely three to five years. It's a part of the portfolio that can be spent down during a crisis, and then built back up during better times. It's also the psychological buffer that helps maintain an appropriate time horizon (years, not weeks or months) for evaluating risk assets.

Second, the Longevity strategy is sized to include all assets and resources the family plans to utilize for the remainder of their lifetimes, which provides a clear picture of what future spending objectives will cost. It is also managed with that goal in mind—namely a well-diversified portfolio, but with an eye toward growth that exceeds inflation and managing downside risk.

Finally, the Legacy strategy encompasses assets that are in excess of what the family members need in order to meet their own lifetime objectives. The Legacy strategy clarifies how much a family can contribute to improve the lives of others—either now or in the future. Investment portfolios in the Legacy strategy are typically invested fairly aggressively since the time horizon associated with the portfolio can usually be measured in decades, and might also include business interests, collectibles, charitable funds, or second homes.

The coronavirus crisis through the lens of the 3Ls

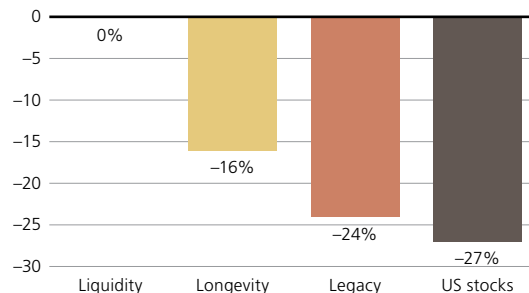
The Liquidity. Longevity. Legacy. framework provides important perspective on what performance might look like since the S&P 500 peak on 19 February (Fig. 6). While Legacy portfolios have likely declined along with the equity market, Longevity portfolios have benefited from bond exposure and most Liquidity portfolios have actually appreciated in value.

Above all, this performance segmentation underscores the importance and value of having a Liquidity strategy that gives you the confidence that

Figure 6

Segmentation helps provide comfort in difficult markets

Performance from 19 February to 9 March, in %








Source: Bloomberg, UBS, as of 9 March 2020. Using Bloomberg Barclays US Agg Bond Index for Liquidity, Moderate-risk HV portfolio for Longevity, Aggressive-risk HV portfolio for Legacy. Not official performance.

you have enough resources to pay your bills on time—regardless of market conditions—without needing to sell assets at bear market prices. It also helps us recognize the reality that sell-offs represent an opportunity for the assets you've earmarked for your Longevity and Legacy strategies, which won't be needed for at least five years—and perhaps not for decades.

The election

If history is a reasonable guide, the 2020 presidential election will be a nonevent from a market standpoint. Once we know the candidates and their policies, we can prepare for the various potential outcomes. In that sense, the outcome of an election is a manageable known unknown. However, if the coronavirus has reinforced anything, it's that the known unknowns are not usually the biggest risk for investors. Instead, it's the unknown unknowns that will eventually cause the real problems. The world is a very complex place. It is far too complex for any of us to have a true understanding of how all the pieces fit together, and certainly too complex for us to recognize how seemingly unimportant events might have a longer-term impact. We believe an investment framework that creates a clear connection between an investor's goals and their portfolio is the best way to meet those risks head on.

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Election myths: Debunking election beliefs

Voting by mail

Myth: *Voting by mail is an unreliable and flawed process.*

Reality: *Voting by mail is now a common practice across the country. There is no evidence of pervasive fraud or manipulation in the tabulation of results.*

In the context of the current pandemic, we expect more state governments to reexamine the use of permanent absentee balloting (mailed voting) as a viable alternative to a requirement that voters appear in person at the polls on Election Day. According to the National Conference of State Legislatures, the District of Columbia and 33 states already offer their citizens the option to vote by mail without needing to provide a valid excuse to do so. Hawaii and Utah, among others, now hold their elections exclusively by mail.

There is a popular misconception that voting by mail is a more expensive option for state and local governments. In reality, governments that abandon the practice of voting in person save money on the distribution of sample ballots and per diem payments to individuals operating the various polling stations. The Orange County (CA) Registrar of Voters has estimated annual savings of USD 200,000 per election if an all mail-in ballot system






were adopted. The Pew Charitable Trust found that costs decreased by an average of 40% in Colorado after the state enacted the Voter Access and Modernized Elections Act of 2013.

The potential for vote manipulation is another frequent criticism of the practice. State governments have taken steps to reduce the potential for fraud. Ballots are only mailed to registered voters. Ballot envelopes are barcoded and only one ballot per registered voter is counted. Signature identification is used by a majority of states to verify eligibility. A visit to the registrar of voters is enough to replace a lost or stolen ballot. Stiff criminal penalties are assessed for election interference. The US Post Office prioritizes the delivery of ballots for 60 days prior to general elections to ensure all votes are counted. And, of course, members of our military and diplomatic corps have been voting by mail for decades.

Voter turnout in the United States lags other industrialized nations. Exogenous shocks to the system, such as the coronavirus, pose another challenge and may discourage some voters from physically turning up at the polls. Permanent absentee voting is an alternative that appears to be gaining steam around the nation.

Can the president of the United States postpone a general election by executive order?

No. The date of the presidential election was established by Congress in 1845. A postponement would require congressional legislation. The US Constitution (Amendment 20) states that the terms of the president and vice president shall end at noon on the 20th day of January. In the event that no individual has qualified for the office of president, Congress may by law determine who shall act as the executive until an individual has met the constitutional qualifications for the office.

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Politics and portfolios

Myth: *Investors routinely separate their political views from their portfolio decisions.*

Reality: *Investors' political views often affect their investment decisions.*

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.³ Investors who share an affiliation with the political party in office 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.⁴ Conversely, investors disappointed with the outcome of an election often adopt a risk-off strategy and take refuge in fixed income securities.

Professional money managers are not immune from this type of confirmation bias. Recent research suggests that mutual fund managers are



UBS Investor Watch Pulse: 24% of investors plan to increase investments in the US stock market if Trump wins the election, compared to 17% who plan to do so if Biden wins.

Source: UBS Investor Watch Pulse, [Pessimism not panic](#), 16 March 2020

more likely to allocate assets to firms managed by individuals with a similar party affiliation.⁵ This partisan bias can have a meaningful impact on returns. For example, hedge fund managers on record as donating to Democratic candidates outperformed their GOP-donating peers by a significant margin—7.5%—in the months following the 2008 election, because Republican households became more conservative. Eight years later, Republican households were more likely to increase their exposure to investments benefiting from economic growth following Donald Trump's election, thereby improving returns.⁶

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Endnotes

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⁶Meeuwis, Parker et al., "Belief Disagreement and Portfolio Choice."

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