

Eye on the Election

The Biden Playbook

July 28th, 2020

RBC Capital Markets, LLC

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This report is priced as of market close July 27th, 2020.

All values in U.S. dollars unless otherwise noted.

For Required Conflicts Disclosures, please see page 77.



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Table of Contents

Issues Relevant to US Equity Investors in the 2020 Election	6
The Historical Playbook for Elections	28
Expectations Regarding the 2020 Race for the White House	39
Trends in Key States	56
Expectations Regarding the 2020 Congressional Races	67
Disclosures	77

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Overview



- **Our latest deep dive into the race for the White House.** This is the 3rd installment of our *Eye on the Election* report series, highlighting what US equity investors need to know if Joe Biden wins the US Presidential Election this November. Previous editions of this report, published in [October 2019](#) and [March 2020](#), examined the potential implications of a win by Elizabeth Warren and Bernie Sanders, who were the front runners at the time. In today's edition, we highlight our thoughts on the sector implications of a Biden victory, based on the results of our July 2020 RBC US Equity Research Industry Analyst Survey, our analysis of recent linkages between sector performance and the outlook for Biden, and a look back at how different sectors performed after Trump won in 2016. We also offer our thoughts on the potential stock market impact of an increase in the corporate tax rate, the main Biden policy proposal that US equity investors have become pre-occupied with. Finally, we update our thoughts on why we still view the election as a negative catalyst for US equities in 2H20, as well as why we could be wrong.
- **The Biden playbook, based on our July 2020 RBC US Equity Research Industry Analyst Survey.** In late July, we asked RBC's US Equity Research analysts to evaluate the outlook for the industries they covered under the scenario of a Biden White House victory and Democratic sweep of Congress. Overall, we found that our analysts believe that the Biden win/Democratic sweep scenario is bearish or very bearish for 58% of the industries they cover. When we aggregate our analysts' views by GICS sector, we find some clear divisions. Our analysts see Biden as a bullish outcome for Utilities, a neutral outcome for REITs, Communication Services, and Consumer Staples, a mixed outcome for Health Care and Materials (with positive implications for certain industries and negative implications for others), a slightly bearish outcome for Technology (with neutral implications for certain industries and bearish implications for others), and a bearish outcome for Energy, Consumer Discretionary, Industrials and Financials (outlooks for most industries within these sectors are bearish under Biden). Overall, our survey results suggest that part of the Biden playbook is to lean into defensive and secular growth oriented sectors, and to lean away from cyclical and value oriented sectors. See pages 8 – 21 for full details, including rankings on each industry and commentary from our analysts explaining their views.
- **Recent linkages between sector performance and the outlook for Biden.** We compared the performance of the 11 major GICS sectors (on a relative basis vs. the S&P 500) to trends in expectations that Biden will win the Presidency in the betting markets. Technology, Consumer Discretionary, Communication Services, and Health Care have all been positively correlated with Biden betting market trends, while Financials, Industrials, and Energy have been most inversely correlated. While some of the specific sector conclusions differ from our analyst survey, the correlation analysis generally supports a similar basic idea, that defensive and secular growth are beneficiaries of a Biden win, while cyclical value oriented sectors are not. See pages 22-23.
- **A look back at how different sectors performed after Trump won in 2016.** One of the things that intrigued us the most about our correlation analysis is that the sectors that have been trading the most inversely with Biden's outlook in the betting markets – Financials, Industrials, and Energy – are the exact same sectors that outperformed the most after Trump won in November 2016. Defensive sectors lagged in the post Trump market rally that occurred in the final months of 2016. See page 24.

Overview (continued)



- **Our thoughts on the potential impact of an increase in the corporate tax rate.** Biden's call to lift the corporate tax rate from 21% to 28% has been a major concern of US equity investors. We view it as a negative for the broader market, and consider it to be more of a risk to the broader US equity market than to a particular set of sectors. Our analyst survey confirmed something we learned in 2018 – that a major change in corporate taxation has meaningful implications for 9 out of the 11 GICS sectors (REITs and Utilities are the exceptions). In terms of broader market performance, we expect any negative impact from an increase in the rate to be priced in well in advance. That's what we saw around the Trump tax cut passed in December 2017, which took effect in 2018. Stocks roared higher in 2017 and experienced a major peak in January 2018. The run up occurred despite the fact that the specifics of the plan were vague up until passage, and companies and sell-side analysts were unable to adjust their forecasts properly ahead of implementation due to a lack of guidance from the government. In terms of the potential impact to future S&P 500 EPS, it's impossible to know exactly what the hit of a shift from 21% to 28% would be at this point in time without full details. But it is worth noting that when we raise the effective tax rate in our S&P 500 EPS model by 7% for 2018-2019 actuals and 2020-2021 forecasts, the reduction to EPS is roughly 9% in any of those years. This is a decent starting point. See pages 25-27.
- **Our latest thoughts on overall stock market impact from a Biden win.** We continue to view the election as a negative catalyst in 2H20. But we think any pain associated with a Biden win would be milder than what would have occurred under Sanders or Warren – in the 10% or less range as opposed to the 15-20% range. Our analysts view a Biden win as a negative outcome for 58% of the industries they cover vs. 79% for Sanders and 65% for Warren. The degree of concern also differs. Our analysts are more likely to rate Biden as a bearish outcome than a very bearish outcome, while nearly half of those who saw Sanders and Warren as negative viewed them as very bearish as opposed to bearish (page 11). Historical trading patterns in election years have been inconsistent over time, but it's worth noting that in years where stocks pull back as the contest draws near, the median decline has been 9% (page 35). Separately, we also think any Biden driven decline would be short lived. Stock market volatility tends to spike whenever political uncertainty rises (page 29). But stocks still tend to rise regardless of which parties control the White House and Congress (page 30).
- **Risks to our broader market view.** We see two reasons why our cautious view on the election may be too conservative. First, stocks have started to trade in sync with expectations Biden will win in the betting markets (page 40). It is possible the market is changing its mind about Trump being the better outcome. For now, we discount this theory. It contradicts our July analyst survey and our late June investor survey (page 54). The stock market's latest big move has also been driven by Tech, and both Tech and Biden have benefited from worsening virus trends (page 42). We expect assessments of policy to eventually dominate the tape as the election draws closer. Second, virus trends may improve, which could help Trump's chances. Political polls suggest Trump's chances have suffered due to disapproval over his handling of the coronavirus (pages 45-49). But new cases in the US may be leveling off (as discussed in yesterday's [Quarterback](#)), driven by better trends in some of the battleground states where Biden's polling data has been improving (page 60). On the flip side, if the results of the election are contested, US equities could fall more than we expect. Concerns about voting by mail are high for 2020 (pages 37-38). In 2000, when it took five weeks to settle the outcome, the S&P 500 fell 12% from election day to its late December low. The drop totaled 17% from its Sept high (page 36).

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Issues Relevant to US Equity Investors in the 2020 Election

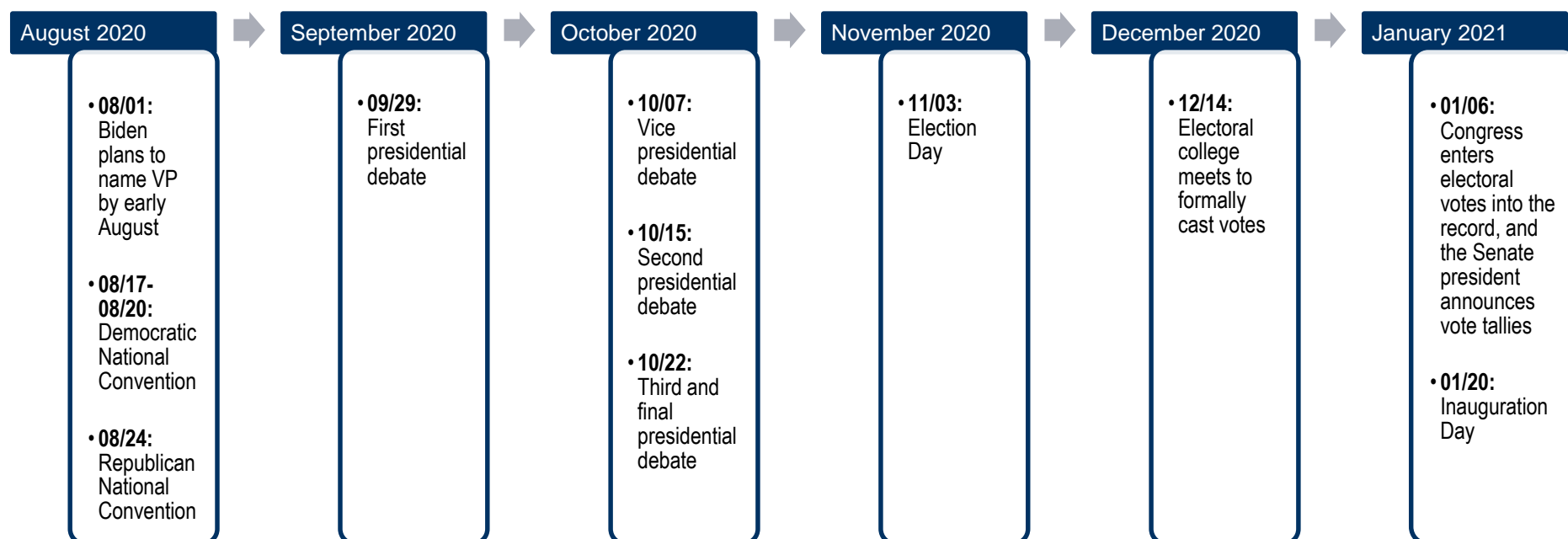


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Key Events Leading Up To The 2020 Election

Key Takeaways

- The policy platform of the Biden campaign has become more clear recently, with Biden having released a number of policy documents in July.
- Further details on Biden's policy leanings may be revealed during the virtual Democratic convention, which begins on August 17th, and during the Presidential debates in late September and mid October.
- Trump has cancelled GOP convention events in Jacksonville planned for late August, but events planned in North Carolina are expected to continue with a formal nomination and speech on August 24th.



Biden Sector Playbook – Overall Risk Levels & Key Issues To Monitor

	Risk Level Based On RBC Analyst Survey	Key Issues Highlighted By July 2020 Biden Policy Announcements, RBC US Equity Analyst Survey & Other Biden Statements From Primary Season/1H20
Utilities	Bullish	Clean energy; infrastructure; no impact from higher corporate taxes
REITs	Neutral	Higher corporate tax rates and proposed real estate taxes to fund the caring economy plan should not materially impact the REITs
Comm Svcs	Neutral	Net neutrality push; investments in R&D and technologies including 5G; enhanced broadband access; restrictive view on market concentration/future M&A; higher corporate taxes/ minimum corporate tax; anti stock buyback stance; more favorable immigration policy
Consumer Staples	Neutral	Tightening rules on what can be designated “Made in America”; \$15 minimum wage; higher corporate taxes; caring economy/consumer friendly initiatives on child care, free college, student debt relief, teacher pay, renter’s tax credit which could boost consumer spending though higher taxes on wealthy would offset; more liberal marijuana policies
Health Care	Mixed	ACA restoration/expanding coverage; public option; drug pricing reform; government purchase of critical medical supplies; investment in R&D and technology (includes biotech); eliminate tax incentives to produce drugs overseas; new incentives to produce drugs in America; expand access to long-term care services in local settings; higher corporate taxes; anti stock buyback stance
Materials	Mixed	Affordable housing initiatives; infrastructure; clean energy plan; investments in R&D and technologies including advanced materials; higher corporate taxes; anti stock buyback stance; tough on China trade stance
Tech	Slightly Bearish	Investment in R&D and technology including 5G, quantum computing, and AI; proposals to reduce offshoring; higher corporate taxes; anti stock buyback stance; tough on China trade stance; more favorable immigration policy
Energy	Bearish	Clean energy/net zero emission subsidies/plans; banning offshore drilling; no new oil and gas leases on federal lands; more difficult pipeline permitting; higher corporate taxes; anti stock buyback stance
Cons Disc	Bearish	\$15 minimum wage; caring economy/consumer friendly initiatives on child care, free college, student debt relief, teacher pay, renter’s tax credit which could boost consumer spending though higher taxes on wealthy would offset; extend unemployment insurance benefits for the duration of training, up-skilling, and reskilling programs; higher corporate taxes; anti stock buyback stance; tough on China trade stance; clean energy; affordable housing initiatives
Industrials	Bearish	Infrastructure including public transportation, rail; more restrictive fossil fuel policies; “Make It In America” policy, \$15 minimum wage, pro union bias could create cost/margin pressures; greater pressure on federal budgets/defense spending; higher corporate taxes; anti stock buyback stance; tough on China trade stance
Financials	Bearish	Higher corporate taxes; anti stock buyback stance; potentially enhanced scrutiny of banks/consumer lenders through regulatory appointments

Source: RBC US Equity Strategy

Updated S&P 500 Sector Scorecard – Adding Biden Risk Assessments To Our Recommendations

	% Upward EPS Revisions	Valuations vs. S&P 500	Biden Policy Risk Per Survey	ESG Fund Weightings	Recommendation	Our Overall Take
Consumer Staples	✓	✓	=	✗	Market Weight	Strong on revisions, attractively valued, neutral Biden impact, ESG funds UW
Utilities	✗	✓	✓	✓	Overweight	Weaker revisions, attractive valuations, net positive Biden impact; ESG funds OW
REITs	✗	✗	=	=	Underweight	Weak on revisions, expensive valuations, neutral on Biden impact, ESG funds UW
Health Care	=	✓	=	=	Overweight	Favorite secular growth sector, attractively valued, mixed Biden impact
Energy	✓	✗	✗	✗	Market Weight	Strong revisions, but expensive relative valuations, negative Biden impact, ESG headwind
Materials	=	✓	=	✓	Market Weight	Weaker revisions, reasonable valuations, mixed Biden impact, ESG funds overweight
Financials	=	✓	✗	✗	Market Weight	Attractive valuations, but we worry any recovery outperformance could fade quickly since rates are likely to stay lower for longer, negative Biden impact, ESG funds underweight
Industrials	=	✓	✗	✓	Overweight	Favorite cyclical / recovery play, deeply attractive valuations, negative Biden impact, ESG funds OW
Consumer Discretionary	=	✗	✗	✗	Underweight	Potential for lasting wounds to impact the US consumer in this recovery, lack of valuation appeal, negative Biden impact, ESG funds UW
Comm Services	=	=	=	✗	Market Weight	Reasonable valuations and middle of the pack on revisions, neutral Biden impact, ESG funds UW but some big names are highly owned
Technology	✓	✗	✗	✓	Market Weight	Despite recent strong revision trends, trading defensively, secular growth appeal, slight negative Biden impact, ESG funds OW

Source: RBC US Equity Strategy

What RBC Analysts Say Is Most & Least At Risk If Biden Wins & Democrats Sweep In 2020

Key Takeaways

- In our late July RBC US equity analyst survey, 58% said the combination of a Biden win and Democratic sweep in 2020 is bearish or very bearish for the industries that they cover. This scenario is viewed as neutral for 27% of the US industries RBC covers and bullish or very bullish for just 15%.

Very Bullish	Bullish	Neutral	Bearish	Very Bearish
<ul style="list-style-type: none"> Yield Cos / Alternative Energy 	<ul style="list-style-type: none"> Coatings Forest Products HC Service Providers HC Services and Distribution Health Care Equipment & Services Utilities (Electric, Gas, Multi, Water) 	<ul style="list-style-type: none"> Cable & Telecom Communications Infrastructure Food, Beverage, Household Personal Care, and Tobacco HC Payors (Managed Care) Internet ex Megacap Media Mega Cap Internet Oil Services P&C Insurance; Insurance Brokers Packaging Payments, Processors, & IT Services REITs Software 	<ul style="list-style-type: none"> Aerospace & Defense Autos & Auto Parts Biotechnology Building Products Business Services Chemicals Enterprise / IT Hardware Global Apparel & Specialty Softlines Hardlines/ Broadlines Homebuilding Independent Power Producers Integrated Oil & Gas Large-cap Pharma Life Insurance Machinery/Cap Goods Midstream and MLPs Multi-Industry & Electrical Equipment Railroads Refiners Regional Banks Restaurants Semi & Semi-cap Eqpt Spec Pharma Specialty/Consumer Finance U.S. Asset Managers Waste 	<ul style="list-style-type: none"> Banks (Large) E&P

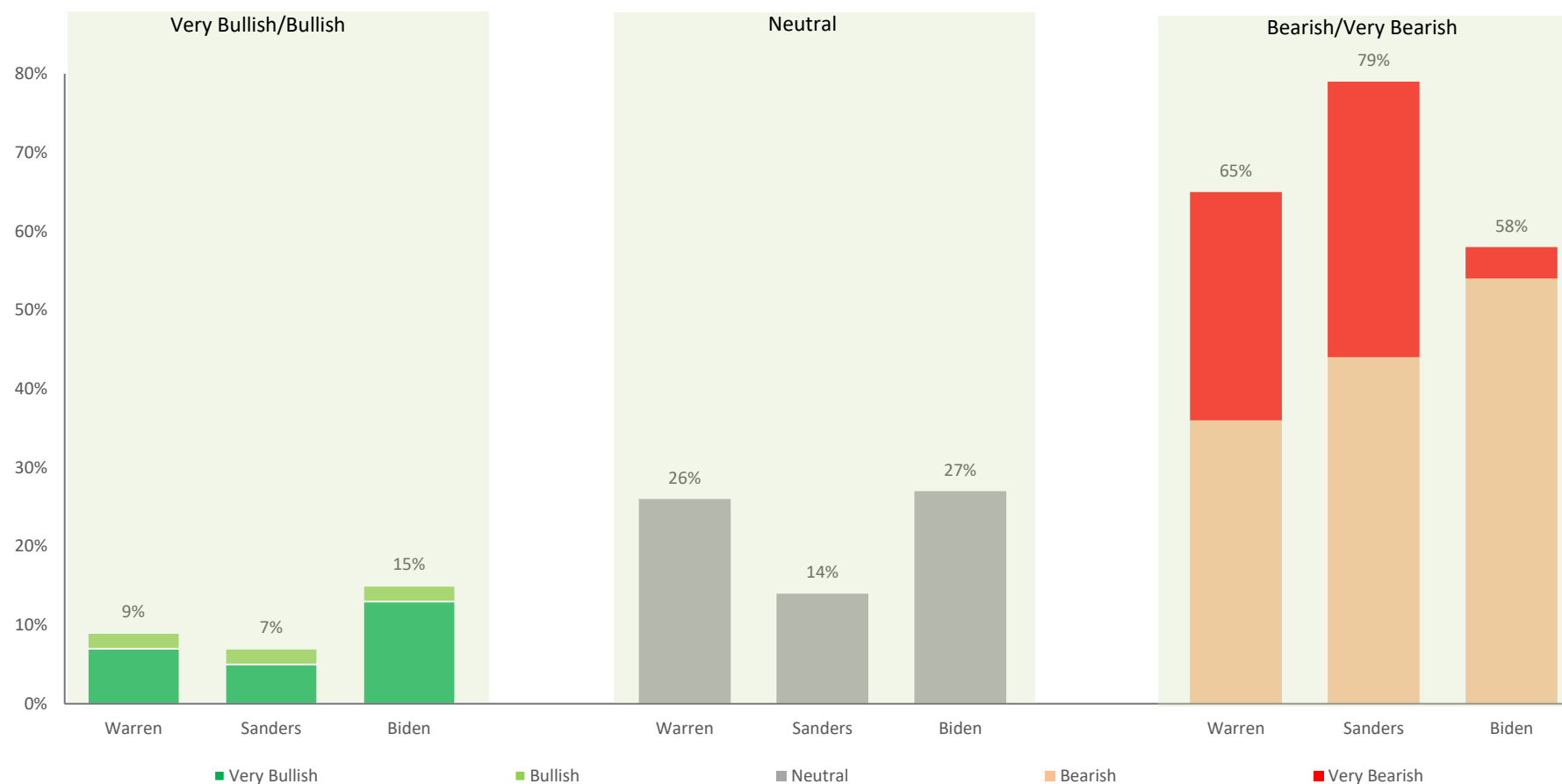
Source: RBC US Equity Strategy, RBC Capital Markets estimates

RBC Analysts Pessimistic About A Biden Win, But Less So Than A Sanders or Warren White House

Key Takeaways

- In our July 2020 Biden survey, 58% viewed a Biden victory as a bearish/very bearish outcome for the industries they cover. This is a negative tilt, but less of one than we saw in our analyst surveys on a Sanders or Warren White House, taken in March 2020 and October 2019, when those candidates briefly enjoyed front runner status. Our Biden survey also revealed that our analysts tend to view him as a “bearish” outcome as opposed to a “very bearish” outcome. In our Sanders and Warren surveys, nearly half of our analysts saw the Democratic candidate as a “very bearish” outcome for their industries.

RBC US Industry Analyst Outlook For Their Industries Under A Biden, Sanders, or Warren White House Victory



Source: RBC US Equity Strategy, RBC Capital Markets estimates.

Warren Survey was conducted in October 2019 with a total of 42 industries. Sanders Survey was conducted in March 2020 with a total of 43 industries. Biden Survey was conducted in July 2020 with a total of 48 industries. Count of industries is agnostic of change of analyst coverage.

Communication Svcs Sector Outlook Under Biden White House & Democratic Congress by Industry

Key Takeaways	<ul style="list-style-type: none"> Our industry analysts generally view the prospect of a Biden win & Democratic sweep as neutral for Communication Services.
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TIMT Industries & Analysts	Outlook if Biden wins & Democrats Sweep	Thesis
Cable & Telecom (Jonathan Atkin & Kutgun Maral)	Neutral	Biden's push to restore net neutrality and increase corporate taxes would be negative. Potential offsets include the plan for a \$300B investment in R&D and technologies, including 5G, which could be bullish for the telecom industry while potentially increase the competitive threats to cable (i.e., greater fixed wireless/mobile substitution risk). Biden's policies also propose a \$20B investment in rural broadband infrastructure and to triple funding to expand broadband access in rural areas, which would be bullish for cable/wireline telcom operators.
Media (Kutgun Maral)	Neutral	We see the impact as being largely neutral, but highlight potential risks as follows. 1) M&A: The media ecosystem is rapidly evolving and the traditional lines between content providers and distributors are becoming increasingly blurred. However, a restrictive view on the definitions used in market concentration analyses could prevent further industry consolidation. 2) Taxes: Biden's tax proposals would be negative for our media coverage, which broadly generates substantial profits/FCF and operate on a global scale. 3) 5G and rural broadband investments: Improved connectivity could further migrate customers toward streaming services and away from traditional Pay TV (i.e., accelerate cord cutting).
Internet (Mark Mahaney & Shweta Khajuria)	Neutral	Potentially negative on tax issues and mild positive on Immigration, Privacy & Security issues

Consumer Sector Outlook Under Biden White House & Democratic Congress by Industry

Key Takeaways

- Our industry analysts generally view the prospect of a Biden win & Democratic sweep as bearish for Consumer Discretionary (ex Internet) and neutral for Consumer Staples.
- Please see the Communication Services table, prior page, for color on Internet

Consumer Discretionary ex Internet Industries & Analysts	Outlook if Biden wins & Democrats Sweep	Thesis
Autos & Auto Parts (Joseph Spak)	Bearish	Negative for tax rate and wages. Automakers and suppliers levered to "green" transportation would benefit.
Global Apparel & Specialty Softlines (Kate Fitzsimons)	Bearish	Near-term, reversal of corporate tax reform and raising of minimum wages is detrimental to our companies' margins and bottom line. That said, rising wages nation-wide we'd expect would be a positive for consumer spending on top of freed up wallet share with policies such as free college for students who qualify.
Homebuilding (Michael Dahl)	Bearish	Earnings could take a hit from higher corporate taxes. This remains the greatest potential near term headwind from a Biden election, as homebuilders, which are 100% domestic, greatly benefitted from 2017 corp. tax reform. Biden's proposed \$640 BN investment in housing over the next 10 years provides a partial offset however, with the potential for a first-time home buyer credit (up to \$15k) being particularly generous and stimulative for first time demand. Higher personal taxes on households earnings >\$400k would be a headwind for the luxury market though this could be offset by the potential repeal of a cap on SALT deduction.
Hardlines/ Broadlines (Scot Ciccarelli)	Bearish	Higher corporate and individual tax rates will pressure consumer spending patterns
Restaurants (Christopher Carril)	Bearish	Potentially higher corporate tax rates would negatively impact restaurant companies, though to varying degree (casual dining, generally, saw the greatest benefit from tax reform). Higher wages would add incremental pressure on margins of restaurant operators, including franchisees. An offset to wage increases would be potential for higher discretionary income/spending.

Consumer Staples Industries & Analysts	Outlook if Biden wins & Democrats Sweep	Thesis
Food, Beverage, HH & Personal Care, and Tobacco (Nik Modi)	Neutral	We believe a Biden win will have limited impact to the CPG space. While tightening rules on what products can be designated "made in America" and updating international trade rules around government procurement may have a minor impact to our coverage (mainly HPC/Beauty), we are more concerned about a potential rise in the corporate tax rate – which would weigh on FCF generation. This could be partially offset by an increase in the minimum wage.

Source: RBC US Equity Strategy, RBC Capital Markets estimates

Energy Sector Outlook Under Biden White House & Democratic Congress by Industry

Key Takeaways

- Our industry analysts generally view the prospect of a Biden win & Democratic sweep as bearish for Energy, with the most pessimism for E&P and the least pessimism (a more neutral view) for Oil Services.

Energy Industries & Analysts	Outlook if Biden wins & Democrats Sweep	Thesis
Oil Services (Kurt Hallead)	Neutral	The proposal to move toward a 100% clean energy economy and net-zero emissions no later than 2050 could shift demand to natural gas from crude oil. It could also open opportunities for oil service companies to provide services for carbon capture, offshore wind installations and new energy technologies.
Integrated Oil & Gas (Biraj Borkhataria)	Bearish	Potential increase in corporate tax rate will hurt downstream earnings in particular. Great subsidies for clean energy relative to fossil fuels could hurt earnings and sentiment over time.
Midstream & MLPs (Schultz & Scotto)	Bearish	Biden's commitment to net-zero emissions by 2050 would hurt demand for refined products and impact refined products pipelines longer-term (near-term implications not too negative); no new oil and gas leases on federal lands and ban offshore drilling would negatively affect volumes flowing through midstream assets (G&P, pipelines). Finally, we believe pipeline permitting would become incrementally harder under a Biden administration and Democrat controlled Senate and House (already challenging under Trump administration).
Refiners (Brad Heffern)	Bearish	We remain bearish on the implications for refiners if Biden wins the White House in 2020. Biden is committed to the US achieving net-zero emissions by 2050, which is likely to be impossible without a near phase out of refined products over that time period.
E&P (Scott Hanold)	Very Bearish	The proposal to move toward a 100% clean energy economy and net-zero emissions no later than 2050 could accelerate demand destruction for oil & gas. Additionally, this effort in part is expected to be subsidized by the oil & gas industry through increased Federal royalties and removing income tax deductions/credits.

Financials Sector Outlook Under Biden White House & Democratic Congress by Industry

Key Takeaways

- Our industry analysts generally view the prospect of a Biden win & Democratic sweep as bearish for Financials, with the most pessimism for Large Cap Banks and the least pessimism (a more neutral view) for P&C Insurance/Insurance Brokers.

Financials Industries & Analysts	Outlook if Biden wins & Democrats Sweep	Thesis
P&C Insurance; Insurance Brokers (Mark Dwelle)	Neutral	No specific policy implications as most P&C is state regulated.
Life Insurance (Mark Dwelle)	Bearish	Dem congress usually negative towards consumer and retirement financial products. DOL fiduciary rule, CFPB etc. No announced policy that is obviously negative, more going on track record here.
U.S. Asset Managers (Kenneth Lee)	Bearish	We see no specific policy proposal yet that could have direct negative implications for asset managers, outside of potential changes to corporate tax rates. However, if a Biden administration re-visits a change in the definition of a fiduciary within retirement plans, similar to what was seen within the Obama administration, there could be negative implications.
Regional Banks (Jon Arfstrom & Steven Duong)	Bearish	We view higher corporate tax rates as a negative headwind to our Regional Bank coverage under a Biden administration. Additionally, through the appointment of regulators we see risk of more heightened scrutiny of the business practices of Regional Banks, which could be a modest headwind on profitability and growth. In addition, if federal, state, and local budgets have big holes, banks may be a target, especially those that issued PPP loans.
Specialty/Consumer Finance (Jon Arfstrom)	Bearish	We believe a Biden presidency would introduce the risk of regulatory appointments who would take a more critical look at the business practices of consumer lenders. Specifically, Biden has suggested strengthening oversight of consumer lending through the CFPB. This heightened regulatory scrutiny particularly around lower income / FICO customers, could restrict lending opportunities and impact the profitability of these customer segments. We also view higher corporate tax rates as a potential negative.
Banks (Large) (Gerard Cassidy)	Very Bearish	Higher corporate tax rates would lower bank profitability. The re-regulation of selected industries in the U.S., i.e., energy, would lead to slower growth.

Source: RBC US Equity Strategy, RBC Capital Markets estimates

Health Care Sector Outlook Under Biden White House & Democratic Congress by Industry

Key Takeaways

- Our Health Care analysts have mixed views on the prospect of a Biden win & Democratic sweep for their industries, with bearish views in place for Biotech and Pharma, a neutral view in place for Managed Care, and bullish views in place for Equipment & Services and Services & Distribution.

Health Care Industries & Analysts	Outlook if Biden wins & Democrats Sweep	Thesis
Health Care Equipment & Services (Sean Dodge)	Bullish	A Biden win would likely mean a restoration of the ACA, most notably renewed efforts to expand health insurance coverage, thereby reducing uninsured volumes for providers. And while "Joe's Vision" doesn't explicitly mention a continued push toward value-based care, given the prominent role innovation and cost reduction played in the original ACA, we'd expect more programs that embrace both.
HC Service Providers (Frank Morgan)	Bullish	We believe a Biden win, plus Democratic control of congress would rejuvenate efforts to build on the ACA, which could lead to another wave of reduced uninsured volume. Key policy tenets that point to an increase in covered lives under the Biden plan include elimination of income cap for subsidies, reduction of the out-of-pocket limit, benchmarking tax credits to gold-tier plans, premium-free public option for would-be Medicaid enrollees in non-expansion states, and auto-enrollment for individuals below 138% of FPL.
HC Services and Distribution (Anton Hie)	Bullish	If Biden wins the White House and Democrats take control of both chambers, we expect efforts to build on the Affordable Care Act to begin again. Coverage and access to care could be further expanded via several proposed policies such as eliminating the income cap for premium subsidies for exchange plans, reducing out-of-pocket limits for enrollees, and others geared toward Medicaid enrollment. Expanded coverage would likely be positive for Retail Pharmacies as well as Home Medical providers. Additionally, we believe Biden's commitments to invest in biotech and R&D could be positive for Life Science and Diagnostic Tools providers.
HC Payors (Managed Care) (Frank Morgan)	Neutral	Though we see ample potential for left-leaning healthcare reforms under a Democratic White House and congress, we do not see appetite under a prospective Biden administration for far-left progressive proposals like Medicare-for-All. We would expect Biden to work with the existing infrastructure to build on the ACA and likely embrace the large carriers as key partners in that effort.
Biotechnology (Brian Abrahams, Kennen MacKay, Gregory Renza & Luca Issi)	Bearish	We could see moderate increased appetite for drug pricing reform, with legislation such as the currently proposed Grassley-Wyden drug bill passing with greater ease. Though we do not expect healthcare costs to be as critically in focus as perhaps the last few years pre-COVID-19, we could see some revisiting of drug launch pricing and public payor rebate negotiations, for example. However, we may not expect a new admin and Senate to initially focus their efforts against the healthcare industry, particularly if a COVID-19 backdrop remains.
Large Cap Pharma (Randall Stanicky)	Bearish	We expect drug pricing reform to be an area of focus for a Biden administration, though perhaps not until after the COVID-19 pandemic has waned. Most of Biden's policy proposals thus far have been more incremental than transformative but would still have a negative effect on pricing. Those policies include (i) allowing Medicare to negotiate drug prices, (ii) limiting launch prices, and (iii) implementing a Medicare-like public option (which could lower commercial enrollment). The Grassley-Wyden bill could be a logical place to start though a Democratic Congress may try to push Biden further left.
Spec Pharma (Randall Stanicky)	Bearish	We would anticipate a mixed impact on specialty pharma companies albeit with a negative bias. Branded drug pricing is likely to be adversely impacted by the same policy proposals discussed for large-cap pharma. But this could potentially be offset for some companies (particularly generic drug manufacturers) by proposals to (i) incentivize greater biosimilar/generic drug use, and (ii) encourage domestic drug production via Biden's "Buy American" and "Make it in America" proposals.

Source: RBC US Equity Strategy, RBC Capital Markets estimates

Industrials Sector Outlook Under Biden White House & Democratic Congress by Industry

Key Takeaways

- Our industry analysts generally view the prospect of a Biden win & Democratic sweep as bearish for Industrials.

Industrials Industries & Analysts	Outlook if Biden wins & Democrats Sweep	Thesis
Business Services (Seth Weber)	Bearish	There could be higher corporate tax rates and potential cost pressure related to higher minimum wages for those companies with high levels of lower-skilled labor.
Machinery/Cap Goods (Seth Weber)	Bearish	Higher corporate tax rates, pro-union position, potential disruption to global manufacturing, and more restrictive fossil fuel policies could have negative implications for US-based manufacturers.
Railroads (Walter Spracklin)	Bearish	Biden's policies to "Make it in America" and to tighten domestic content rules would weaken carload volumes at the rails. A significant rise in on-shoring would decrease international intermodal volumes as volumes out of ports decreased. However, this would be partly offset by increased domestic intermodal volumes but these would likely be shorter haul and more truck competitive and therefore negatively affect profitability.
Waste (Walter Spracklin)	Bearish	We think Biden's plans to repeal Trump's tax cuts and help strengthen/empower worker unions would have a negative impact on the industry. We see a potential increase in corporate tax rates as serving to reduce the FCF generating capabilities of the sector while also adversely impacting M&A activity by making it less enticing for prospective sellers. We see Biden's plans to support unions as potentially leading to wage increases throughout the industry which could cause cost inflation to rise, and would note that each of the majors have a material portion of the workforce that are unionized.
Multi-Industry & Electrical Equipment (Deane Dray)	Bearish	Make it in America policy would create inefficiencies to global manufacturing, adding costs and lowering margins. Reregulation of industries like oil & gas will hurt several Multi-Industry companies with exposures there. Higher union wages will hurt several large manufacturers.
Aerospace & Defense (Michael Eisen)	Bearish	We think potential for greater pressure on government budgets and on defense spending will limit growth and sentiment for the sector. Higher tax rates will also eat into EPS and FCF generation.

Source: RBC US Equity Strategy, RBC Capital Markets estimates

Information Technology Sector Outlook Under Biden White House & Democratic Congress by Industry

Key Takeaways

- Our Information Technology analysts have mixed views on the prospect of a Biden win & Democratic sweep for their industries, with bearish views in place for Semis & Semi Cap Equipment and Enterprise/IT Hardware, and neutral views in place for Software and Payments, Processors & IT Services.
- Details on our Internet team's views can be found on page 11, within the Communication Services sector.

Information Technology Industries & Analysts	Outlook if Biden wins & Democrats Sweep	Thesis
Payments, Processors, & IT Services (Dan Perlin)	Neutral	We believe a Biden win is generally Neutral to the group as current policies neither accelerate nor detract from the secular trends driving payments. The \$300B proposed spending on R&D & technologies could help drive some Fintech innovation, while proposals to reduce offshoring could hurt the IT services names. On balance however we believe a Biden win would be Neutral to our universe.
Software (Alex Zukin, Matt Hedberg & Dan Bergstrom)	Neutral	Tax rates will likely be higher under a Biden administration, but we think immigration policy will likely be more favorable especially for highly skilled employees.
Enterprise / IT Hardware (Robert Muller)	Bearish	Higher taxes likely to weigh on overall sector, although other sectors impacted as well. "Invest in Our Innovative Edge" could accelerate 5G infrastructure investment, which would be positive for networking companies.
Semiconductors & Semi-cap Equipment (Mitch Steves)	Bearish	Big tech taxes and R&D credit reductions could be on the table, along with more regulations.

Materials Sector Outlook Under Biden White House & Democratic Congress by Industry

Key Takeaways

- Our Materials analysts have mixed views on the prospect of a Biden win & Democratic sweep for their industries, with bearish views in place for Chemicals (where much of the sector's weight sits), a neutral view in place for Packaging, and bullish views in place for Forest Products and Coatings.

Materials Industries & Analysts	Outlook if Biden wins & Democrats Sweep	Thesis
Forest Products (Paul Quinn)	Bullish	Biden's plan to invest \$640 billion over 10 years to provide affordable housing to Americans would be pro-cyclical for lumber and panel suppliers. However, we believe that the plan would focus on building smaller units with a focus closer to urban centers, which would slightly offset some of the benefits. In addition to spending on housing, investment in infrastructure would be a boon to non-residential construction and could drive increased wood product demand.
Coatings (Arun Viswanathan)	Bullish	Increased levels of infrastructure spending should be a tailwind for the entire coatings space due to large projects and increased federal government spending. We believe any lost international volumes would be recovered on domestic projects.
Packaging (Arun Viswanathan)	Neutral	Given our packaging sector covers food, beverage and other essential products we do not see any meaningful impact for our covered packaging names.
Chemicals (Arun Viswanathan)	Bearish	Higher corporate taxes along with clean energy policies could reduce US shale gas advantage, which would hurt chemical raws costs.
Building Products (Michael Dahl)	Bearish	Earnings could take a hit from higher corporate taxes. This remains the greatest potential near term headwind from a Biden election. We note on a sub-sector level, aggregates and distributors would be most negatively impacted by the proposed corporate tax increase given their majority domestic earnings base vs. more global building products manufacturers. Biden's proposed housing and infrastructure policies are partial offsets however as both should stimulate demand for our group. The potential for a first-time home buyer credit (up to \$15k) would spur an increase in existing home sales and repair and remodel spending, while Biden's proposed \$1.3 TN infrastructure proposal would be a clear positive catalyst for our aggregates names.

REITs Sector Outlook Under Biden White House & Democratic Congress by Industry

Key Takeaways

- Our industry analysts generally view the prospect of a Biden win & Democratic sweep as neutral for REITs.

Real Estate Industries & Analysts	Outlook if Biden wins & Democrats Sweep	Thesis
Communications Infrastructure (Jonathan Atkin)	Neutral	No specific policy impact. REITs are not corporate tax payers. Investment in 5G and AI lacks specifics on the nature of such investments.
REITs (Michael Carroll & Wes Golladay)	Neutral	Real estate is a support industry, and will be negatively impacted if policies limit overall economic growth. The bigger uncertainty mainly stems from how REITs will be impacted by Biden's tax policies. We believe the space will be relative beneficiaries as the REIT tax designation will protect the names from paying higher corporate taxes. Additionally, the proposed real estate taxes to fund the caring economy plan appears more focused on 1031 exchanges and on individual investors with income over \$400,000 both of which should not materially impact the REITs.

Utilities Sector Outlook Under Biden White House & Democratic Congress by Industry

Key Takeaways

- Our Utilities team generally views the prospect of a Biden win & Democratic sweep as bullish for the broader sector that they cover, with a very bullish view on Yield Cos/Alternative Energy and a bullish outlook for Electric, Multi, and Water Utilities – where much of the weight in the broader sector lies. They are bearish on the outlook for Independent Power Producers under this scenario.

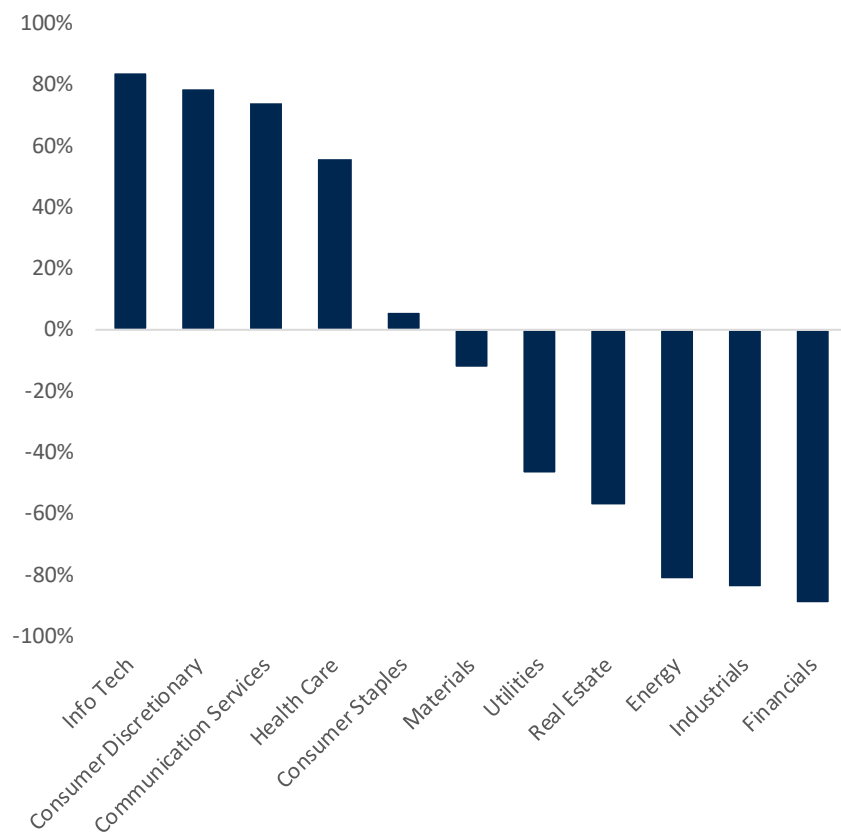
Utilities Industries & Analysts	Outlook if Biden wins & Democrats Sweep	Thesis
Yield Cos / Alternative Energy (Shelby Tucker)	Very Bullish	While we expect the Alternative Energy sector to continue to grow under a Trump second term, it will not receive the same degree of support that it could expect under a Biden first term. After all, most renewable policies are conducted at the state level.
Utilities (Electric, Gas, Multi, Water) (Shelby Tucker)	Bullish	Focus on infrastructure investment may become a reality. Higher taxes are a pass-through to consumers, so utilities relatively advantaged. Blue wave a net positive for electric and water, net negative for natural gas utilities.
Independent Power Producers (Shelby Tucker)	Bearish	Group that has the most exposure to fossil generation. Acceleration of retirement of coal plants. The next wave of targeted retirement could be natural gas-fired plants.

Biden's Surge Has Been Good For Defensive Growth Sectors, Bad For Value Oriented Cyclical

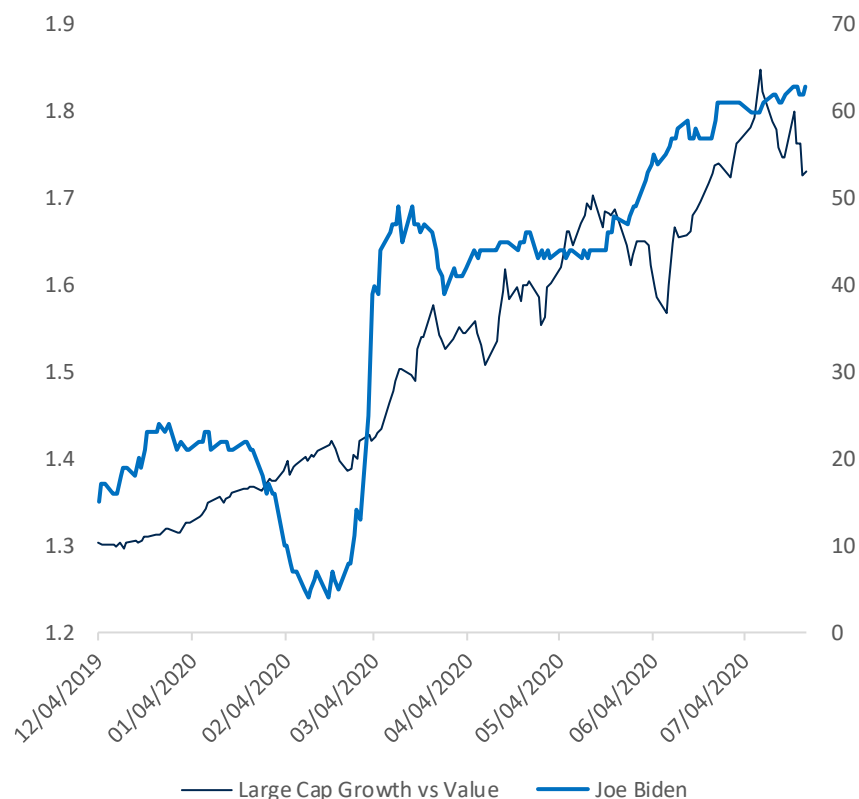
Key Takeaways

- So far in 2020, the chances that Joe Biden will win the 2020 Presidential election – according to the betting markets – has been positively correlated with the performance of Tech, Consumer Discretionary (which includes Internet Retail) and Communication Services (which includes internet/social media). They've outperformed as Biden's odds have improved. The opposite is true for Energy, Industrials and Financials.

Sector Relative Performance Correlation to Joe Biden's Presidential Election Winning Odds



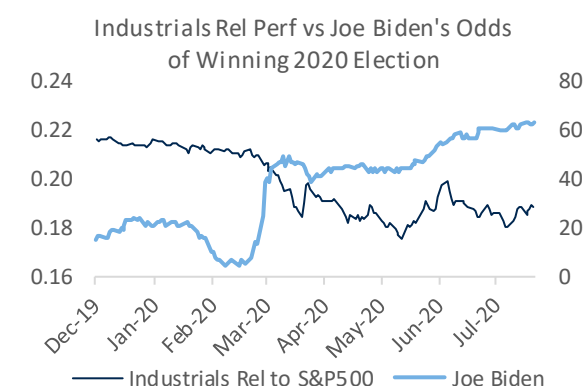
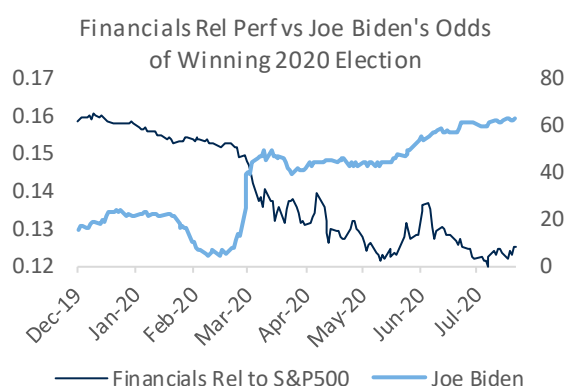
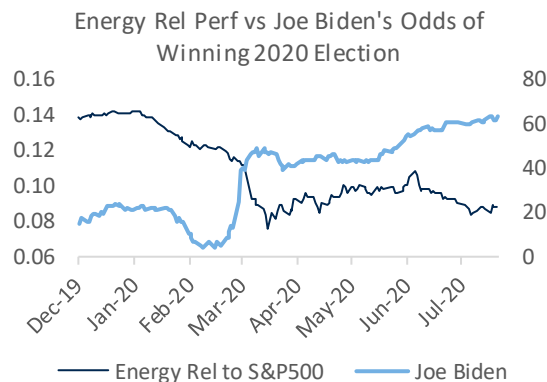
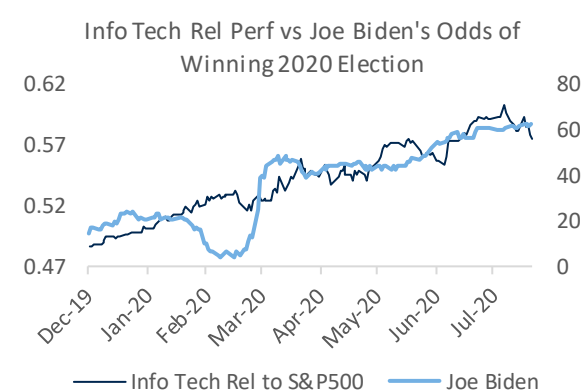
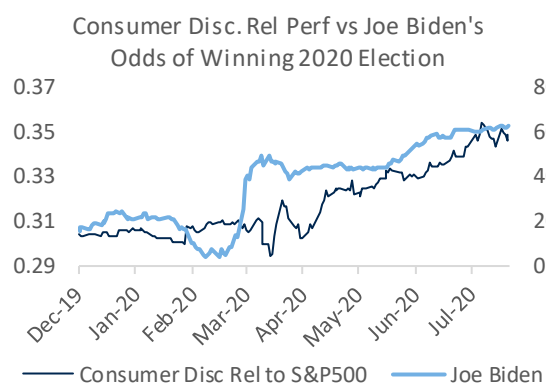
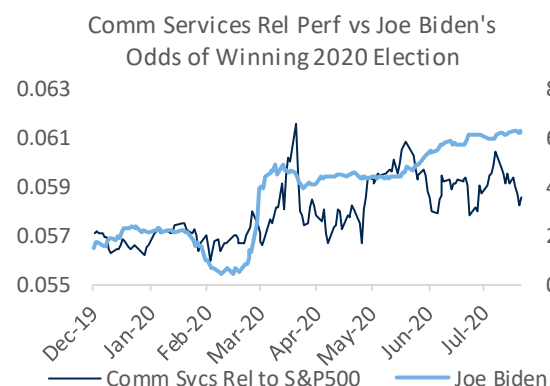
Large Cap Growth Relative to Value vs Joe Biden's Odds Winning 2020 Presidential Election



Biden's Surge Accompanied by Strength in TIMT, Weakness in Sectors Best After Trump Won

Key Takeaways

- The performance of the secular growth sectors – Communication Services, Consumer Discretionary (which contains Internet Retail) & Tech – has been moving in sync with Biden's chances for winning the White House.
- The performance of the commodity and cyclical sectors that fared best after Trump won in 2016 – Energy, Financials, and Industrials – has been inversely correlated with Biden's chances.
- Performance stats are calculated relative to the S&P 500.

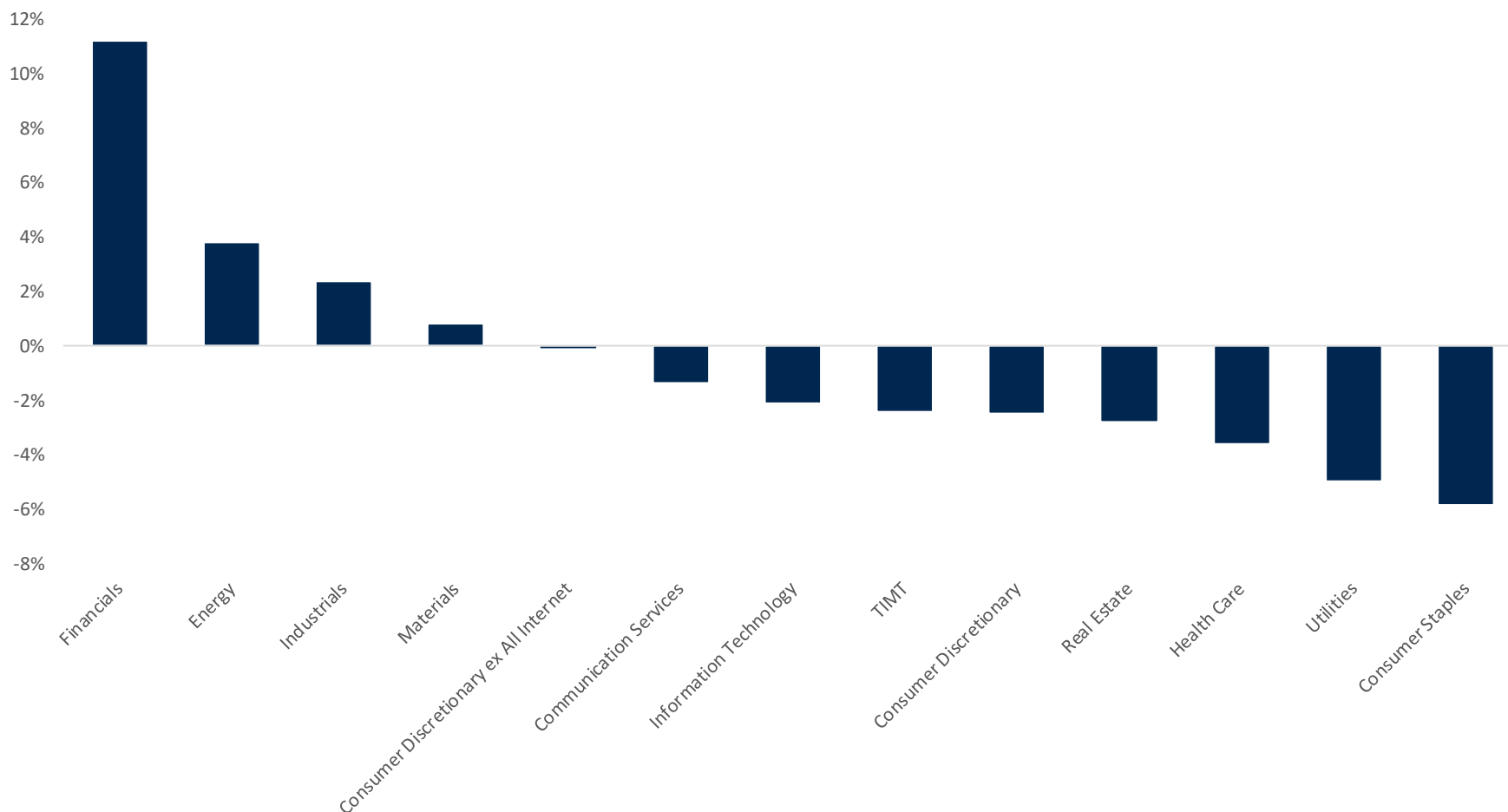


Value Oriented Cyclical Outperformed After Trump Won in 2016, as Defensives Lagged

Key Takeaways

- Cyclical sectors such as Financials, Energy and Industrials (cheap sectors which tend to outperform when Value beats Growth) were the big outperformers following the 2016 US Presidential Election through year end.
- Defensive sectors such as Consumer Staples and Utilities underperformed the most.

2016 Post - Presidential Election Large Cap Sector Returns Relative to Market



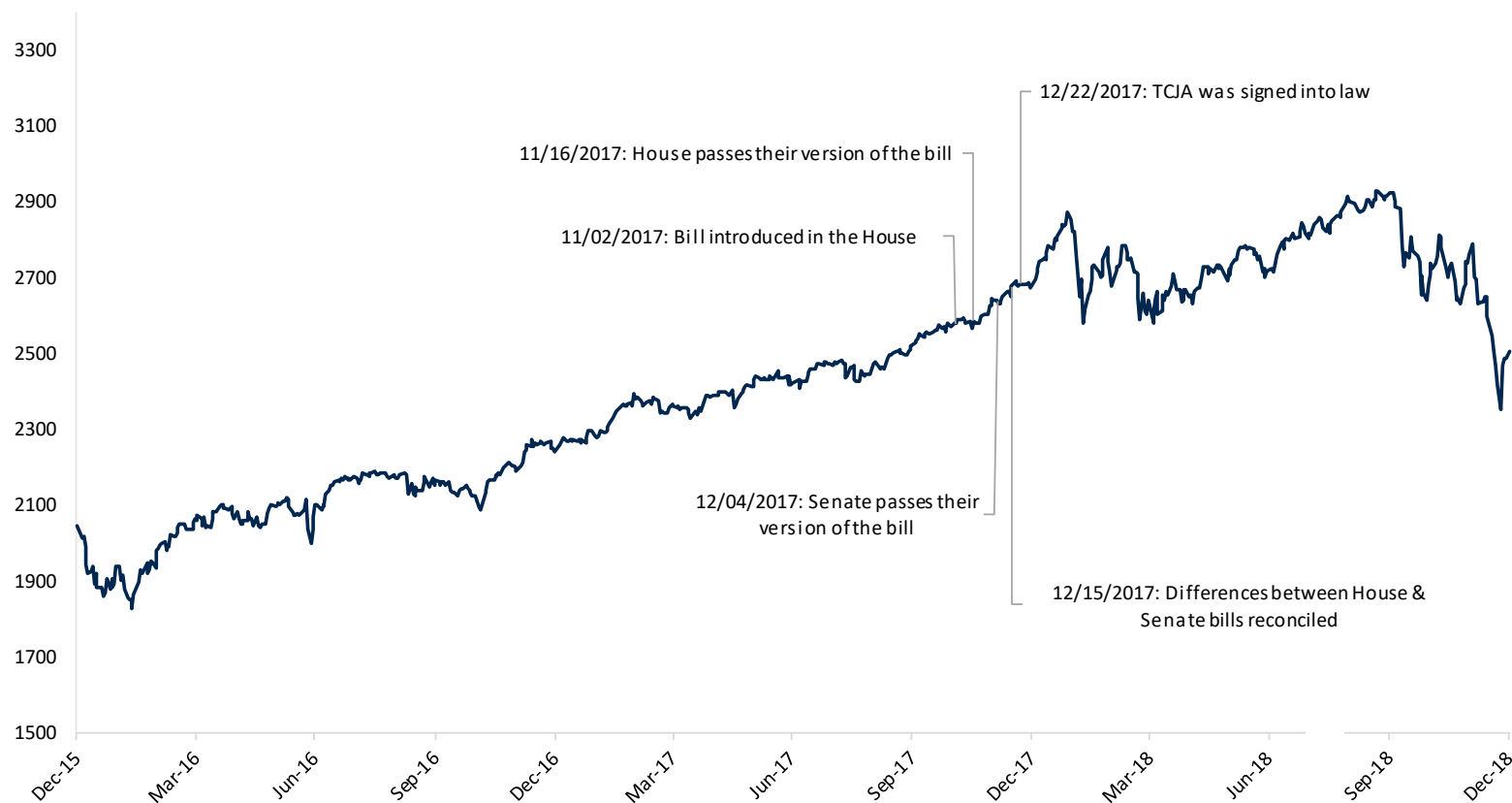
Source: RBC US Equity Strategy, S&P Capital IQ/ClariFi, Return time frame from Election day through year-end 2016

The S&P 500 Largely Priced In Trump's Corporate Tax Cuts Before They Took Effect

Key Takeaways

- The stock market rallied well ahead of the implementation of Trump's tax cuts, even before the details were known or understood to investors.
- The tax law was passed in late December 2017, while the S&P 500 peaked in January 2018.
- Sell-side analysts were not able to adjust their earnings forecasts until early 2018, with modifications made throughout the year as the Treasury Department refined its guidance and companies themselves developed a greater understanding of the new law.

S&P 500 Performance Around The Passage of The 2017 Tax Cuts & Jobs Act



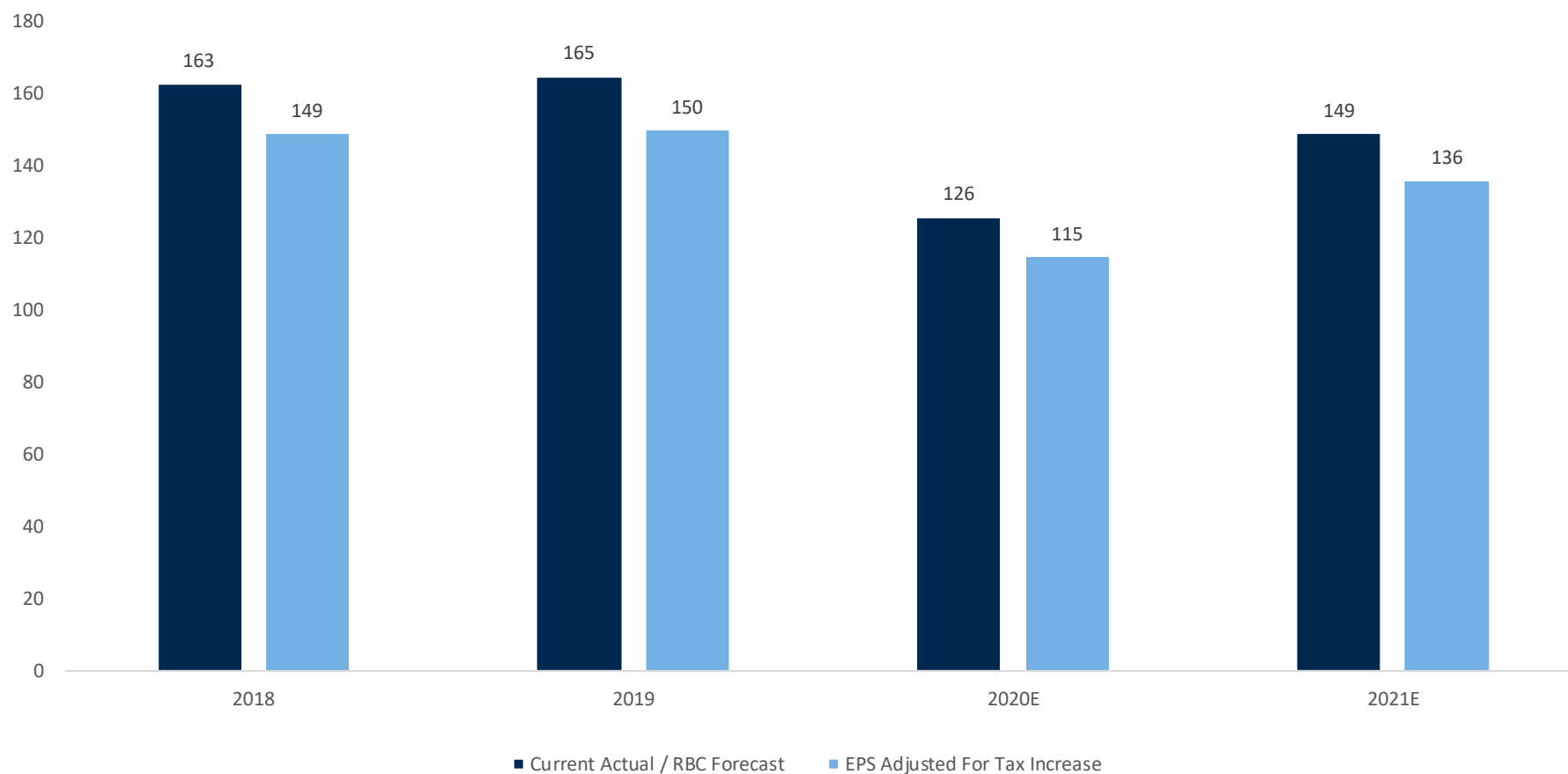
Source: RBC US Equity Strategy, FactSet

Lifting The Corporate Tax Rate To 28% From 21% Could Easily Cut S&P 500 EPS By 9%

Key Takeaways

- Though few other details are available, Joe Biden has stated that as President he would lift the corporate tax rate from 21% to 28%. In a July 9th speech, he said “It’s time corporate America pay their fair share of taxes.”
- If we raise the effective tax rate by 7% for 2018-2019 (actuals) and 2020-2021 (our estimates), our model projects that S&P 500 EPS would be lowered by 9%. The impact could be greater due to secondary impacts.

Actual/Forecasted EPS Adjusted For 7% Increase To Effective Tax Rate



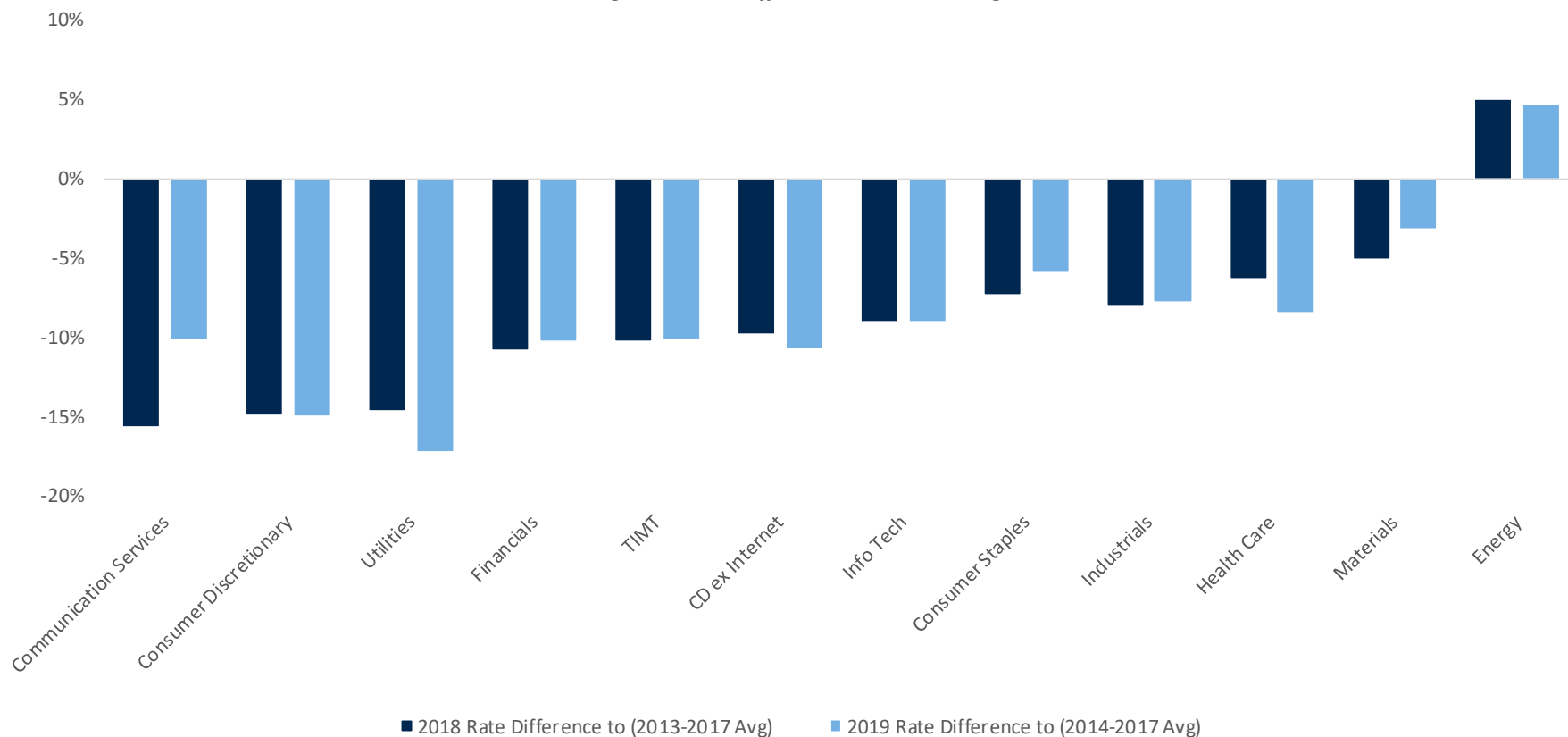
Source: RBC US Equity Strategy, KFF Health Tracking Poll – May 2020

All Major S&P 500 Sectors Benefited From Tax Reform Under Trump, Aside From Utilities & REITs

Key Takeaways

- We compared the effective tax rates for the S&P 500 sectors in 2018 (which reflects the enactment of the Tax Reform Act of 2017, which significantly lowered taxes for most companies) to their average tax rate in 2013-2017. Aside from Energy, all major sectors benefited from tax reform, with Communication Services, Consumer Discretionary, and Financials seeing the biggest impacts.
- Energy's effective tax rate was low in the immediate period prior to tax reform due to losses/low oil prices, but the sector historically was a high tax payer and so we think higher corporate taxes would be a negative for the sector.
- Utilities companies' tax savings are passed through to customers, meaning it did not end up benefiting from tax reform. REITs are not required to pay corporate taxes.

Difference Between Effective Tax Rate in 2018 & 2019 vs. Average Effective Tax Rate in 2013-2017 & 2014-2017
Weighted Median Effective Tax Rate, Ex Neg, Ex REITs



Source: RBC US Equity Strategy, CapitalIQ/ClariFi, Compustat

The Historical Playbook for Elections



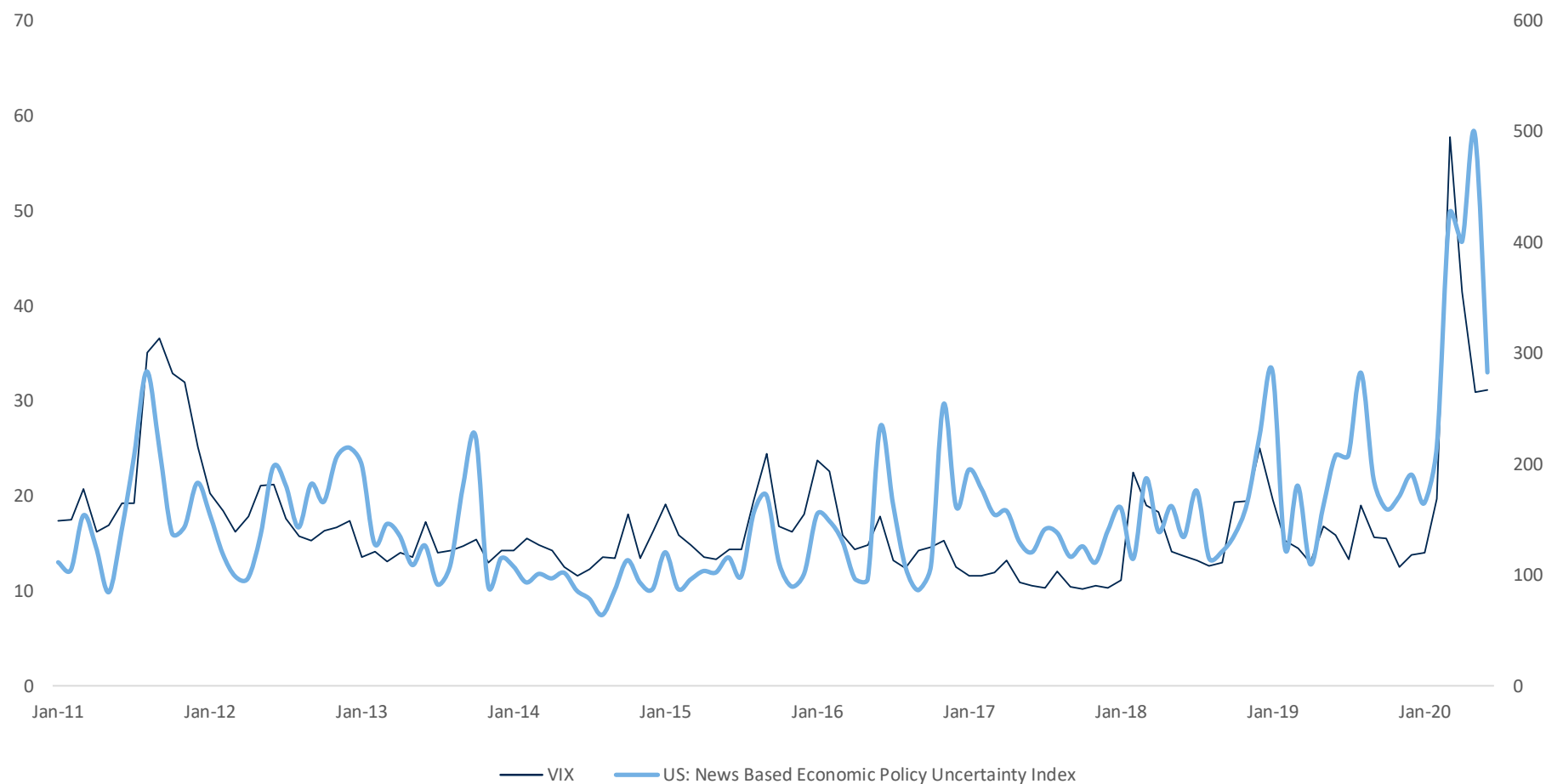
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Heightened Policy Uncertainty Tends to be Accompanied by Higher Stock Market Volatility

Key Takeaways

- Historically, elevated economic policy uncertainty has been associated with higher levels of stock market volatility.
- Economic policy uncertainty eased back in 2019 as the US approached the phase 1 trade deal with China. But it picked up sharply again in early 2020 due to the pandemic.
- If the Democrats sweep in November, we expect this to increase again.

Stock Market Volatility vs. Economic Policy Uncertainty



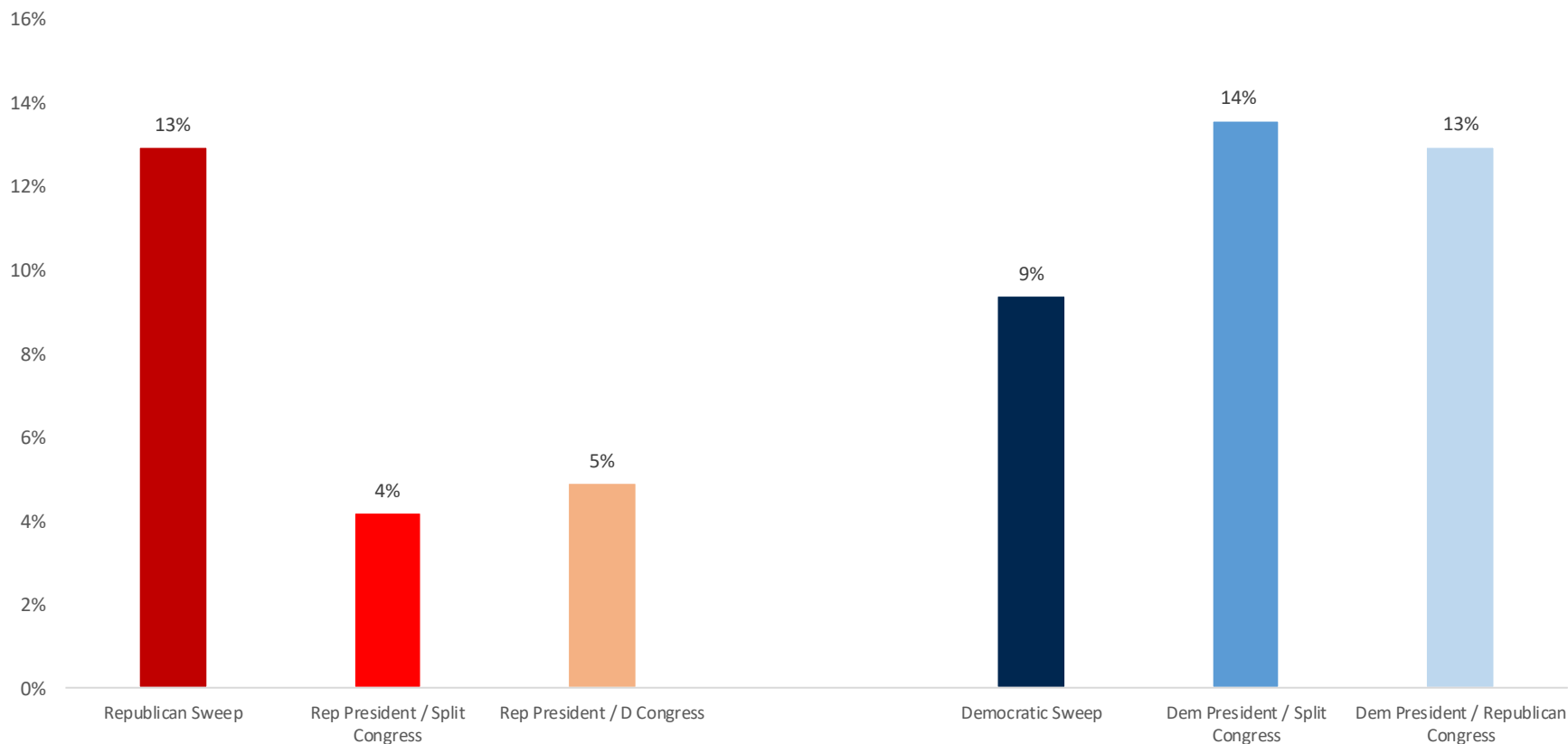
Source: RBC US Equity Strategy, Haver

Historical Stock Market Returns Under Different Political Leadership Environments

Key Takeaways

- A Republican President with a split or Democratic Congress – as is the case today – is often challenging for stocks. Average returns have been best under a unified Republican government or a government with a Democratic President and split or Republican Congress.
- A Democratic President with a Democratic Congress falls in the middle – average returns are close to historical trend.

Average S&P 500 Returns When Different Political Parties Are In Control Of Government



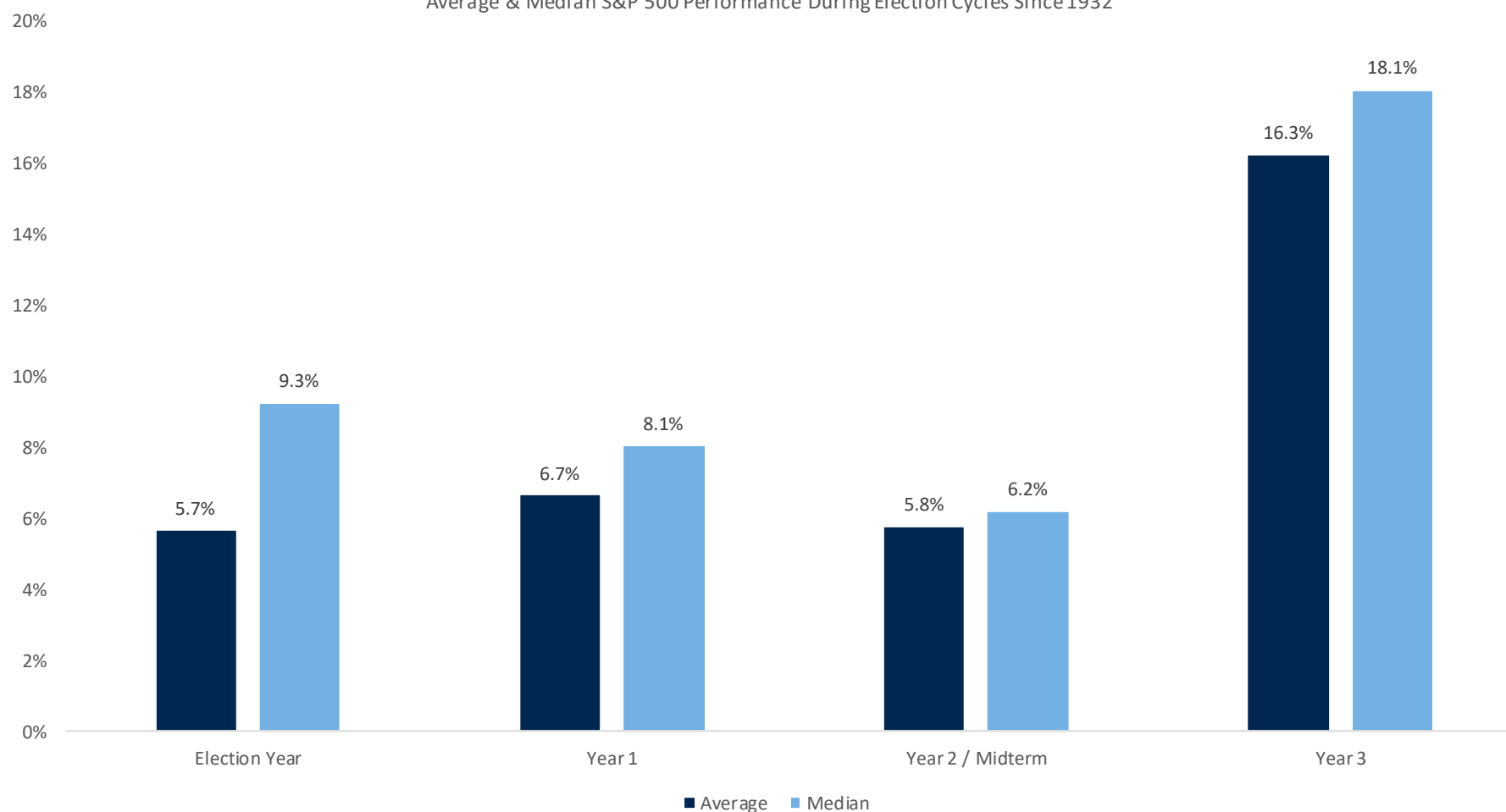
Source: RBC US Equity Strategy, Haver, Includes years since 1932; the 2000 election resulted in a 50/50 tie in the Senate (with a Republican VP acting as the deciding vote after inauguration). However, midway through 2001 one Republican Senator left to become an independent and caucus with the Democrats, based on Price Returns

Presidential Election Years Typically Have Trend-Like Returns

Key Takeaways

- The Presidential election year tends to be solid, but less robust than Year 3, with average/median returns close to trend.
- Year 3 of the Presidential cycle, the year that precedes the Presidential election, tends to be the strongest in the election cycle for stocks. In 2019 the playbook generally worked, with 2019 seeing gains of nearly 29%.
- Mid term election years (which 2018 was) tend to be the weakest. The playbook also worked that year, with the S&P 500 losing more than 6%.

Average & Median S&P 500 Performance During Election Cycles Since 1932

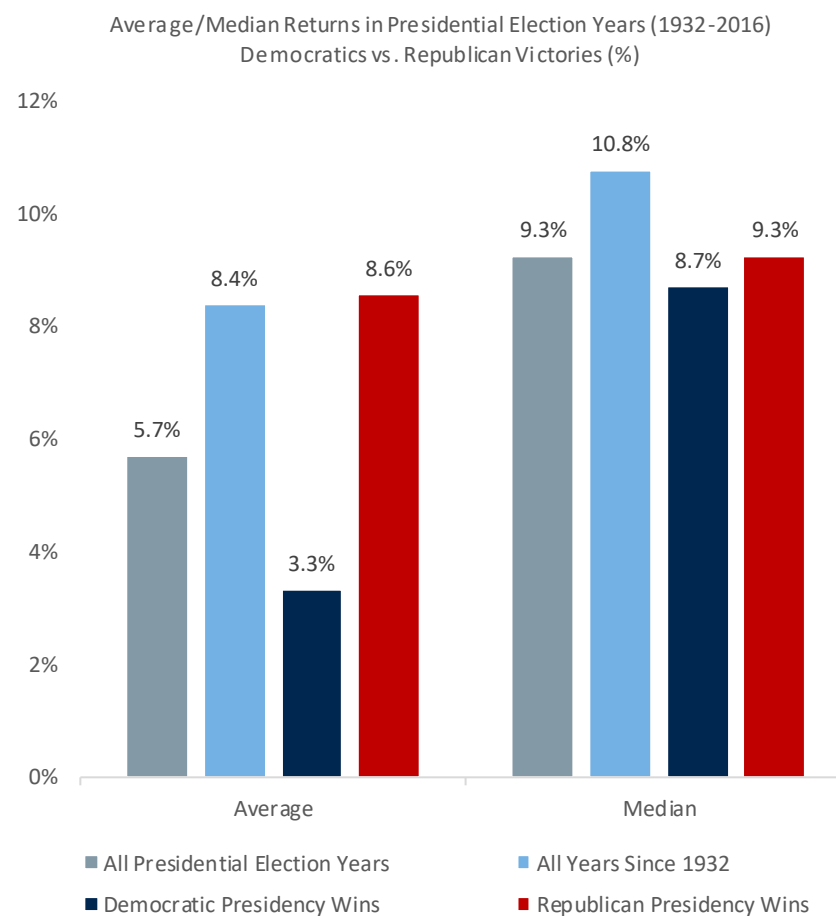
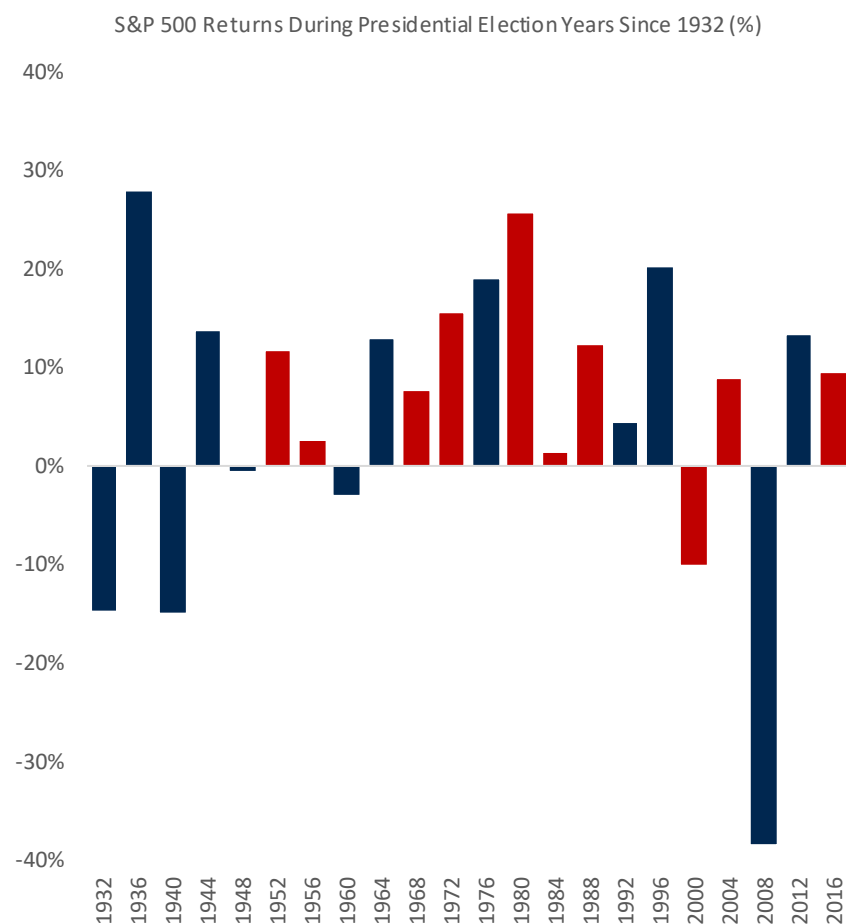


Source: RBC US Equity Strategy, Bloomberg. Data goes back to 1932, based on price returns

Historical Full Year S&P 500 Performance in Presidential Election Years

Key Takeaways

- During the Presidential election years from 1932-2016, the average return on the stock market has been positive, but weaker than the average of all years in the stock market. Using medians, which reduces the impact of 2008, election years have been closer to the historical norm of all years.
- On average, Presidential election years in which Democrats win are weaker than those that see Republicans emerge victorious. But that gap disappears if we look at a median, which reduces the impact of 2008 (a clear outlier).



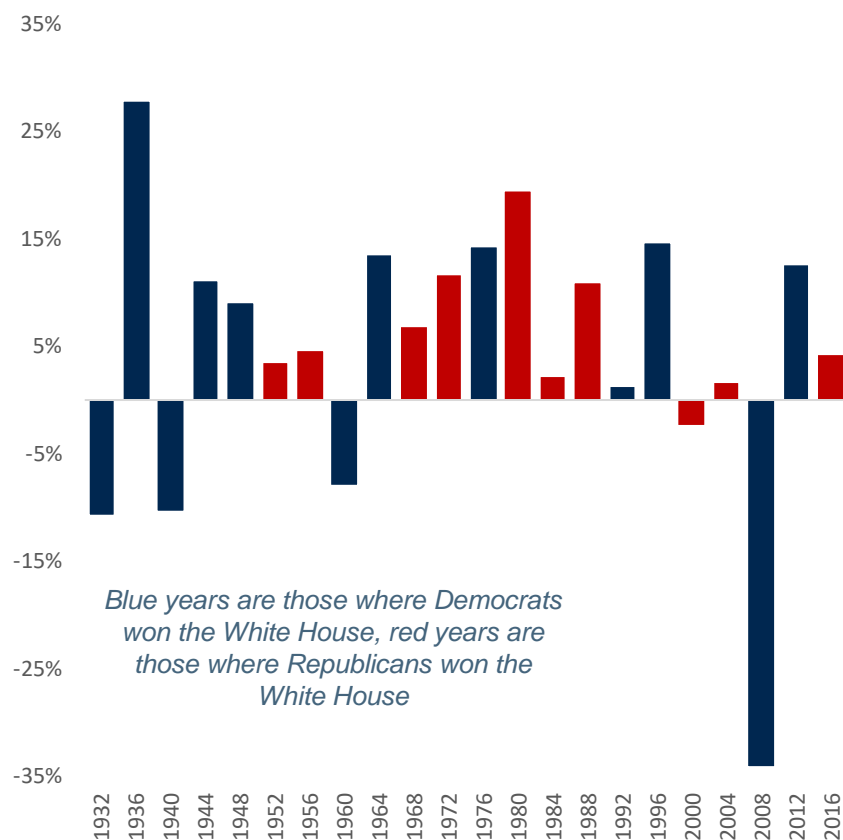
Source: RBC US Equity Strategy, Bloomberg, Data goes back to 1932, based on price returns

S&P 500 Performance Tends to be Positive Ahead of Election Day

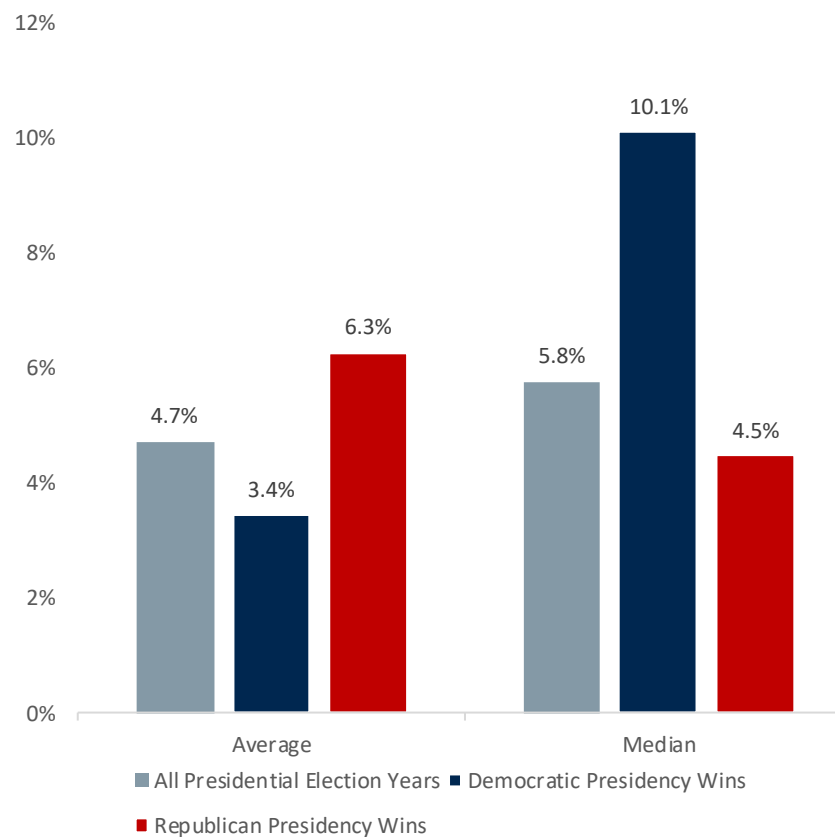
Key Takeaways

- Historically, the stock market tends to be strong ahead of Election day. The historical playbook hasn't worked that well over the past two decades, however, with weak pre-Election returns seen in 1992, 2000, 2004, and 2008.
- The weaker pre-election moves from the past two decades have been split between years in which Republicans and Democrats ended up being victorious.

S&P 500 Performance During Presidential Election Years: Pre-Election Return (in %)



S&P 500 Average/Median Performance During Presidential Years: Pre-Election Return (in %)

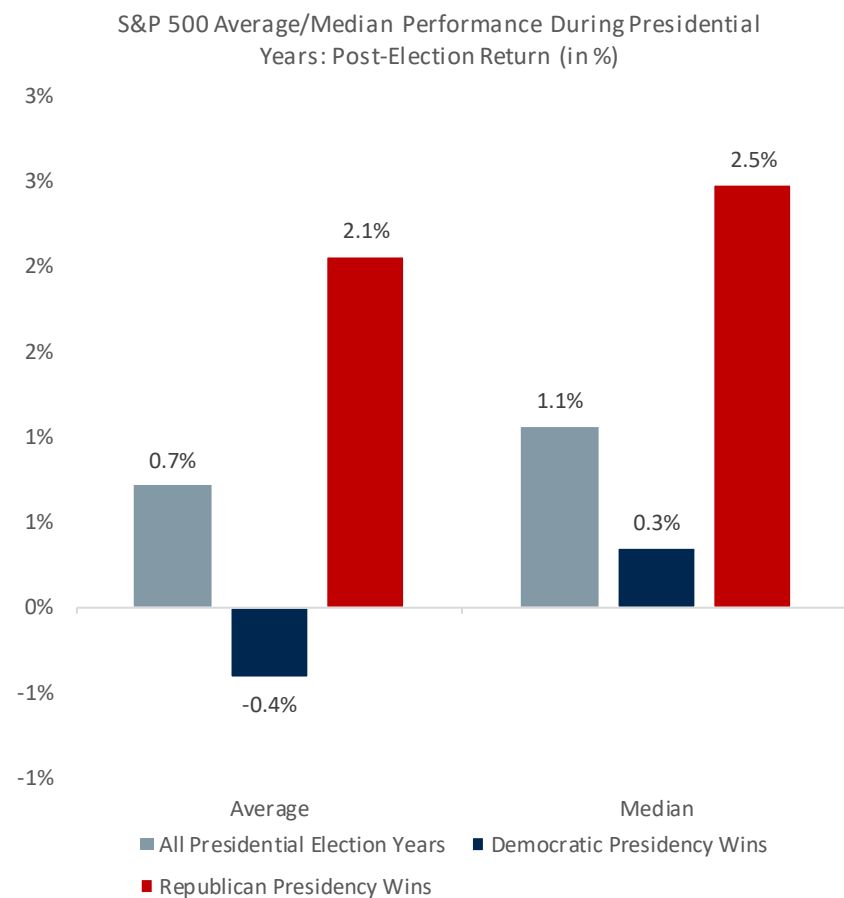
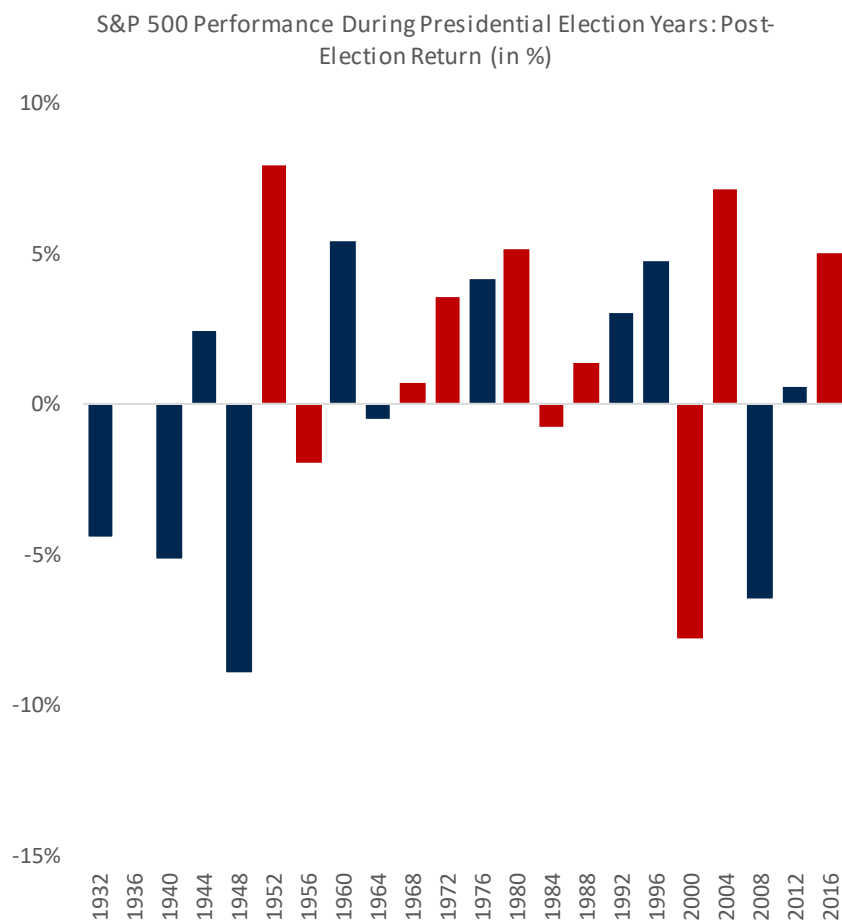


Source: RBC US Equity Strategy, Bloomberg, Pre-Election return captures performance from the close on Dec 31st of the prior year, through the Election Day close. Data goes back to 1932, based on price returns

S&P 500 Performance Tends to be Weaker After Election Day if Democrats Win

Key Takeaways

- Looking back to the 1930's, post election returns, through year-end, tend to be positive, using both averages and medians. These stats are heavily skewed by the 1930's.
- Post election gains tend to be more common in years when Republicans win the White House than those in which Democrats win the White House.



Source: RBC US Equity Strategy, Bloomberg, Post-Election return captures performance from the Election Day close through year end. Data goes back to 1932, based on price returns

The Stock Market Often Experiences A Reversal of Trend Around Presidential Elections

Key Takeaways

- No two Presidential election years have been the same, and most don't follow exactly the same pattern. Our view of all Presidential election years dating back to the 1930's does suggest that the stock market often reverses course at some point as the contest draws near. When stocks pull back as the contest draws near, then rebounds as it comes to pass, the median move has been around 9% in both directions. In years where the stock market rallies ahead of the election, then pulls back as the event passes, rallies tend to be robust heading in while declines that follow tend to be around 5%.

Years S&P 500 Dropped Pre-Election And Rebounded Post-Election

Year	Old President party	Old President party	Day of high	Day of low	Day of high	Drop %	Rebound %
1932	Republican	Democratic	-42	-2	3	-30.4%	18.5%
1944	Democratic	Democratic	-83	-36	36	-6.9%	7.5%
1948	Democratic	Democratic	-96	18	36	-13.5%	3.4%
1952	Democratic	Republican	-59	-8	37	-6.8%	11.7%
1956	Republican	Republican	-66	16	22	-10.8%	6.0%
1960	Republican	Democratic	-52	-9	36	-9.9%	11.1%
1976	Republican	Democratic	-25	6	41	-7.9%	8.8%
1992	Republican	Democratic	-31	-16	33	-4.8%	9.6%
2000	Democratic	Republican	-157	31	36	-17.2%	5.5%
2004	Republican	Republican	-182	-56	40	-8.2%	14.1%
2008	Republican	Democratic	-212	13	30	-48.0%	21.4%
2016	Democratic	Republican	-56	-1	25	-4.7%	8.9%
Average			-88	-4	31	-14.1%	10.5%
Median			-63	-2	36	-9.1%	9.3%

Years S&P 500 Rallied Pre-Election And Pulled Back Post-Election

Year	Old President party	Old President party	Day of low	Day of high	Day of low	Rally %	Pullback %
1936	Democratic	Democratic	-131	4	32	31%	-6%
1940	Democratic	Democratic	-102	4	32	26%	-9%
1964	Democratic	Democratic	-213	13	26	15%	-3%
1968	Democratic	Republican	-149	15	32	24%	-4%
1972	Republican	Republican	-215	23	31	17%	-3%
1980	Democratic	Republican	-153	17	26	43%	-9%
1984	Republican	Republican	-73	1	10	15%	-4%
1988	Republican	Republican	-203	-11	7	17%	-7%
1996	Democratic	Democratic	-209	15	29	24%	-5%
2012	Democratic	Democratic	-212	-34	8	17%	-8%
Average			-166	5	23	22.9%	-5.8%
Median			-178	9	28	20.4%	-5.3%

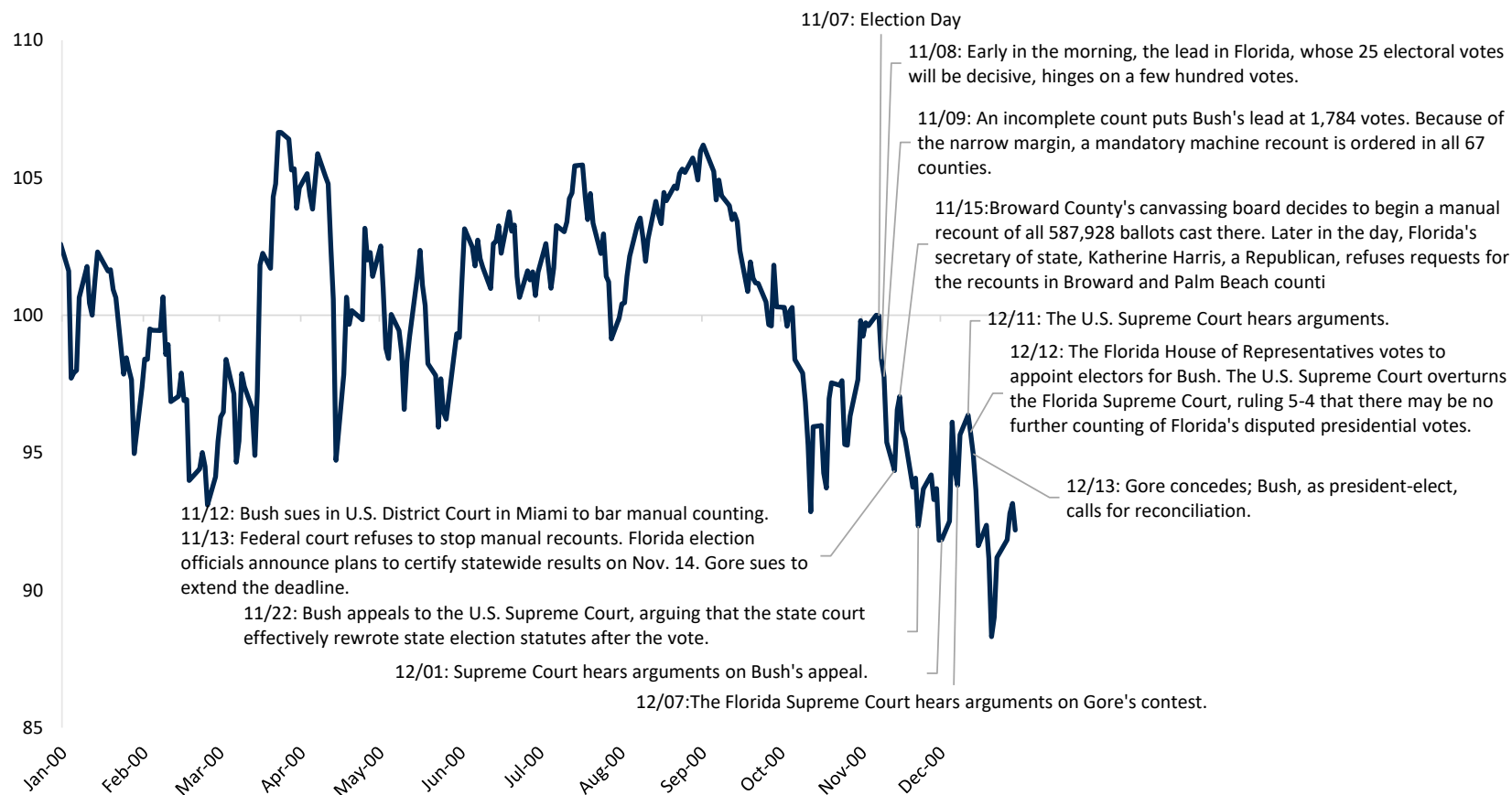
Source: RBC US Equity Strategy, Bloomberg, Haver, FactSet. Days of high and low points are relative to the close before Election Day. 0 = the day before Election Day.

Lessons From 2000's Election

Key Takeaways

- With concerns about vote by mail rising, raising the possibility that the results of the 2020 Presidential election won't be known right away, it's useful to revisit how the US equity market reacted to the 2000 election. That election occurred when investor confidence was low due to the bursting of the Tech bubble. The winner of the Presidency was unknown for more than a month due to the Florida recount. The margin was small and Democrats sued to recount the ballots, and it took five weeks before the Supreme Court finally announced the decision that secured Bush's win. The S&P 500 fell nearly 12% from the close on election day to the December 20th low. Using the September 1st high, stocks fell a total of 17% through the December 20th low.

S&P 500 Performance in 2000 Indexed To The Closing Price The Day Before Election Day (11/06/2000)



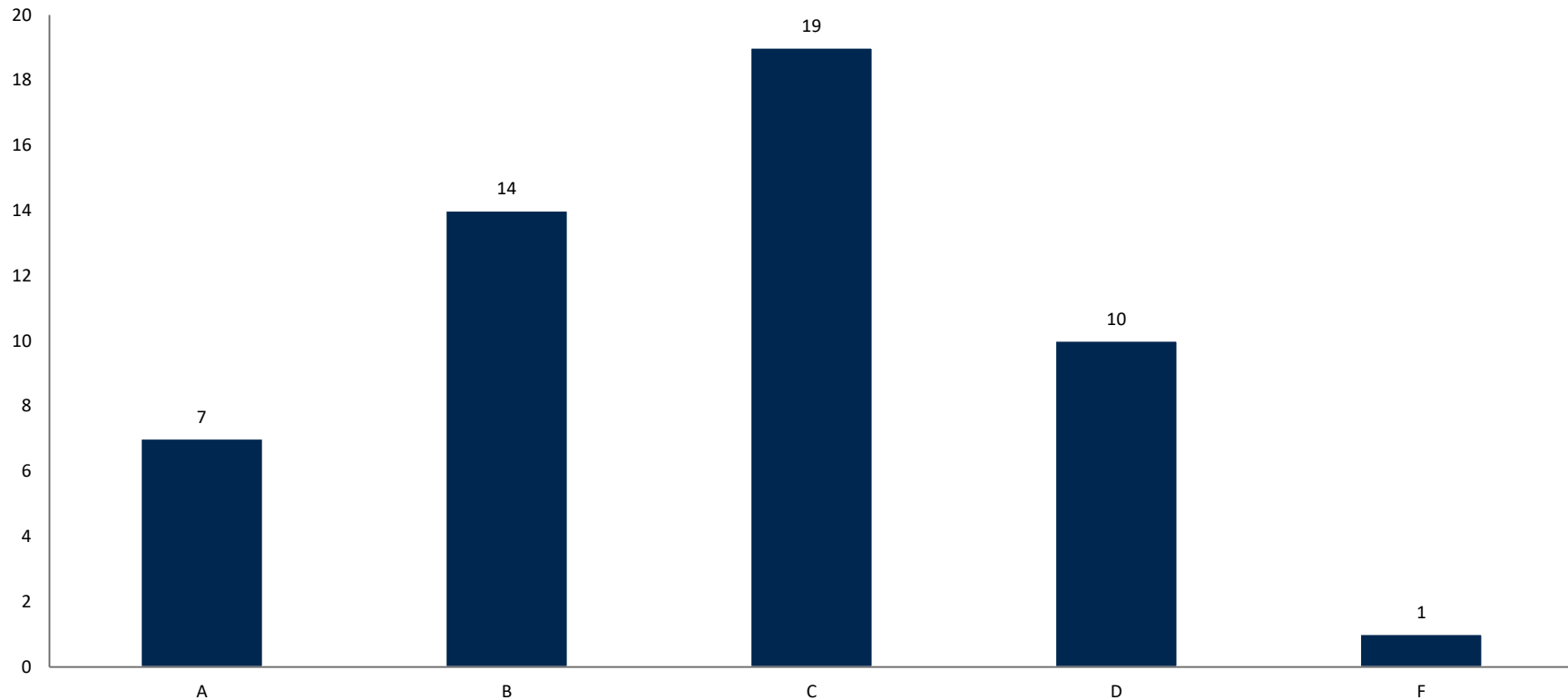
Source: RBC US Equity Strategy, Pittsburgh Post Gazette, Factset

Concerns About Voting by Mail Are High for 2020

Key Takeaways

- An analysis by Brookings conducted in late July suggested that many states may have problems with voting by mail this fall.
- Most states got a “C” letter grade for their preparedness.

Number Of States That Fall Into Each Vote-By-Mail Letter Grade



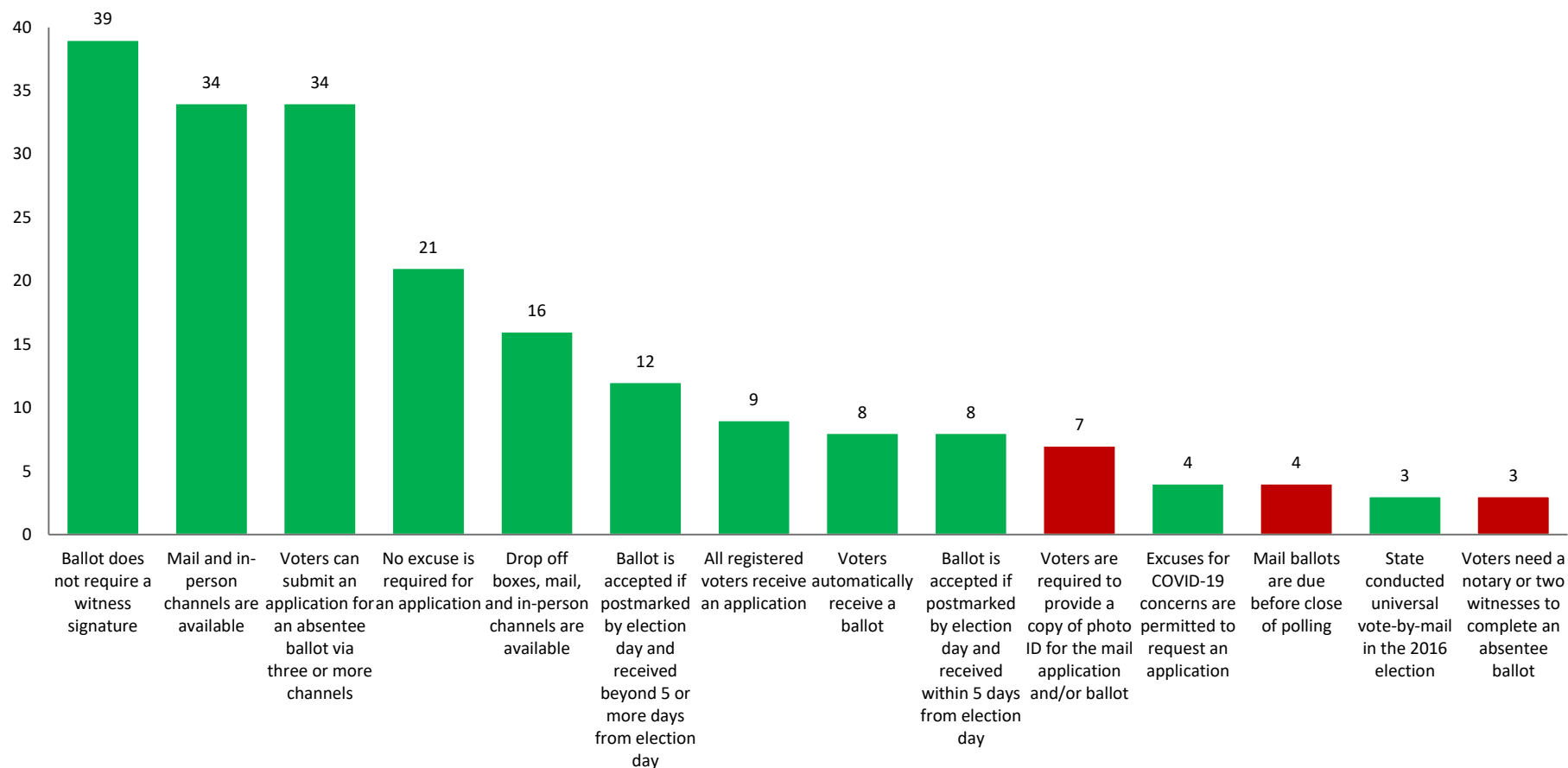
Source: RBC US Equity Strategy, Brookings, July 24th, 2020; study included all 50 states plus DC

Issues In Focus In Vote by Mail

Key Takeaways

- According to the Brookings study, most states are ready for vote by mail in terms of requirement of a witness signature for mail-in-ballots (no need). The Brookings study also found that most states allow multiple channels for voting and applications. But fewer than half of states have other desirable procedures in place.
- Among factors that make voting by mail less convenient (marked as red bars in the chart), 7 states require voters to provide a copy of photo ID for the mail application and/or ballot.

Number Of States On Vote-by-mail Pandemic Preparedness



Source: RBC US Equity Strategy, Brookings, July 24th, 2020; study included all 50 states plus DC

Expectations Regarding the 2020 Race for the White House

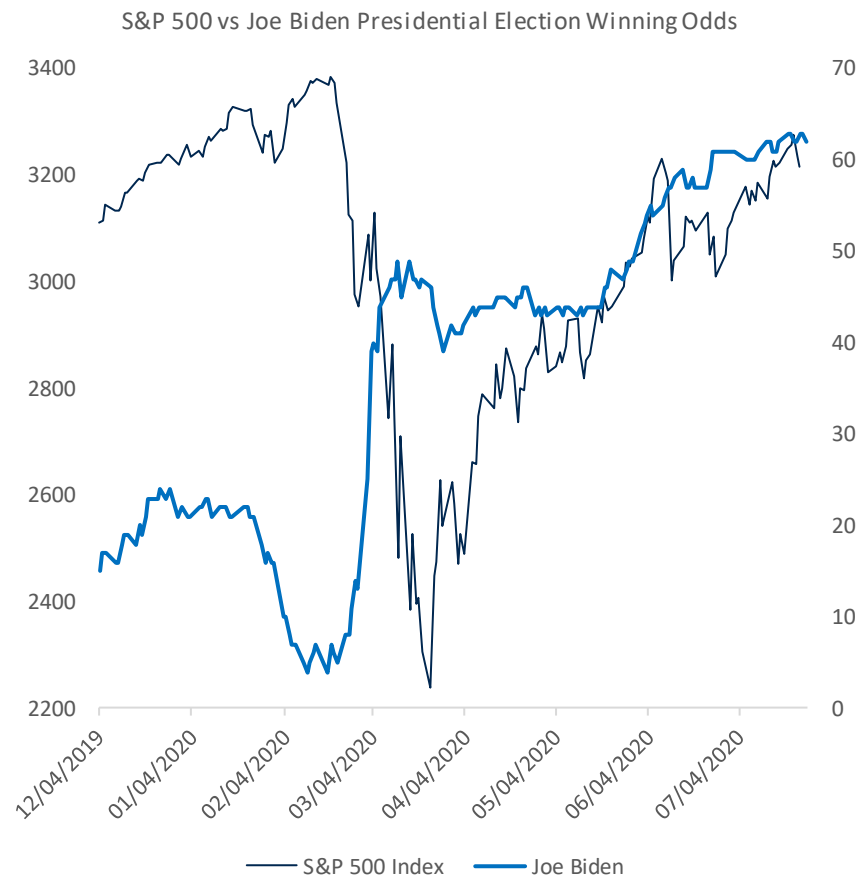
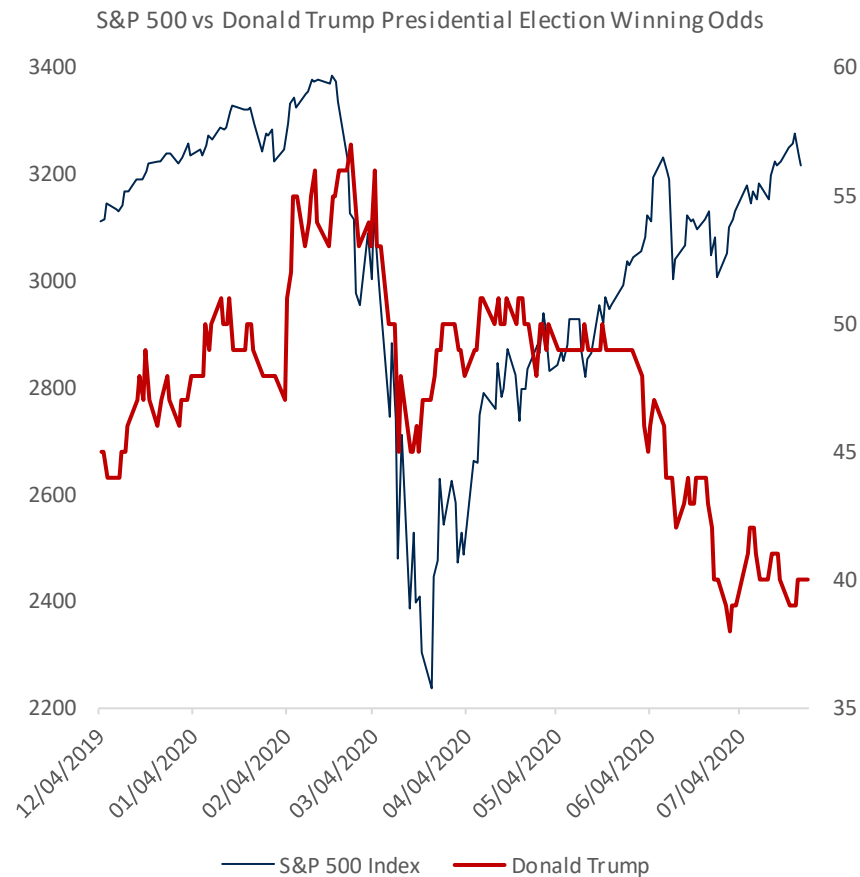


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The Stock Market has Survived Biden's Bounce So Far

Key Takeaways

- Since last summer, S&P 500 performance has essentially moved in sync with expectations regarding Trump's re-election in the betting market. In late 1Q20, the betting markets turned pessimistic that Trump would win again as stocks fell sharply. In April and May as stocks rallied back, the betting markets became more optimistic on Trump, but did not recapture their early-2020 peak.
- In late May and early June, stocks climbed despite further declines in expectations that Trump would win again, defying the positive correlations between these two indicators that had been in place for the past year. In recent months, the stock market has started to trade more in line with Biden's perceived chances to win in the betting markets. This is out of sync with our late June investor survey, where the percent who viewed a Biden win as a bearish outcome for stocks rose sharply.



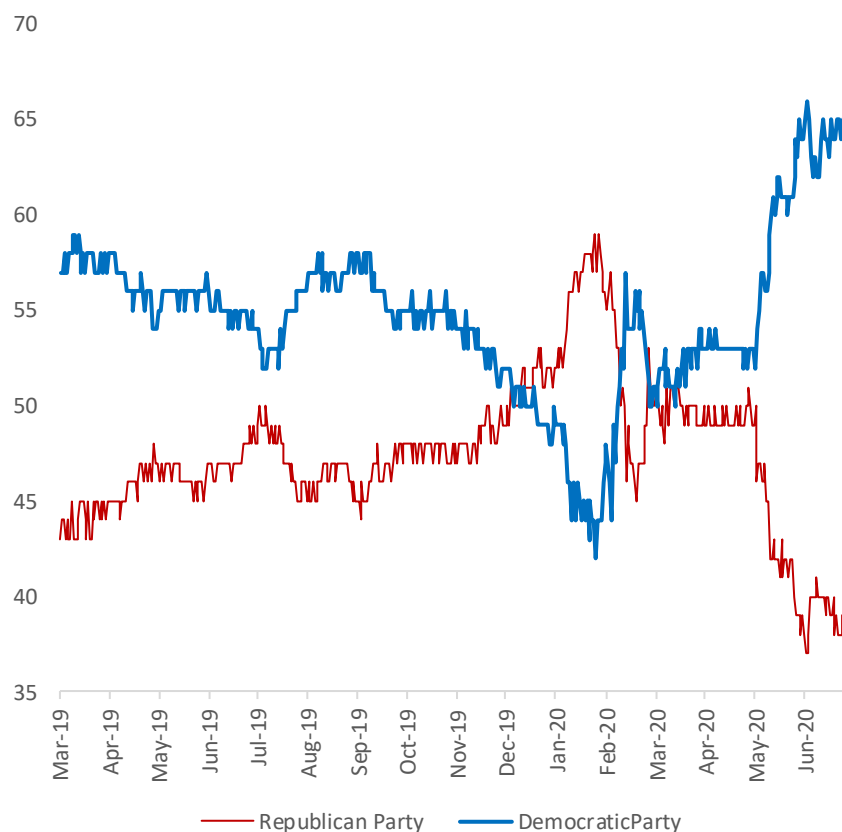
Source: RBC US Equity Strategy, Bloomberg, PredictIt, Probabilities derived by betting market; S&P 500 as of 07/24/2020 / PredictIt Data as of 07/26/2020

Betting Markets Believe Biden Will Win in November, a Big Change From the Start of the Year

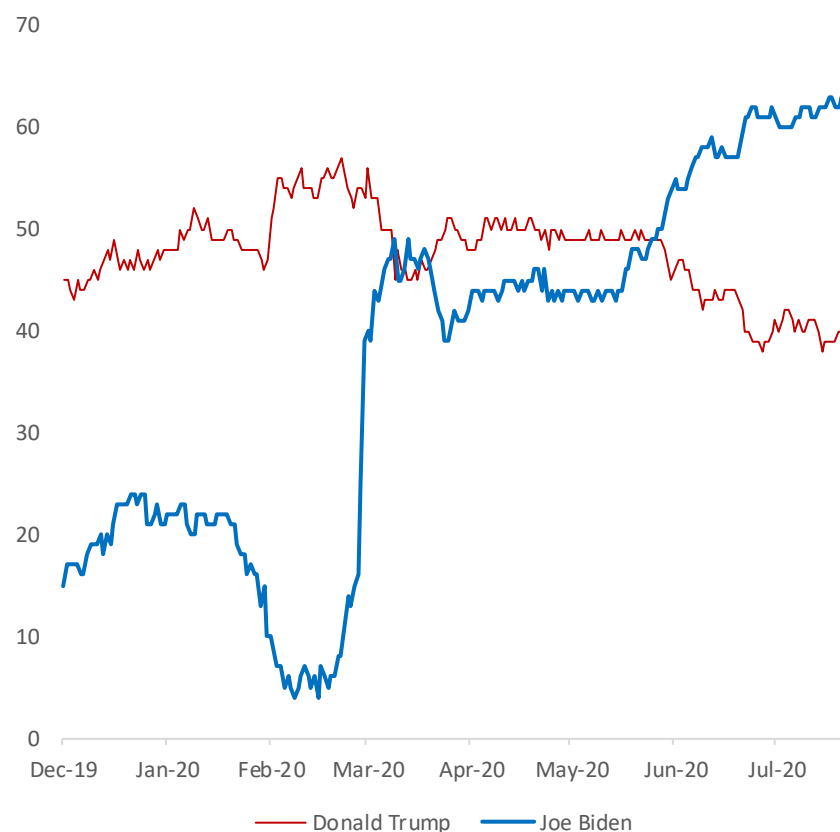
Key Takeaways

- When asked about which party will win the Presidency in November, the betting markets currently favor the Democrats over the Republicans, a gap that has been in place since March. When asked about which specific candidate will win the Presidency in November, the betting markets had continued to favor Trump over Biden until recently. But Biden took the lead in this market in late May. Biden/Democrats had been slowly taking the lead on both questions in late May and early June, but the gap has widened sharply.

US PredictIt: 2020 US Presidential Winning Party



US PredictIt: Who will win the US Presidential Election?

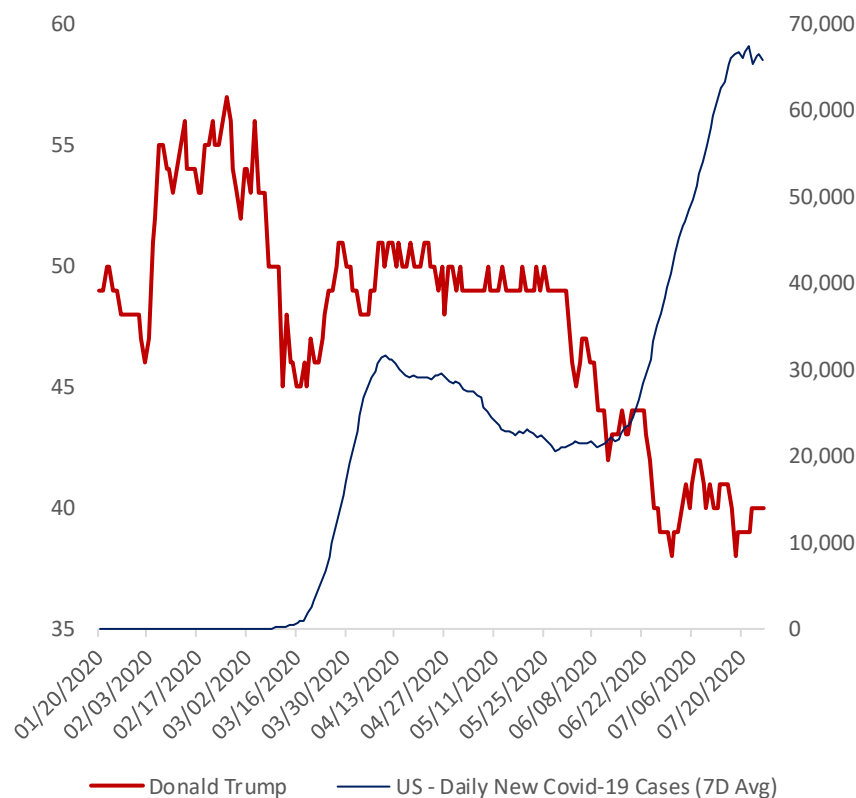


Trump's Fall & Biden's Surge Have Coincided With The Recent Rise In Coronavirus Cases

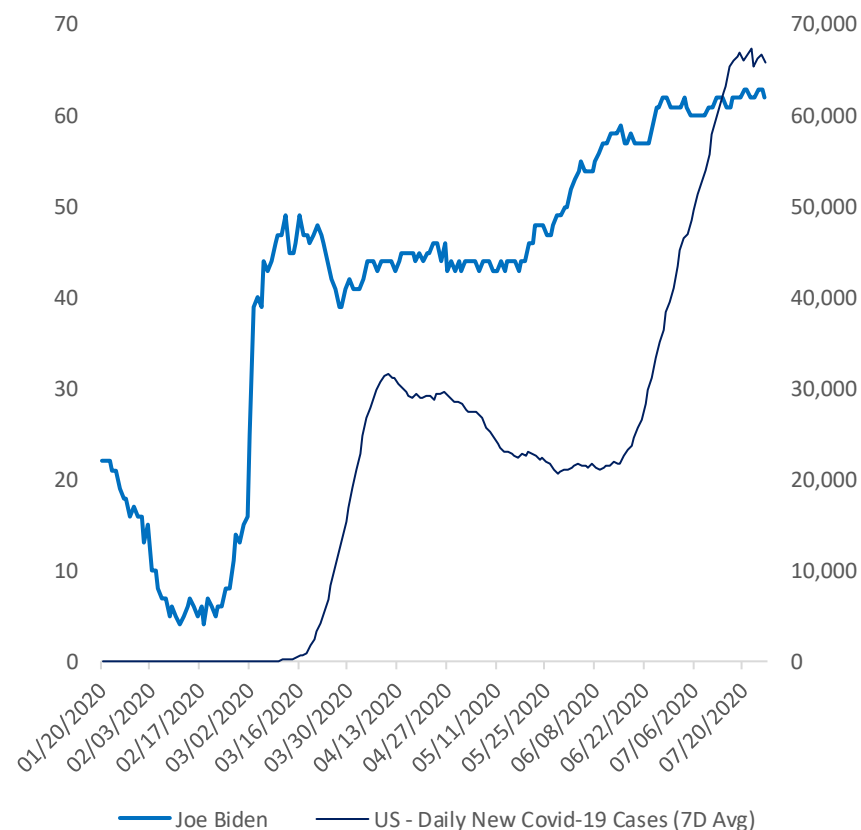
Key Takeaways

- Expectations for Trump's Presidential re-election in the betting markets appear to have become linked with the broader trends in Covid-19 virus trends in the US, as measured by the 7-day moving average of new cases. It is important to note that Trump's odds were not affected by the initial outbreak, but rather the duration and re-acceleration of infections throughout the US (this happened around late May to early June).
- Trump's declining odds in the betting markets have helped boost Biden's odds of winning the 2020 Election. It remains to be seen if a deceleration of cases in the US (which may be starting to occur) will help Trump's chances for re-election while diminishing Biden's chances of winning.

Donald Trump's Betting Market Odds of Winning US Presidential Election vs US Daily new Covid-19 Cases (7-Day Avg)



Joe Biden's Betting Market Odds of Winning US Presidential Election vs US Daily new Covid-19 Cases (7-Day Avg)



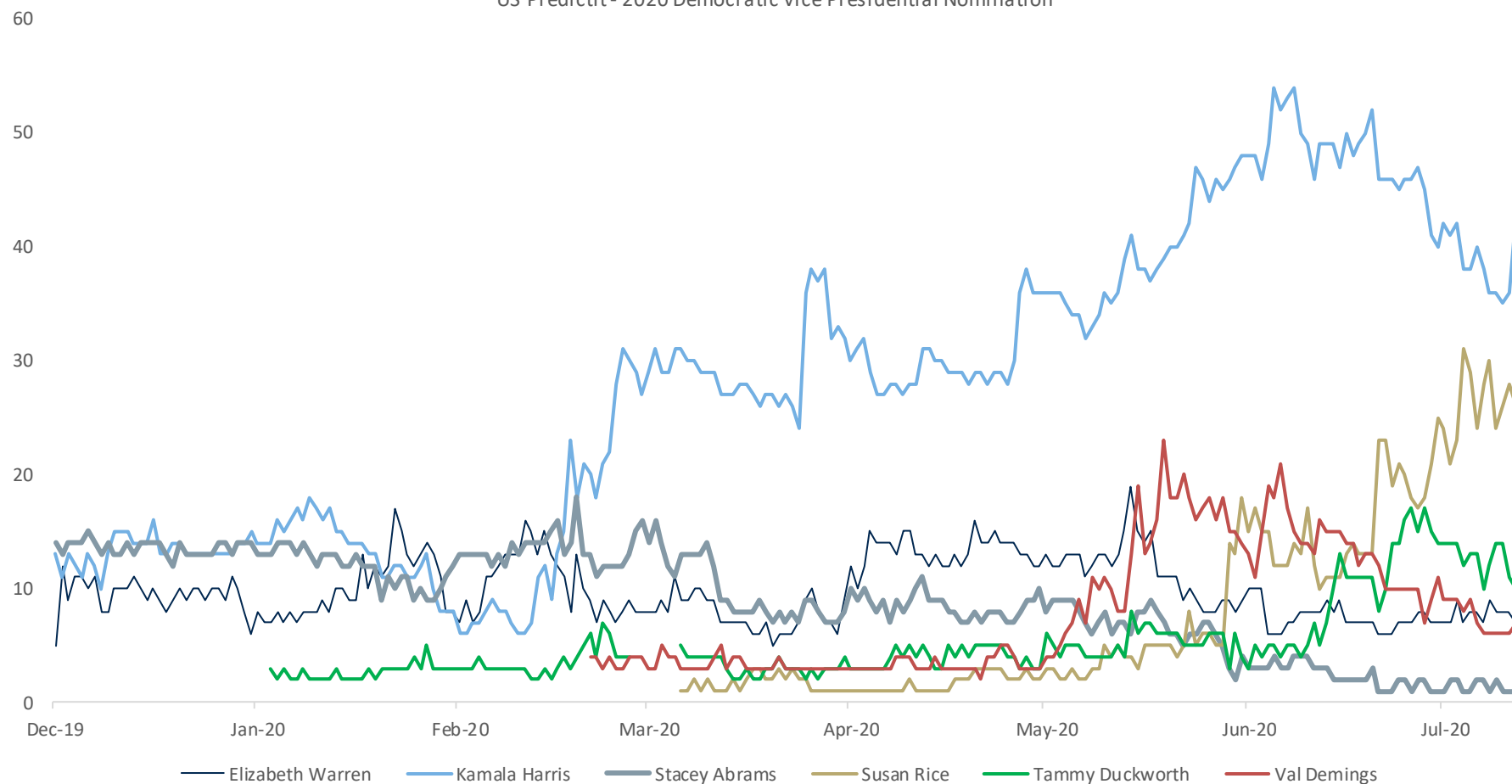
Source: RBC US Equity Strategy, Bloomberg, Johns Hopkins, PredictIt, Probabilities derived by betting market; Virus trends as of 07/26, Presidential Odds as of 07/26

Harris Still the Front Runner in the Betting Markets for Biden's VP, but has Slipped

Key Takeaways

- The betting markets continue to expect former Presidential nominee and current California Senator Kamala Harris to be Joe Biden's running mate. This has been the case for some time.
- However, Susan Rice is in 2nd place on the list after a recent surge.
- Several political polls released in May suggested Warren was the top pick for VP among Democratic voters at the time. Crisis management experience and economic expertise were two traits that most participants said were very important for the job. But expectations that she will get the nod have faded.

US PredictIt - 2020 Democratic Vice Presidential Nomination



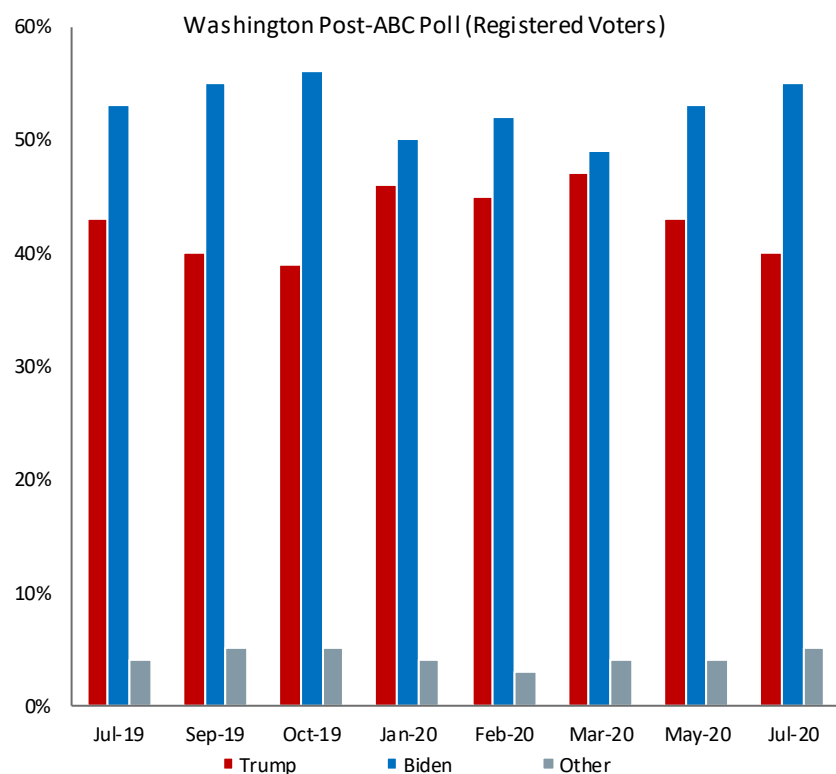
Source: RBC US Equity Strategy, Bloomberg, PredictIt, Probabilities derived by betting markets, as of 07/26/2020

Biden's Lead Over Trump has Widened in Several Major Polls in Recent Months

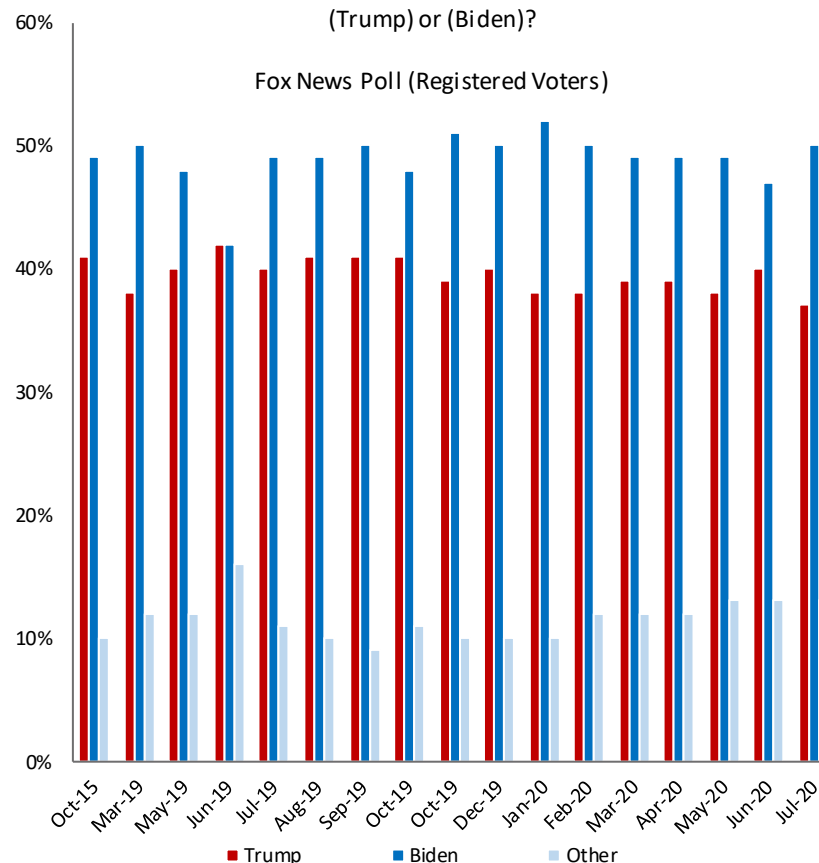
Key Takeaways

- The widening gap has been most noteworthy in the Washington Post – ABC News poll, where there wasn't nearly as much of a gap between the two candidates in January through March.

If the 2020 presidential election were being held today and the candidates were (Donald Trump, the Republican) and (Joe Biden, the Democrat), for whom would you vote? Would you lean toward (Trump) or (Biden)?



If the 2020 presidential election were being held today and the candidates were (Donald Trump, the Republican) and (Joe Biden, the Democrat), for whom would you vote? Would you lean toward (Trump) or (Biden)?



Source: RBC US Equity Strategy, The Washington Post – ABC News poll, The Fox News Poll.

The Washington Post-ABC News poll was conducted by telephone during July 12-15, 2020, among a random national sample of 1,006 adults, among which 845 were registered voters.

The Fox News poll was conducted by telephone during July 12-15, 2020, among a random national sample of 1,104 registered voters.

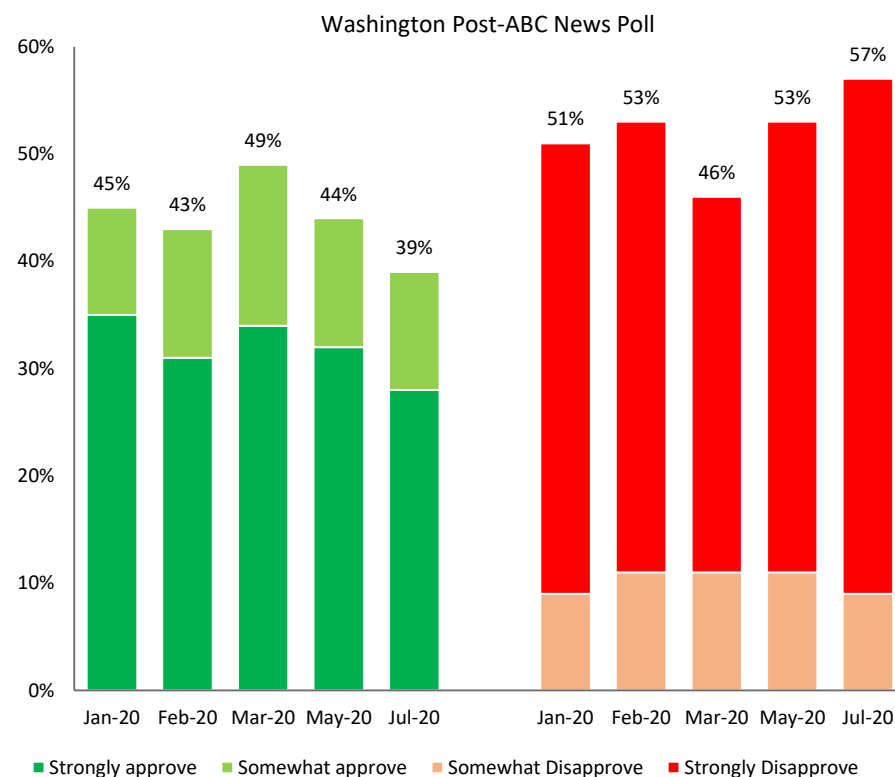
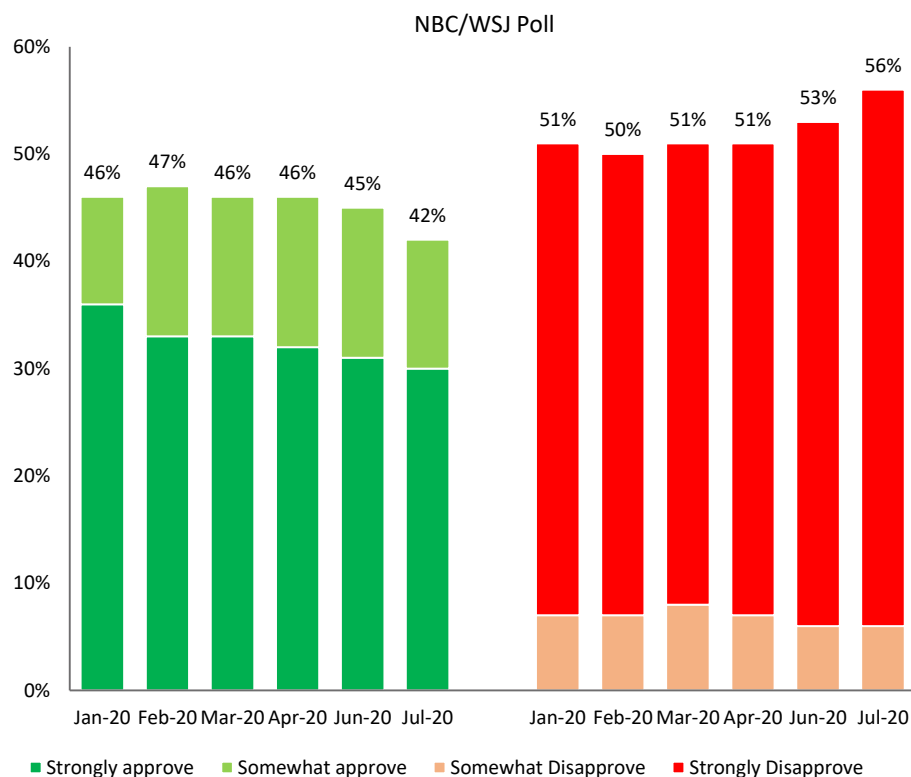
Trump's Approval Ratings Have Taken a Hit as the Coronavirus has Surged in the US

Key Takeaways

- As the coronavirus has seen a second wave (or spreading out of the first wave in the US), those who strongly disapprove of Trump have increased.

Do you approve or disapprove of the way Donald Trump is handling his job as president?

Do you approve or disapprove of the way Donald Trump is handling his job as president?



Source: RBC US Equity Strategy, The Washington Post – ABC News poll, The NBC News – WSJ Survey.

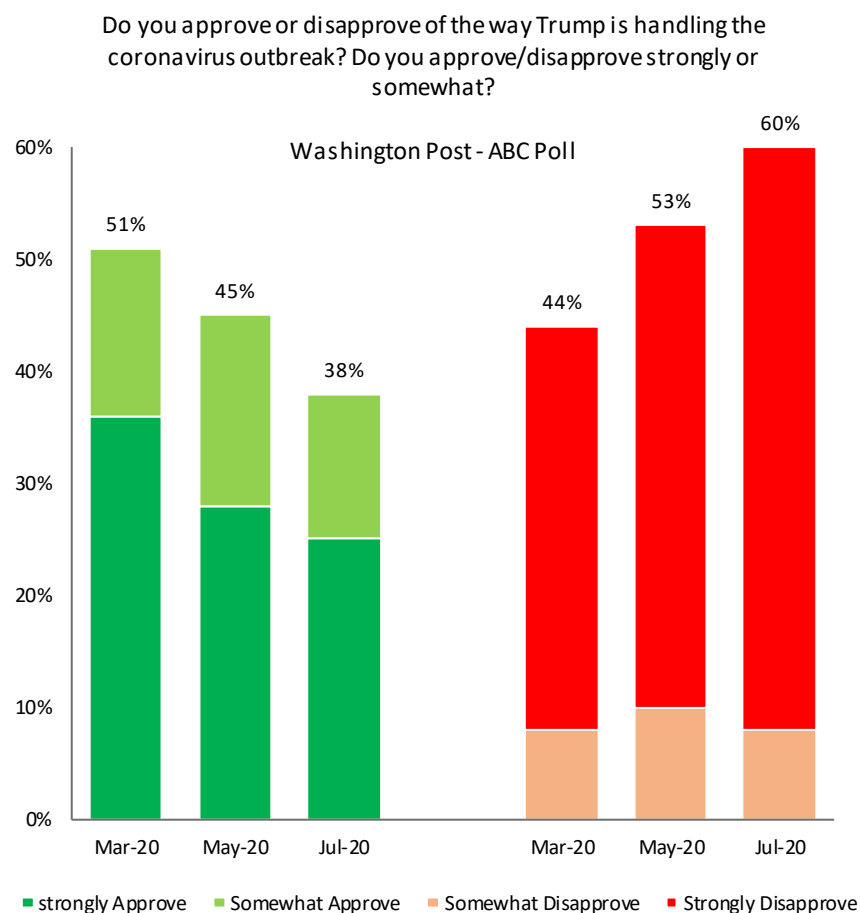
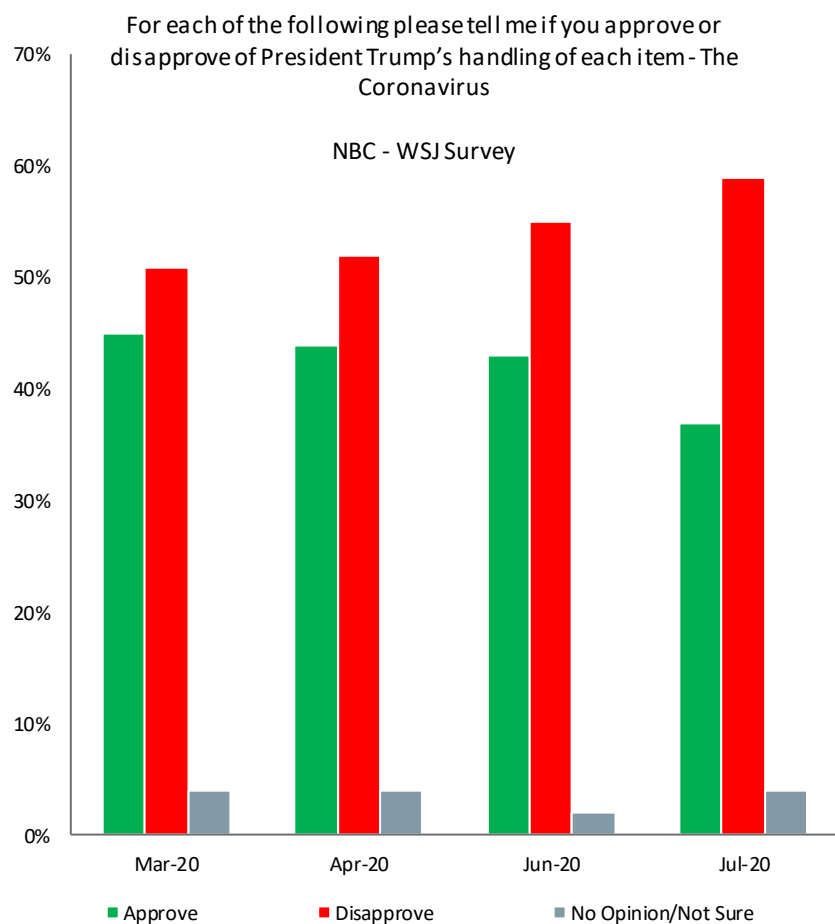
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The NBC News/Wall Street Journal Survey was conducted by telephone during July 9-12, 2020, among a sample of 900 registered voters.

Trump Gets Low Marks for Handling of the Coronavirus in Particular

Key Takeaways

- An increasing number of people, now over 50% of the respondents in the NBC-WSJ survey and the Washington Post-ABC Poll, disapprove of Trump's handling of Coronavirus.



Source: RBC US Equity Strategy, The NBC News - WSJ Survey, The Washington Post - ABC News poll.

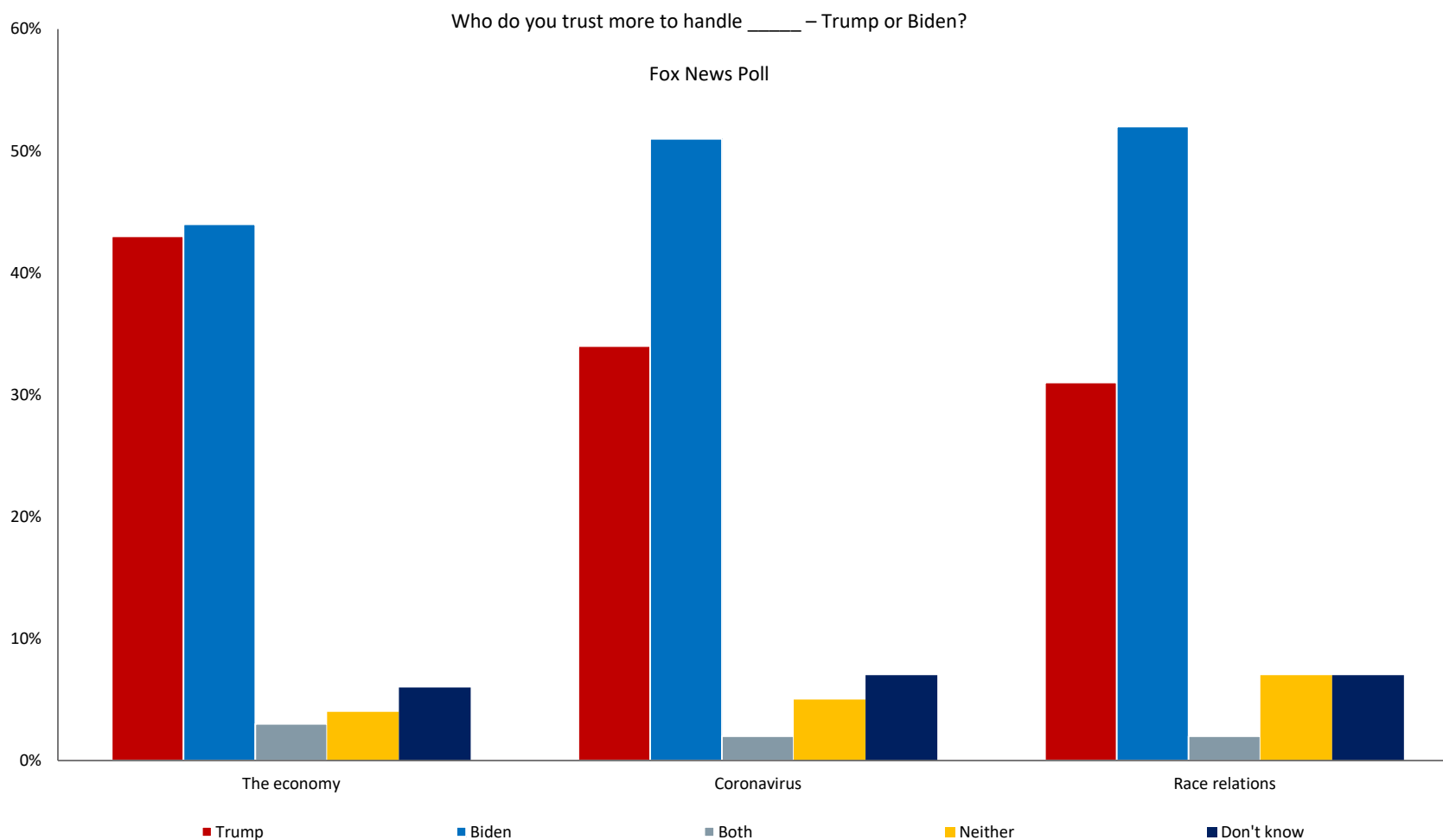
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The Washington Post-ABC News poll was conducted by telephone during July 12-15, 2020, among a random national sample of 1,006 adults, among which 845 were registered voters.

Some Polls Suggest Doubts are Also Emerging Over Trump's Ability to Manage the Economy

Key Takeaways

- While some polls continue to show Trump has a net positive approval on the economy, others have shown that his numbers are starting to deteriorate on this issue. Indeed, a recent Fox News Poll suggests people trust Biden slightly more than Trump in handling the economy.



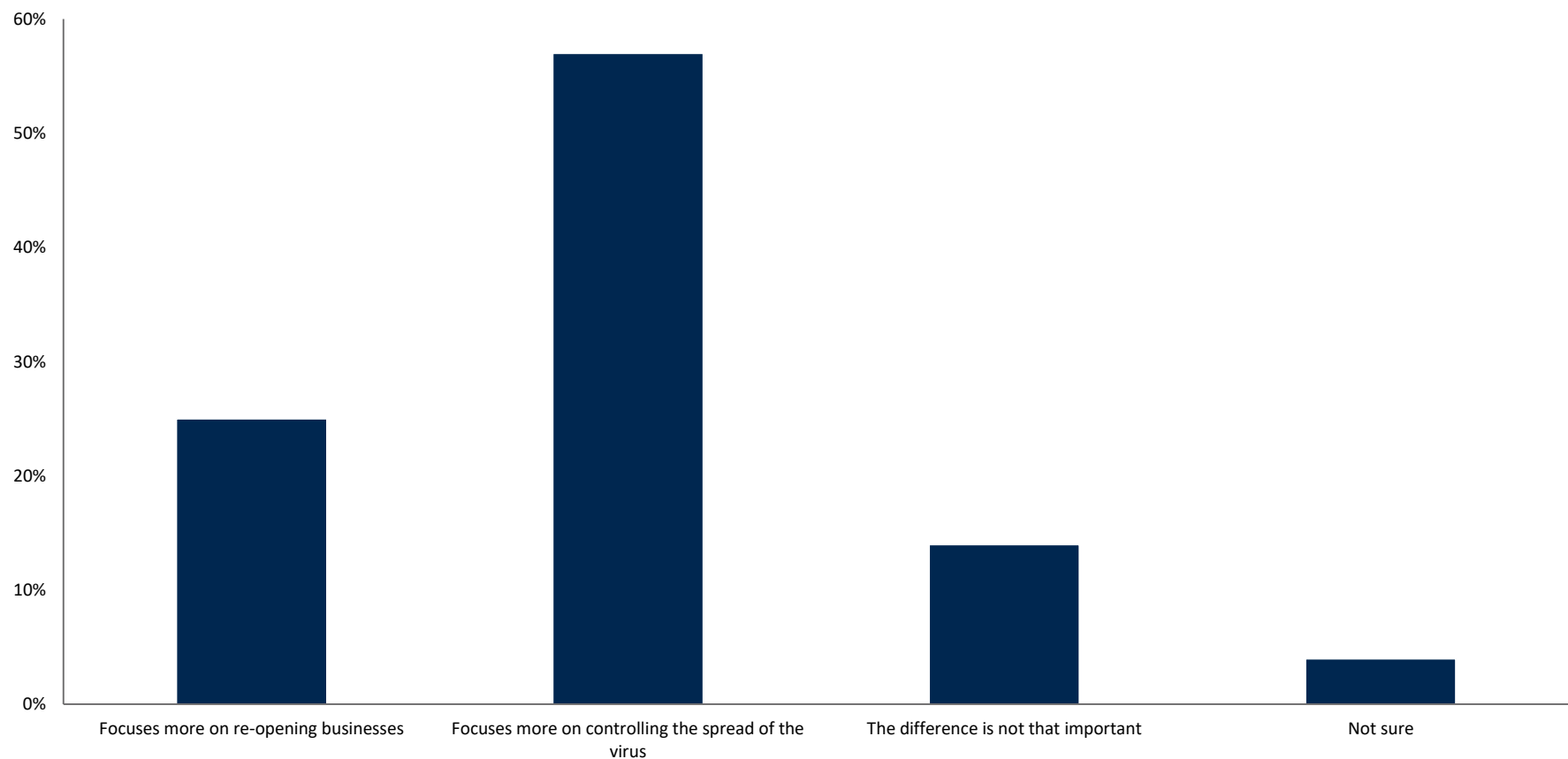
Source: RBC US Equity Strategy, The Fox News Poll.
The Fox News poll was conducted by telephone during July 12-15, 2020, among a random national sample of 1,104 registered voters.

Controlling the Virus Seen as More Important Than Reopening the Economy

Key Takeaways

- A July 2020 poll by NBC News and the WSJ indicated that likely voters do not view the economy as the President's most important responsibility right now.

When thinking about a candidate running for president or the U.S. Congress and their position on how we respond to the coronavirus, would you be more likely to vote for a candidate who



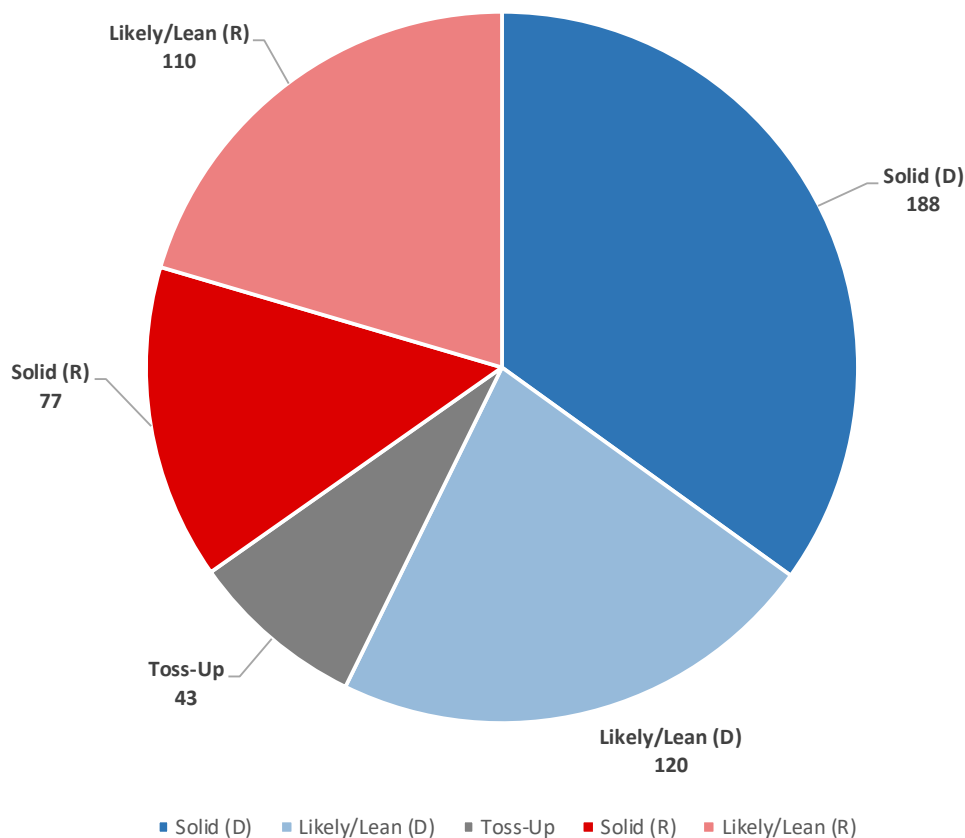
Source: RBC US Equity Strategy, The NBC News – WSJ Survey.
The NBC News/Wall Street Journal Survey was conducted by telephone during July 9-12, 2020, among a sample of 900 registered voters.

Biden Expected To Win By Independent Political Analysts

Key Takeaways

- The *Cook Political Report* is predicting that Democrats will win the White House with 308 electoral votes in the Solid, Likely and Lean Democrat categories. These include Florida (29), Michigan (Lean, 16), Pennsylvania (Lean, 20) and Wisconsin (Lean, 10). Meanwhile, *Cook* is currently predicting that Republicans have 187 electoral votes in the Solid, Likely and Lean Republican categories.
- Three states make up the “Toss-Up” category: Arizona, Georgia & North Carolina, and Maine (2nd CD). These account for another 43 electoral college votes.

2020 Electoral College Ratings

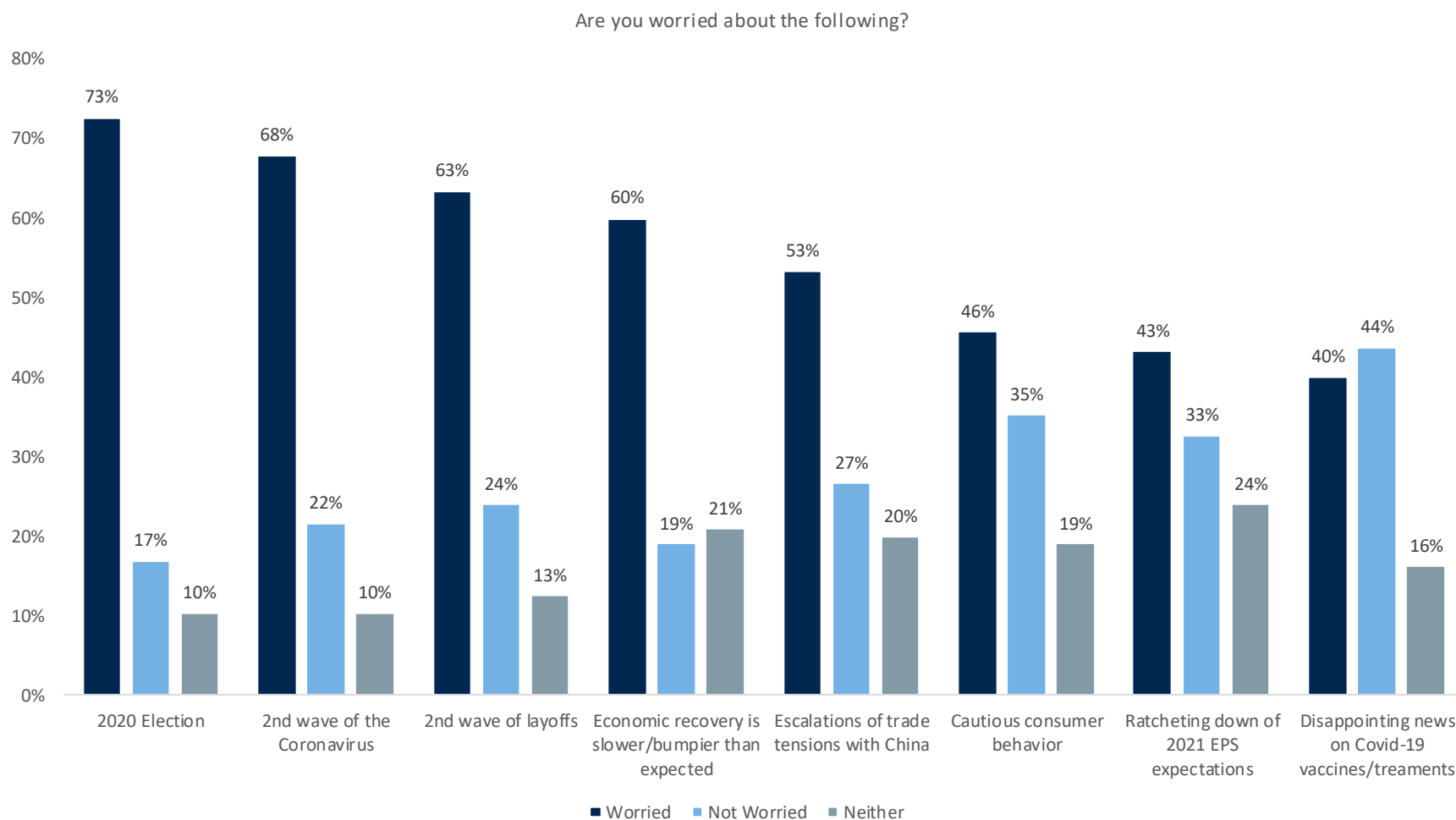


Source: RBC US Equity Strategy, *The Cook Political Report*, As of 07/23; Note: 48 states and the District of Columbia each allocate their Electoral College votes on a winner-take-all basis. Maine and Nebraska each award two electoral votes to the statewide winner and one electoral vote to the winner in each congressional district

2020 Election Has Been a Key Worry for US Equity Investors, Ahead of the Virus & Layoffs

Key Takeaways

- Results of our 2Q20 RBC US Equity investor survey, conducted in late June 2020, of more than 100 institutional investors.
- When asked about the potential negative catalysts that are actually worrying them, the 2020 election was the most popular choice (73%), followed by a 2nd wave of the Coronavirus (68%), and a 2nd wave of layoffs (63%).
- Interestingly, 44% of respondents said they were neither worried nor not worried about bad news on Covid-19 vaccines/treatments.



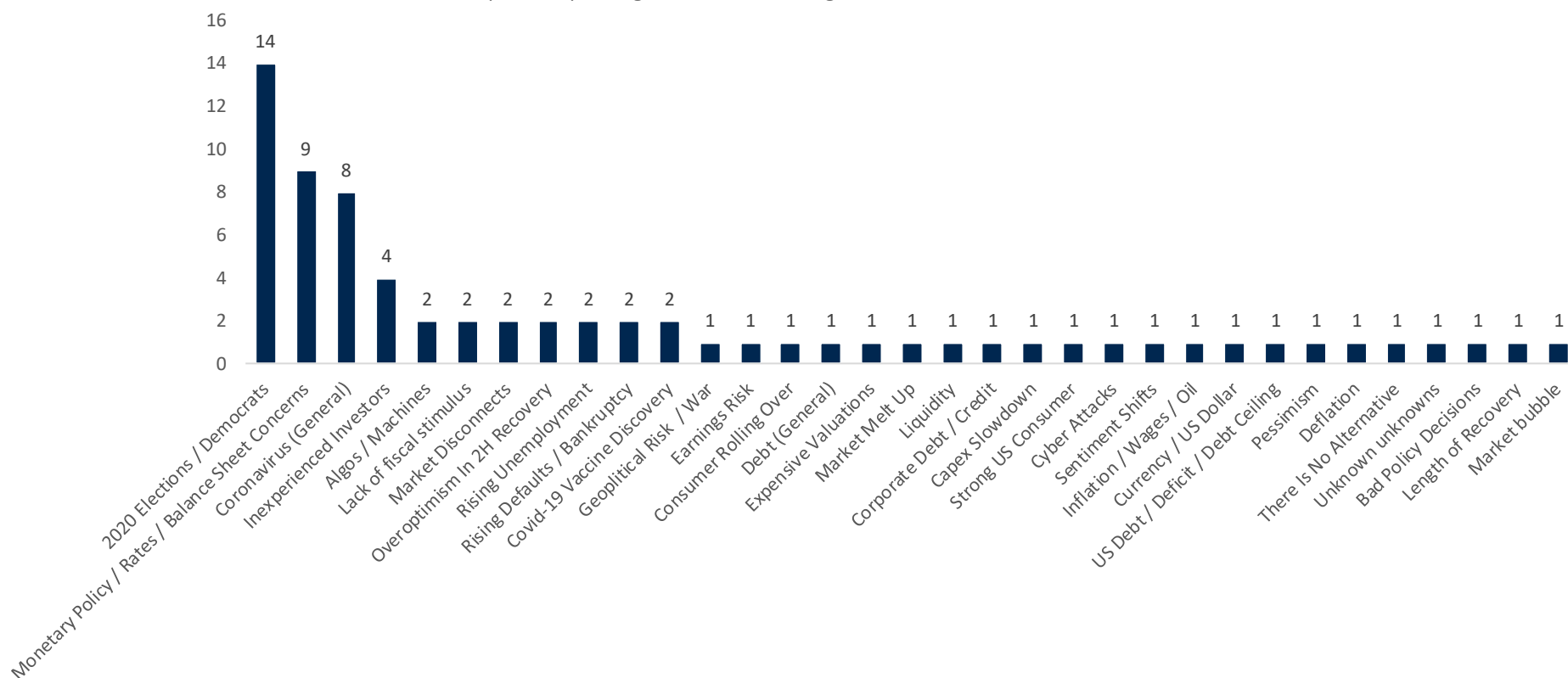
Source: RBC US Equity Strategy

The 2020 Election Has Been Keeping US Equity Investors Up At Night

Key Takeaways

- Results of our 2Q20 RBC US Equity investor survey, conducted in late June 2020, of more than 100 institutional investors.
- We usually ask participants to list what is keeping them up at night, either something that is getting them nervous or excited about the stock market.
- The 2020 election got the most mentions in our latest survey, followed by the Fed and the coronavirus.

What Keeps You Up At Night? Either Something That Gets You Excited or Nervous?

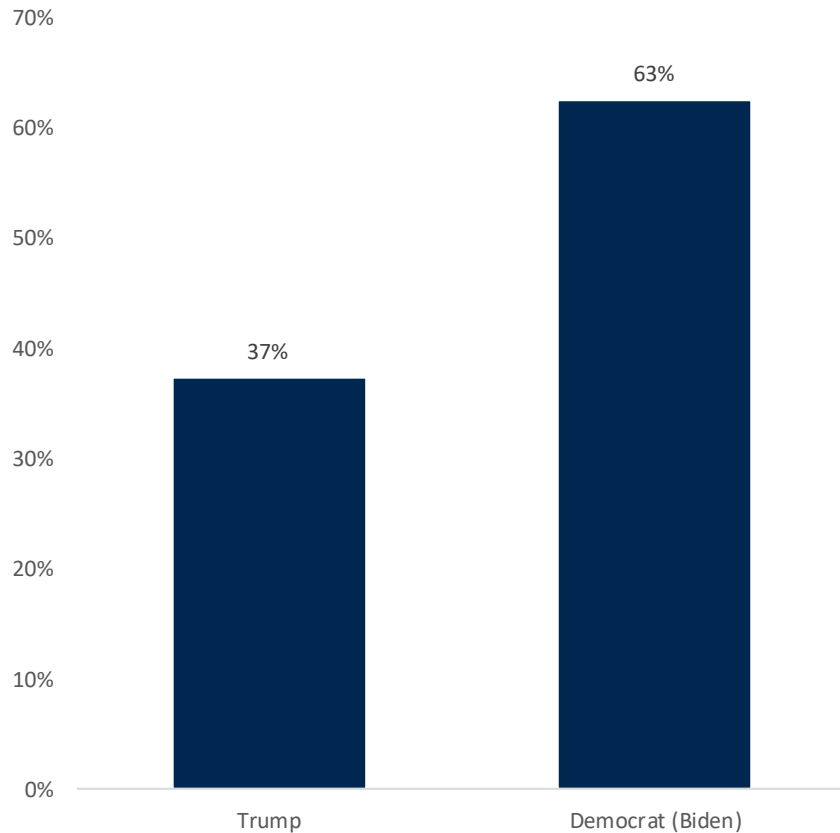


Most US Equity Investors Have Believed Biden Will Win the White House in November

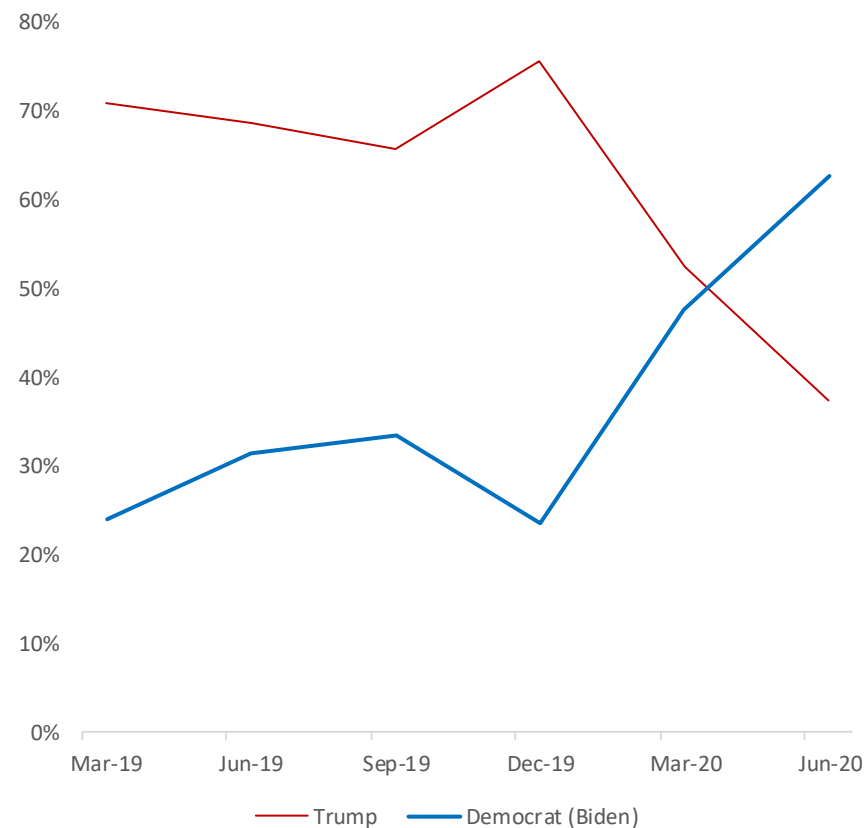
Key Takeaways

- Those who believed Trump will win again in November fell for the 2nd survey in a row in our June 2020 poll. Our March 2020 survey showed a substantial move lower in those expecting Trump to get re-elected, from 76% to 52%. This deterioration continued in our June poll, with expectations that Trump will win again falling to 37%.
- 63% think Biden and the Democrats will win this November – the first time our survey has favored Biden/Democrats on this question.

Who do you expect to win the White House in the 2020 election?



Who do you expect to win the White House in the 2020 election?



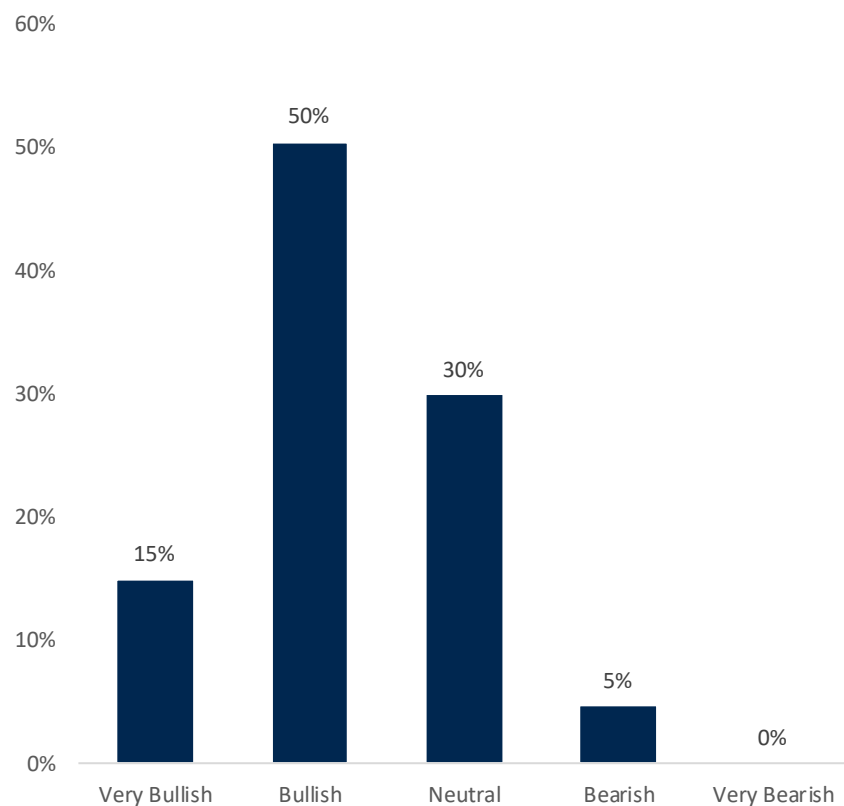
*This question had 3 choices – one not shown here was "A Republican Other Than Trump" which received zero votes.
Source: RBC US Equity Strategy*

Most US Equity Investors Have Believed Trump's Re-Election is Good for Stocks

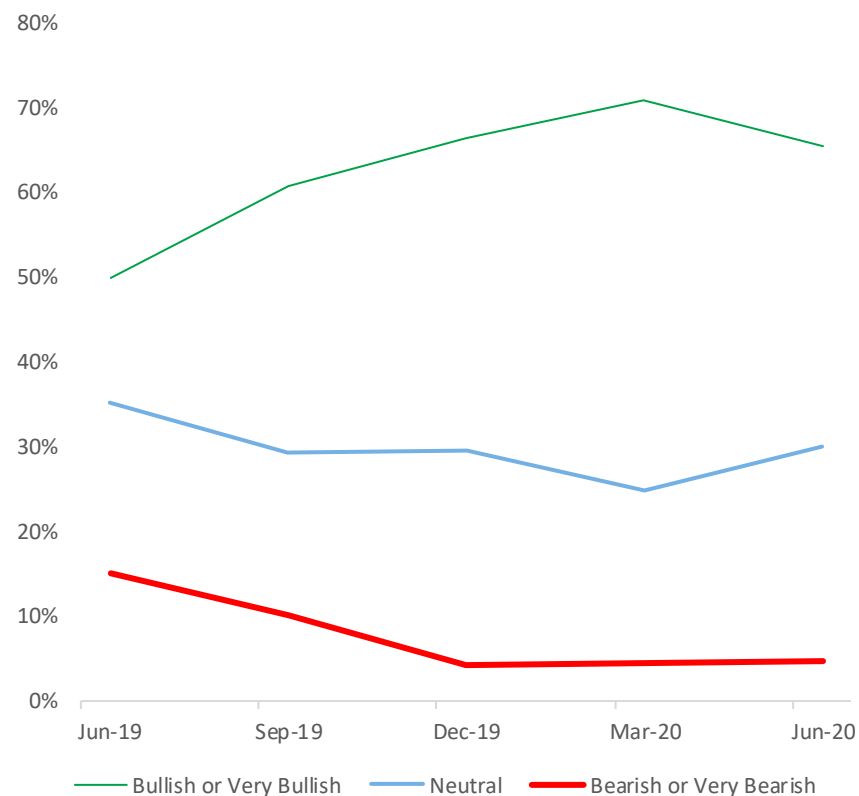
Key Takeaways

- At 65% of respondents in our June 2020 survey, the majority continue to believe that Trump's re-election will be bullish or very bullish for stocks. Only 5% think Trump's re-election would be a bearish or very bearish outcome.
- Those who view a Trump victory as bullish for stocks has grown since we began asking the question, but did tick down modestly for the first time in our June survey.

What are the implications for US equities for each of the following outcomes in the 2020 election: Trump wins the White House



What are the implications for US equities for each of the following outcomes in the 2020 election: Trump wins the White House

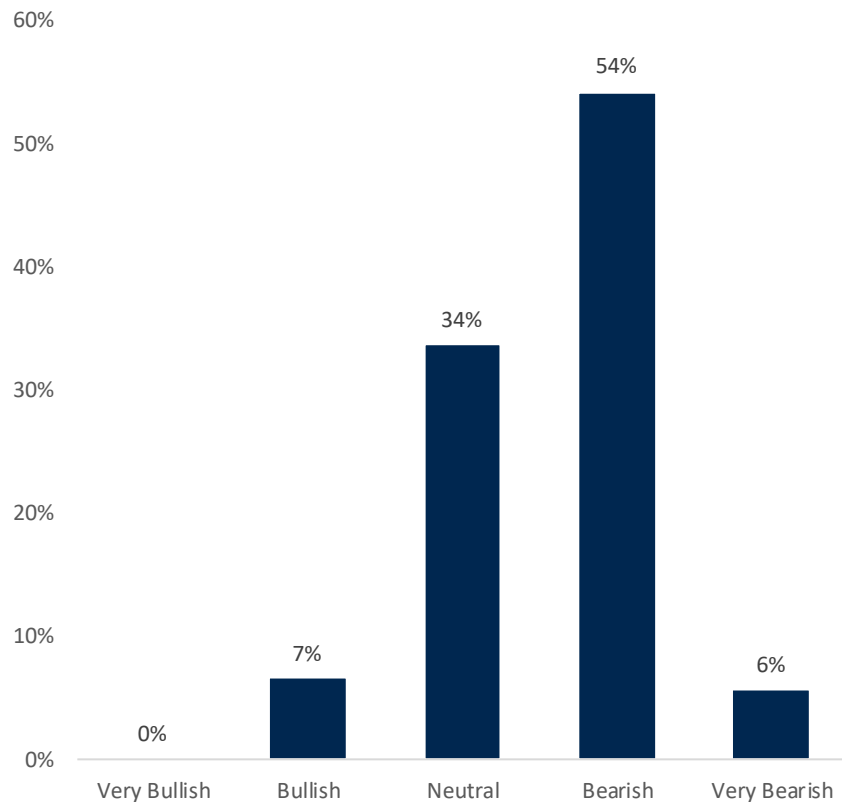


Biden Bears Surged in our Latest US Equity Investor Survey

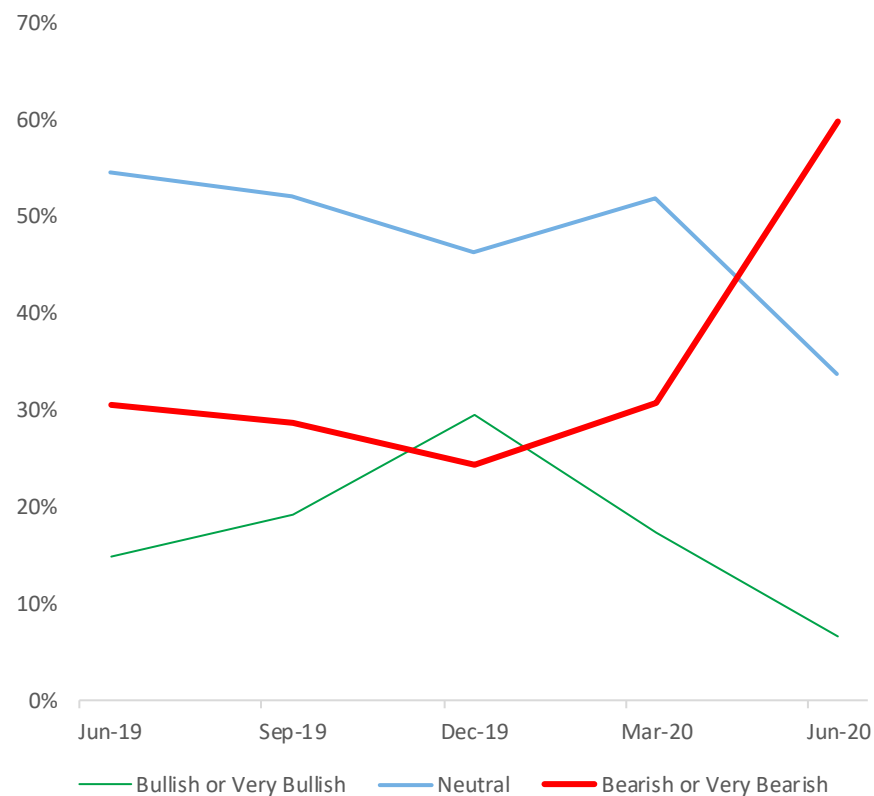
Key Takeaways

- Over half of our June 2020 survey respondents believe that Biden winning the White House would be a bearish or very bearish outcome for stocks. This is the second survey in a row where the Biden bears have ramped up. The Biden bears now account for 60% of our survey respondents, up from 24% in December.
- The camp that thinks a Biden victory will be bullish or very bullish decreased from 17% to 7%, and those in the neutral camp also decreased.

What are the implications for US equities for each of the following outcomes in the 2020 election: Biden wins the White House



What are the implications for US equities for each of the following outcomes in the 2020 election: Biden wins the White House

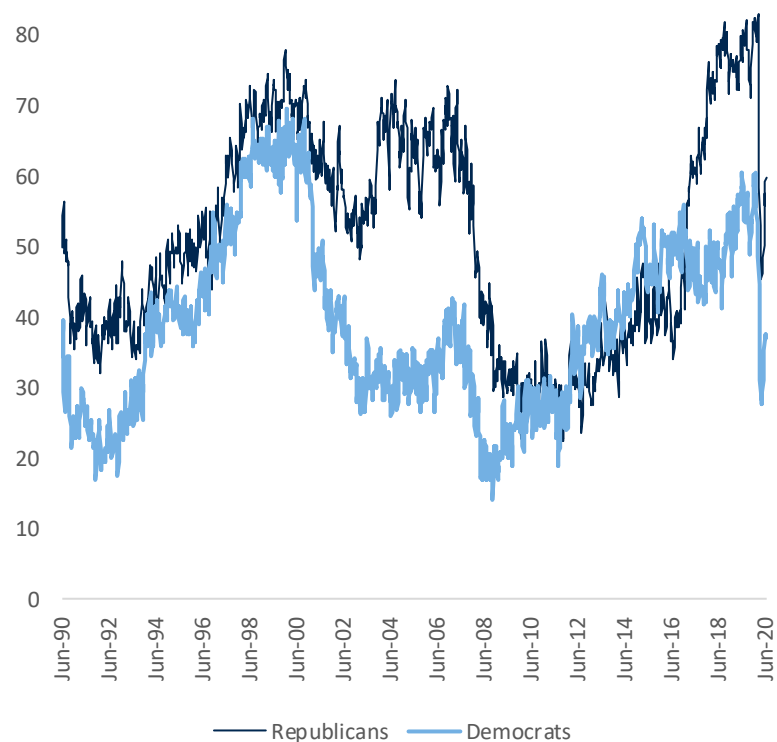


Sentiment for Republicans has Fallen More Than Democrats

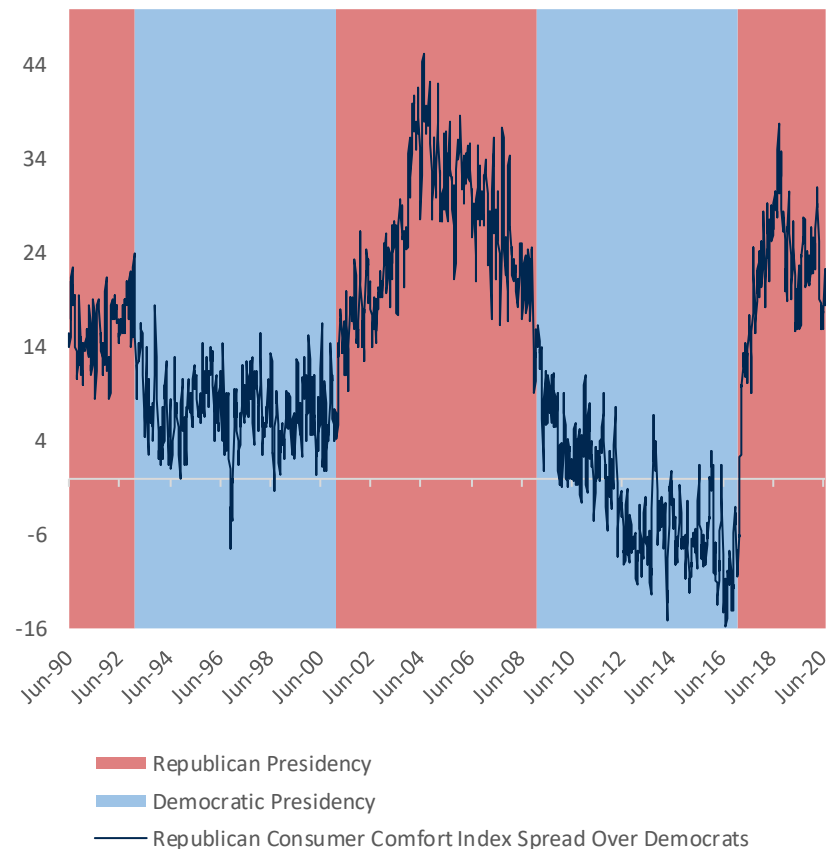
Key Takeaways

- The decline in consumer sentiment since the pandemic hit the US has occurred among both Republicans and Democrats. It is much lower among Democrats than Republicans.
- In recent years, the gap in sentiment between Republicans and Democrats has shrunk - something also seen ahead of the 2008 election when the Democrats took back the White House.

Bloomberg Consumer Comfort Index:
Democrats vs. Republicans



Republican Consumer Comfort Index Spread Over Democrats



Trends in Key States



Capital
Markets

The Ten States We're Watching Closely in the 2020 Election

Key Takeaways

- In our view, the Democrats' path back to the White House is not as difficult as many investors believe it to be.
- Electoral college results determine the winner in the Presidential election, not the popular vote. In total, 270 electoral votes are needed to win the Presidency. Trump won 306 in 2016 while Clinton won 232. Assuming they win all of the states that they won in 2016, the Democrats would need to flip 38 electoral votes to take the White House.
- Below we list the states that had a margin of 10% or less in the 2016 race and voted for Trump. These are the ones that could potentially flip back to the Democrats.
- Half picked a Democrat for Senate in 2018. All but one supported Biden in the primaries, which mostly occurred after the pandemic began and Biden emerged as the likely nominee.

States That Voted For Trump in 2016, Margin Less Than 10%

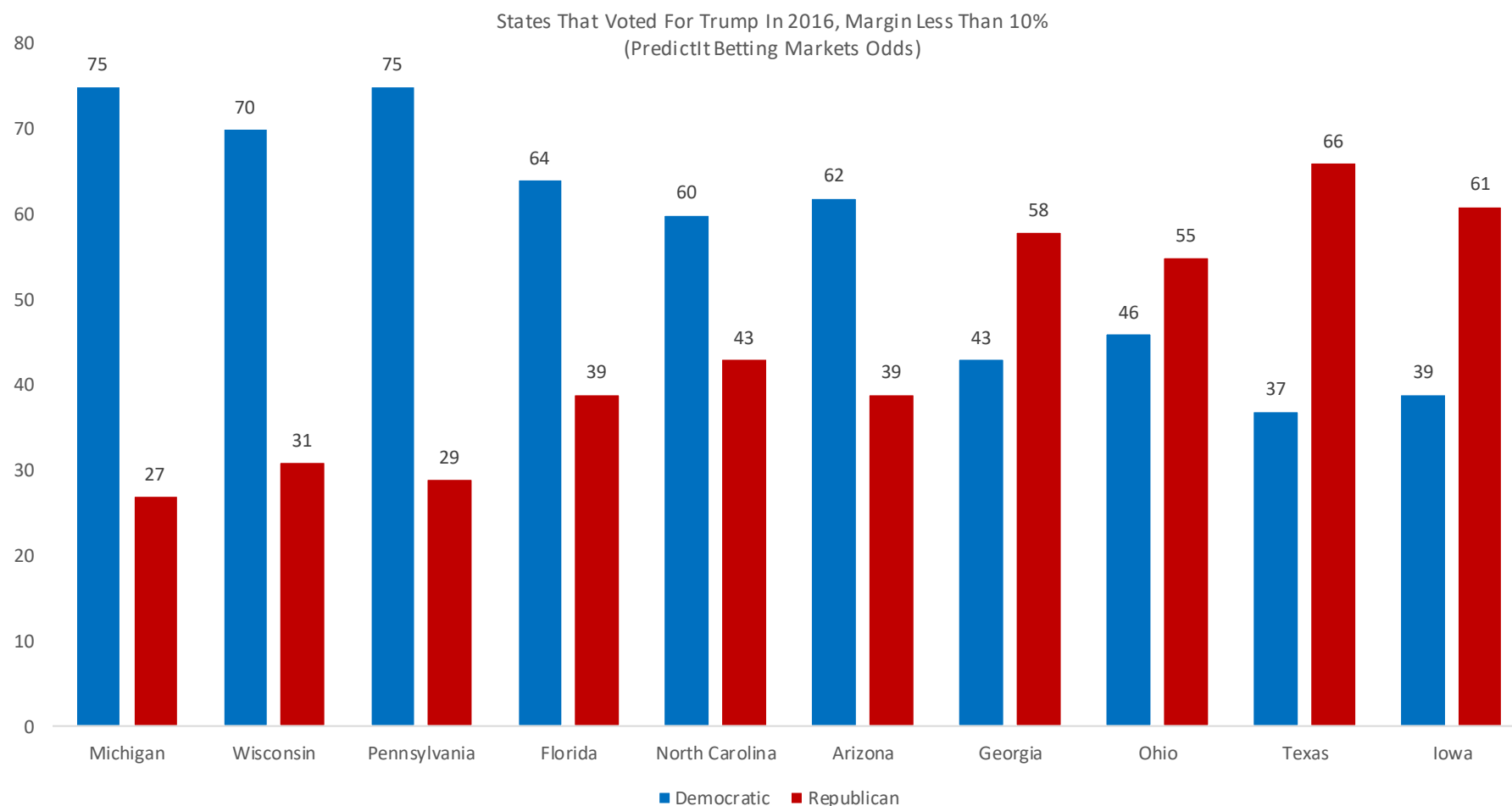
State	Electoral Votes	2016 Presidential Race (Party)	2016 Presidential Margin (Trump)	2018 Senate Race	2018 House Race: Net Gain/Loss For Dems vs. 2016	Primary Date	Democratic Results (Winner)
Texas	38	Republican	9.2	Republican	2	Mar-03	Biden
Michigan	16	Republican	0.3	Democrat	2	Mar-10	Biden
Florida	29	Republican	1.3	Republican	2	Mar-17	Biden
Pennsylvania	20	Republican	1.2	Democrat	4	Jun-02	Biden
Ohio	18	Republican	8.6	Democrat	0	Mar-17	Biden
Georgia	16	Republican	5.7	N/A	1	Jun-09	Biden
North Carolina	15	Republican	3.8	N/A	0	Mar-03	Biden
Arizona	11	Republican	4.1	Democrat	1	Mar-17	Biden
Wisconsin	10	Republican	1	Democrat	0	Apr-07	Biden
Iowa	6	Republican	9.6	N/A	2	Feb-03	Buttigieg

Source: RBC US Equity Strategy, Politico, NCSL, CNN, Britannica; note that in 2016, 1 of Maine's electoral votes went to Trump while the other three went to Clinton

Betting Markets Expect Biden to Win Six Key States That Voted for Trump in 2016

Key Takeaways

- The betting markets currently assume that Biden will win Michigan (16 electoral votes), Wisconsin (10 votes), Pennsylvania (20 votes), and Arizona (11 votes), and to a lesser degree Florida (29 votes) and North Carolina (15 votes). These are all states that voted for Trump in 2016, have sizable electoral college votes, and went to Trump in 2016 by a margin of 10% or less. If the Democrats need to flip 38 electoral votes (turn them from Republican to Democratic) and hold onto every state they won in 2016, they can take back the White House.



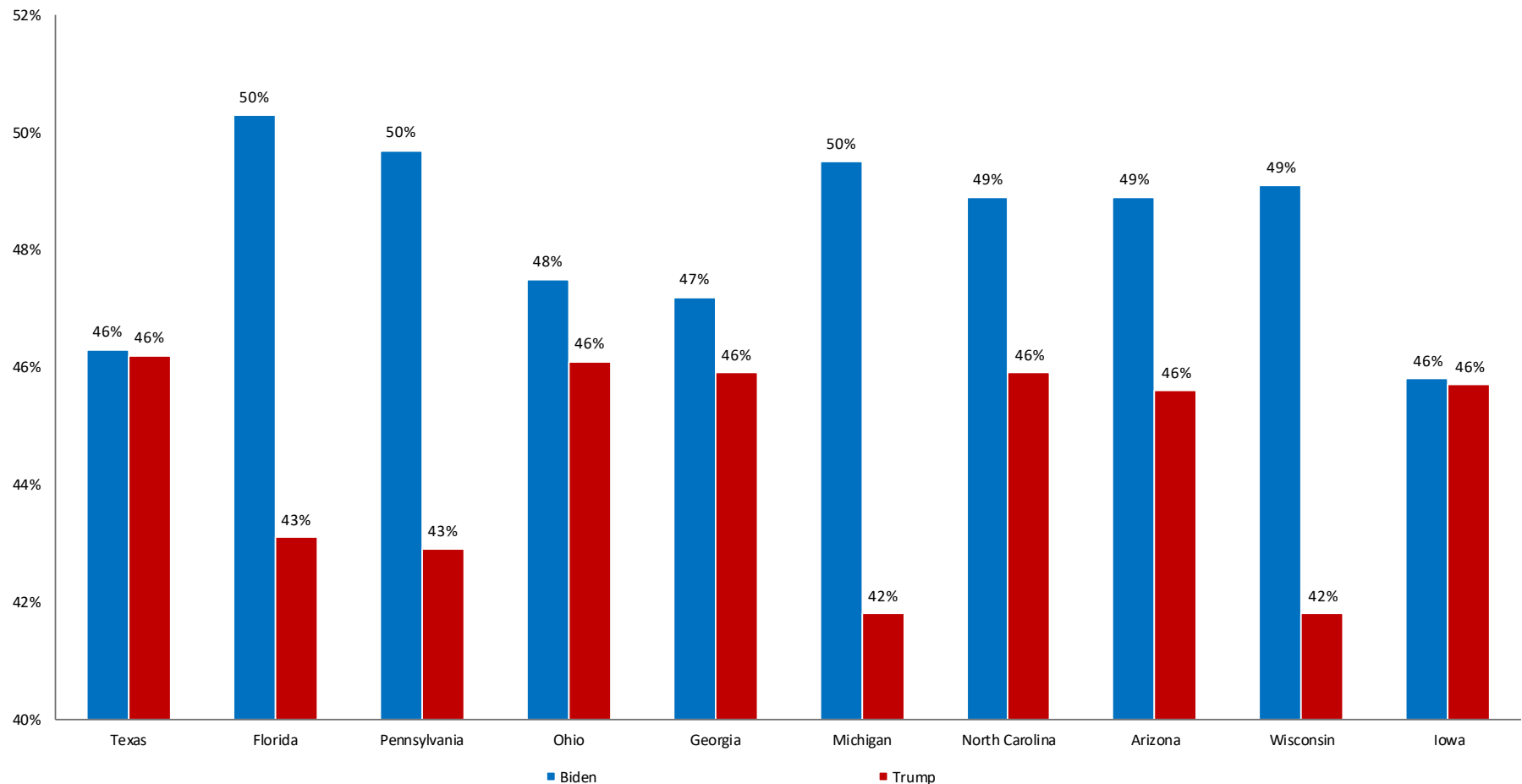
Source: RBC US Equity Strategy, Bloomberg, PredictIt, Probabilities derived by betting markets, as of 07/26/2020

State Level Polling Suggests Biden Can Win

Key Takeaways

- Biden is ahead of Trump in the latest state level polling aggregates in 8 of the ten states we are watching, as tracked by FiveThirtyEight.com.
- Texas and Iowa are also starting to look competitive.

Average of 2020 presidential general election polls, accounting for each poll's quality, sample size and recency



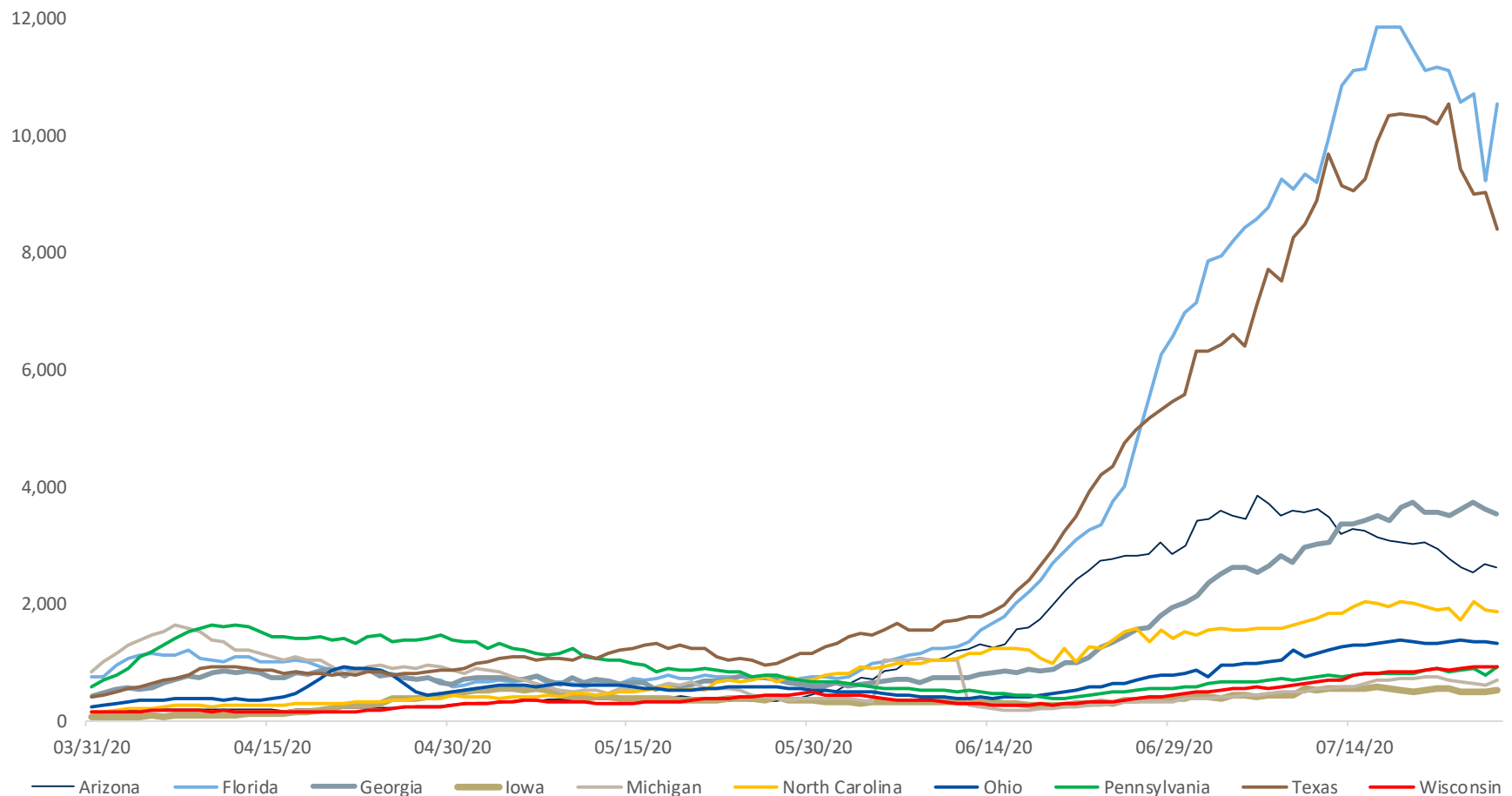
Source: RBC US Equity Strategy, FiveThirtyEight polling averages. Polling averages are adjusted based on state and national polls As of 07/27/2020.

Cases Had Been Rising Sharply in Several Key Trump States, Starting To Come Down In Some

Key Takeaways

- Florida, Texas, Arizona, and Georgia all saw a sharp rise in new cases of the coronavirus during June and early July. Cases appear to be starting to slow in all of these, however.
- These states account for 94 electoral votes in 2020, well above the 38 threshold needed for Democrats to take back the White House.

New Daily Cases (7-Day Avg) In Key Trump States



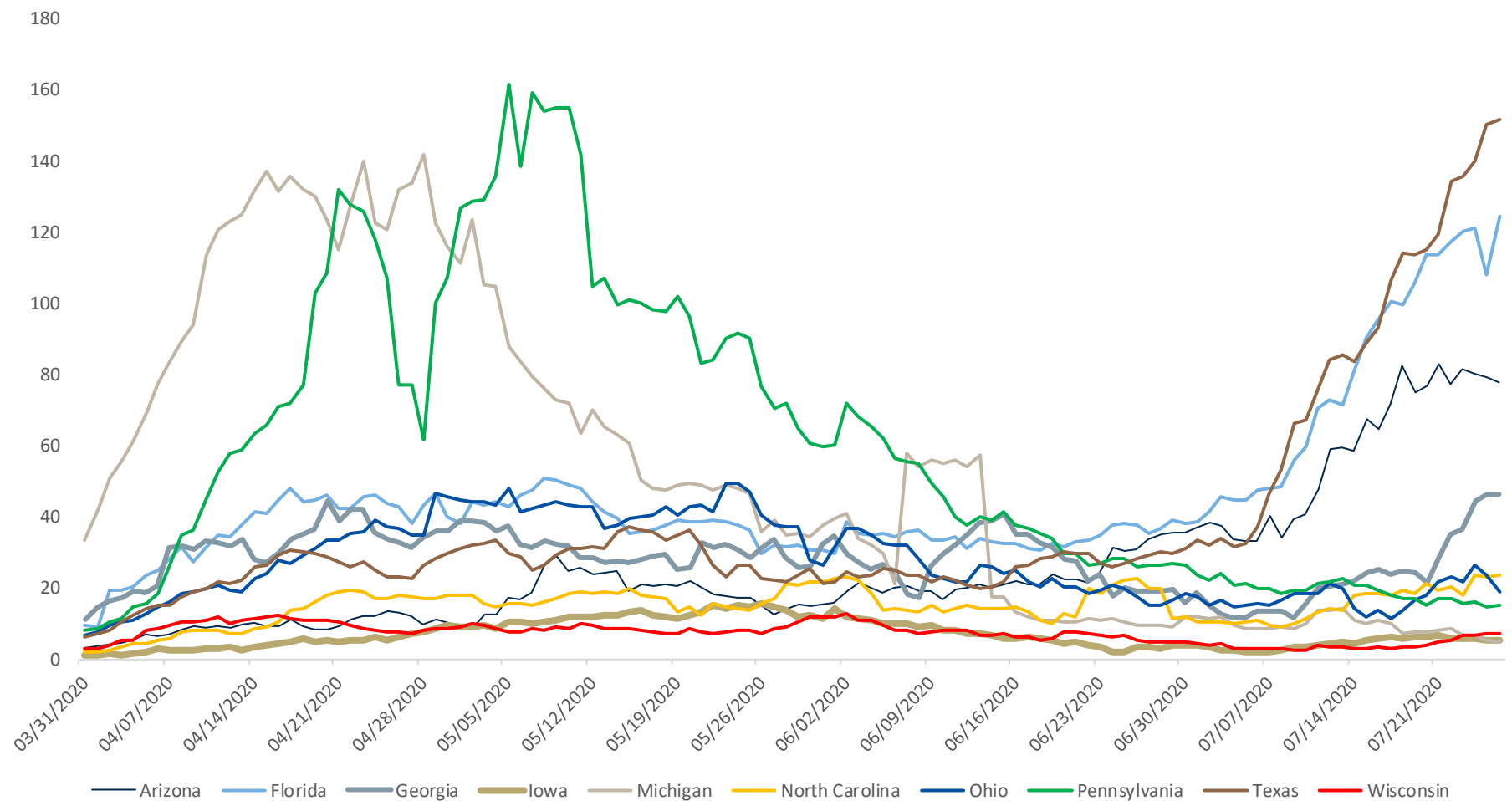
Source: RBC US Equity Strategy, Bloomberg, Johns Hopkins, As of 07/26/2020

Covid Related Deaths Have Been Spiking in Some of the New Hot Spots

Key Takeaways

- At the state level, deaths have been spiking in Texas, Arizona & Florida and are also rising in Georgia. They may be starting to slow in Arizona. These states collectively account for 94 electoral college votes.

New Daily Deaths (7-Day Avg) In Key Trump States



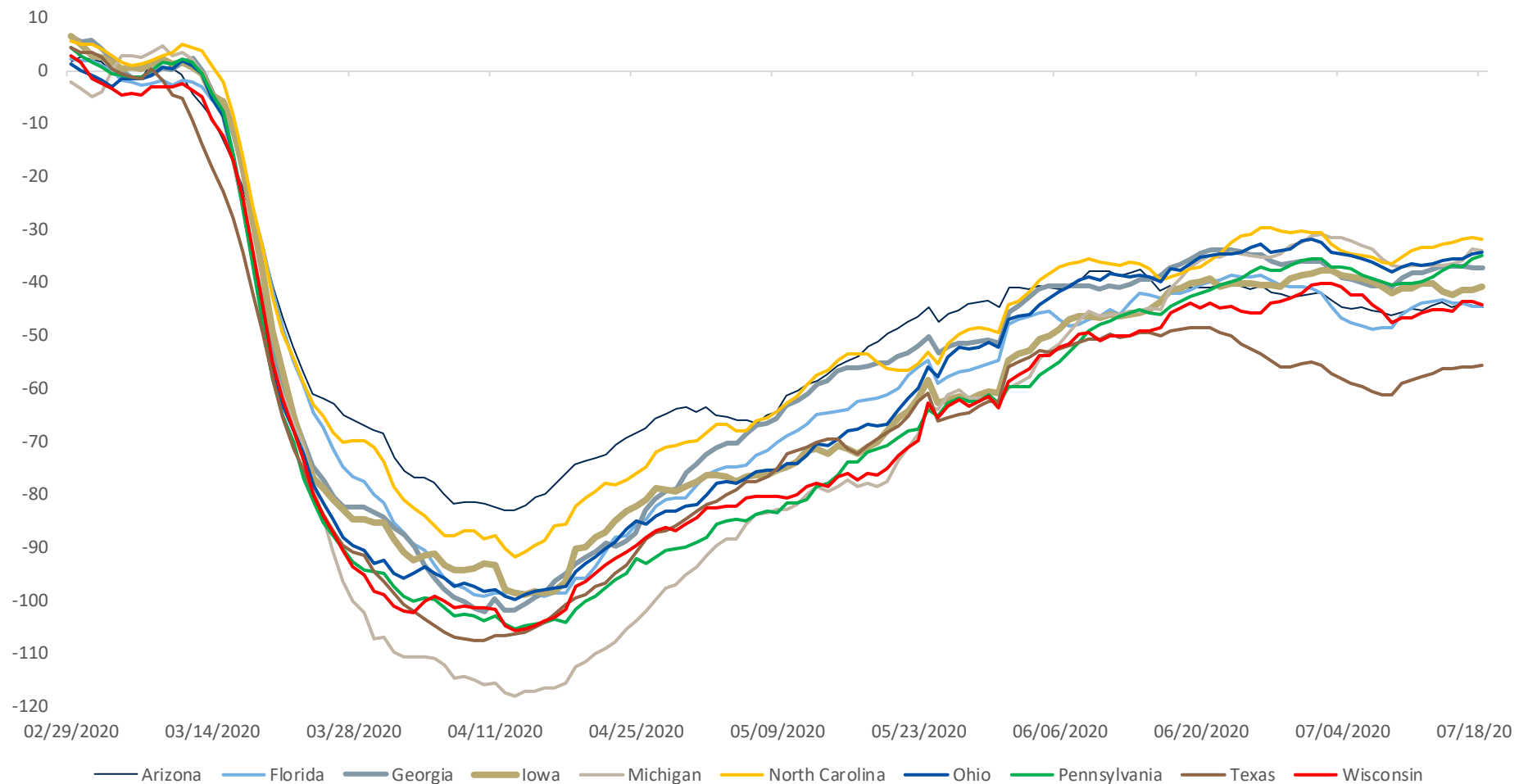
Source: RBC US Equity Strategy, Johns Hopkins, Bloomberg; As of 07/26/2020

Mobility has Improved Since Mid April in Most Key Trump States, but is Stalling Again

Key Takeaways

- The Dallas Fed Mobility and Engagement Index (formerly the “Social Distancing Index”) summarizes the information in seven different variables based on geolocation data collected from a large sample of mobile devices to gain insight into the economic impact of the pandemic. In essence, it measures the deviation from normal mobility behaviors induced by COVID-19. votes.

Dallas Fed Mobility & Engagement In Key Trump States



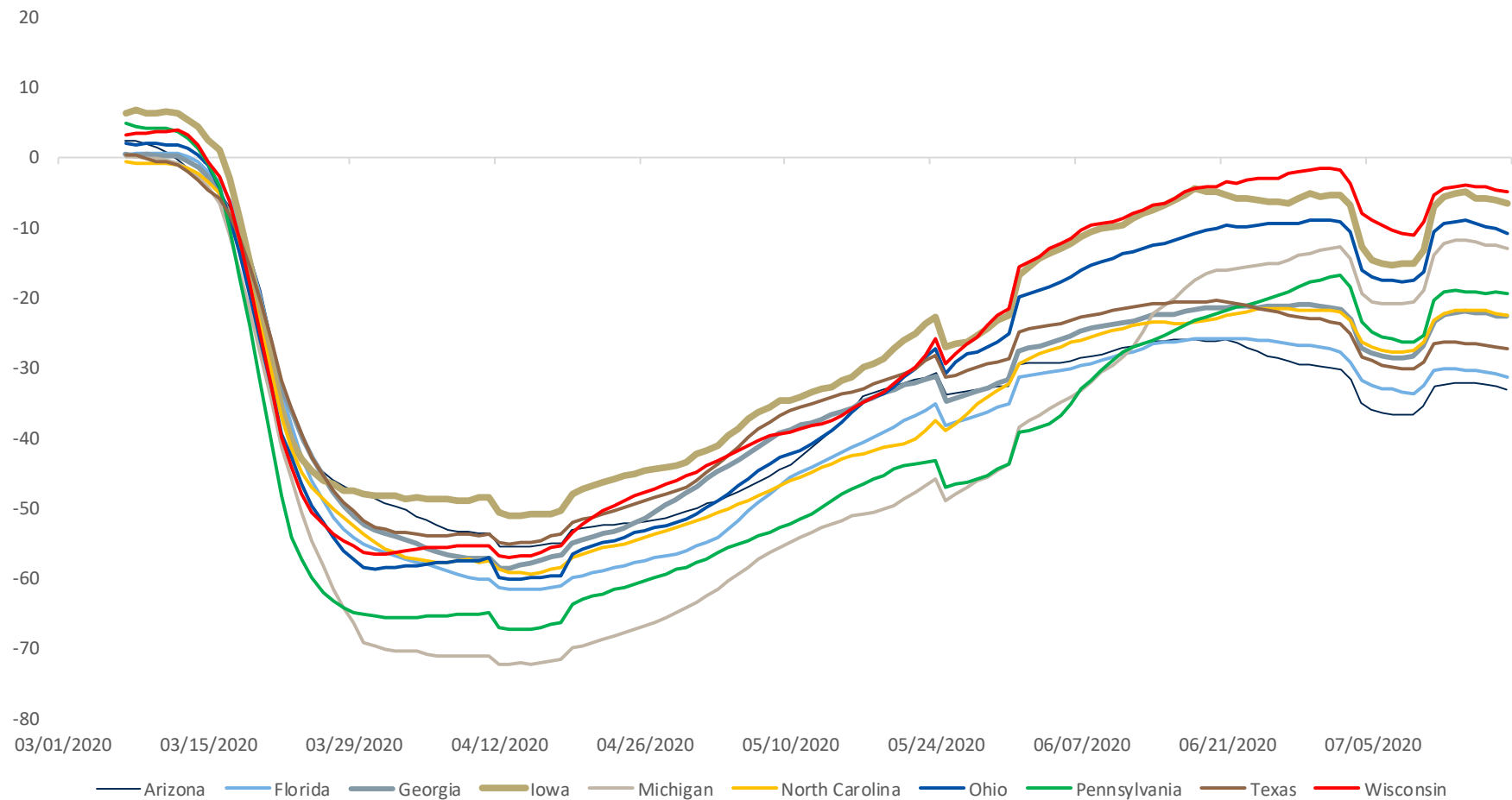
Source: RBC US Equity Strategy, Bloomberg, Dallas Fed, As of 07/18/2020

Improvement in Small Business Activity has Stalled in Most Key Trump States

Key Takeaways

- Homebase data tracking hourly employees working has recovered since late April. However the improvement has stalled relative to a month ago in all of the states we track except for Michigan, North Carolina and Pennsylvania.
- These trends have deteriorated the most in the last month for Arizona, Florida and Texas, which collectively represent 78 electoral votes.

Homebase - Hourly Employees Working - 7 Day Avg



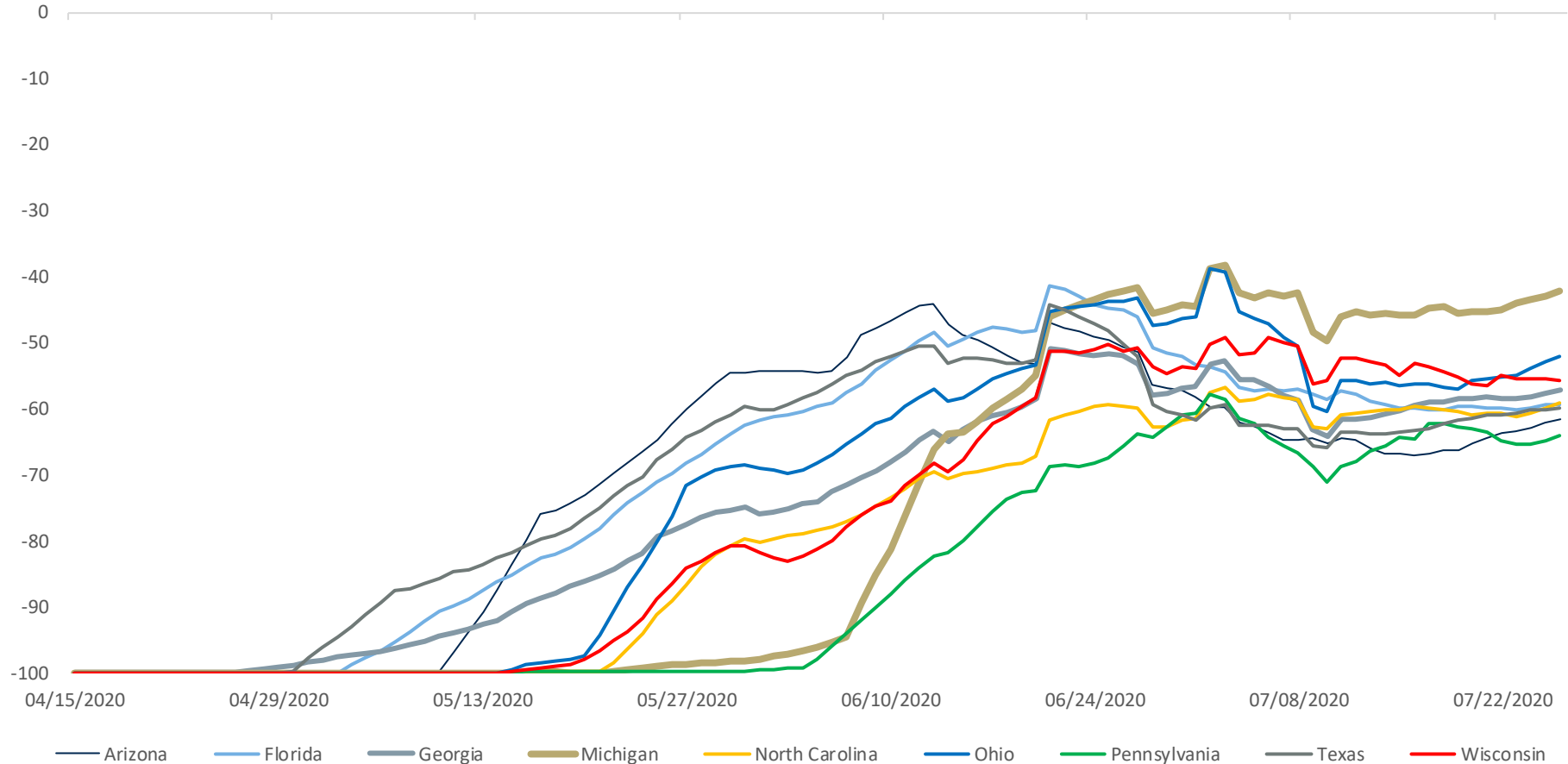
Source: RBC US Equity Strategy, Bloomberg, Homebase, As of 07/18/2020

Restaurant Activity Deteriorated in Nine Key Trump States, With Some Stabilization Seen Recently

Key Takeaways

- Restaurant booking trends have leveled out in the nine key Trump states in which Opentable tracks restaurant reservations on a daily basis.
- There was an initial improvement as restaurants were allowed to reopen, then a bit of a deterioration, followed by some stabilization in the very latest updates.

Opentable - Seated Diners YoY% In Key Trump States
(7-Day Avg)



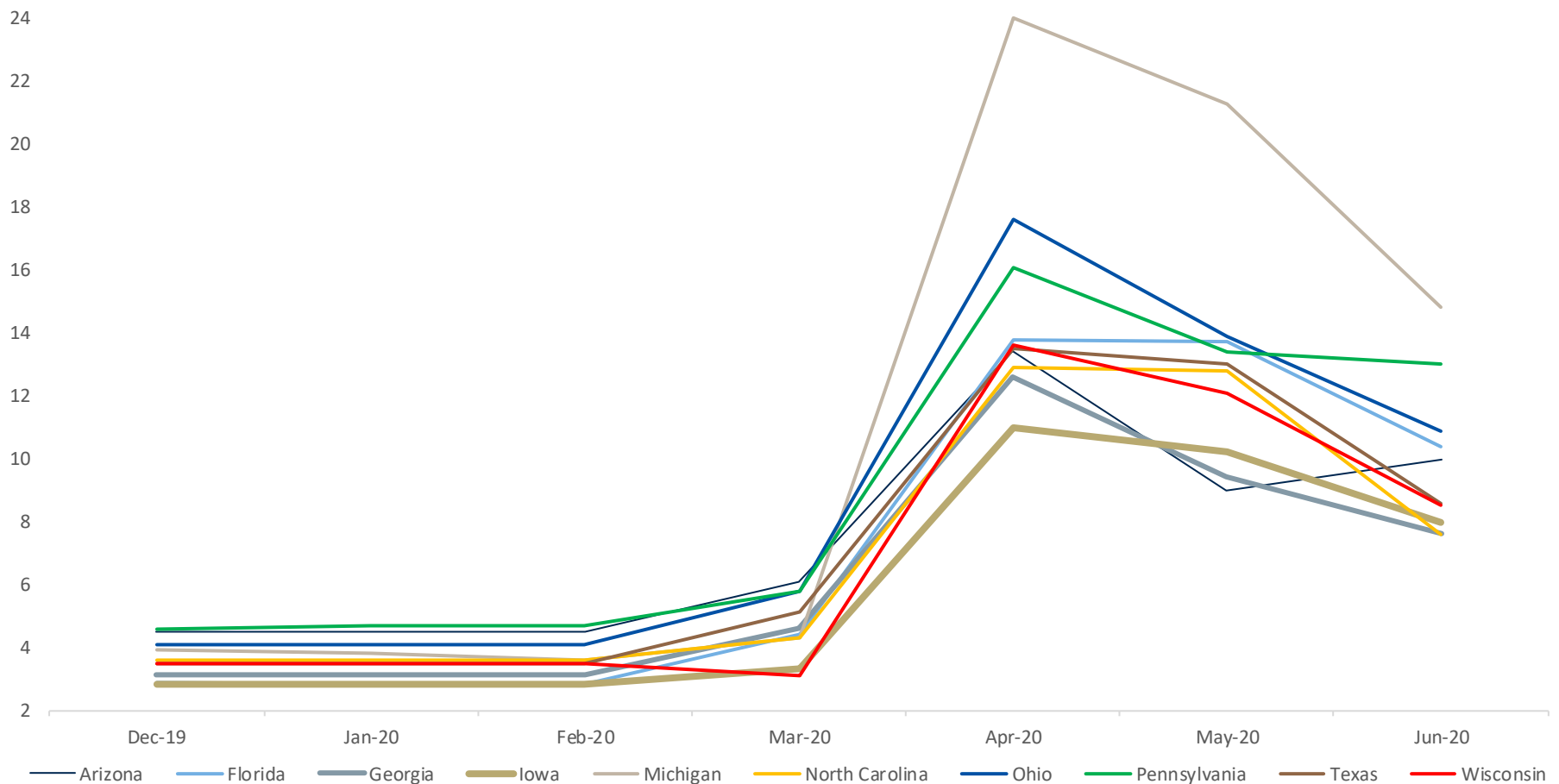
Source: RBC US Equity Strategy, Bloomberg, Opentable, As of 07/26

Unemployment Rate has Improved in All Key Trump States Since April

Key Takeaways

- The unemployment rate also came in lower in June than May for most of the key Trump states we're tracking.
- The only exception was Arizona, where it moved up slightly. Arizona accounts for 11 electoral votes.

Unemployment Rate by Select States In Key Trump States



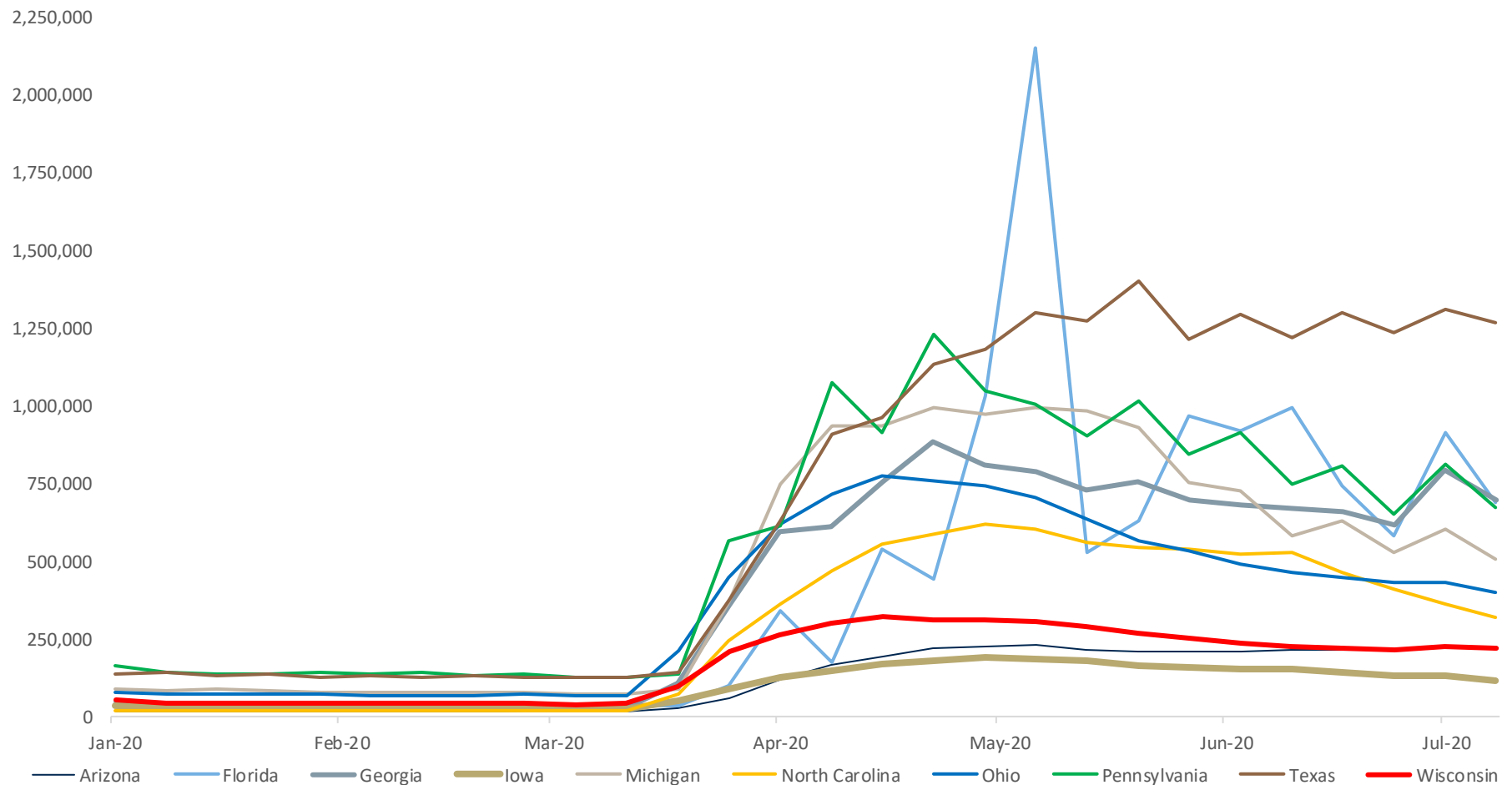
Source: RBC US Equity Strategy, Bloomberg, BLS, as of June 2020

Continuing Unemployment Claims off Their Highs in Most Key Trump States

Key Takeaways

- Most of the key Trump states that we are tracking saw peak levels of continuing claims in April or May, and have been improving ever since.
- The two exceptions are Arizona, where they have been relatively flat, and Texas, where they hit a new high for the year in recent weeks. Collectively, these two states account for 49 electoral votes.

Unemployment Continuing Claims by State In Key Trump States



Source: RBC US Equity Strategy, Bloomberg, BLS, as of 07/10

Expectations Regarding the 2020 Congressional Races



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Expectations Regarding the 2020 Congressional Races / Betting Markets

Betting Markets Think Democrats will Keep the House

Key Takeaways

- The betting markets believe that the Democrats will be able to retain the majority within the House of Representatives in 2020.

Odds of which party will control the House of Representatives in 2020

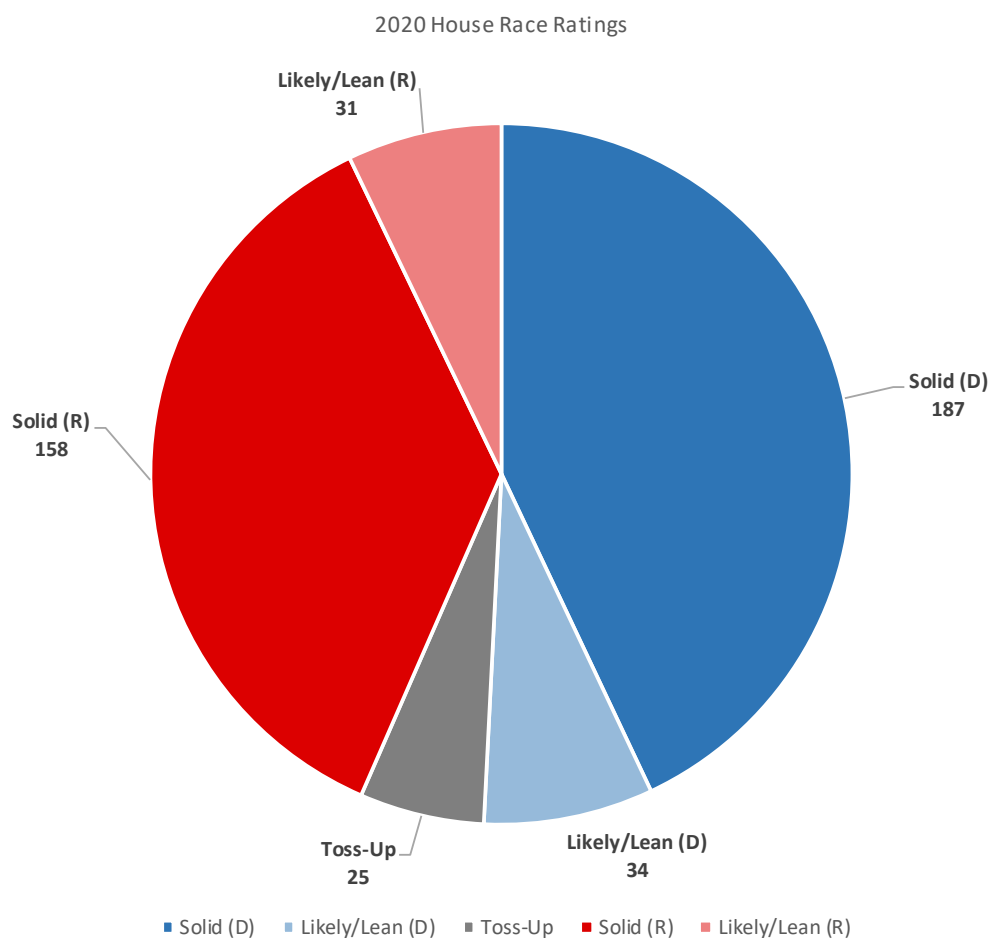


Source: RBC US Equity Strategy, Bloomberg, PredictIt, Probabilities derived by betting markets, as of 07/26/2020

Democrats Have the Edge in the House According To Independent Political Analysts

Key Takeaways

- There are 435 voting members of the House of Representatives. 218 are needed for a simple majority, or 290 for a 2/3's majority.
- In the current Congress, the Democrats have 235 House seats while the Republicans have 199.
- As of July 16th, the *Cook Political Report* rated 221 seats as solid or likely for the Democrats. In their latest update, they shifted 20 seats towards the Democrats.

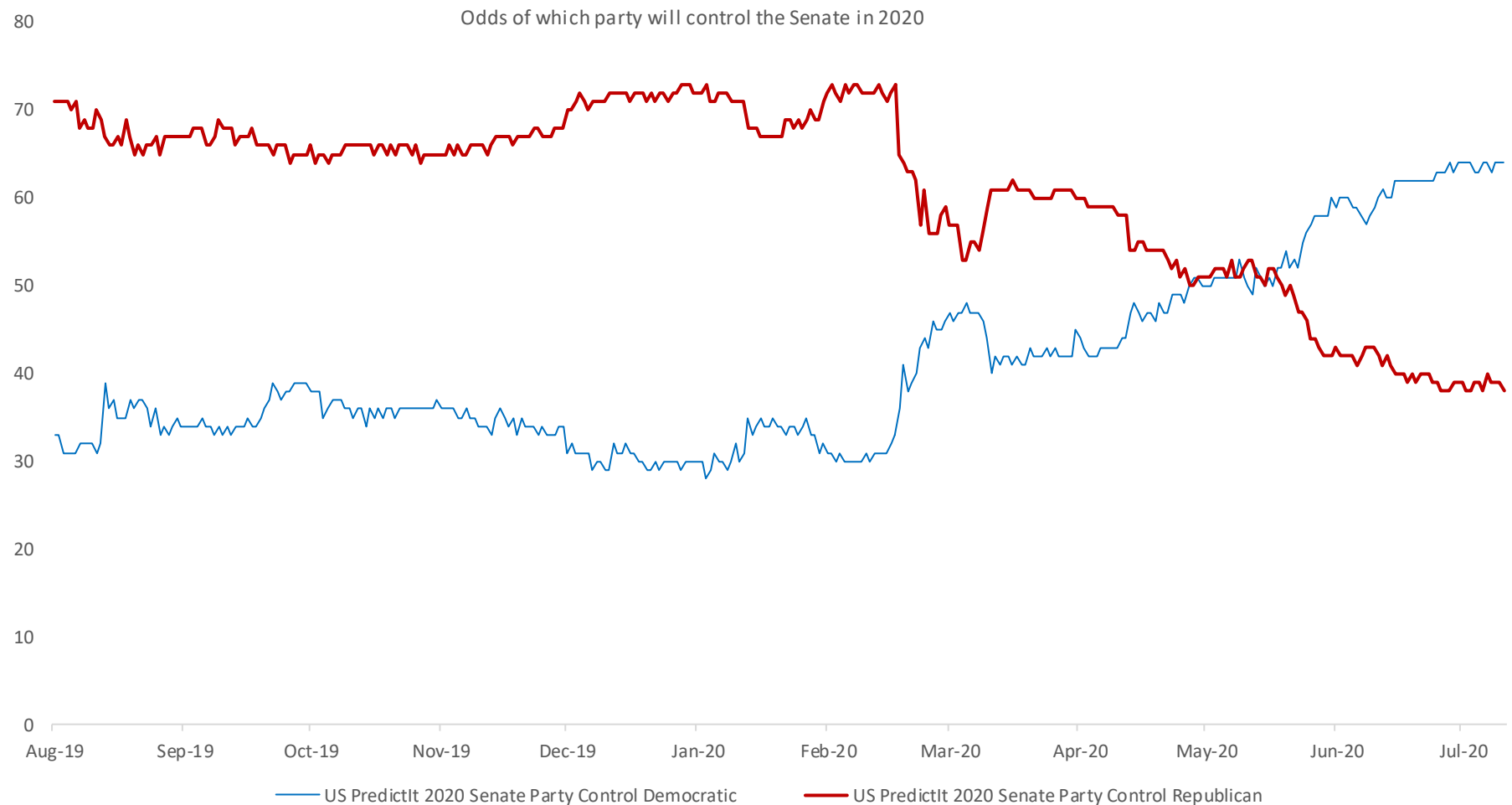


Source: RBC US Equity Strategy, The Cook Political Report, As of 07/16

Betting Markets Think Democrats Will Win the Senate

Key Takeaways

- The betting market no longer has conviction that the Senate will stay under Republican control. Expectations for the Democrats to take control rose while falling for the Republicans in late May and early June. The gap widened in favor of the Democrats throughout June and July.

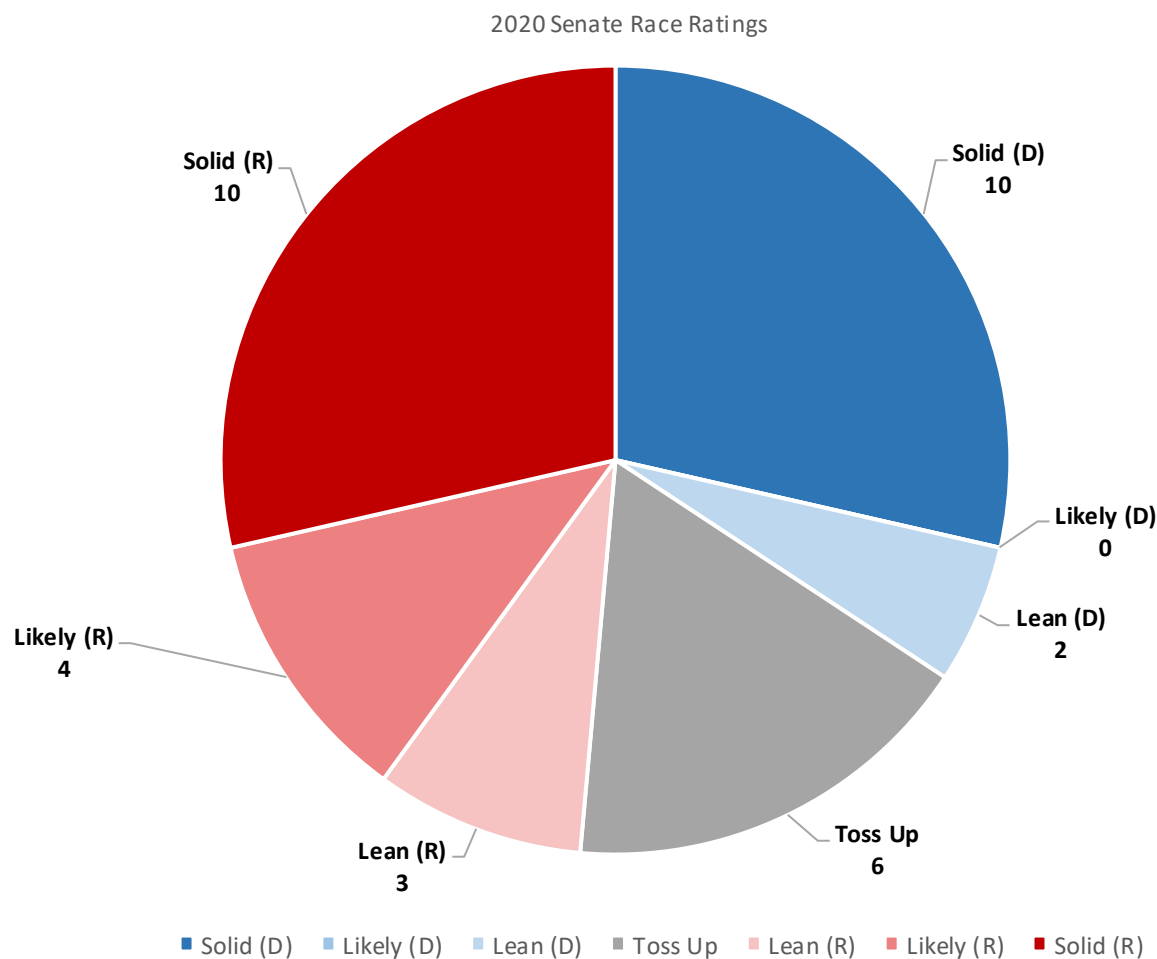


Source: RBC US Equity Strategy, Bloomberg, PredictIt, Probabilities derived by betting markets, as of 07/26/2020

Senate Seen As Flipping By Independent Political Analysts

Key Takeaways

- If the Democrats win all of the states that *Cook Political Report* considers to be toss-ups (CO, GA, IA, ME, MT, NC), the Senate would flip to a Democratic majority.
- These ratings were last updated in late July 2020. *Cook* now predicts that Democrats will win back control of the Senate in November. *Cook* switched IA and GA to "lean Republican" to a "toss-up," and AZ from "toss-up" to "lean Democratic."

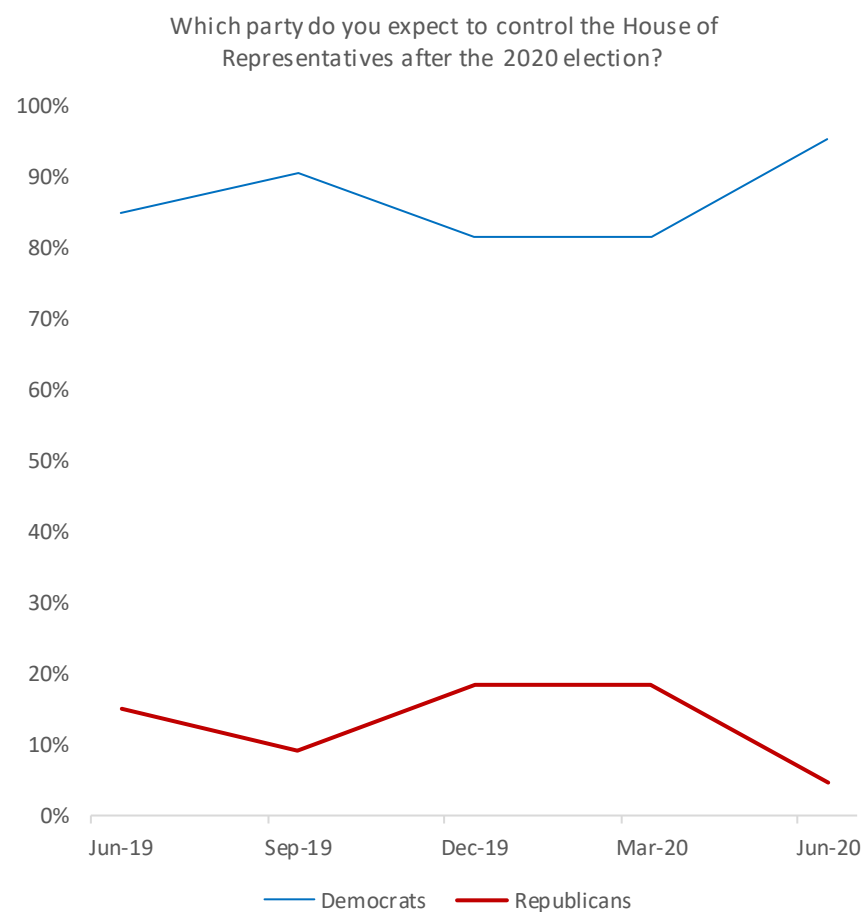
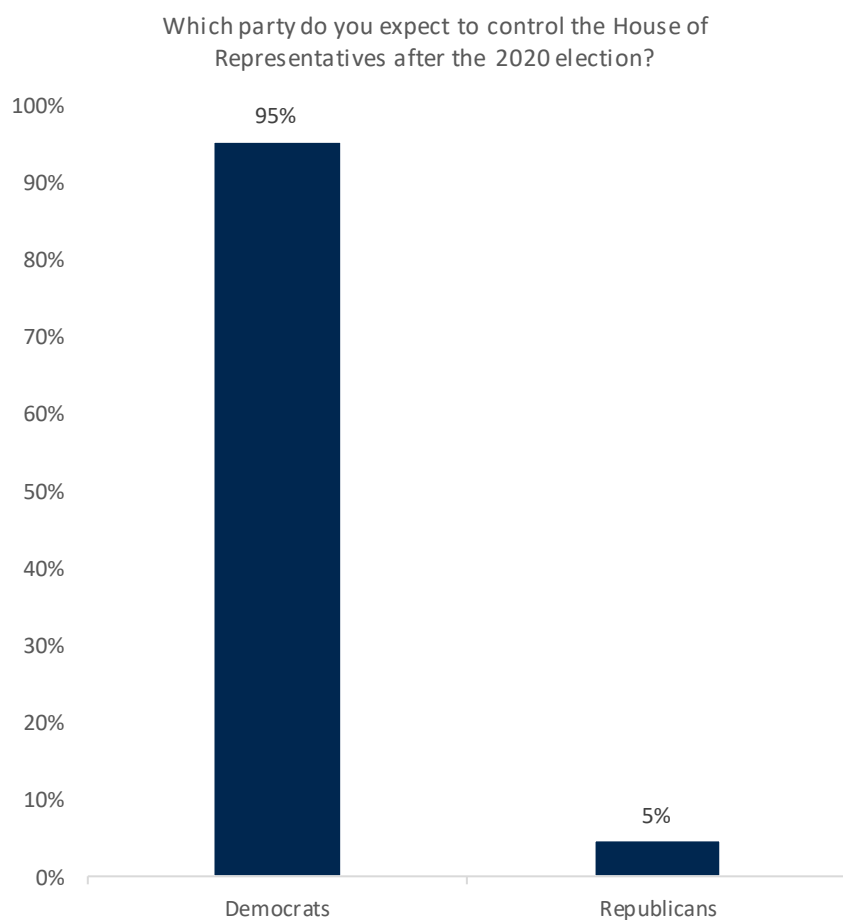


Source: RBC US Equity Strategy, The Cook Political Report, As of 07/23

Most US Equity Investors Have Expected the House to Remain Under Democratic Control

Key Takeaways

- The vast majority of our June 2020 survey respondents believe that Democrats will be in control of the House of Representatives after the 2020 election.
- Those expecting the Democrats to keep control of this chamber moved up since our last survey.

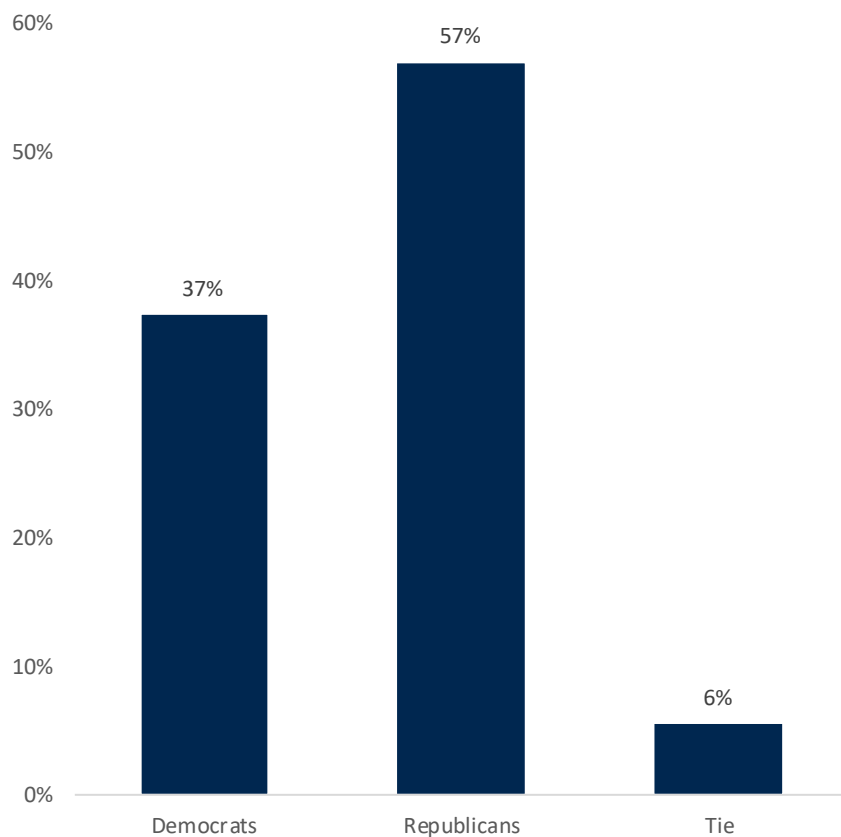


Most US Equity Investors Have Expected the Senate to Remain Under Republican Control

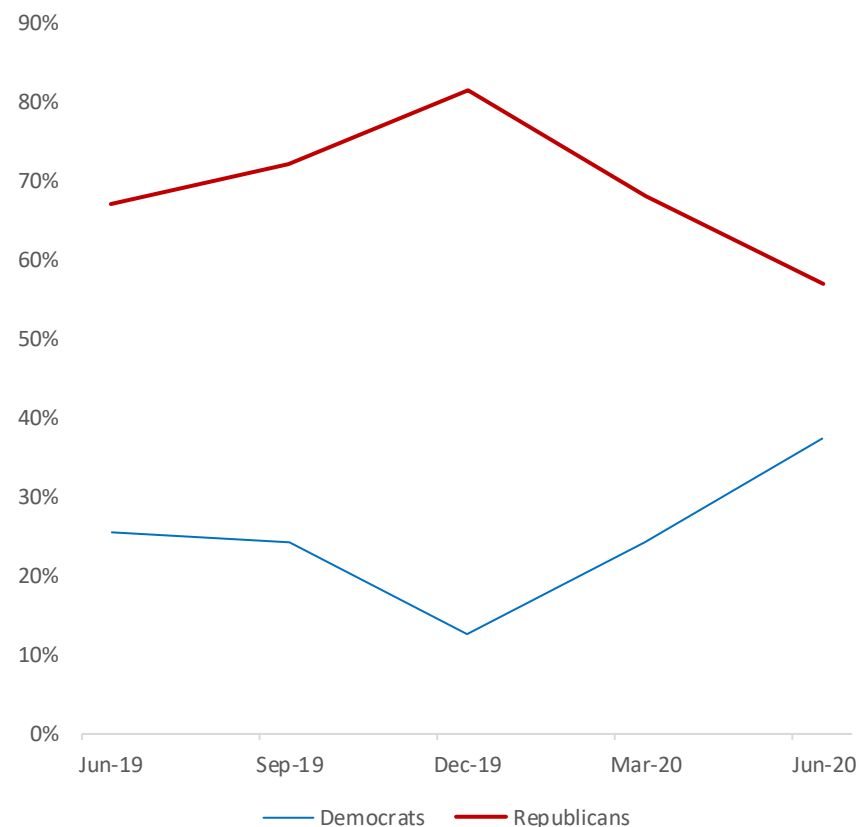
Key Takeaways

- The majority of investors who participated in our June 2020 survey expect Republicans to control the Senate after the 2020 election.
- However, those expecting Republicans to keep the Senate declined for the 2nd survey in a row to 57%, down from 68% in March and 82% in December.

Which party do you expect to control the Senate after the 2020 election?



Which party do you expect to control the Senate after the 2020 election?



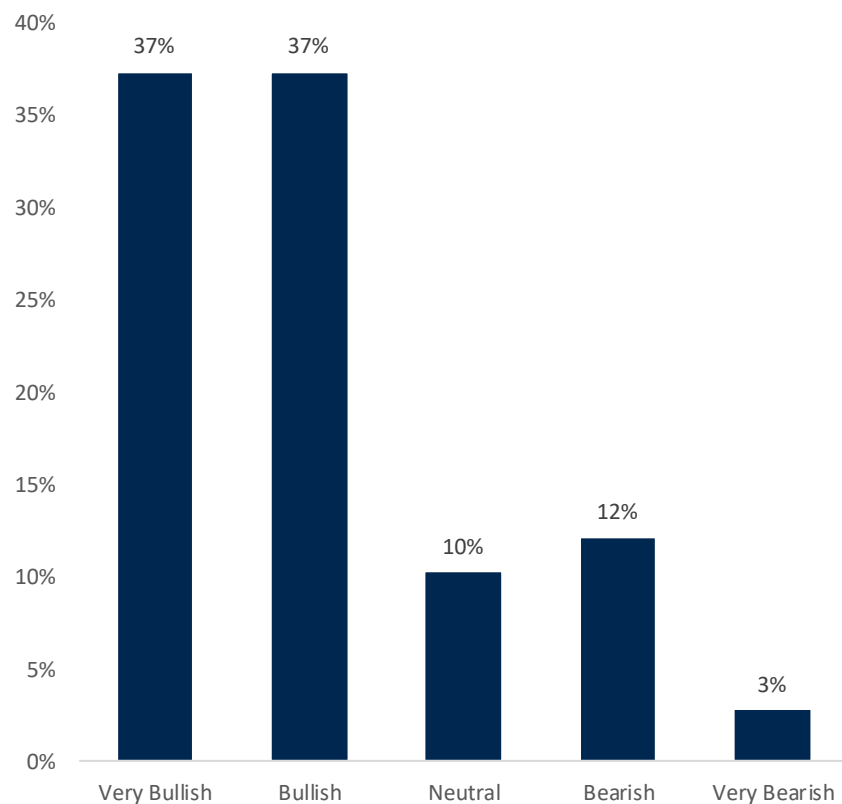
Source: RBC US Equity Strategy

Republican Sweep has Been Viewed as Positive for Stocks by Most US Equity Investors

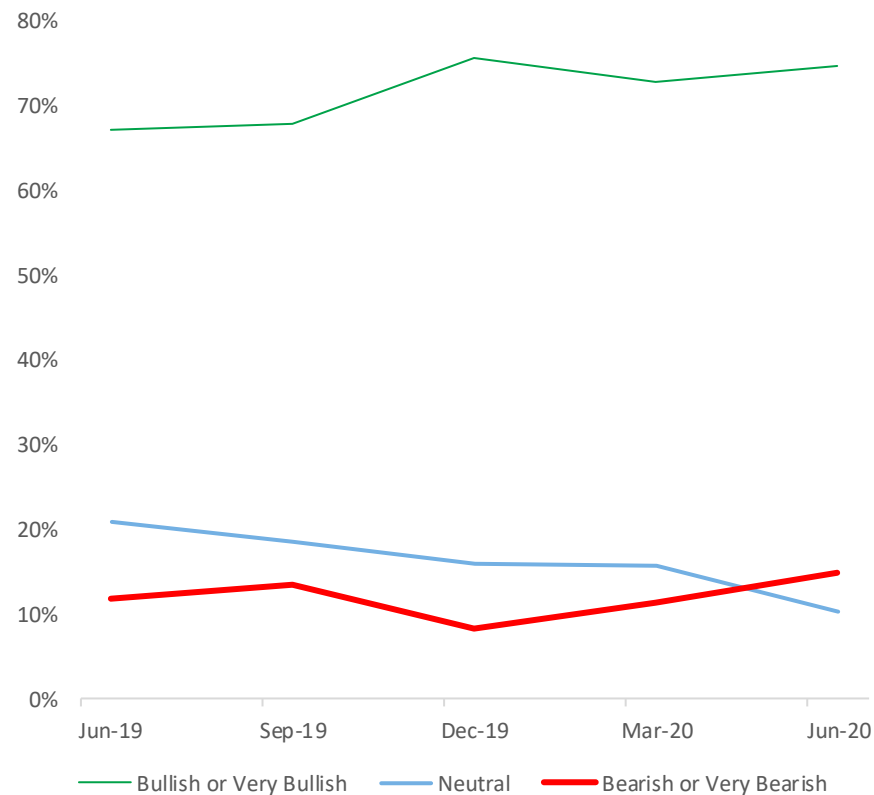
Key Takeaways

- As was the case in previous surveys, the vast majority of investors (75%) believe that a Republican sweep in the 2020 election would be very bullish or bullish for stocks.

What are the implications for US equities for each of the following outcomes in the 2020 election: Republicans win control of the White House, Senate and House



What are the implications for US equities for each of the following outcomes in the 2020 election: Republicans win control of the White House, Senate and House

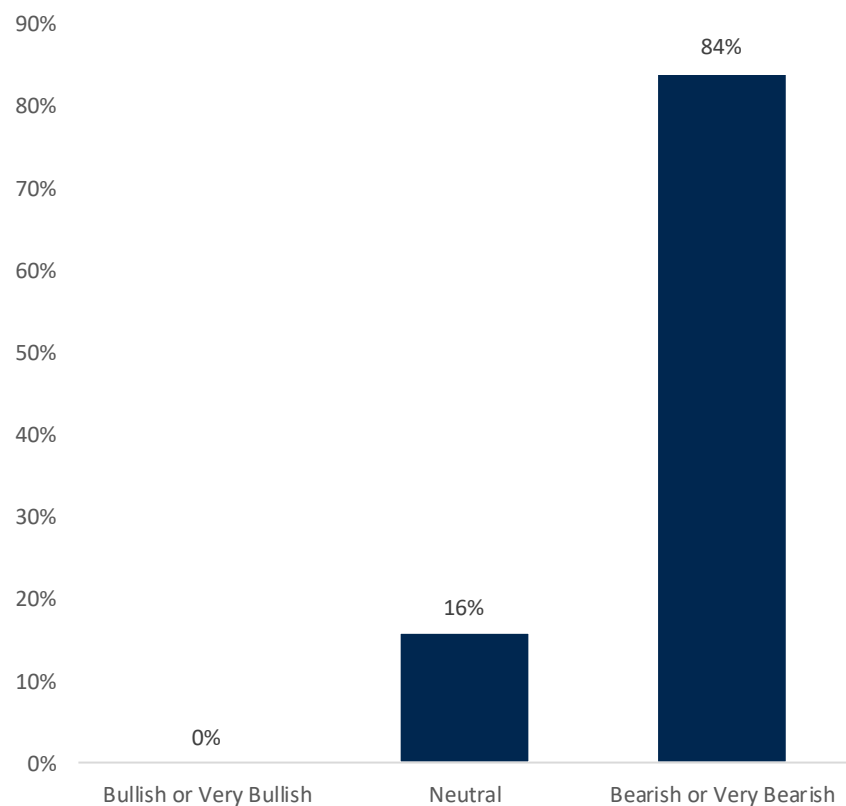


Democratic Sweep has Been Viewed as Negative for Stocks by Most US Equity Investors

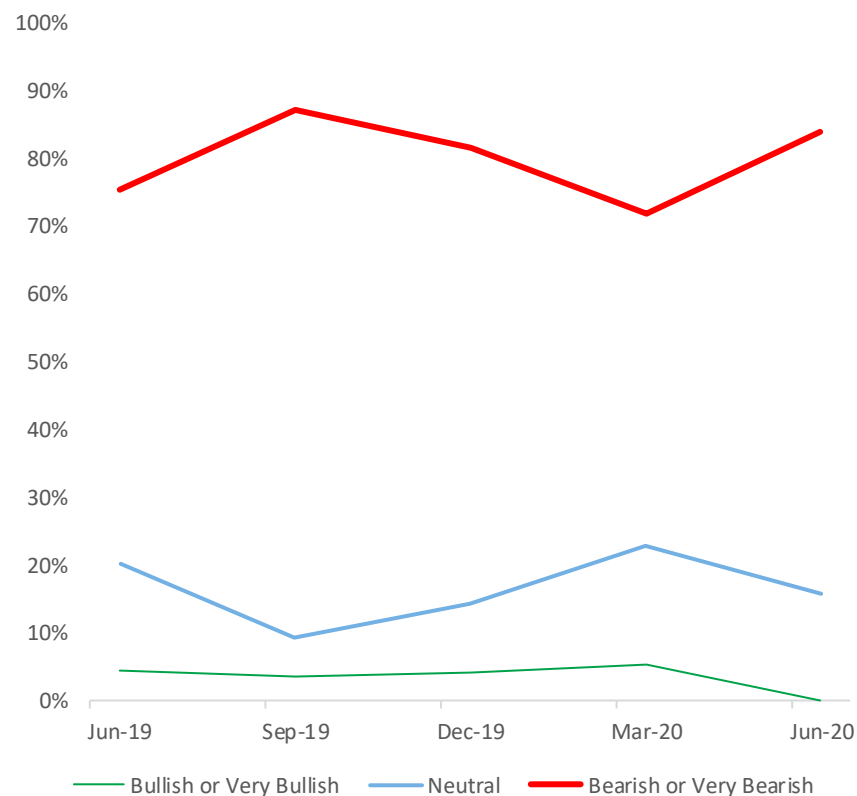
Key Takeaways

- Those who believe that a Democratic sweep (White House, Senate & House) in the 2020 elections will be bearish or very bearish moved up in our latest survey, to 84% in June vs. 74% in March.
- Those in the neutral and bullish camps have eased back.

What are the implications for US equities for each of the following outcomes in the 2020 election: Democrats win control of the White House, Senate and House



What are the implications for US equities for each of the following outcomes in the 2020 election: Democrats win control of the White House, Senate and House

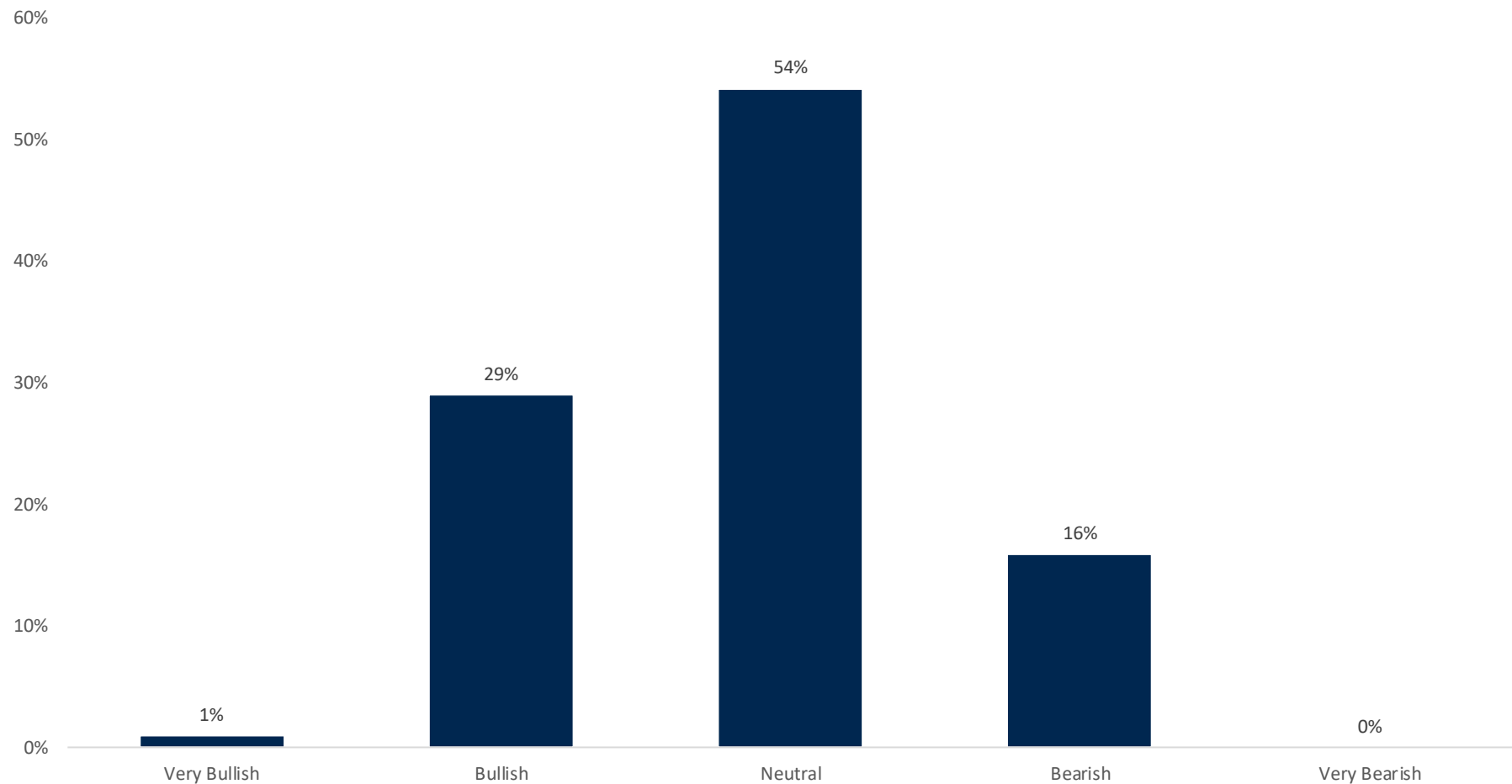


Most US Equity Investors Have Viewed a Tied Senate as Neutral for US Equities

Key Takeaways

- If the Senate is tied at 50-50 after the November election between the two parties, a little more than half of our survey respondents say it will be a neutral outcome for the stock market.

What are the implications for US equities for each of the following outcomes in the 2020 election: Senate is split 50-50 between two parties



Source: RBC US Equity Strategy

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