nuveen
A TIAA Company

Viewpoints from the Global Investment Committee

2020 U.S. elections: Uncertainty? *Yes.* Opportunities? *Also yes.*

Bill Huffman HEAD OF NUVEEN EQUITIES AND FIXED INCOME

Nick Liolis CIO, TIAA GENERAL ACCOUNT

Saira Malik GLOBAL EQUITIES

Bill Martin and Anders Persson GLOBAL FIXED INCOME

John Miller MUNICIPALS

Brian Nick CHIEF INVESTMENT STRATEGIST

Amy O'Brien RESPONSIBLE INVESTING

Justin Ourso PRIVATE REAL ASSETS

Jay Rosenberg PUBLIC REAL ASSETS

Mike Sales CEO OF NUVEEN REAL ESTATE AND REAL ASSETS

While each election season is unique, this year's is unprecedented. The global pandemic has been the dominant driver of the economy and financial markets, and will surely figure prominently in the election's outcome. As part of our efforts to refine our own market views and provide our clients with our best thinking, Nuveen's Global Investment Committee revisits some lessons we learned in 2016, presents policy scenarios for the two most likely outcomes and shares our views about the best opportunities across asset classes heading into election season.

KEY POINTS:

- While the November contests have grabbed investors' attention, we don't expect the results to be the primary driver of financial markets.
- Tax, spending and regulatory policies could look very different depending on the election outcome, likely driving some differences between relative asset prices.
- Should the "Blue Wave" come to pass, some taxes could rise, but spending would rise by far more. We'd see some compelling investment opportunities in that scenario.
- Regardless of the outcome, the U.S. economy will require more federal assistance in 2021. We also think a bipartisan trend toward onshoring certain manufacturing and a growing anti-trade movement will endure in light of the pandemic.
- A key lesson from 2016: Avoid making high-conviction bets that rely on one particular outcome to perform well.

LESSONS FROM 2016

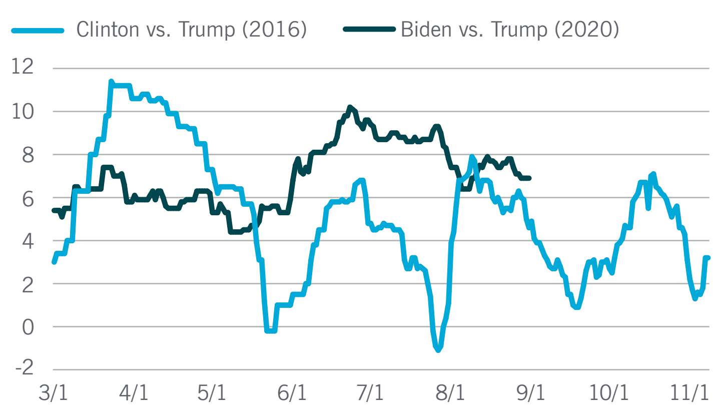
We can all probably recall where we were on election night in 2016, when it became clear that Donald Trump – the underdog based on opinion polls and betting markets – would become the 45th president of the United States. Because the results were unexpected, market reaction was swift and clear: Interest rates and the U.S. dollar rose, while financials and industrials rallied on expectations of more infrastructure spending (never happened), lower taxes (did happen) and less regulation (ditto).

But investors shouldn't assume that market reaction this year will be nearly as dramatic, for two key reasons. One, the outcome could be priced in prior to the election. As we learned last time around, gauging the state of the race using the national popular vote is far from foolproof. But in 2016, the final national polls were actually pretty close to the popular vote margin (the less said about the quality of state polls in the Midwest, the better). Figure 1 shows how the 2020 presidential race looks different than the 2016 contest, so far. Joe Biden's lead over President Trump has been steadier and, on average, larger than Hillary Clinton's was four years ago.

The race could certainly tighten, and we have to watch out for a possible "October Surprise," but if Biden's lead does endure, financial markets are likely to gradually reflect a return to Obama-era regulatory policies and tax rates. This could

Figure 1: Biden's national popular vote lead is more stable — and larger — than Clinton's

RealClearPolitics National Polling Margin, 2016 vs. 2020



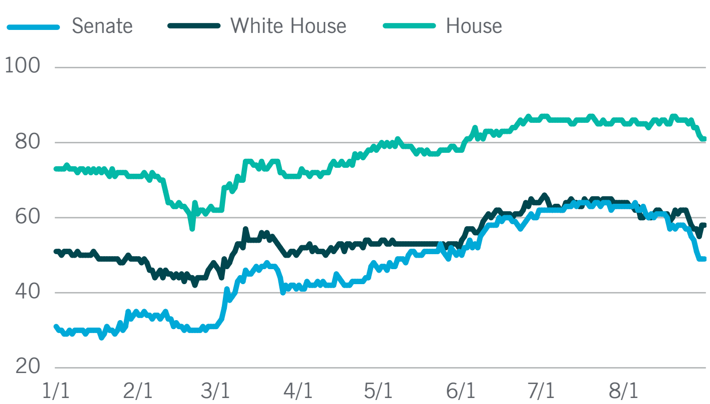
Source: Bloomberg, RealClearPolitics

put downward pressure on equity multiples and cause credit spreads to widen modestly in advance of Election Day.

Two, speaking of taxes, few if any major policy reforms are likely to be enacted until well into 2021. Regardless of the makeup of Washington next year, addressing the pandemic and the resulting economic distress will certainly be job number one. Should former Vice President Biden emerge victorious with a Democratic majority in both the House and Senate (currently around a 50% probability according to betting markets like PredictIt, shown in Figure 2), the precise legislative agenda will depend on the margin in the Senate and the state of the economy heading into next year. Should the U.S. still be in the throes of business and school closures due to the coronavirus, sweeping changes to health care and environmental policies would take a back seat to emergency stimulus and support.

Figure 2: Prediction markets tilt toward Biden, but Senate control looks like a coin toss

Probability of Democratic control in 2021



Source: Bloomberg, PredictIt

The bottom line is that election outcomes and political alignments are rarely significant or durable drivers of key market bellwethers like the S&P 500 Index or the 10-year U.S. Treasury yield. Investors' returns over the long term are mainly driven by market valuations and individual asset allocation decisions, not the political party controlling Congress or the White House. Even knowing the outcome of the election does not guarantee knowing the nature and extent of resulting policy changes. And that means investors should not overreact and make significant changes to their long-term investment plans or investment policy statements based on possible scenarios.

That said, we do think the potential for policy changes next year could influence relative performance within and across sectors. It's worth looking at what might happen in the event of what seem to be the two most likely outcomes: a Democratic sweep or a continuation of the status quo.

THE BLUE WAVE

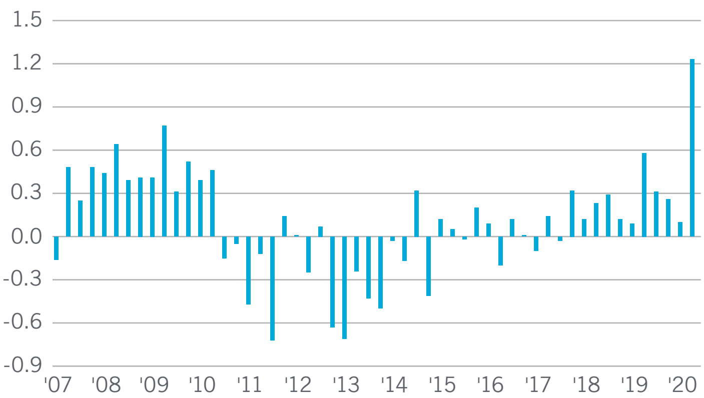
Should former Vice President Biden win the presidency and the Senate flip to Democratic control, we would expect at least a moderate rise in corporate and certain individual income taxes and a larger rise in federal spending to fund more fiscal stimulus, health care and environmental policy reforms. However, a Biden win with Republicans hanging onto the Senate raises the risk of a deadlocked legislative and budgeting process. In the recent past, this power structure has led to de facto austerity and a negative contribution to GDP from federal spending and investment (Figure 3).

Under a Biden presidency, Federal Reserve Chair Jerome Powell is likely to receive another four-year term or be succeeded by someone with an even more dovish policy orientation. Trade and foreign policy would become less volatile, with a greater emphasis on multilateral action, even as skepticism about globalization grows increasingly bipartisan.

- **Equities and credit:** Renewable energy, auto electrification, infrastructure and firms with large international exposure would likely benefit, given trade risks should de-escalate; less tax-sensitive sectors like utilities could also benefit.
- **Fixed income:** New deficit spending would sustain the reflation trade, leading to a weaker U.S. dollar and TIPS outperformance; emerging markets debt could benefit from less tariff-related uncertainty and appreciating currencies.

Figure 3: Divided government led to gridlock and budget austerity during the Obama presidency

Federal government contribution to U.S. GDP (%)



Source: Bureau of Economic Analysis, Bloomberg

- **Municipals:** Unified Democratic control would likely result in more federal assistance to state and local governments, and higher tax rates would increase demand.
- **Real assets:** Natural resources should benefit, including forests, infrastructure investments tied to sustainability and climate change, and industrial real estate oriented around production onshoring.
- **ESG/Impact:** We would expect a friendlier regulatory environment for investors and issuers with policies focused on climate change, carbon reduction and income inequality.

STATUS QUO

- Should President Trump be reelected, we would expect the Senate to also remain in Republican control and Democrats to retain the House. This outcome could trigger price action similar to what we saw in November 2016, when high-tax companies and those with greater regulatory risk outperformed. Fiscal policy would not be quite as loose, given growing concerns among Senate Republicans about deficits, but a bipartisan stimulus plan around infrastructure would be on the table. Trade policy could become even less predictable and more adversarial. More and higher tariffs seem likely.
- **Equities and credit:** Cyclical sectors and small-cap companies with a high percentage of revenue generated domestically would be likely winners, as would firms with high tax burdens or high regulatory risk.
- **Municipals:** Lower tax rates and a federal government less inclined to provide direct support to municipals could create issues for select areas. But overall solid fundamentals and strong supply/demand dynamics should still support municipals.
- **U.S. dollar:** The greenback would likely remain strong if concerns center on trade policy uncertainty and a broad decline in global trade flows.
- **Real assets:** Low taxes and rates would be a positive for commercial real estate. We'd also look for opportunities in industrial real estate more leveraged to e-commerce and less leveraged to trade.

LOOKING AHEAD

The political environment can and most likely will affect global financial markets, but economic fundamentals and valuations remain more important. Regardless of the political backdrop, we expect many trends that have been in force for some time to continue: the rise in importance of environmental, social and regulatory factors in driving investment performance, the growing role of alternatives for investors of all stripes and the need to rethink approaches to income generation in a low-yield environment.

Nuveen's Global Investment Committee will continue focusing on these issues, and how they affect our investment approaches and our clients' portfolios. Stay tuned for our fourth quarter outlook coming in October and our 2021 year-ahead forecasts in December.

For more information, please visit nuveen.com.

Endnotes

This material is not intended to be a recommendation or investment advice, does not constitute a solicitation to buy, sell or hold a security or an investment strategy, and is not provided in a fiduciary capacity. The information provided does not take into account the specific objectives or circumstances of any particular investor, or suggest any specific course of action. Investment decisions should be made based on an investor's objectives and circumstances and in consultation with his or her financial professionals.

The views and opinions expressed are for informational and educational purposes only as of the date of production/writing and may change without notice at any time based on numerous factors, such as market or other conditions, legal and regulatory developments, additional risks and uncertainties and may not come to pass. This material may contain "forward-looking" information that is not purely historical in nature.

Such information may include, among other things, projections, forecasts, estimates of market returns, and proposed or expected portfolio composition. Any changes to assumptions that may have been made in preparing this material could have a material impact on the information presented herein by way of example. **Past performance is no guarantee of future results.** Investing involves risk; principal loss is possible.

All information has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability or completeness of, nor liability for, decisions based on such information and it should not be relied on as such.

A word on risk

All investments carry a certain degree of risk and there is no assurance that an investment will provide positive performance over any period of time. Equity investing involves risk. Investments are also subject to political, currency and regulatory risks. These risks may be magnified in emerging markets. Diversification is a technique to help reduce risk. There is no guarantee that diversification will protect against a loss of income. Investing in municipal bonds involves risks such as interest rate risk, credit risk and market risk, including the possible loss of principal. The value of the portfolio will fluctuate based on the value of the underlying securities. There are special risks associated with investments in high yield bonds, hedging activities and the potential use of leverage. Portfolios that include lower rated municipal bonds, commonly referred to as "high yield" or "junk" bonds, which are considered to be speculative, the credit and investment risk is heightened for the portfolio. Credit ratings are subject to change. AAA, AA, A, and BBB are investment grade ratings; BB, B, CCC/CC/C and D are below-investment grade ratings. As an asset class, real assets are less developed, more illiquid, and less transparent compared to traditional asset classes. Investments will be subject to risks generally associated with the ownership of real estate-related assets and foreign investing, including changes in economic conditions, currency values, environmental risks, the cost of and ability to obtain insurance, and risks related to leasing of properties. Socially Responsible Investments are subject to Social Criteria Risk, namely the risk that because social criteria exclude securities of certain issuers for non-financial reasons, investors may forgo some market opportunities available to those that don't use these criteria. Investors should be aware that alternative investments including private equity and private debt are speculative, subject to substantial risks including the risks associated with limited liquidity, the use of leverage, short sales and concentrated investments and may involve complex tax structures and investment strategies. Alternative investments may be illiquid, there may be no liquid secondary market or ready purchasers for such securities, they may not be required to provide periodic pricing or valuation information to investors, there may be delays in distributing tax information to investors, they are not subject to the same regulatory requirements as other types of pooled investment vehicles, and they may be subject to high fees and expenses, which will reduce profits. Alternative investments are not appropriate for all investors and should not constitute an entire investment program. Investors may lose all or substantially all of the capital invested. The historical returns achieved by alternative asset vehicles is not a prediction of future performance or a guarantee of future results, and there can be no assurance that comparable returns will be achieved by any strategy.

Nuveen provides investment advisory services through its investment specialists.

This information does not constitute investment research as defined under MiFID.

nuveen
A TIAA Company

GWP-1321615PR-O1020P 23198