



Tale of Two Challenges: U.S. Election and COVID-19

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Featured Speakers



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The Final Countdown: COVID-19 Legislation, Employee Benefits, & The Election

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This content is not to be considered legal advice. We recommend Clients speak with legal counsel specializing in labor, employment, and tax law to ensure your organization meets requirements.

Agenda

- COVID-19 Relief: One Step Forward, Two Steps Back
- Texas v. US & Other Healthcare Issues
- Countdown To November 3rd



The Sticking Points

- How much is too much?
 - \$1.8 Trillion vs. \$2.2 Trillion
 - State and Local Funding
 - COVID-19 unemployment
 - Speaker Pelosi and Secretary Mnuchin v. Leader McConnell?
 - “Minimal enthusiasm” for another large COVID-19 bill
 - Democrats + “at risk” Republicans = 60?
 - December 11th spending bill needed (again)

Potential Employee Benefit Impacts

- **Paycheck Protection Program (PPP) Changes**

- Allow businesses with under 300 employees to take a second loan
 - Must show a 35% revenue reduction
- Include Group Insurance Premiums in the definition of Payroll Costs
 - Would be included in value of loan and a forgivable use of the loan

- **COBRA Subsidies**

- Proposed 100% subsidy in HEROES Act
- 2002 and 2009 65% subsidy

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The future of the Affordable Care Act

The \$0 individual mandate has opened the door to another court challenge for the ACA



- In December 2018, District Court ruled the entire ACA unconstitutional
 - HHS announced **ACA would continue as is**, but it remains under **attack while the case's** appeals are heard
- In December 2019, the 5th Circuit Court of Appeals:
 - **Agreed with District Court that individual mandate is unconstitutional**
 - **Remanded the case to the District Court to:**
 - **1. More thoroughly analyze whether any of the ACA can remain in place without the individual mandate**
 - **2. Consider the Federal Government's argument that the decision in the case should only apply to the 18 states that have brought the lawsuit**

Possible Outcomes (in no particular order)

- Individual mandate constitutional – everything continues as is
- Individual mandate unconstitutional, remainder can continue
- Individual mandate unconstitutional, some parts can continue, but other parts cannot
- Individual mandate unconstitutional, remainder of law struck down
- Ruling applies to all states
- Ruling applies to only certain states
- Lower Courts asked to re-examine part or all of the case

The Election's Impact On The Case

- Important Dates:
 - Election Day: November 3rd
 - Oral Arguments: November 10th
 - Inauguration Day: January 20th
 - Supreme Court Decision: Likely February or March
- Before Supreme Court issues their decision...
 - Can Congress pass, and President sign legislation that increases individual mandate penalty to \$1 or more?
 - If yes, case becomes moot
 - If not, decision drives the future of the ACA

2021 Health Care Priorities

Vice President Biden

Public option

- Allows the private health insurance market to continue, but creates a new a “Medicare-like” program as an alternative public insurance option

Prescription Drug Pricing Controls

- Create international price index to limit what can be charged in the US

President Trump

Commercial importation Rule

- HHS actively working on a rule that would allow for Commercial Importation of certain drugs from Canada

Price Transparency Rule

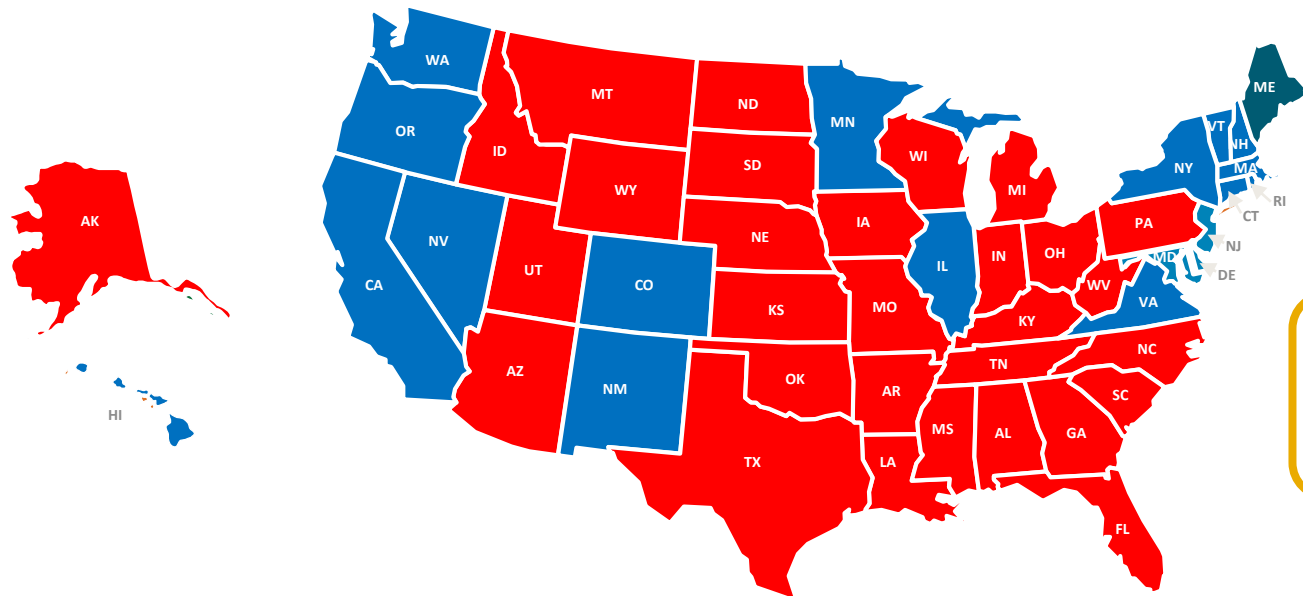
- HHS actively working on a rule that would compel health plans to make public their in-network negotiated rates as well as out-of-network allowed payment amounts

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2016: Blue Wall Falls & Battleground Wins



Trump: 306
Clinton: 232

Pennsylvania: 0.7% - 20 electoral votes

Michigan: 0.3% - 16 electoral votes

Wisconsin: 1.2% - 10 electoral votes

Ohio – 7.9% - 18 electoral votes

Florida: 1.2% - 29 electoral votes

North Carolina: 2.6% - 15 electoral votes

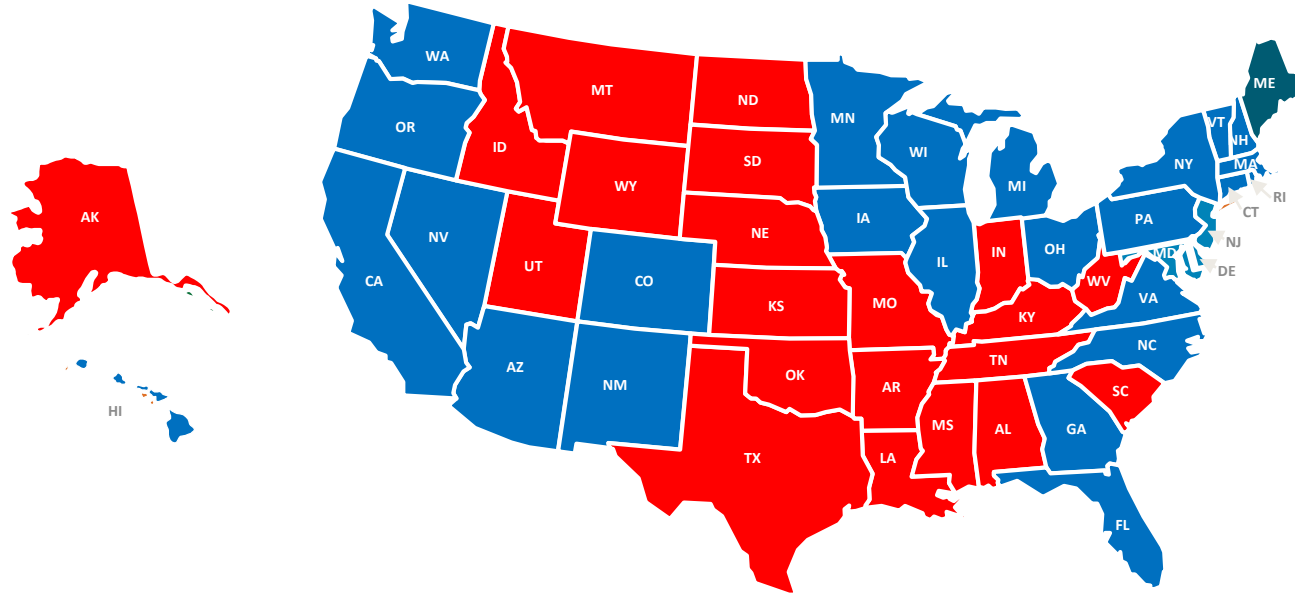
The 9 States To Watch

State	Electoral Votes	2016 Result
Georgia	16	Trump +5.1%
Iowa	6	Trump +9.3%
Wisconsin	10	Trump +1%
Ohio	18	Trump +8.6%
Michigan	16	Trump +.30%
Pennsylvania	20	Trump +1.1%
Florida	29	Trump +1.4%
North Carolina	15	Trump +3.6%
Arizona	11	Trump +3.5%

The 9 States To Watch

State	Electoral Votes	2016 Result	10/20 Polling Data
Georgia	16	Trump +5.1%	Biden +1.4%
Iowa	6	Trump +9.3%	Biden +1.1%
Wisconsin	10	Trump +1%	Biden +7.1%
Ohio	18	Trump +8.6%	Biden +0.9%
Michigan	16	Trump +.30%	Biden +8.4%
Pennsylvania	20	Trump +1.1%	Biden +7.1%
Florida	29	Trump +1.4%	Biden +4.4%
North Carolina	15	Trump +3.6%	Biden +2.7%
Arizona	11	Trump +3.5%	Biden +4.4%

9 States To Watch



Pennsylvania, Michigan, and Wisconsin: 46 Electoral Votes
Ohio, Florida, and North Carolina: 62 Electoral Votes
Iowa, Georgia, and Arizona: 33 Electoral Votes

Biden: 373
Trump: 165

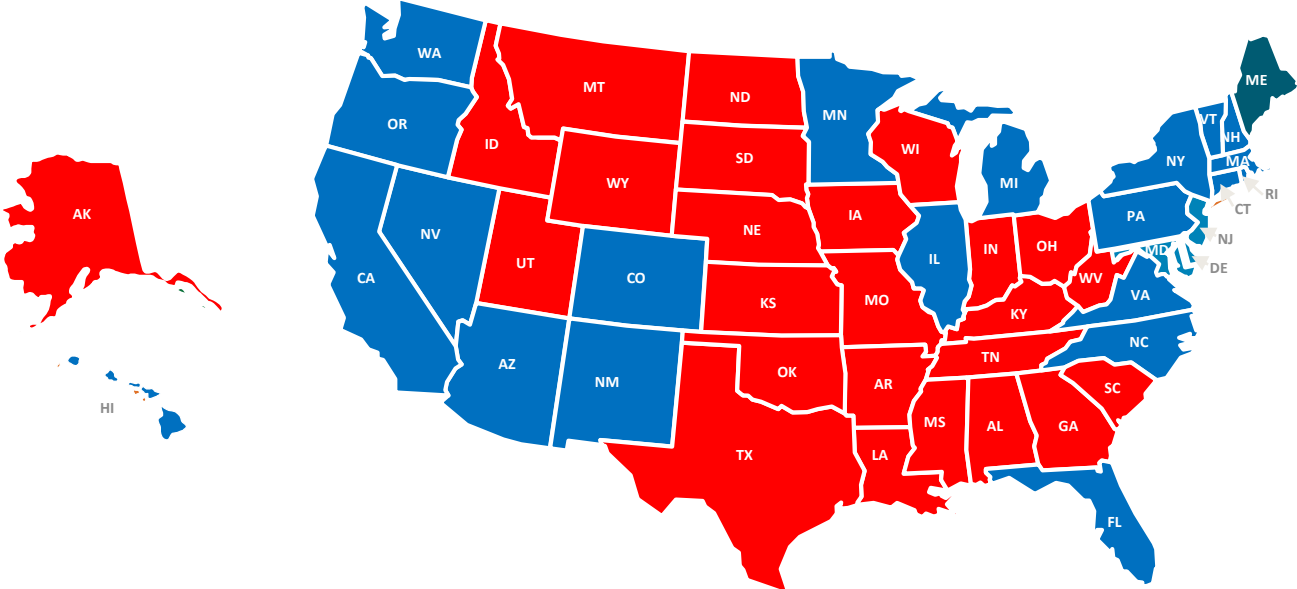
The 9 States To Watch

State	Electoral Votes	2016 Result	10/20 Polling Data	How Much Trump's Victory Exceeded Final 2016 Poll
Georgia	16	Trump +5.1%	Biden +1.4%	2% greater than polls
Iowa	6	Trump +9.3%	Biden +1.1%	6.3% greater than polls
Wisconsin	10	Trump +1%	Biden +7.1%	7.5% greater than polls
Ohio	18	Trump +8.6%	Biden +0.9%	5.1% greater than polls
Michigan	16	Trump +.30%	Biden +8.4%	3.7% greater than polls
Pennsylvania	20	Trump +1.1%	Biden +7.1%	3% greater than polls
Florida	29	Trump +1.4%	Biden +4.4%	1.2% greater than polls
North Carolina	15	Trump +3.6%	Biden +2.7%	2.6% greater than polls
Arizona	11	Trump +3.5%	Biden +4.4%	- 0.5% less than polls

The 9 States To Watch

State	Electoral Votes	2016 Result	10/20 Polling Data	How Much Trump's Victory Exceeded Final 2016 Poll	10/20 Polling Data Adjusted For Potential 2016 Polling Inaccuracy
Georgia	16	Trump +5.1%	Biden +1.4%	2% greater than polls	Trump +0.6%
Iowa	6	Trump +9.3%	Biden +1.1%	6.3% greater than polls	Trump +5.2%
Wisconsin	10	Trump +1%	Biden +7.1%	7.5% greater than polls	Trump +0.4%
Ohio	18	Trump +8.6%	Biden +0.9%	5.1% greater than polls	Trump +4.2%
Michigan	16	Trump +.30%	Biden +8.4%	3.7% greater than polls	Biden +4.7%
Pennsylvania	20	Trump +1.1%	Biden +7.1%	3% greater than polls	Biden 4.1%
Florida	29	Trump +1.4%	Biden +4.4%	1.2% greater than polls	Biden +3.2%
North Carolina	15	Trump +3.6%	Biden +2.7%	2.6% greater than polls	Biden +0.1%
Arizona	11	Trump +3.5%	Biden +4.4%	- 0.5% less than polls	Biden +4.9%

“Shy” Trump Voter Adjusted



Shift Georgia, Iowa, Wisconsin and Ohio

Biden: 323
Trump: 215

Ballots Will Be Counted Until...

State	Electoral Votes	Must Be Received By	State	Electoral Votes	Must Be Received By	State	Electoral Votes	Must Be Received By
California	55	Nov. 20	New Jersey	14	Nov. 10	Kansas	6	Nov. 6
Illinois	20	Nov. 17	Minnesota	10	Nov. 10	Georgia	16	Nov. 6
Michigan	16	Nov. 17	Utah	6	Nov. 9	Virginia	13	Nov. 6
Maryland	10	Nov. 13	Iowa	6	Nov. 9	North Carolina	15	Nov. 6
Alaska	3	Nov. 13	West Virginia	5	Nov. 9	Pennsylvania	20	Nov. 6
Ohio	18	Nov. 13	Wisconsin	10	Nov. 9	Texas	38	Nov. 4
New York	29	Nov. 10	Washington	12	Nov. 8	Louisiana	8	Nov. 4

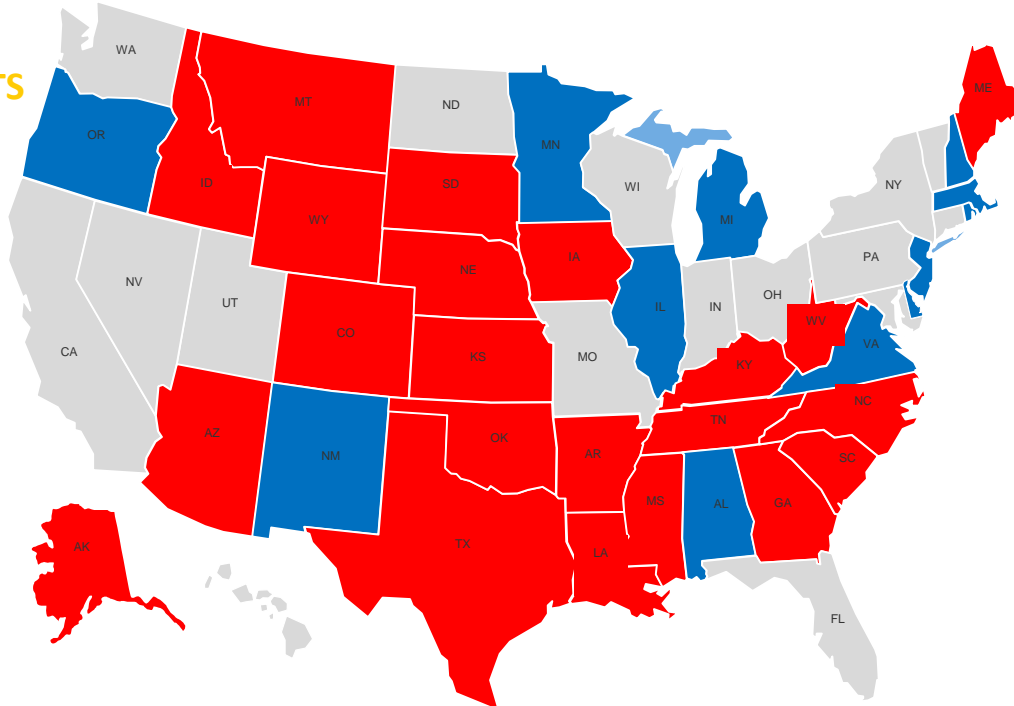
2020 Senate Races



DEMOCRAT INCUMBENTS

Seats to watch:

- Alabama
- Michigan

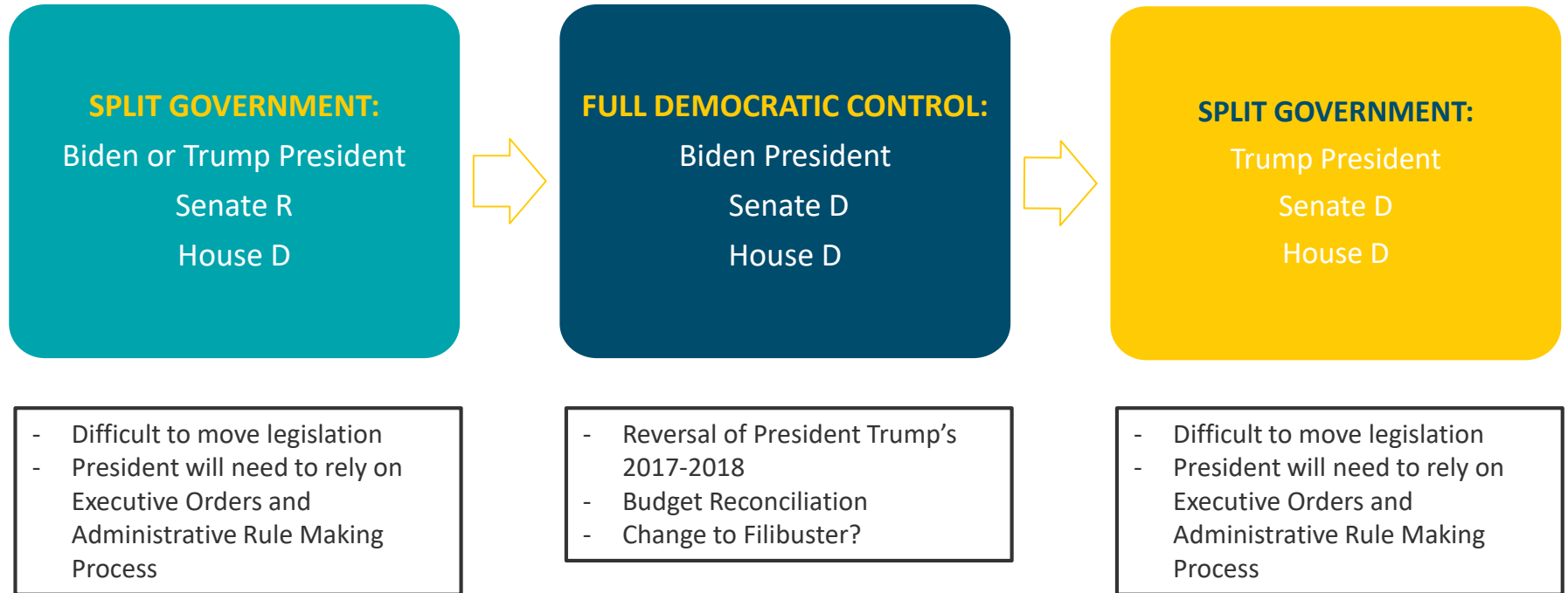


REPUBLICAN INCUMBENTS

Seats to watch:

- Arizona
- Colorado
- Maine
- North Carolina
- Iowa
- South Carolina
- Georgia
- Georgia
- Alaska
- Kansas

2020 Potential Outcomes



Summary

- ✓ Next legislative package ????
- ✓ ACA about to take center stage
- ✓ Election is just days away



Pre-Election Policy and Markets Update

Brian Andrew, CFA®
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Conclusions

- Economy is recovering
- Own less, don't abandon bonds
- Demographics will aid recovery
- Tech companies are really platforms for growth
- Average stock returns over long time periods are not correlated with election outcomes



2020 Election Scenarios



Election Scenarios

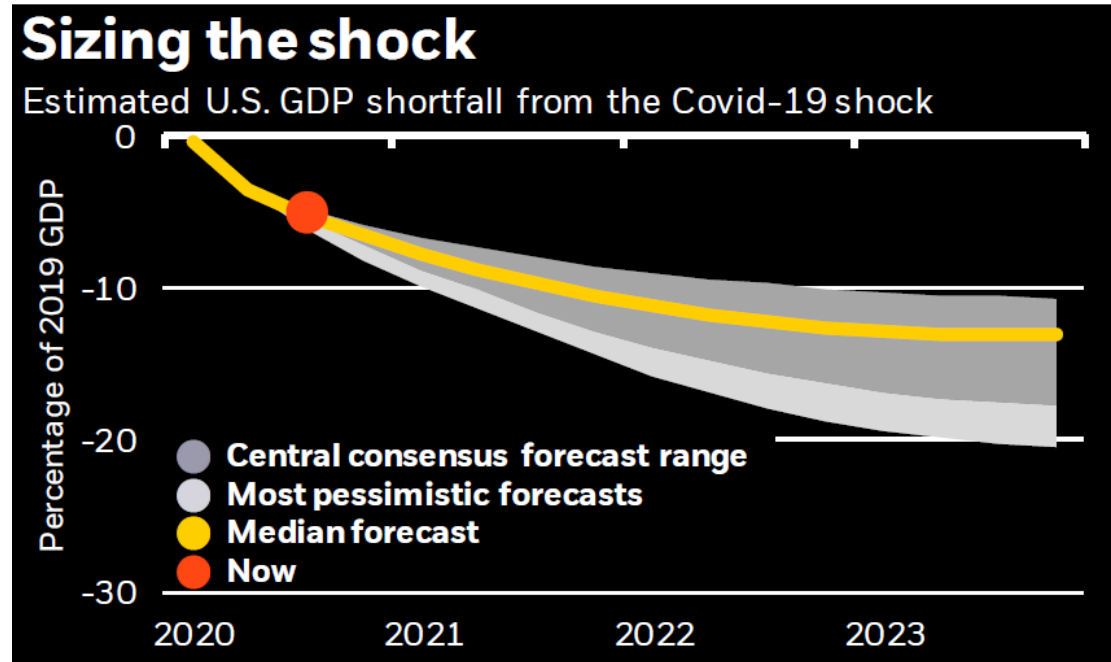
White House	Senate	House	Scenario Odds
Biden 75%	Dem 55%	Dem 55%	Dem Sweep 55%
		GOP 0%	0%
	GOP 20%	Dem 20%	Dem WH, Div Govt 20%
		GOP 0%	0%
Trump 25%	Dem 0%	Dem 0%	0%
		GOP 0%	0%
	GOP 25%	Dem 25%	Status Quo 25%
		GOP 0%	0%

Source: Cornerstone Macro



Economic Slow Down

- More like a natural disaster than GFC
- Mobility less affected by rising case counts
- Global fiscal and monetary stimulus, watch for inflation



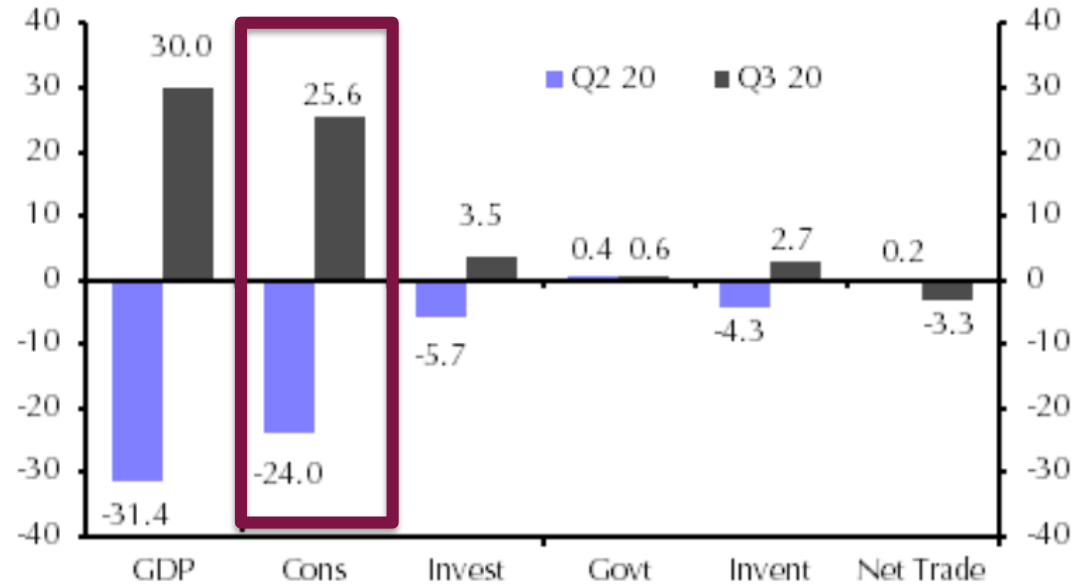
Sources: BlackRock Investment Institute and Reuters News



Contributions to Growth

- Consumption is the main driver of growth

Chart 2: Contributions to GDP Growth (% pts)



Sources: Refinitiv, CE



How Much “Stimulus”

- 2020 rise in unemployment worse than GFC
- Household income declined by over \$20 per day
- Stimulus added \$86 per day
- Household income 37% higher
- Personal savings up to 18%, double February level

Unemployment Rate Trough-to-Peak Change	
2008	5.6%
2020 est	11.2%

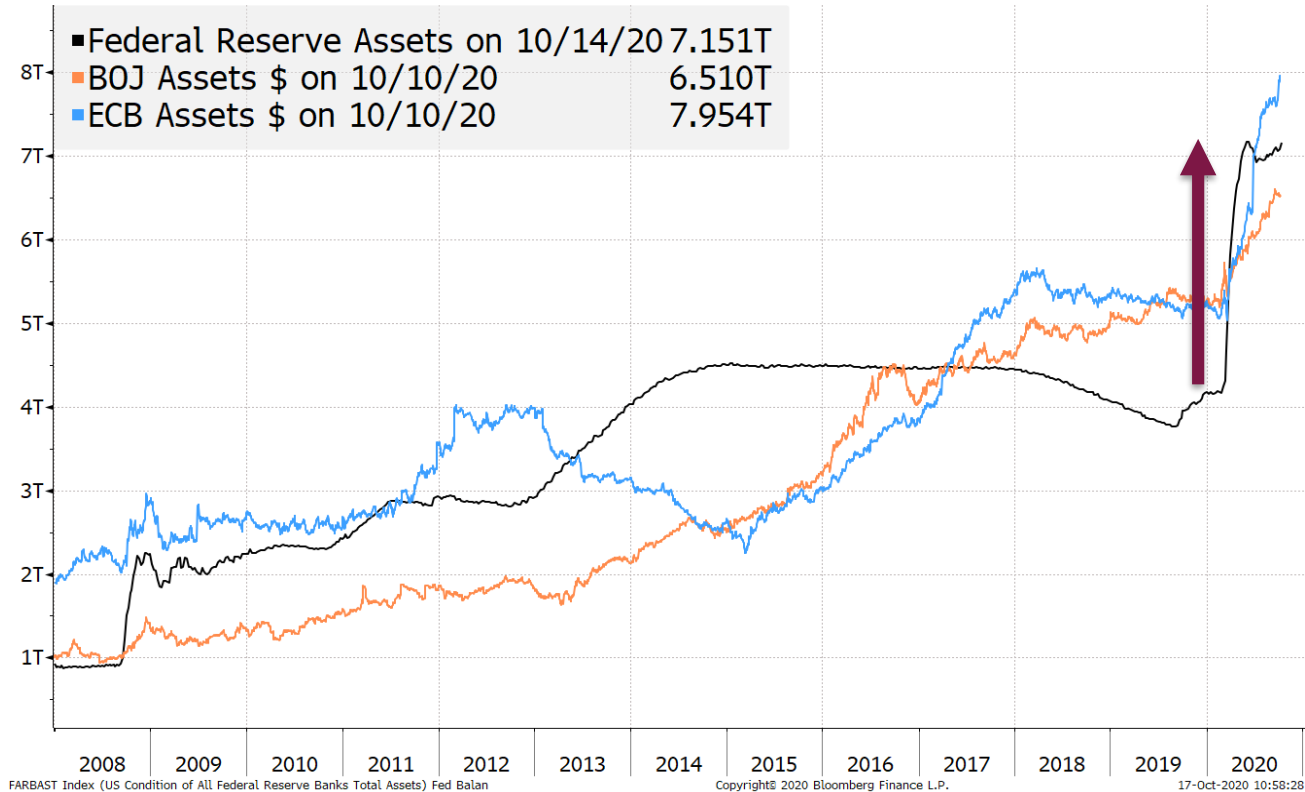
Lost Daily Household Income	
2008	-\$7.65
2020 est	-\$20.11

HH Income as a % of Pre-Crisis Peak	
2008	97%
2020 est	137%

Sources: BlackRock, Bloomberg, Federal Reserve



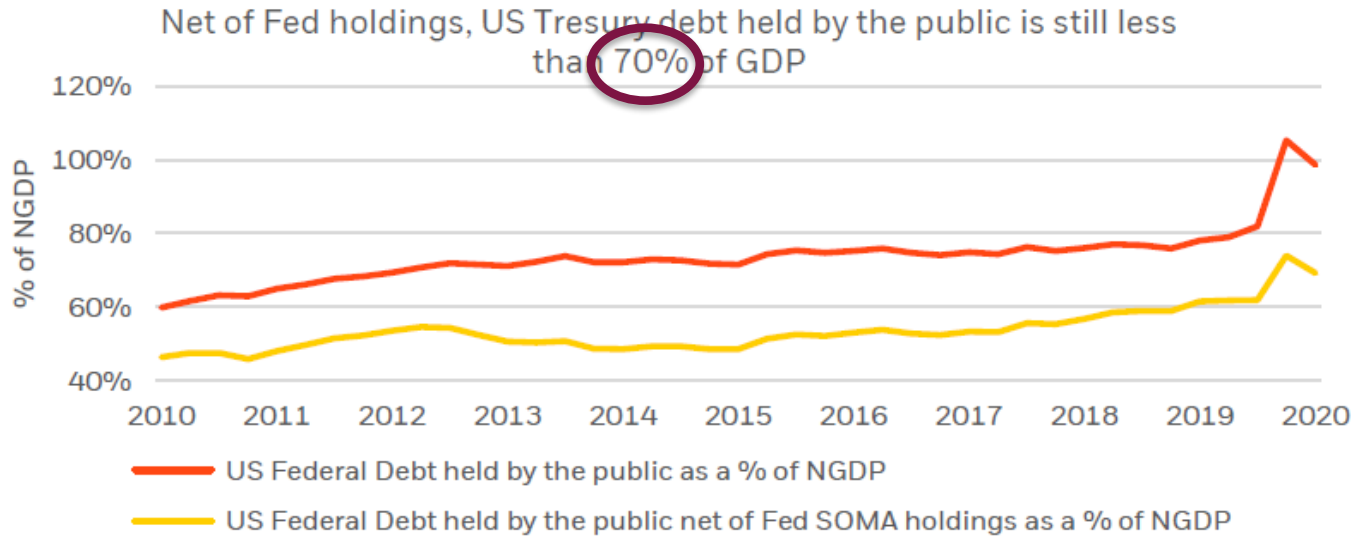
Aggressive Central Bank Bond Buying



Source: Bloomberg Finance



Post Election Deficits



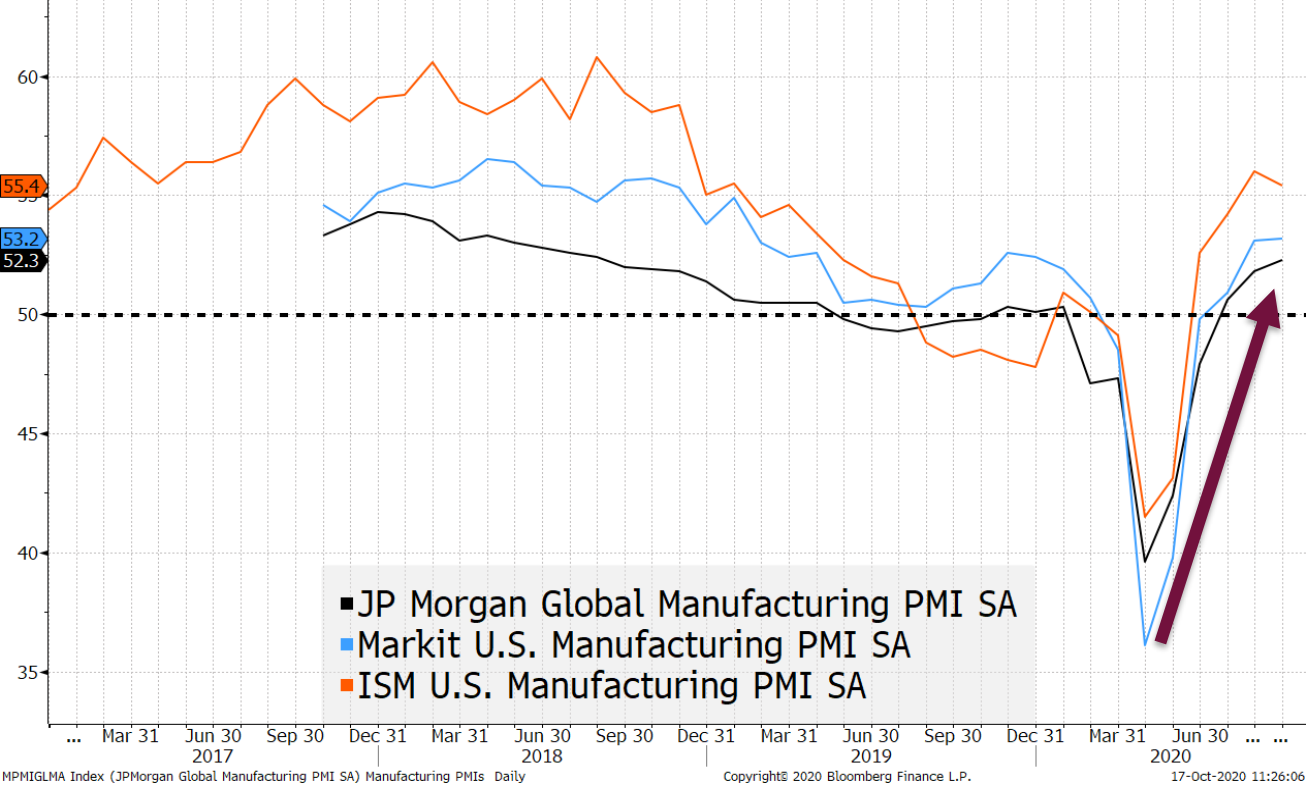
Post election:

- **Unified government** Fed funded deficits targeted to those in need and infrastructure spending leading to better growth
- **Divided government** fiscal deficit spending leading to better growth

Sources: BlackRock, Federal Reserve and Congressional Budget Office



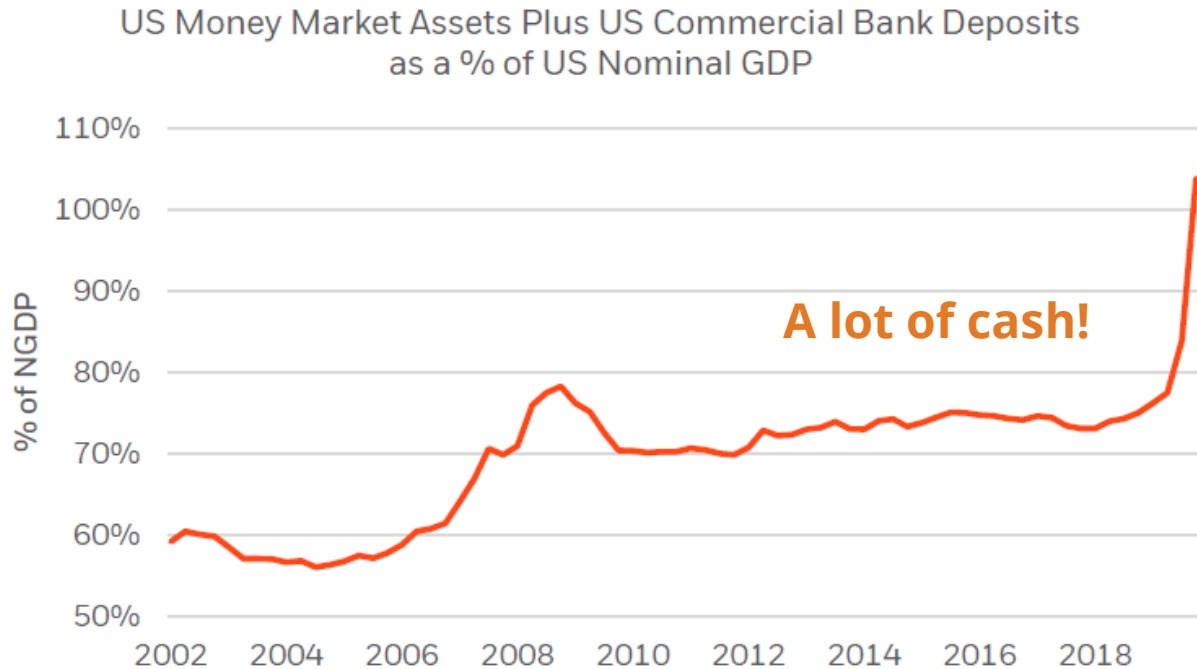
Manufacturing Recovery



Source: Bloomberg Finance



Dry Powder For Investment

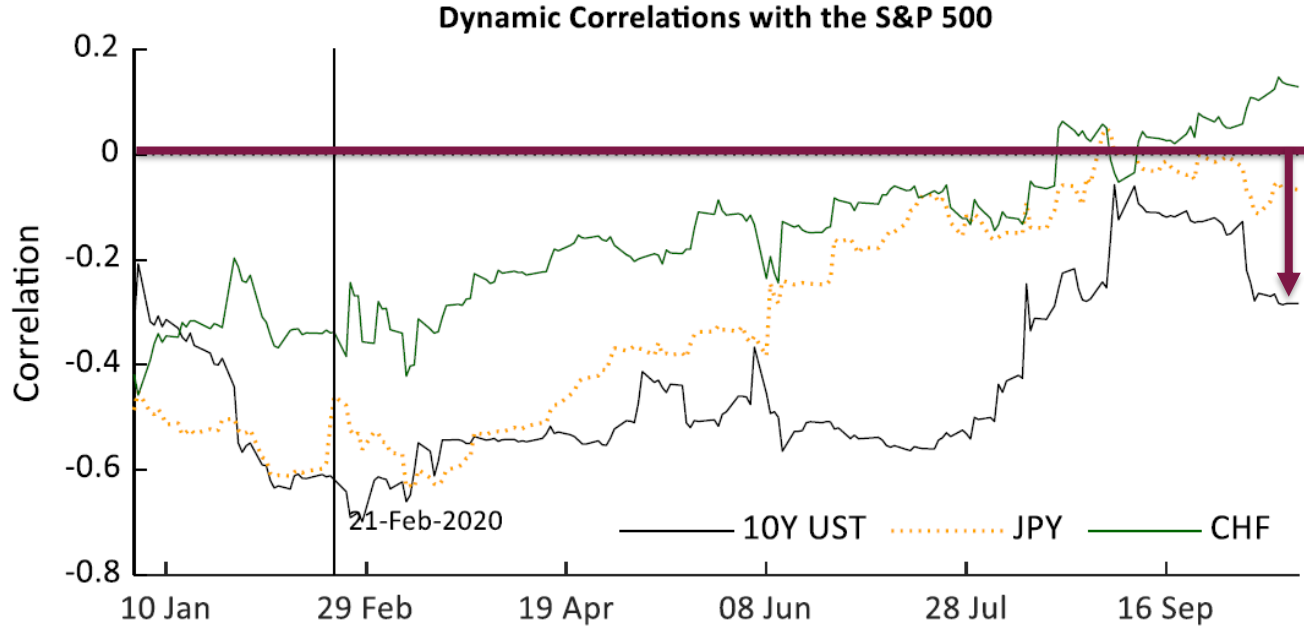


- An additional \$4 trillion in cash due to stimulus without any new fiscal stimulus

Sources: Bloomberg & BlackRock



Why Treasuries?



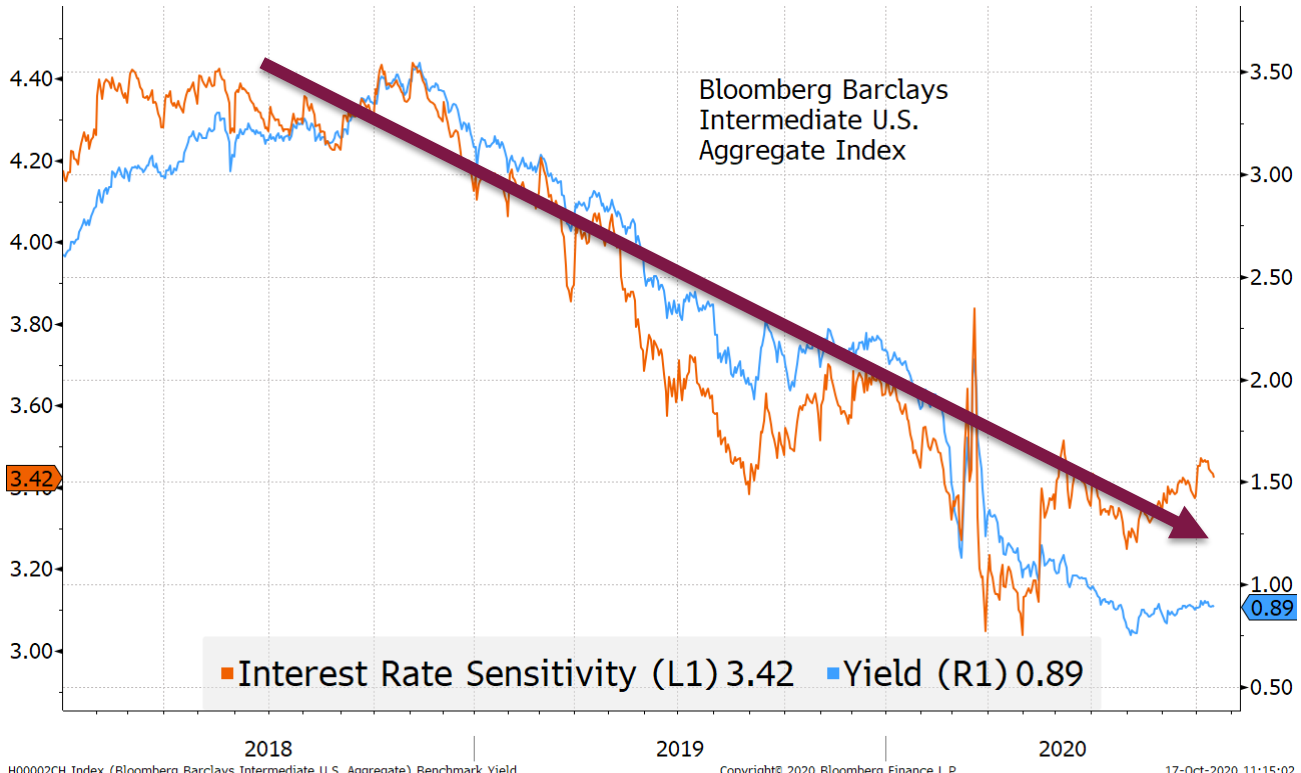
*Based on an M-GARCH of daily returns (10/01/1992-10/19/2020).

- Treasury bond prices don't move like stock prices
- Provide portfolio counter-balance

Source: Cornerstone Macro



Less Sensitivity



Interest Rate Sensitivity = Effective Duration

Yield = Yield to Worst

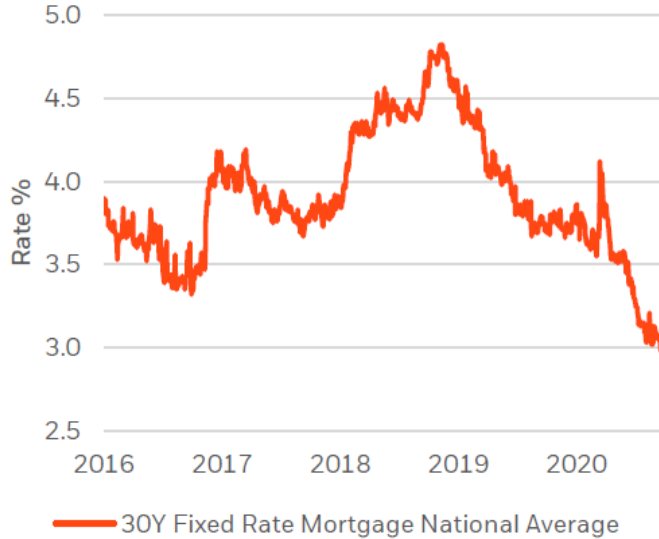
H00002CH Index (Bloomberg Barclays Intermediate U.S. Aggregate) Benchmark Yield Copyright© 2020 Bloomberg Finance L.P. 17-Oct-2020 11:15:02

Source: Bloomberg Finance

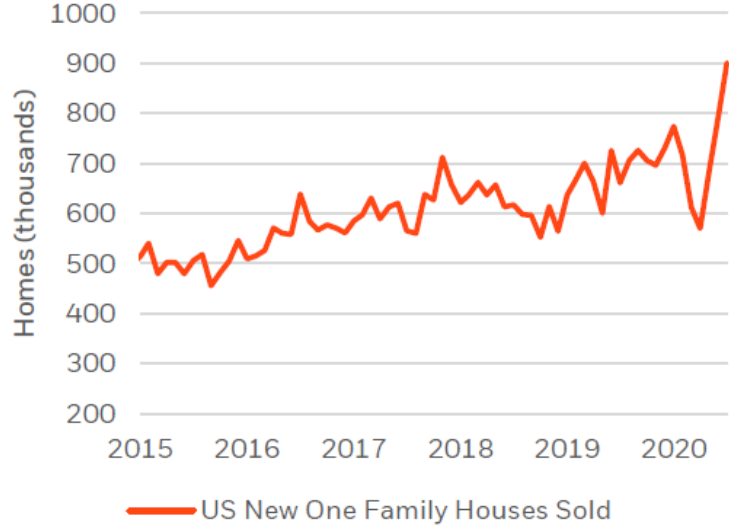


Is Housing Boom Here?

30yr mortgage rate from 5% to 3%



New home sales are booming



- 1% reduction in mortgage rates could lead to \$5 billion/month for consumers
- Millennial wave has begun

Sources: FHLB, National Home Builders Association, BlackRock



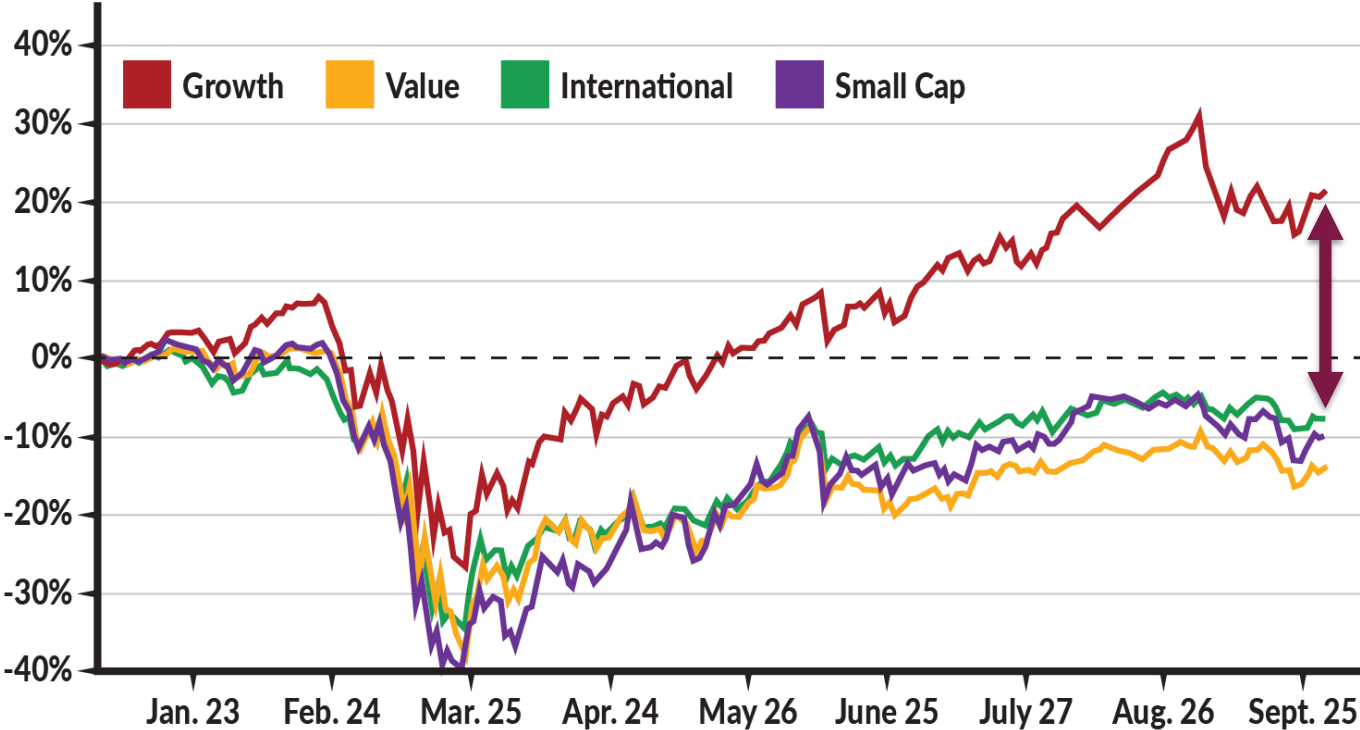
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Source: DailyShot.com as of 10/22/20



Winning!



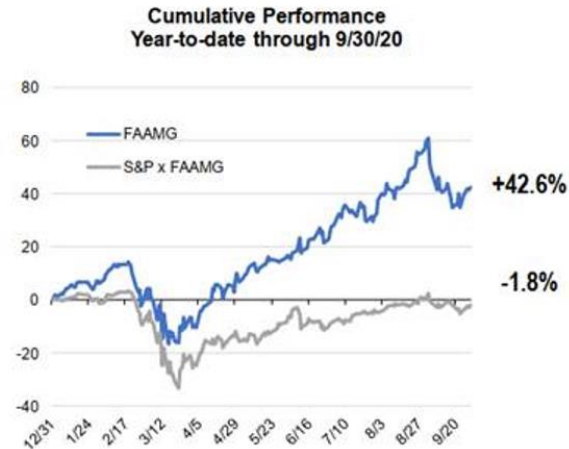
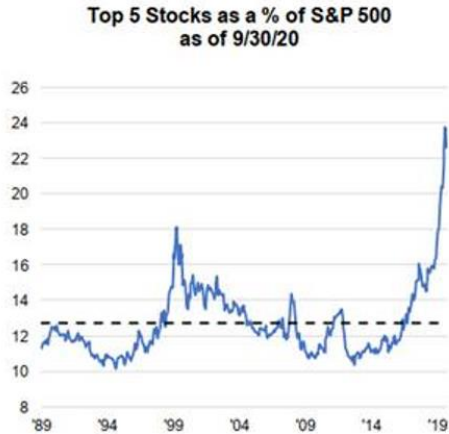
Source: Thompson ONE, price only returns as of 9/30/20



Too Much Tech?

Market remains concentrated in Big Tech

- The S&P 500 is more concentrated in the top 5 stocks ("FAAMG": Facebook, Amazon, Apple, Microsoft, Google/Alphabet) than it was during the tech bubble
- FAAMG's are up 42% YTD, but lost almost 9% in September



Sources: FactSet, S&P



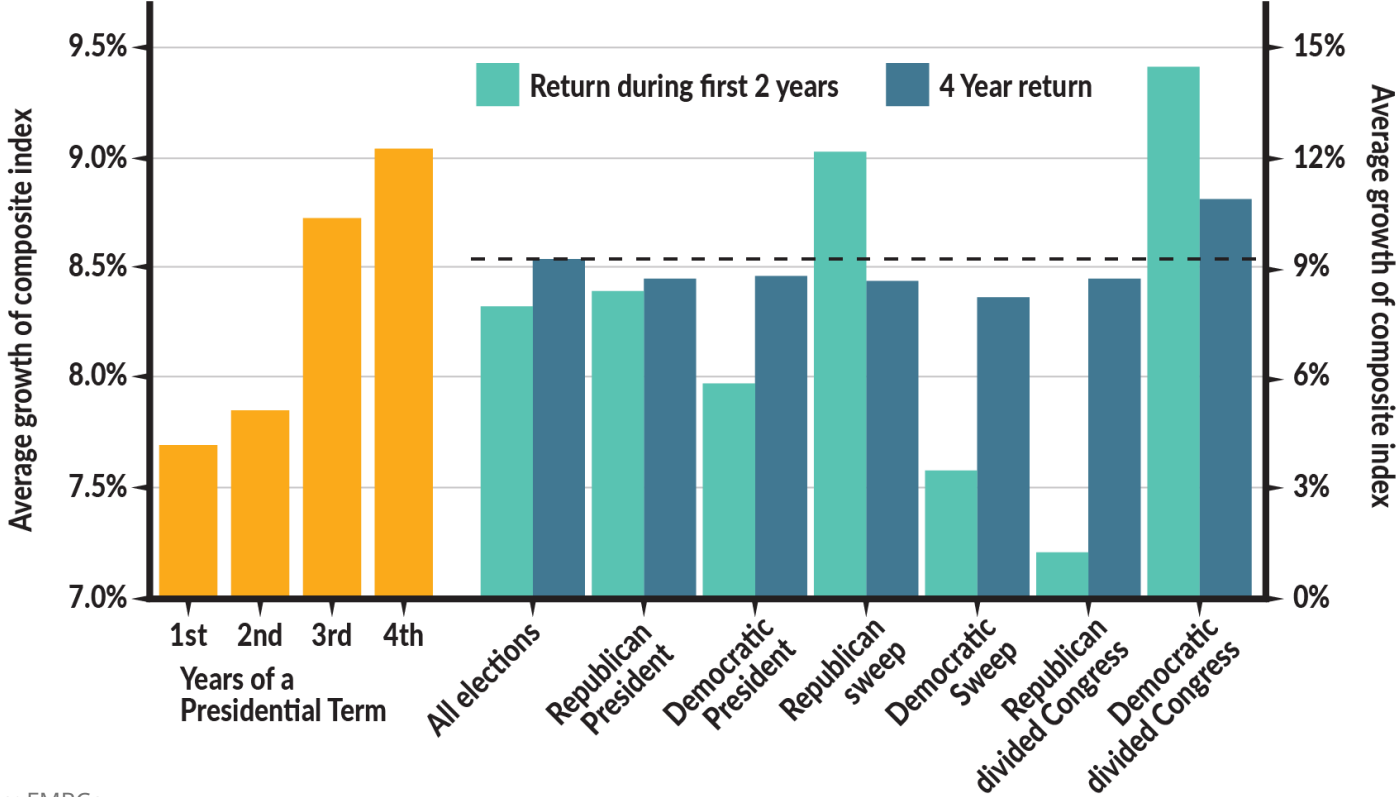
Not Really Tech?

These companies provide the platforms for future economic growth

- **Amazon** – logistics, cloud computing, product distribution and retail
- **Apple** – multi-purpose tool
- **Facebook** – media platform
- **Google** – information and advertising
- **Microsoft** – data warehouse, virtual reality/gaming



Elections and Stock Returns



Source: FMRCo



Conclusions

- Economy is recovering
- Own less, don't abandon bonds
- Demographics will aid recovery
- Tech companies are really platforms for growth
- Average stock returns over long time periods are not correlated with election outcomes



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