Sam Stovall
Chief Investment Strategist
Author of *The Seven Rules of Wall Street*

Sector Spin on a Biden Win

The general election is less than 2-1/2 months away. Polls show the Biden/Harris ticket leading by a wide margin. Wall Street does not like uncertainty, and the upcoming election offers plenty of it. Typically, a first-term president is provided the benefit of the doubt by being reelected to a second term. Only four times during the 20th century were first-term presidents denied reelection: Taft, Hoover, Carter, and Bush (41). Wall Street is concerned by the prospects of a clean sweep, with the Democrats regaining control of the presidency as well as both houses of Congress. The worry of this unified majority is that it may embrace a left-leaning agenda and lead to higher taxes for corporations and individuals, as well as the re-imposition of regulations on the energy, defense, finance, and health care sectors.

The stock market has been a reliable predictor of election results. Since WWII, whenever the S&P 500 declined in price from July 31 through October 31 of a presidential election year, the incumbent person or party was removed from office 88% of the time. The only false reading was in 1956. In 2020, a market decline might also forewarn the unseating of President Trump.

History offers a bit of consolation should the Democrats score a “trifecta” in the November election. A Democratic president was supported by a unified Democratic majority in Congress five times since WWII: 1948, 1960, 1976, 1992, and 2008. Not surprisingly, the S&P 500 declined an average 2.4% in November following the sweep, while December then reflected its traditional seasonal optimism, rising an average of 3.1%, and posting positive results five of five times. Finally, the S&P 500 advanced an average of 10.4% in the subsequent calendar year, rising in price in four of five times after the election uncertainty was removed. So should a similar sweep occur, history hints (but does not guarantee) that the initial shock will send stocks lower, but then recover in the following month and calendar year.

Even though the market may end up being unphased by a Biden victory in November, the same cannot be said about sectors and sub-industries. The following are CFRA’s equity research analysts’ expectations on how sectors, sub-industries, and selected stocks may be impacted by the election of a new Democratic administration.

COMMUNICATION SERVICES

A Biden/Harris administration could revive the Title II (common carrier) rules under which broadband is regulated as a plain-old telecom service. At a minimum, a Biden FCC will likely revive the so-called Net Neutrality (Open Internet) rules – repealed by the Trump Administration – which prohibits discriminatory practices by broadband network operators. This could hurt broadband internet service providers (ISPs), including cable operators and telcos (cable & satellite and integrated telecommunications services), while benefiting consumer Internet companies, such as Netflix (NFLX 492 ****) in the movies & entertainment industry, as well as Alphabet (GOOG.L 1,576 *****) and Facebook (FB 267 ***) in interactive media & services. Indeed, a Biden administration would likely be less hostile toward, and more inclined to work with, the Internet and social media companies to craft updated Internet regulation, which is overdue and would benefit industry players. For example, we see the need for an overhaul or, at least, greater clarification, on regulations governing data privacy, content liability for “platform businesses” vs. “publishers”, and the obligations and constraints that Alphabet and Facebook should face as monopolies. This view is supported by tech/telecom lobbyists on both sides of the aisle with whom we have spoken.

A Democratic FCC majority also could jettison the so-called UHF discount – potentially reversing its recent reinstatement by the Republican FCC majority – which applies to the national audience reach of lower-band

(UHF) TV stations. This would effectively tighten the threshold for the ownership cap on local television stations and thereby hurt or dampen the overall climate for M&A activity for the local television station groups.

There are a few potential challenges for wireless telecommunications companies, however, if the Democrats are elected in November. Under the Trump administration, FCC Chairman Ajit Pai has worked to remove regulations opposed by the industry. Pai eliminated Net Neutrality and put limits on the fees that state and local governments can charge for processing cell site applications. Should the Democrats be victorious in November, we expect the new FCC Chairperson to try to reinstate rules eliminated under the current administration. What we do not see changing is the FCC's spectrum policy. The on-going work to repurpose significant amounts of spectrum for 5G has overwhelming bi-partisan support.

S&P 500 index components with CFRA 5-STARS (Strong Buy) recommendations are: Alphabet (GOOGL 1,576), Charter Communications (CHTR 614), Comcast (CMCS.A 43), and T-Mobile (TMUS 115).

CONSUMER DISCRETIONARY

In the automotive industry, we think electric vehicle (EV) manufacturers such as Tesla, Inc. (TSLA 2,050 **) would benefit in the event of a Democratic win, but also automakers who are in the process of increasing their EV offerings, such as General Motors (GM 29 **) and Ford (F 7 **), as well as the suppliers with greater exposure to EV and green technologies, such as Visteon (VC 75 ***) and Aptiv (APTV 84 ***). Biden has proposed new tax incentives, government purchases, and other measures aimed at benefiting EVs in particular, which he says will create one million new auto industry jobs that would be spread across the industry from manufacturers to suppliers and auto infrastructure. Details regarding specifics of the new tax incentives have not been released, but Biden has said that they would be "targeted incentives" aiming to increase both supply and demand of EVs by encouraging consumers to buy more cars and factories to increase their EV production, with the stated intent of benefiting unionized workers (the UAW endorsed Biden in April). Biden has also proposed transitioning the three million vehicles that the federal government purchases regularly, such as buses, mail trucks, and police cruisers from predominantly gas-powered vehicles to EVs that are manufactured in the U.S. Additionally, under Biden's plan, the federal government would help build 500,000 EV charging stations and support research focused on battery technology.

The Biden/Harris' policies on U.S.-China trade are still up in the air. In August, Biden said he would roll back tariffs on China, but later walked back the statement. A February 2019 study by Trade Partnership Worldwide found that the tariff of 25% on U.S. imports of selected goods from China (Lists 1, 2 and 3, which we expect to remain in place in 2020) will reduce the dollar value of U.S. GDP by 0.37% and impose an extra cost burden of $767 for an average family of four for every year they are in effect. A June 2019 follow-up study found that consumers would pay $4.4 billion more for apparel and $2.5 billion more for footwear with the implementation of List 4 tariffs (25% on $300 billion). Despite significant progress reducing exposure to China, U.S. supply chains are still highly exposed to the region. In its June 2019 report, Trade Partnership estimated that China contributes around 35% of the apparel products on List 4, with a total value 2.5 times greater than the next largest exporter.

A Biden/Harris victory could pave the way for legislation that could potentially double (or at least significantly increase) the federal minimum wage, which is more likely if the Democrats were to capture a Senate majority. This would be particularly hurtful to the restaurants and retail industries, as well as the hotels/resorts and other hospitality providers.

S&P 500 index components with CFRA 5-STARS (Strong Buy) recommendations are: AutoZone (AZO 1,209), D.R. Horton (DHI 77), Dollar General (DG 199), Nike (NKE 110), O'Reilly Automotive (ORLY 460), Home Depot (HD 283), and the TJX Cos. (TJX 52).

CONSUMER STAPLES

A Biden/Harris victory could have positive implications for companies specializing in alternative, more sustainable methods of meat production, in our view. Both the lab-based meat and plant-based meat industries are looking to tackle many problems facing our world, including climate change, health concerns, and animal welfare matters.

These are all issues of focus for the Democrat party. In contrast, conventional meat and poultry processors could face increased regulation, especially given the health crisis that unfolded at these plants during the peak of the Covid-19 pandemic.

We also think a Biden victory would have positive implications for cannabis stocks and negative implications for tobacco names. While Biden specifically does not support federal marijuana legalization, due to public health-related concerns, he does support decriminalization and polls show that an overwhelming majority of Democrats and independents now support legalization. Polls also show that voters in several key swing states support legalization, so we think it is an issue where Biden's stance may evolve over time, particularly if fellow lawmakers can convince him that legalization will benefit criminal justice reform. Therefore, we think cannabis names such as Canopy Growth (WEED CAD21 ****) and 38.6% WEED stakeholder Constellation Brands (STZ 179 ***) could benefit from a Biden win given WEED's exclusive rights to acquire leading U.S. cannabis license and asset holder Acreage Holdings, particularly if Democrats also re-take the Senate. On the tobacco side, Biden has pledged to eliminate vaping if elected, which could threaten tobacco manufacturers that have made significant investments in reduced-risk products such as Altria Group (MO 43 ***), which owns 35% of leading vape manufacturer JUUL (although we also note that MO has a 45% stake in cannabis producer Cronos Group (CRON 5 NR), which would help as an offset).

A Trump victory could have negative implications for food retailers and food and beverage manufacturers that mainly offer or manufacture branded products due to the topic of food stamps or Supplemental Nutrition Assistance Program (SNAP) benefits. The Trump administration has been working to tighten eligibility for these benefits, although things have taken a pause right now, due to the Covid-19 pandemic. The USDA estimated earlier this year that about 700,000 people would have lost their SNAP benefits based on these stricter guidelines. For context, in 2019, about 38M people relied on SNAP benefits. This figure will likely be much higher in 2020 given that the unemployment rate is about 10% now versus the 3.2% unemployment rate in December 2019. If tighter restrictions are eventually imposed on SNAP eligibility, then we could see a shift in consumer spending to more value-based products, such as private label or store brands. This would negatively impact food retailers and food and beverage manufacturers that mainly offer or manufacture products priced at the premium end of the value spectrum.

S&P 500 index components with CFRA 5-STARS (Strong Buy) recommendations are: ConAgra Brands (CAG 38), PepsiCo (PEP 136), Philip Morris Int'l. (PM 78), Tyson Foods (TSN 63), and Walmart (WMT 131).

ENERGY

For exploration & production (E&P) companies, U.S. energy policy in 2020 could shift from President Obama's "All of the Above" energy policy (where anything homegrown was fine, fossil fuel or otherwise) and from President Trump's "Fossils First" policy. Instead, we could see a real shift to a more renewable-friendly policy that discourages fossil fuel production. The latter especially could happen if a Biden presidency were to ban the use of fracking, which would hurt U.S. onshore crude oil production in places like Texas, New Mexico, Oklahoma, and Wyoming. However, the initial impact would be muted by two factors. First, much of onshore Lower 48 production is located on either state land or private land, where a Federal rule would be irrelevant. Second, many of the larger E&Ps already have a backlog of Federal permits in-hand that could be grandfathered-in, even if the rules changed in January 2021, and probably be sufficient for 2-3 years' worth of drilling activity on Federal land.

U.S. midstream energy development (i.e., pipelines) could be significantly affected by a Biden administration. The U.S. Army Corps of Engineers has the responsibility for regulating Section 404 of the Clean Water Act, which relates to the discharge of dredged or fill material in U.S. waters, and for regulating Section 10 of the Rivers and Harbors Act. Since major pipelines can easily be more than 1,000 miles long, the likelihood of crossing a body of water and thereby invoking the Corps' regulatory power is high. A Biden administration could easily tell the Corps to take a harder environmental line, such as by demanding full Environmental Impact Statements for proposed projects (which take 13 months to complete). This would stretch project timelines and could induce more energy companies to cancel projects.

An S&P 500 index company with CFRA 5-STARS (Strong Buy) recommendation is Concho Resources (CXO 48).

FINANCIALS

It is important to note that we think a Democratic administration is not likely to impose onerous regulations on the financial sector the way the Obama administration did in the aftermath of the credit crisis.

Banks: With the presidential election less than three months away, the implications of a Biden/Harris victory for U.S. regional banks remain top of mind for bank investors and wider stakeholders. Overall, we do not see the financial services industry preparing for a “big bang”, come January 2021 regardless of who wins the White House in November. Still, the Biden/Harris administration could signal a potentially less bank-friendly regime in Washington with a caveat that an increased stimulus and infrastructure spending would provide an indirect benefit to the banking industry.

The Democratic nominee debates and other public statements have revealed little on the former Vice President’s stance on financials. While his Wall Street supporters point to Biden’s long-running political career as a Senator from Delaware with the largest contributor to his past campaigns being credit card issuer MBNA (acquired by Bank of America in 2006), the naysayers highlight the fact that the Dodd-Frank Act, a sweeping overhaul of the U.S. financial system considered to be overly burdensome by the industry, was signed into law during his VP term in the office. Joe Biden’s pick of Kamala Harris as his running mate placated the Street as Harris is considered more moderate than the Bernie Sanders/Elizabeth Warren wing of the party. Nonetheless, her past performance in the Senate and a rocky history with the mortgage industry might give the financial industry pause. Harris’ early political success is closely tied to her tough stance against the nation’s biggest banks resulting in a $25 billion settlement for mortgage servicing violations, such as robo-signing and predatory lending practices. Given her track record as an attorney general, we see Kamala Harris advocating for broader enforcement from the Consumer Financial Protection Bureau, which is not out of line with Biden’s policy preferences favoring consumers over corporate interests.

Given Biden’s recent backing of progressive former nominee contender recommendations (e.g., Elizabeth Warren’s bankruptcy system reform), we see the Biden administration pushing for more oversight of consumer lending, promoting greater access to banking services for low- and middle-income families including postal banking, and expanding the Community Reinvestment Act beyond the traditional banking sector. If enacted, these policies could hurt banks with large consumer lending divisions and drive more competition. Further, if Democrats take control of the Senate while retaining control of the House, the chances for more progressive appointees to get confirmed rise substantially. Even so, a potential Biden/Harris scenario is not as concerning for U.S. regionals as compared to the “shadow banking” sector or U.S.-based global systemically important banks (GSIBs), in our view.

We see U.S. regional banks continuing to reap the benefits of reduced regulatory oversight and less stringent capital and liquidity requirements even under a Biden administration. We think more regional bank M&A is still on the table for non-GSIB institutions like U.S. Bancorp (USB 35 ****), as they target $700 billion in assets before falling off a regulatory cliff. Like the BB&T and SunTrust transaction that took place in 2019, more deals could follow as regional banks seek scale in order to compete with diversified banks as organic opportunities face headwinds. We note Joe Biden’s commitment to “a clean energy future” was reinforced in July with an unveiling of a $2 trillion clean energy and infrastructure plan funded with a combination of stimulus and increases in the corporate tax rate. The cost will be spread over four years making it more expensive than the plan Biden proposed last year, which was $1.7 trillion over a 10-year period. We project Joe Biden’s focus on economic recovery through stimulus spending and infrastructure investments aiding banks indirectly, impacting lending, credit, and net interest margins.

Insurance: The biggest risk to the asset management and insurance space from a Biden/Harris victory is the expected rise in corporate income tax rates. Biden has also claimed that he wants capital gains taxed at the same rate as ordinary income, which would hurt asset managers and private equity (PE) firms, as well as all investors. However, Biden has received a lot of support from the asset management and PE industry and is also highly aware of the need to maintain the market’s positive momentum while rebuilding the coronavirus-ravaged economy.

Insurers would be less affected by a rise in income tax rates, since their underlying income tax rates were low before the tax cut and many had tax loss carryforward-credits that were written down when Trump cut corporate tax rates. The biggest two headwinds for most insurers are interest rates and unemployment. The former compresses margins and the latter dampens demand for headcount-driven products. To the extent that a Biden administration puts forth a national plan to fight the virus, the economy should recover, providing a positive catalyst for this space.

It is also possible that at some point a public-private reinsurance pool may be established for pandemic risk (similar to The Terrorism Risk Insurance Act (TRIA) of 2002 that created a federal “backstop” for insurance claims related to acts of terrorism that provided for a transparent system of shared public and private compensation for insured losses resulting from acts of terrorism). This would be a positive for property-casualty insurers and reinsurers.

S&P 500 index components with CFRA 5-STARS (Strong Buy) recommendations are: BlackRock (BLK 584), Nasdaq (NDAQ 130), and Goldman Sachs (GS 202).

HEALTH CARE

Pharmaceuticals: A potential Biden/Harris victory in November would have negative implications for the Pharmaceutical industry in the medium to long-run, as we think it will take time to implement the key pillars in the program. The Democratic ticket puts the battle against high drug prices at the core of its election program, which means a negative impact for large pharmaceutical manufacturers with high-priced drugs in their portfolio, i.e. Mallinckrodt (MNK 2 *), Pfizer (PFE 39 ****), Bristol-Myers Squibb (BMY 62 ****), Merck (MRK 85 *****), Johnson & Johnson (JNJ 153 ****), and Eli Lilly (LLY 149 ****). The Biden/Harris duo aims to enable negotiable drug prices over Medicare with pharmaceutical companies instead of having the companies freely set the prices themselves. The program also aims to limit high launch prices of novel specialty drugs, have drug price increases linked to inflation, and allow drug imports from other countries. In addition, the Democratic program aims to end the tax break given to pharmaceutical companies’ advertisement spending. This would hurt the bottom-line profitability of the major pharma advertising spenders (the top ones being Pfizer, Eli Lilly, Bristol-Myers Squibb, Merck) as advertising spending will no longer be used to reduce tax.

Managed Care: A potential Biden/Harris victory has mixed implications for the managed care industry. We expect a positive impact for managed care companies with large exposure to government-sponsored programs and Medicaid, such as Centene (CNC 62 ****), Anthem (ANTM 285 ****), Humana (HUM 419 ****), and Molina Healthcare (MOH 189 ****), and a negative impact for managed care companies generating the majority of their revenue from commercial customers, like Cigna (CI 178 ****). The Biden/Harris team has a strong stance on enabling affordable health insurance access to all Americans and bolstering the Affordable Care Act. Different than the Bernie Sanders’ proposal, which aims at a gradual termination of existing private health insurance plans, Biden/Harris proposes to maintain them but provide more choices. The program includes adding a government-sponsored public health insurance option that would compete with private insurers.

Biotechnology: When compared to other vice president options, such as Bernie Sanders or Elizabeth Warren, Biden’s choice of Kamala Harris appears to be a more favorable outcome for biopharmaceutical companies, since her views on health care reform are relatively moderate. As a presidential candidate, she proposed a version of Medicare For All (MFA) that kept the involvement of private managed care companies, which is not that different from what Biden has proposed. Given that, we think it’s unlikely that we see any meaningful changes to Biden’s approach to health care, which includes key tenets such as opposition to MFA, implementation of a government-run public option, expansion of the Affordable Care Act (ACA), lower Medicare age to 60, and aggressive prescription drug reform (e.g. government negotiation, reference pricing, caps on drug price increases). We don’t believe that health care reform is a key focus for Biden because of its divisive nature and we think it’s likely that he’ll defer to Congress on the topic of drug price reform, especially since there are already two bills waiting to be voted on, a Democrat sponsored one in the House and Republican sponsored one in the Senate.

Based on our views, we expect the shares of biotechnology companies to trade down on the rising possibility of a Biden/Harris victory, because Democrats generally appear to be in favor of more sweeping changes to drug pricing and costs than Republicans. We see little impact to health care equipment and supplies manufacturers as

they have mostly avoided legislative interest in recent years. Meanwhile, health care facilities and services firms could trade positively as Democratic efforts to expand or improve health care coverage could lead to higher revenues in the future.

S&P 500 index components with CFRA 5-STARS (Strong Buy) recommendations are: Alexion Pharmaceuticals (ALXN 101), AmerisourceBergen (ABC 98), CVS (CVS 64), McKesson (MCK 151), Medtronic (MDT 99), Merck (MRK 85), Thermo Fisher Scientific (TMO 429), and Zoetis (ZTS 158).

INDUSTRIALS

The Biden platform contains a mix of positive and negatives for Industrial companies, resulting in CFRA's neutral view on the impact a President Biden would have on this sector if all his policy goals were enacted during 2021-2024.

On the positive side, the Biden/Harris ticket has a strong desire for a multi-trillion-dollar infrastructure program aimed at modernizing the U.S. electrical grid and improving and expanding roads, bridges, commuter rail, and other transportation functions. This would drive demand growth for construction and engineering firms, electrical equipment makers, and heavy truck and machinery makers, in our view. Further, we think the Biden plan to reduce the carbon footprint of the U.S. building and housing stock would require major renovation and equipment investments, driving large volume increases for building product companies making structural components as well as high efficiency HVAC equipment and appliances.

On the downside, Biden's desire to eliminate new permits for fracking and other drilling projects would leave many industrial machinery, engineering, and truck making firms with significant customer losses, in our view. The candidate's aim to achieve a carbon-free power sector by 2035 would also hurt many industrial firms in the supply chain for gas and steam turbines, as well as railroads that transport fossil fuels and engineering firms that design and service fossil plants. Biden's platform would also come with much longer timelines and more difficult hurdles for environmental impact studies before new manufacturing plants are built, as well as stricter emissions standards for all types of industrial production, in our view. These changes would significantly raise operating expenses and the cost of capacity increases across the Industrials sector, in our opinion.

S&P 500 index components with CFRA 5-STARS (Strong Buy) recommendations are: General Dynamics (GD 150), Lockheed Martin (LMT 390), Northrop Grumman (NOC 338), and Republic Services (RSG 90).

INFORMATION TECHNOLOGY

We believe solar companies (categorized under the semiconductor industry) would be among the biggest beneficiaries of a potential Joe Biden presidential victory. Democrats have been much more climate friendly than Republicans and we think a potential blue wave this fall could set up a scenario where several initiatives could be passed to support the solar industry. First, we think Democrats will be inclined to extend the U.S. Investment Tax Credit (ITC), which is set to drop to 22% in 2021 and 10% in 2022 (fell to 26% from 30% at the start of the year). While we think the step-down at the end of this year will likely still take place, we see Democrats freezing the ITC at 22% for five years thereafter. Separately, we think Democrats will look to allow renewable energy developers to receive their tax credits as direct payments, a step the industry has requested from Congress but was unsuccessful to include in the stimulus bill to help maintain funding for projects during the virus-related economic downturn. Generally, a higher corporate tax rate, which is likely under a Biden presidency, would help the tax equity market for the solar industry and thus provide easier availability to financing.

The IT Consulting sub-industry, where participants generate 90%+ of revenues from domestic government agencies (defense, intelligence, and federal civilian), could also be immediately impacted by a Biden victory. This has led to investor concerns surrounding a flattening defense budget and higher odds of a Democratic-led House and Senate. However, our analysis concludes fears could be overblown. No commentary from either side of the aisle has suggested severe underinvestment in IT budgets could be on the horizon – we would remind investors that our country loses over $600B to cyber espionage yearly, which equates to roughly 75% of the entire defense budget outlay for FY 2021. As a result, we think one of the last areas to see a large reduction in spending would

be critical areas, such as cyber, analytics, and IT modernization. If a worst-case scenario did occur, we think congress would refrain from Budget Control Act (BCA) caps until FY 2023, with history serving as a reminder of the economic damage from sequester budgets in the past. In the meantime, recent results from companies under our coverage help underscore the belief that the Federal IT space can still thrive under flattish budget assumptions. We think most have made the proper adjustments, by pivoting away from short-cycle contracts from past budget drawdowns and towards more enduring, software-led work. As a result, peers have positioned themselves for more attractive opportunities – we estimate companies under our coverage hold small market share positions (~2.5% in some cases) of addressable markets that are expanding and could provide a long runway of potential growth, in our view. Lastly, company-level forward indicators have pointed to strength in FY 2021, despite other systemic headwinds (e.g., Covid-19), with healthy organic growth, expanding margins, and earnings trajectories.

S&P 500 index components with CFRA 5-STARS (Strong Buy) recommendations are: Broadcom (AVGO 330), Microsoft (MSFT 213), Salesforce.com (CRM 208), and Skyworks Solutions (SWKS 142).

MATERIALS

Chemicals: We think a Biden/Harris win would likely allow for more scrutiny in the chemicals industry. The Toxic Substances Control Act (TSCA), which was reformed in June 2016, authorizes the Environmental Protection Agency (EPA) to evaluate, require testing of, and increase public transparency of new and existing chemical substances. We view Trump's EPA as more industry-friendly: From June 2016 to August 2020, out of 1,457 pre-manufacture notices and significant new use notices for chemical substances, zero were prohibited from commercializing. We believe Biden's EPA would be more critical of substances that pose risk to humans or the environment. We think elevated scrutiny across the chemicals industry would likely delay or even prevent new products from reaching the market.

Industrial Gases: Although there is an argument to be made that industrial gas producers would see a surge in demand for clean energy under a Biden Presidency, the reality is that even under the current environment, the large industrial gases firms have multi-year backlogs and are already benefiting from secular growth in carbon capture and hydrogen mobility applications.

Precious Metals: Given the unprecedented increase in quantitative easing and low interest rates across the globe, we remain bullish on gold and silver. There is an argument to be made that if the Democrats win the White House and both Houses of Congress, it could be a negative catalyst for financial markets, as investors will worry about an increase in the corporate tax rate and worsening budget deficits. Precious metals would likely see incremental safe-haven demand in such an environment.

Steel: Investors might assume a Biden victory in November would lead to the rollback of Section 232 tariffs on steel and aluminum, but tariffs historically have been a nonpartisan issue. Furthermore, Democrats tend to favor more protectionist policy, which would argue for keeping the Section 232 tariffs in place. Removal of the tariffs could be devastating to the U.S. steel industry, as cheap international steel products would once again flood the market, at a time when the steel industry is arguably overbuilding capacity in North America.

A Biden victory would quickly end the progress towards a border wall along the U.S.-Mexico border. While it is clear that construction on the wall would be stopped immediately, it is unclear whether a Democratic administration would tear down and scrap what has already been built. All else being equal, steel prices would suffer in the near term as a result of eliminating the demand for steel products for the border wall. However, we think the most important potential catalyst for the steel industry is a meaningful federal infrastructure bill. If the Democrats achieve a clean sweep in November, the chances of an infrastructure bill getting passed increases significantly, in our view, which would create a multi-year tailwind for the industry.

S&P 500 index components with CFRA 5-STARS (Strong Buy) recommendations are: Air Products & Chemicals (APD 286) and WestRock Company (WRK 28).

REAL ESTATE

The real estate sector faces uncertainties from a new Democratic administration. Biden has called for rent and mortgage forgiveness – not deferment, but actual forgiveness. It is unknown whether this would be a federally funded program, in which case landlords still get paid, but from the government instead of renter/homeowner. If so, it would be a positive for landlords as it would lower delinquent and bad debts. However, a change in law that gives mortgage holders or renters much more leniency or time to make payments would increase landlord delinquencies. In July Biden unveiled a $775 billion “Caring Economy” plan, which is focused on childcare and elderly care that would largely be funded by real estate taxes. It would be aimed at more affluent real estate investors with incomes greater than $400,000. It may target the 1031 like-kind exchange, which allows real estate investors to defer paying taxes on the sale of real estate if the gains are reinvested into another property. While a concern, the 1031 exchange will probably not go away, in our opinion. It has been threatened before, but it has a lot of support across the political spectrum.

S&P 500 index components with CFRA 5-STARS (Strong Buy) recommendations are: Alexandria Real Estate Equities (ARE 171) and Prologis (PLD 103).

UTILITIES

A Biden/Harris win would create an abundance of new investment opportunities for utilities in green energy technology. Biden released a plan in July to spend $2 trillion over four years to escalate the use of clean energy in the electricity, transportation, and building industries. Biden’s running-mate Senator Kamala Harris has also advocated for aggressive climate change action, including banning fracking and ending fossil fuel leasing on public lands, and was a co-sponsor of the 2019 Green New Deal resolution. Biden’s plan targets include achieving an emissions-free U.S. electricity sector by 2035 and upgrading four million buildings to meet the highest standards for energy efficiency. Biden also plans to establish an office of environmental and climate justice at the Justice Department. Further, Biden promises new research funding and tax incentives for carbon-capture technology. The current plan replaces Biden’s original plan to spend $1.7 trillion over 10 years with a goal of achieving net-zero emissions before 2050, thereby increasing the budget and significantly accelerating the timeline. As coal and natural gas still fuel over 60% of the power sector, we believe a Biden/Harris win would force utilities to develop more aggressive coal retirement strategies. Utilities would begin investing more heavily in solar, wind, nuclear, alternative energy storage, and carbon capture technologies. Utilities are fuel-type agnostic since they pass the cost of fuel onto customers. The new technology required to shift to alternative sources of energy would translate to increased capital spending and new revenue streams for utilities to recoup their investment costs.

S&P 500 index components with CFRA 5-STARS (Strong Buy) recommendations are: PPL Corp. (PPL 28) and Sempra Energy (SRE 125).

Contact CFRA

1 New York Plaza, 34th Floor
New York, NY 10004
USA
P: +1-800-220-0502
cservices@cfraresearch.com
www.cfraresearch.com

Glossary

★★★★★ 5-STARS (Strong Buy):

Total return is expected to outperform the total return of a relevant benchmark, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

★★★★☆ 4-STARS (Buy):

Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.

★★★☆☆ 3-STARS (Hold):

Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

★★☆☆☆ 2-STARS (Sell):

Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price not anticipated to show a gain.

★☆☆☆☆ 1-STAR (Strong Sell):

Total return is expected to underperform the total return of a relevant benchmark by a wide margin over the coming 12 months, with shares falling in price on an absolute basis.

CFRA Ranking Definitions:

- Overweight rankings are assigned to approximately the top quartile of the asset class.
- Marketweight rankings are assigned to approximately the second and third quartiles of the asset class.
- Underweight rankings are assigned to approximately the bottom quartile of the asset class.

Disclosures

Stocks are ranked in accordance with the following ranking methodologies:

STARS Stock Reports

Qualitative STARS recommendations are determined and assigned by equity analysts. For reports containing STARS recommendations refer to the Glossary section of the report for detailed methodology and the definition of STARS rankings.

Quantitative Stock Reports

Quantitative recommendations are determined by ranking a universe of common stocks based on 5 measures or model categories: Valuation, Quality, Growth, Street Sentiment, and Price Momentum. In the U.S., a sixth sub-category for Financial Health will also be displayed. Percentile scores are used to compare each company to all other companies in the same universe for each model category. The five (six) model category scores are then weighted and rolled up into a single percentile ranking for that company. For reports containing quantitative recommendations refer to the Glossary section of the report for detailed methodology and the definition of Quantitative rankings.

STARS Stock Reports and Quantitative Stock Reports

The methodologies used in STARS Stock Reports and Quantitative Stock Reports (collectively, the "Research Reports") reflect different criteria, assumptions and analytical methods and may have differing recommendations. The methodologies and data used to generate the different types of Research Reports are believed by the author and distributor reasonable and appropriate. Generally, CFRA does not generate reports with different ranking methodologies for the same issuer. However, in the event that different methodologies or data are used on the analysis of an issuer, the methodologies may lead to different views or recommendations on the issuer, which may at times result in contradicting assessments of an issuer. CFRA reserves the right to alter, replace or vary models, methodologies, or assumptions from time to time and without notice to clients.

Analyst Certification

STARS Stock Reports are prepared by the equity research analysts of CFRA and its affiliates and subsidiaries. All of the views expressed in STARS Stock Reports accurately reflect the research analyst's personal views regarding any and all of the subject securities or issuers. Analysts generally update stock reports at least four times each year. No part of analyst, CFRA, or its affiliates or subsidiaries compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in a STARS Stock Report.

About CFRA Equity Research's Distributors

This Research Report is published and originally distributed by Accounting Research & Analytics, LLC d/b/a CFRA ("CFRA US"), with the following exceptions: In the UK/EU/EEA, it is published and originally distributed by CFRA UK Limited ("CFRA UK"), which is regulated by the Financial Conduct Authority (No. 775151), and in Malaysia by CFRA MY Sdn Bhd (Company No. 683377-A). These parties and their subsidiaries maintain no responsibility for reports redistributed by third parties such as brokers or financial advisors.

General Disclosure

Notice to all jurisdictions:

Where Research Reports are made available in a language other than English and in the case of inconsistencies between the English and translated versions of a Research Report, the English version will control and supersede any ambiguities associated with any part or section of a Research Report that has been issued in a foreign language. Neither CFRA nor its affiliates guarantee the accuracy of the translation. The content of this report and the opinions expressed herein are those of CFRA based upon publicly-available information that CFRA believes to be reliable and the opinions are subject to change without notice. This analysis has not been submitted to, nor received approval from, the United States Securities and Exchange Commission or any other regulatory body. While CFRA exercised due care in compiling this analysis, CFRA AND ALL RELATED ENTITIES SPECIFICALLY DISCLAIM ALL WARRANTIES, EXPRESS OR IMPLIED, to the full extent permitted by law, regarding the accuracy, completeness, or usefulness of this information and assumes no liability with respect to the consequences of relying on this information for investment or other purposes. No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of CFRA. The Content shall not be used for any unlawful or unauthorized purposes. CFRA and any third-party providers, as well as their directors, officers, shareholders, employees, or agents do not guarantee the accuracy, completeness, timeliness or availability of the Content.

Past performance is not necessarily indicative of future results.

This document may contain forward-looking statements or forecasts; such forecasts are not a reliable indicator of future performance. This report is not intended to, and does not, constitute an offer or solicitation to buy and sell securities or engage in any investment activity. This report is for informational purposes only. Recommendations in this report are not made with respect to any particular investor or type of investor. Securities, financial instruments, or strategies mentioned herein may not be suitable for all investors and this material is not intended for any specific investor and does not take into account an investor's particular investment objectives, financial situations or needs. Before acting on any recommendation in this material, you should consider whether it is suitable for your particular circumstances and, if necessary, seek professional advice.

CFRA may license certain intellectual property or provide services to, or otherwise have a business relationship with, certain issuers of securities that are the subject of CFRA research reports, including exchange-traded investments whose investment objective is to substantially replicate the returns of a proprietary index of CFRA. In cases where CFRA is paid fees that are tied to the amount of assets invested in a fund or the volume of trading activity in a fund, investment in the fund may result in CFRA receiving compensation in addition to the subscription fees or other compensation for services rendered by CFRA, however, no part of CFRA's compensation for services is tied to any recommendation or rating. Additional information on a subject company may be available upon request.

CFRA's financial data provider is S&P Global Market Intelligence. THIS DOCUMENT CONTAINS COPYRIGHTED AND TRADE SECRET MATERIAL DISTRIBUTED UNDER LICENSE FROM S&P GLOBAL MARKET INTELLIGENCE. FOR RECIPIENT'S INTERNAL USE ONLY.

The Global Industry Classification Standard (GICS®) was developed by and/or is the exclusive property of MSCI, Inc. and S&P Global Market Intelligence. GICS is a service mark of MSCI and S&P Global Market Intelligence and has been licensed for use by CFRA.

Other Disclaimers and Notice

Certain information in this report is provided by S&P Global, Inc. and/or its affiliates and subsidiaries (collectively “S&P Global”). Such information is subject to the following disclaimers and notices: “Copyright © 2020, S&P Global Market Intelligence (and its affiliates as applicable). All rights reserved. Nothing contained herein is investment advice and a reference to a particular investment or security, a credit rating or any observation concerning a security or investment provided by S&P Global is not a recommendation to buy, sell or hold such investment or security or make any other investment decisions. This may contain information obtained from third parties, including ratings from credit ratings agencies. Reproduction and distribution of S&P Global’s information and third party content in any form is prohibited except with the prior written permission of S&P Global or the related third party, as applicable. Neither S&P Global nor its third party providers guarantee the accuracy, completeness, timeliness or availability of any information, including ratings, and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such information or content. S&P GLOBAL AND ITS THIRD PARTY CONTENT PROVIDERS GIVE NO EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE AND ALL S&P INFORMATION IS PROVIDED ON AN AS-IS BASIS. S&P GLOBAL AND ITS THIRD PARTY CONTENT PROVIDERS SHALL NOT BE LIABLE FOR ANY DIRECT, INDIRECT, INCIDENTAL, EXEMPLARY, COMPENSATORY, PUNITIVE, SPECIAL OR CONSEQUENTIAL DAMAGES, COSTS, EXPENSES, LEGAL FEES, OR LOSSES (INCLUDING LOST INCOME OR PROFITS AND OPPORTUNITY COSTS OR LOSSES CAUSED BY NEGLIGENCE) IN CONNECTION WITH ANY USE OF THEIR INFORMATION OR CONTENT, INCLUDING RATINGS. Credit ratings are statements of opinions and are not statements of fact or recommendations to purchase, hold or sell securities. They do not address the suitability of securities or the suitability of securities for investment purposes, and should not be relied on as investment advice.”

Certain information in this report may be provided by Securities Evaluations, Inc. (“SE”), a wholly owned subsidiary of Intercontinental Exchange. SE is a registered investment adviser with the United States Securities and Exchange Commission (SEC). SE’s advisory services include evaluated pricing and model valuation of fixed income securities, derivative valuations and Odd-Lot Pricing that consists of bid- and ask-side evaluated prices for U.S. Municipal and U.S. Corporate Securities (together called valuation services). Such information is subject to the following disclaimers and notices: “No content (including credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of SE. The Content shall not be used for any unlawful or unauthorized purposes. SE and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively SE Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. SE Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an “as is” basis. SE PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT’S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall SE Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages. Credit-related and other analyses and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions. SE assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. SE’s opinions and analyses do not address the suitability of any security. SE does not act as a fiduciary or an investment advisor. While SE has obtained information from sources it believes to be reliable, SE does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Valuations services are opinions and not statements of fact or recommendations to purchase, hold or sell any security or instrument, or to make any investment decisions. The information provided as part of valuations services should not be intended as an offer, promotion or solicitation for the purchase or sale of any security or other financial instrument nor should it be considered investment advice. Valuations services do not address the suitability of any security or instrument, and securities, financial instruments or strategies mentioned by SE may not be suitable for all investors. SE does not provide legal, accounting or tax advice, and clients and potential clients of valuation services should consult with an attorney and/or a tax or accounting professional regarding any specific legal, tax or accounting provision(s) applicable to their particular situations and in the countries and jurisdictions where they do business. SE has redistribution relationships that reflect evaluated pricing, derivative valuation and/or equity pricing services of other unaffiliated firms with which SE has contracted to distribute to its client base.

Pricing and data provided by these third-party firms are the responsibilities of those firms, and not SE, and are produced under those firms' methodologies, policies and procedures. Valuations services provided by SE and products containing valuations

services may not be available in all countries or jurisdictions. Copyright © 2020 by Intercontinental Exchange Inc. All rights reserved."

For residents of the European Union/European Economic Area

Research reports are originally distributed by CFRA UK Limited (company number 08456139 registered in England & Wales with its registered office address at New Derwent House, 69-73 Theobalds Road, London, WC1X 8TA). CFRA UK Limited is regulated by the UK Financial Conduct Authority (No. 775151).

For residents of Malaysia

Research reports are originally produced and distributed by CFRA MY Sdn Bhd (Company No. 683377-A).

For residents of all other countries

Research reports are originally distributed Accounting Research & Analytics, LLC d/b/a CFRA.

Copyright © 2020 CFRA. All rights reserved. CFRA and STARS are registered trademarks of CFRA.