

# How the Election Could Affect Fixed Income Markets

Although bipartisanship is possible in a few areas, the impact of the November election will be felt in a wide range of policy areas, including income taxes, health care, infrastructure and education finance. For certain sectors of the fixed income market, the implications could be consequential.



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## 2020 ELECTION SCORECARD: Fixed Income

ISSUE	IF THEY WIN ...	POSSIBLE IMPLICATIONS
 <b>Taxes</b>	<p><b>Republicans</b> Huge deficits or no, U.S. tax rates likely stay the same</p> <p><b>Democrats:</b> Some likelihood of higher rates</p>	<p><b>Corporate Bonds:</b> Current low-rate tax regime has aided corporate profitability; higher rates may have a negative impact</p> <p><b>Munis:</b> Current tax rates favorable for demand; higher rates could potentially make munis even more attractive</p>
 <b>Health Care</b>	<p><b>Republicans:</b> Likely changes to Affordable Care Act (ACA), although overall plan is unclear</p> <p><b>Democrats:</b> Possible restoration of prior ACA features and expansion of coverage</p> <p><b>Bipartisan Bonus:</b> Efforts to keep drug price increases in check</p>	<p><b>Leveraged Credit/Corporate Bonds:</b> Drug-price focus may be a negative for pharma issuers; health-care providers and tech firms may be more favorably positioned</p> <p><b>Munis:</b> Enhanced coverage under ACA could potentially benefit hospitals, health-care systems</p>
 <b>Infrastructure</b>	<p><b>Republicans:</b> Possible refocus on infrastructure legislation</p> <p><b>Democrats:</b> Increased spending, including a significant green energy component</p> <p><b>Bipartisan Bonus:</b> Both parties likely to come to some agreement on increased spending</p>	<p><b>Leveraged Credit:</b> Infrastructure companies may be more favorably positioned whoever wins; green infrastructure could benefit under Democrats</p> <p><b>Munis:</b> More spending likely means more muni bond issuance, though market appears capable of absorbing new supply</p>
 <b>Education Finance</b>	<p><b>Republicans:</b> Little prospective change in policy</p> <p><b>Democrats:</b> Potential increase in refinancing of FFELP (Federal Family Education Loan) student loans into Federal Direct Loans; possible loan modifications based on financial need</p>	<p><b>Asset-Backed Securities (ABS):</b> Refinancing, modification plans may potentially create both prepayment and extension risks for parts of the student loan ABS market</p>

**Talk to your financial professional about your long-term financial goals and how to best navigate market ups and downs during and after Election**

**A Note about Risk:** The value of investments in fixed-income securities will change as interest rates fluctuate and in response to market movements. Generally, when interest rates rise, the prices of debt securities fall, and when interest rates fall, prices generally rise. Fixed-income investments are subject to various other risks including changes in credit quality, market valuations, liquidity, prepayments, early redemption, corporate events, tax ramifications and other factors. Lower-rated securities are subject to greater credit risk, default risk, and liquidity risk. Credit risk is the risk that debt issuers will become unable to make timely interest payments, and at worst will fail to repay the principal amount. Treasuries are debt securities issued by the U.S. government and secured by its full faith and credit. Income from Treasury securities is exempt from state and local taxes. Although U.S. government securities are guaranteed as to payments of interest and principal, their market prices are not guaranteed and will fluctuate in response to market movements. The municipal bond market may be impacted by unfavorable legislative or political developments and adverse changes in the financial conditions of state and municipal issuers or the federal government in case it provides financial support to the municipality. Income from the municipal bonds held could be declared taxable because of changes in tax laws. Certain sectors of the municipal bond market have special risks that can affect them more significantly than the market as a whole. Because many municipal instruments are issued to finance similar projects, conditions in these industries can significantly affect an investment. Income from municipal bonds may be subject to the alternative minimum tax. Federal, state and local taxes may apply. Investments in Puerto Rico and other U.S. territories, commonwealths, and possessions may be affected by local, state, and regional factors. These may include, for example, economic or political developments, erosion of the tax base, and the possibility of credit problems. There is no guarantee that these investment strategies will work under all market conditions or are suitable for all investors, and each investor should evaluate their ability to invest long term, especially during periods of downturn in the market.

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# How the Election Could Affect Equity Markets

Though no clear historical pattern indicates how markets will perform after the November election, the outcome could affect corporate taxes, regulation and infrastructure spending. Health care and “Big Tech” could receive special attention, and developments affecting growth, value and income investing also bear watching.



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## 2020 ELECTION SCORECARD: Equities

EQUITY SEGMENT	WHAT OUR EXPERTS ARE WATCHING	POSSIBLE IMPLICATIONS
<b>Innovation Growth</b>	<ul style="list-style-type: none"><li>■ Pace of U.S. rebound from deep COVID-led recession</li><li>■ Rapid adoption of work-from-home (WFH) products, services, and technologies</li></ul>	<ul style="list-style-type: none"><li>■ Possible short-term shift to cyclical stocks with a Republican victory</li><li>■ Continued intermediate- and long-term strength in Innovation paced by WFH companies</li></ul>
<b>Durable Growth</b>	<ul style="list-style-type: none"><li>■ Developments in U.S. tax policy</li><li>■ Increased scrutiny of “Big Tech”</li><li>■ U.S. relationship with China</li><li>■ Potential healthcare, infrastructure, education finance initiatives</li></ul>	<ul style="list-style-type: none"><li>■ Less favorable backdrop for certain healthcare services companies</li><li>■ Potential headwinds for banks with exposure to student lending</li></ul>
<b>Health Care</b>	<ul style="list-style-type: none"><li>■ Funding for any significant changes to U.S. healthcare system</li><li>■ Affordability for consumers</li><li>■ Level of consumer access to features of new or amended plans</li></ul>	<ul style="list-style-type: none"><li>■ More favorable view of biotechnology and tools/diagnostics</li><li>■ Neutral on medical devices</li><li>■ More challenging environment for healthcare providers/services, and pharmaceuticals</li></ul>
<b>Dividend</b>	<ul style="list-style-type: none"><li>■ Potential for rollback of corporate tax break from 2017 tax reform bill</li><li>■ Infrastructure initiatives</li><li>■ Developments in U.S.-China relationship</li><li>■ Healthcare and environmental legislation</li></ul>	<ul style="list-style-type: none"><li>■ Scrutiny of companies that may face potential challenges to profitability given election developments</li><li>■ Focus on quality companies with favorable long-term earnings and dividend payment histories</li></ul>
<b>Value</b>	<ul style="list-style-type: none"><li>■ In a Republican victory, status quo for lower corporate tax rates from 2017 and a continued emphasis on deregulation</li><li>■ If the Democrats win, expanded health care coverage, increased corporate taxes, and heavier regulation</li></ul>	<ul style="list-style-type: none"><li>■ Focus on post-election positioning of financials, materials, and energy</li><li>■ Selective approach to health care, especially names that could potentially benefit from greater consumer access to insurance and those that may face challenges from greater government role in the market</li></ul>

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