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INDUSTRY BRIEF

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Financials Outlook

This week, we continue our election preview with the potential impact to financials post-2020. The election outcome will be closely watched for potentially significant regulatory shifts if Democratic regulators are installed under a President Joe Biden.

Keeping with our forecasted likely election outcomes, we take a look at the best positioned names in our coverage under the following scenarios: 1) a Democratic sweep (50%); 2) a Joe Biden Presidency with a divided Congress (Republicans keep the Senate - 10%); and 3) a continuation of the status quo (35%).

Notably, a Biden Presidency with a Republican Senate would be worse for the sector than a unified Democratic government, in our view.

In this report, we present historical data depicting the performance of different financial industries under various compositions of government along with Raymond James' analysts' best-positioned companies in each scenario given current macro factors:

- **Democratic Sweep:** We believe the threat of policy changes will be a headwind for the sector, while the increased likelihood of additional fiscal support for the economy/an accommodative Federal Reserve will serve to insulate the impact. The immediate debate will be the selection of a Treasury Secretary and role Senator Warren will have in vetting picks or being a pick herself (her immediate replacement would be set by a Republican Governor in MA, which makes it less likely). We expect the tax rate to increase from 21% to 28% (not back to 35%) in a Dem sweep (likely in 2022). A financial transaction tax, changes to PE tax structure (carried interest), investment taxes, and individual tax changes will all have impacts.

- **Biden with Divided Congress:** A Republican Senate would moderate any permanent appointments that could be made by President Biden. However, Democratic regulators could serve in an acting capacity and advance regulatory changes, which would further contribute to overall Congressional gridlock. In a Senate Dem minority, Sen. Warren would have a significant incentive to leave and join the Administration.

- **Trump with Divided Congress (status quo):** Trump's deregulatory agenda would be solidified, but a change atop the Federal Reserve (possible in 2022), depending on the pick, could create some market volatility. Legislating will likely be dead, except for broadly bipartisan measures, which could advance China-related restrictions on the financial sector.

2020 ELECTION – FINANCIALS OUTLOOK

Raymond James Equity Research

August 21, 2020

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2020 Election

STOCK IMPLICATIONS

RJ Analysts' Best-Positioned Financial Names Under Different Election Scenarios

	Biden Wins		Trump Wins
			
	Dem Sweep	**Divided Congress**	**Status Quo**
Rose, Long, Wallace, Feaster *Banks*	NTB, CASH	SBCF, PB, HOMB	AX, PPBI, OCFC, WBS, CADE, WTFC, TCF
Robert Dodd *Specialty Finance*	MAIN	TSLX	ARCC, PRAA, ECPG
Patrick O'Shaughnessy *Capital Markets*	MSCI	ENV, AMK	SCHW
Greg Peters *Insurance*	AFL, CB, AJG, WLTW	ALL, KMPR, PGR, ORI	AJG, BRO, BRP, EHTH, FFG

Election Update

Where the race stands;

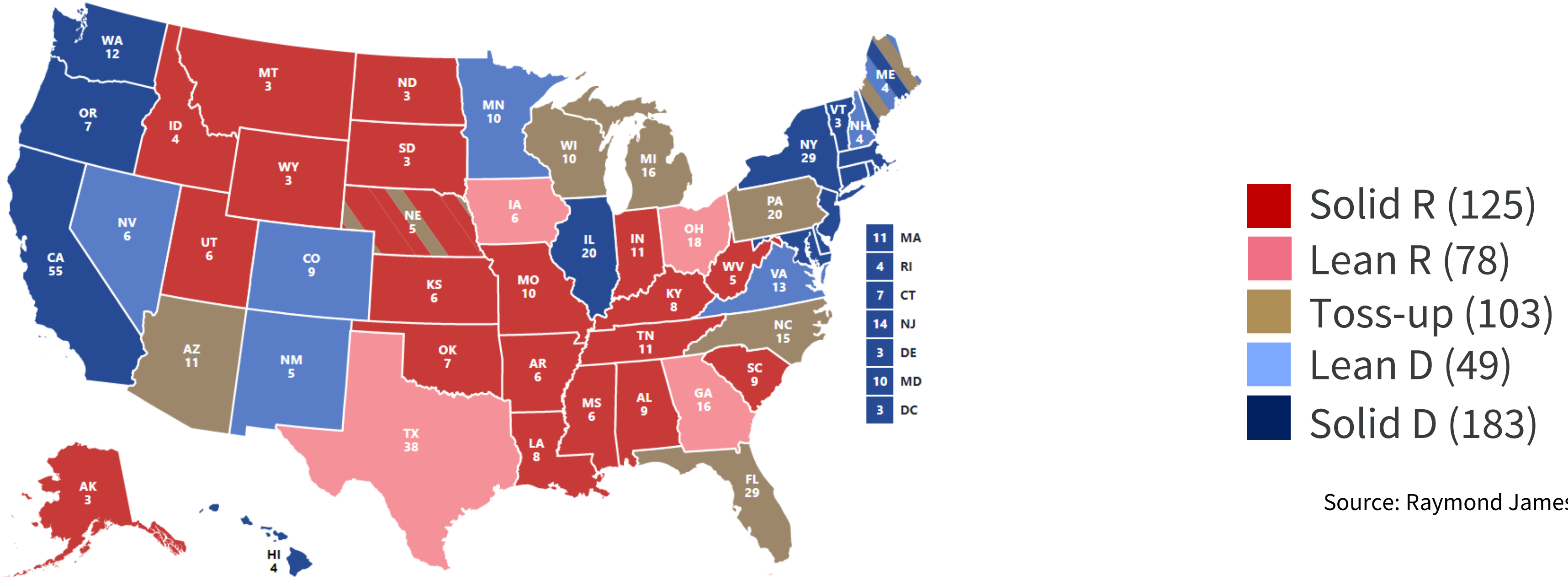
Probability of likely election outcome scenarios; and

Analysts' best positioned names for each potential scenario

2020 Election

A LOOK AT 2020: ALL EYES ON THE BATTLEGROUND STATES

- Democrats begin with 183-125 base advantage and 232-203 advantage with leaners
- 6 battle ground states: Arizona, Florida, Michigan, North Carolina, Pennsylvania, Wisconsin – Trump won all in 2016 with less than 50%
- 3 states were won by Trump by less than 45,000 votes in 2016
    - Dem flipping these states (MI, PA, WI) likely wins the White House
    - All three elected Dem Governors in 2018



Source: Raymond James Research, 270 to Win

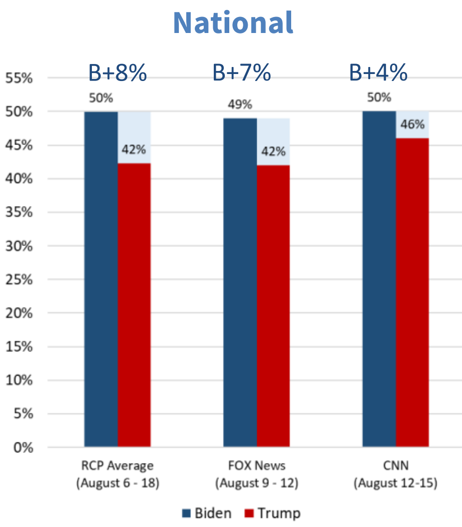
2020 Election

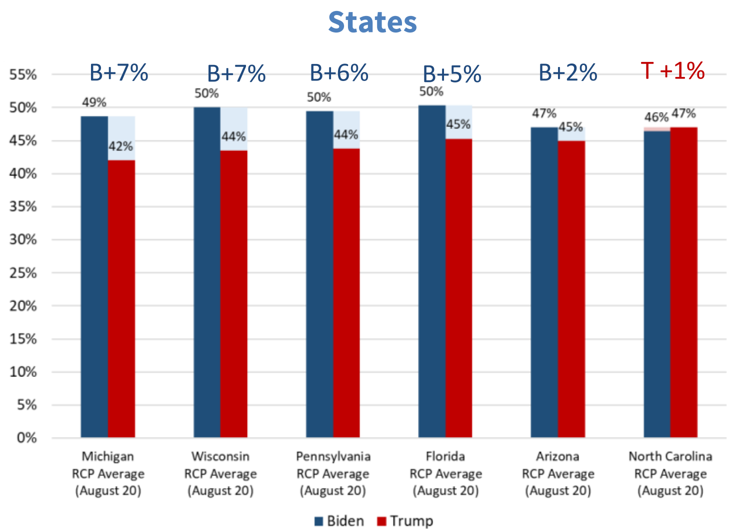
THE RACE BY THE NUMBERS

Our Analysis

Biden has surged in the polls since locking up the nomination (as is common of candidates) and the surge in COVID-19 cases. The public gives failing marks to Trump's response to COVID-19 and the protests over the death of George Floyd, causing his approval ratings to dip again well below 50%. We are in unprecedented times with several months remaining, and we expect that the race will tighten. The outcome will likely depend upon both economic and population health recovery in the fall. It is worth noting that at this moment in the 2016 race, Hillary Clinton had a 7% average lead over Donald Trump.

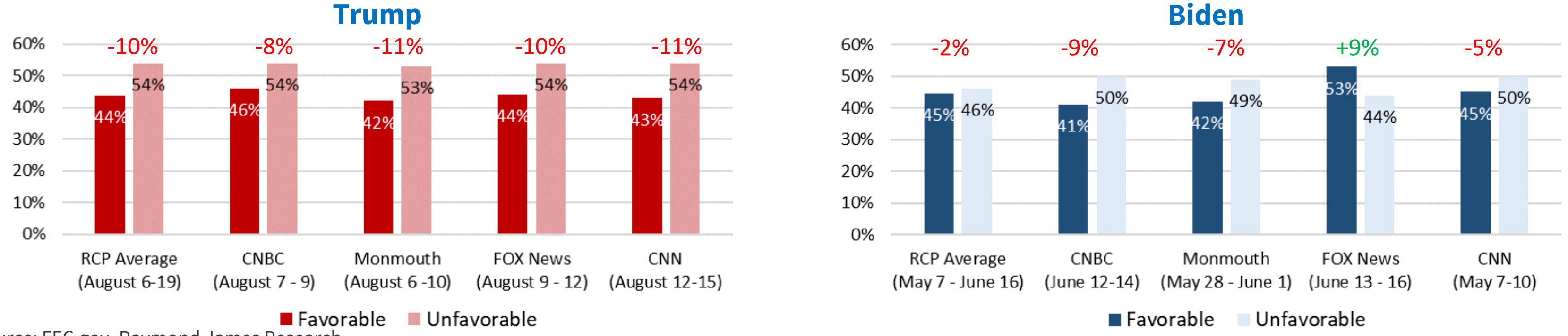
2020 Presidential Election National Polling vs. Swing State Polling





Source: RealClearPolitics, Raymond James Research

2020 Presidential Candidates: Favorable vs. Unfavorable

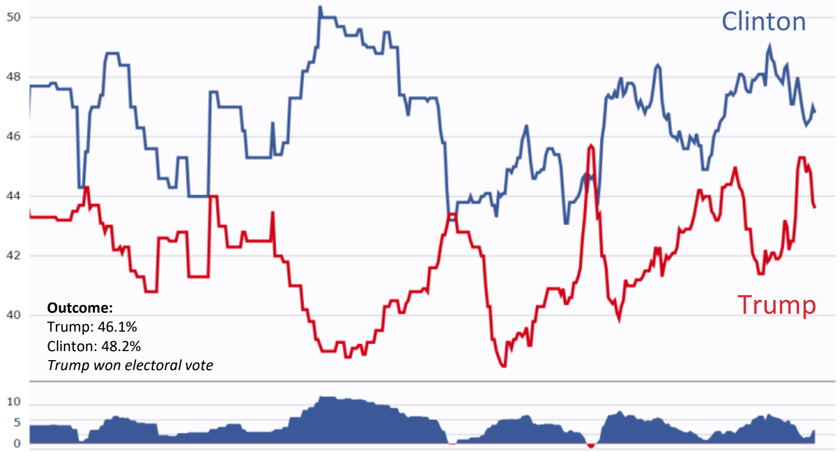


Source: FEC.gov, Raymond James Research

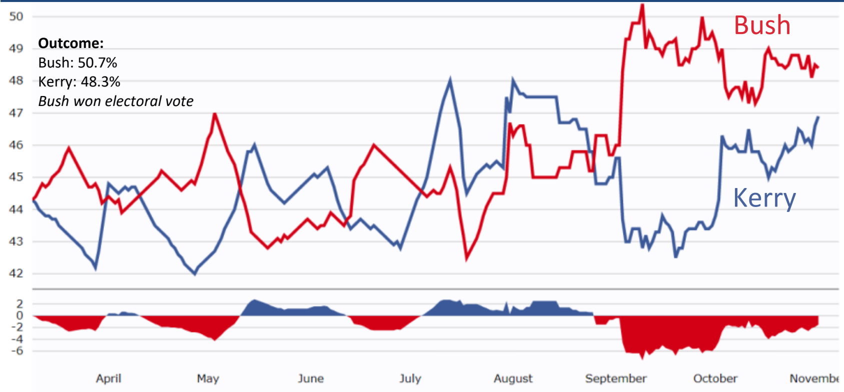
2020 Election

70+ DAYS: AN ETERNITY

2016 Presidential Polls



2004 Presidential Polls



Source: RealClearPolitics, Raymond James Research

2020: A Timeline of Seemingly Election-Defining Events

President Trump faces an impeachment trial

An Iranian general and Iraqi paramilitary leader were killed during a U.S. drone strike

Trump signed the phase 1 trade deal with China

The worldwide pandemic related to COVID-19 has impacted millions of Americans

Nationwide protests in support of Black Lives Matter commenced in May and persist

Implication: **Expect Volatility**

There is always substantial movement as Election Day approaches, but volatility may be exacerbated this year given the tumultuous year we have had.

2020 Election

OUTCOME 1: DEM SWEEP (50%)

What This Means

- **DEM** President
- **DEM** Senate
- **DEM** House

Arguments In Favor

- White House and Senate **election outcomes are becoming increasingly correlated**
- Congressional Republicans have done **little to distance themselves from Trump** and his policies
- **Biden, a less polarizing top of the ticket,** gives opening to Dem Senate candidates in Red states

Arguments Against

- Voters may want a **"check"** on Biden
- **Dems will need almost everything going their way** to capture Senate majority
- **Close election** favors **Republican majority**

Market/Policy Implications

- **Conventional wisdom would suggest a "Dem Sweep" would lead to financials underperforming the S&P, but the potential for continued fiscal support for the economy and extraordinary monetary support could mitigate some of these concerns. Additionally, financials have already seen historic reforms in the regulatory infrastructure for banks. Regulatory picks will be closely watched to determine the impact to the industry.**

More Likely

- Tax increases (phased-in corporate to 28%, individual tax increases for households earning $400K+, investment tax increases)
- Continued fiscal relief/spending that could limit credit losses and support the consumer balance sheet
- Changes at regulatory agencies, including changes at the CFPB, and increased enforcement actions
- Legislative focus on new regulatory regime for non-bank financials
- Efforts to expand access to mortgage credit availability
- Bankruptcy reform – more protections on mortgages, car, and student loans
- Filibuster changes – increasing legislative risk for industry

Less Likely

- Finishing the current deregulatory agenda
- Additional changes to the Dodd-Frank Act

Democrat Sweep

Policy Implications: Democratic Sweep

- **Sweeping Changes?** A key post-election debate in a Democratic sweep will be how sweeping the policy changes will be, especially for heavily-regulated industries like financials. We believe the threat of policy changes will be a headwind for the sector, while the increased likelihood of additional fiscal support for the economy/an accommodative Federal Reserve will serve to insulate the impact.
- **Regulatory Transition Accelerated:** The return of "personnel is policy." The market will focus on the potential agenda items of Biden's financial regulatory picks. The immediate debate will be the selection of a Treasury Secretary and role Senator Warren will have in vetting picks or being a pick herself (her immediate replacement would be set by a Republican Governor in MA, which makes it less likely). The Supreme Court ruling on the CFPB would provide an immediate replacement of the Director, reopening headline risk for consumer financial product regulation. The same fate could be waiting the director of FHFA, but a replacement there would likely be seen as beneficial to mortgage credit availability/housing (we would note the current director has also been supportive). (See proceeding timeline chart for other top regulatory picks).
- **Tax Changes.** Banks were one of the top beneficiaries from the change of the statutory corporate tax rate, so an increase could have a disproportionately negative impact on the sector. We expect the tax rate to increase from 21% to 28% (not back to 35%) in a Dem sweep (likely in 2022). A financial transaction tax, changes to PE tax structure (carried interest), investment taxes, and individual tax changes will all have impacts.
- **Heightened Expectations of Further Stimulus:** While the regulatory and legislative risk perception will be heightened for the sector, an offsetting factor may be the expectation significant and swift stimulus measures should they be needed. Regulatory and legislative risk would be high in the medium to long-term but short-term sentiment could be boosted on further consumer support measures that boost demand and support markets.
- **Fate of the Filibuster:** The elimination of the filibuster will be watched for the potential for significant legislation to pass with a simple majority vote. Otherwise, Democrats are unlikely to clear the 60 vote threshold needed for significant legislation. Momentum continues to build for elimination of the filibuster and becomes more likely if Dems have 51 or 52 seats vs. a 50-50 tie.

KEY POINTS

- Historically, the financial sector underperforms under a unified Democratic government by about 4%.
- A Dem Sweep scenario will heighten chances of Trump-era policy reversals and will be an headwind for the sector, but increased likelihood of additional fiscal support could be an offsetting market factor.
- The market will be closely watching Biden's financial regulatory appointments. Key figures like Senator Warren or Rep. Katy Porter could be elevated, and Biden has a broader set of regulatory picks early in his term.
- Biden will select a new Fed Supervision Chair in late-2021, and a new Fed Chair in early 2022.
- Stricter fiduciary standards, bankruptcy reform, credit agency reviews, a financial transactions tax, and a more active CFPB could pose industry risks – but cannabis banking would be a beneficiary in this scenario.

Policy Implications: Democratic Sweep

- **Post-Crisis Framework:** The aftermath of the Global Financial Crisis left Congress with a mandate to overhaul the financial regulatory framework, which led to the Dodd-Frank Act. Although the current crisis is driven by different fundamental factors, the perception of regulatory risk will be high in a Democratic sweep scenario, especially for non-bank financial firms. We expect a focus on capital and liquidity requirements for non-bank financial firms related to their credit market holdings.

- **Potential Regulatory Picks**
  - **Treasury Secretary.** Senator Elizabeth Warren, Fed Governor Lael Brainard, former Deputy Treasury Secretary Mary Miller, Former Fed Governor/Deputy Treasury Secretary Sarah Bloom Raskin are all likely to be in the mix to make history as the first female Treasury Secretary. Other potential candidates that have been mentioned include Larry Summers, Jamie Dimon, Jack Lew, but are less likely selections. With the opening at the CFPB, Biden will have multiple picks to potentially balance his regulatory selections, but it will be an early test of progressive pressure to chose more liberal candidates.
  - **Federal Reserve.** We believe Chairman Powell is unlikely to be re-nominated when his term expires in February 2022. The same fate is likely for Vice Chair Clarida (1/31/21) and Vice Chair for Supervision Randy Quarles (10/13/21). We view Fed Governor Lael Brainard (if not chosen to lead Treasury) as the leading candidate to replace Powell. She has consistently voted against the deregulatory agenda of the last several years, has advocated for stricter stress tests and increased capital standards at the largest banks. We are watching closely the vote on two Fed vacancies, which likely determines how quickly a Biden Administration could form a majority on the board or if Trump's picks have more staying power.

- **Consumer Financial Protection Bureau (CFPB)**
  - **New Director.** A recent Supreme Court ruling has made the CFPB Director subject to the hiring or firing of the President, as such, current CFPB Director Kathy Kraninger is expected to be replaced in a Biden Presidency. Little has been discussed about her potential replacement, but a logical case can be made for **Congresswoman Katie Porter (D-CA)**, who has established a national profile on consumer financial issues as a freshman member of the House Financial Services Committee, has written a textbook on "Modern Consumer Law," and worked with Senator Kamala Harris on the $25 billion mortgage settlement.
  - **Agenda Items.** Enforcement would significantly scale-up with a new director, renewing headline risk and market reaction. Debt collection, forbearance, and servicer-related actions tied to COVID-19 responses are likely to received significant scrutiny. A renewed focus on short-term, small dollar loans (payday, overdraft, installment) would likely be a key focus/unfished business of the Cordray-run agency. We do not see much attention likely on the credit card industry or interchange (either through regulation or legislation).

Policy Implications: Democratic Sweep

- **Regulatory Revisions:** Regulators have broad statutory authority to enhance scrutiny of financial sector. The vacancy at the OCC (with the early departure of Joseph Otting) potentially provides one of the first opening for a Biden Administration to make its mark. Otting created a potentially impactful precedent as he released an updated Community Reinvestment Act (CRA) proposal, right before his departure and without coordinating with other regulators, such as the FDIC and the Federal Reserve. This opens up future regulatory actions to be released in a patch-work approach – something the Dodd-Frank Act sought to avoid. The potential actions outlined below are more of a thought experiment rather than a base-case for a regulatory approach in a Biden Administration, but we view these actions as items we have heard discussed.

  - **Restricting what qualifies as banking activities.** OCC could narrow the definition of banking and equivalent activities under the **National Bank Act** to restrict permissible business by financial firms.
  - **Forcing divestitures.** The Federal Reserve has further unilateral authority to compel divestitures of subsidiaries if there is ample concern over risk to "financial safety, soundness, or stability" under the **Bank Holding Company Act**.
  - **Restricting M&A/limiting financial products.** Authority is also provided under **Dodd-Frank** for the Fed to restrict M&A, limit the offering of certain financial products, require the termination of activities, or order the divestment of operations of an entity with at least $50 billion in assets after a two-thirds majority FSOC vote.
  - **Limiting the size of balance sheets.** Regulators could also cap the assets of financial institutions to control their size and growth under the **Federal Deposit Insurance Act**. We saw a restriction on an asset cap as an enforcement action against Wells Fargo.
  - **Restricting deposit insurance to change bank behavior.** In effect, the FDIC could deny deposit insurance for firms in order to steer them away from activities seen to pose significant risk.
  - **Changes at the Board of Directors.** The enforcement action against Wells Fargo forced the change at the board of directors, a precedent that should be watched for potential future enforcement actions.

Policy Implications: Democratic Sweep

- **Housing Policy.** A likely change atop the FHFA (regulator of Fannie Mae and Freddie Mac) and a push to expand access to mortgage credit availability, especially in underserved communities are likely the hallmarks of a Biden Administration. These changes are most likely to benefit non-bank originators and mortgage insurers, as the hangover from the financial crisis limits the interests among depositories from a significant expansion in mortgage activities.

- **Fiduciary Standard.** The SEC has implemented Regulation Best Interest (Reg BI), following a federal court struck down the Obama-era Department of Labor (DOL) Fiduciary Rule on investment advice. We will be watching closely any selection of an SEC Director and his/her agenda to determine if a more robust investment advice standard will be adopted. Alternatively, we will be watching the DOL for any updates related to qualified plans under their jurisdiction.

- **Bankruptcy Reform.** The economic fallout of COVID-19 could easily move bankruptcy reform up the agenda of a Biden Administration, with Senator Elizabeth Warren's (D-MA) plan playing a leading role. Under her plan, updated bankruptcy rules would further protect homes and cars during the bankruptcy process and allow borrowers to discharge student loan debt. Biden's history on bankruptcy reform has been a criticism from the left and updated (and more consumer friendly) reforms could be a way he demonstrates a realignment with the Democratic base.

- **Credit Rating Agency Review.** This is a low overall priority, but has long been a priority of Senator Warren. The SEC would be the agency leading the charge and the pick to lead the agency could signal if these reform become a priority.

- **Financial Transaction Tax.** We frequently are asked "how are we going to pay for all of this?" As Wall Street has been seen as a beneficiary of the robust fiscal and monetary relief, a financial transaction tax could become a potential "pay for." A 0.1% tax is estimated to raise $777 billion over a decade by the CBO. While critics argue that it could have negative consequences on liquidity or a tax on retail investors, proponents would welcome a reduction in high frequency trading.

- **Listing Standards for Chinese Equities.** Plans are in motion to require foreign companies listed on U.S. exchanges to comply with U.S. law by 2023 or face delisting. The focus has been adherence to accounting audit standards under Sarbanes-Oxley. We could see a de-escalation of U.S.-China trade tensions in a Biden Administration, which lessens some of (but far from eliminates) the delisting risk.

- **Pot Banking a "High" Note?** While the knee-jerk reaction would initially be that legislative risk will be an overall negative, cannabis banking with a strong bipartisan vote in the House would be a beneficiary of Dem sweep (as it has been held up by a couple of Republicans in the Senate).

Democrat Sweep

Policy Implications: Democratic Sweep – Regulatory Transitions

Agency	Trump Admin Official	Term Expires/ Early Changeover
Secretary of Treasury	Steven Mnuchin	Tied to President/Yes
CFPB	Kathy Kraninger	Tied to President/Yes
OCC	Vacant	Tied to President/Yes
SEC	Jay Clayton	Tied to President/Yes
CFTC	Heath Tarbert	Tied to President/Yes
NCUA	Rodney Hood	Tied to President/Yes
Fed Vice Chair for Supervision	Randal Quarles	October 2021/No
Federal Reserve Chair	Jerome Powell	November 2022/No
FDIC	Jelena McWilliams	June 2023/No
FSOC Independent Insurance Expert	Thomas Workman	March 2024/No
FHFA	Mark Calabria	April 2024/Potentially

2020 Election

OUTCOME 2: BIDEN PRESIDENCY, DIVIDED GOVERNMENT (10%)

What This Means

- **DEM** President
- **GOP** Senate
- **DEM** House

Arguments In Favor

- Voters support **"return to normalcy"** message of Biden campaign
- When the **economy falters, incumbents lose**
- **Cross-over Republican** voters support Biden, but want a check on his power and revive **ticket splitting for Senate candidates**

Arguments Against

- **Incumbents are historically tough to beat** and Trump gets the benefit of rebounding economy
- **Trump** has a significant **fundraising advantage** over Biden
- **Electoral College** gives Trump ability to win without winning popular vote

Market/Policy Implications

- **"Divided Government" would likely bring gridlock and would have a neutral impact on markets. Headline risk would be increased and must-pass legislation could see Democratic priorities added. Confirmation fights will limit Executive Branch action, but many agencies likely to be run by "acting" heads.**
- **With lower/limited fiscal support, increased concern for economic recovery, increased credit losses, and weaker consumer balance sheet.**

More Likely

- Financial agenda implemented via regulatory actions
- Changes at the CFPB and FHFA, but with "acting directors"
- Decrease in China trade tensions
- Regulatory restrictions on bank activities
- Renewed focus on fiduciary standard

Less Likely

- Tax increases
- Post-COVID legislative changes for non-bank financial companies
- Bankruptcy reform
- Filibuster reform

Biden w/ Divided Cong.

Policy Implications: Biden with a Divided Congress

- **Regulatory Action the Primary Driver:** A President Biden with a Republican Senate would elevate the prominence of regulatory actions as these become the primary driver of policy change. A Republican Senate would moderate any permanent appointments that could be made by President Biden. However, Democratic regulators could serve in an acting capacity and advance regulatory changes, which would further contribute to overall Congressional gridlock as Republicans place pressure on other legislative priorities to push back on regulatory adjustments. Republicans would resist changes to Trump-era regulatory rollbacks. If the House flips back to Republicans in the 2022 midterms, expect challenges to Democrat-led regulatory adjustments under the Congressional Review Act (CRA) for significant regulations. **See full discussion of potential regulatory changes discussed in a Dems sweep, as they will be largely the same (but the Senate approval process will change the personnel).**

- **Warren Likely Treasury Secretary.** The Senate majority is likely to be narrow one, making every vote count. We believe this is a factor in keeping Senator Elizabeth Warren in the Senate (A Republican Gov would chose her interim replacement). In a Senate Dem minority, she would have a significant incentive to leave and join the Administration.

- **Regulatory Revisions:** Regulators have broad statutory authority to enhance scrutiny of financial sector:
  - **Restricting what qualifies as banking activities.** OCC could narrow the definition of banking and equivalent activities under the **National Bank Act** to restrict permissible business by financial firms.
  - **Forcing divestitures.** The Federal Reserve has further unilateral authority to compel divestitures of subsidiaries if there is ample concern over risk to “financial safety, soundness, or stability” under the **Bank Holding Company Act**.
  - **Restricting M&A/limiting financial products.** Authority is also provided under **Dodd-Frank** for the Fed to restrict M&A, limit the offering of certain financial products, require the termination of activities, or order the divestment of operations of an entity with at least $50 billion in assets after a two-thirds majority FSOC vote.
  - **Limiting the size of balance sheets.** Regulators could also cap the assets of financial institutions to control their size and growth under the **Federal Deposit Insurance Act**.
  - **Restricting deposit insurance to change bank behavior.** In effect, the FDIC could deny deposit insurance for firms in order to steer them away from activities seen to pose significant risk.
  - **Restrictions on Board of Directors.** As seen with the Wells Fargo settlement, increased pressure or changes at the board of directors level for banks could increasingly become an enforcement tool of regulators.

KEY POINTS

- Historically, the financial sector tracks the performance of the S&P under a Democratic presidency with a divided Congress.
- A Republican Senate would moderate potential policy shifts through the confirmation process. However, acting agency heads could advance impactful rules and regulations.
- Regulatory agencies have plenty of statutory powers outside of rulemaking to restrict banking activities to accomplish policy objectives.
- Elizabeth Warren more likely to join Biden Cabinet.
- A Republican Congress has tools under the Congressional Review Act (CRA) to nullify significant rulemaking propagated by Democratic regulators should the House flip in the 2022 midterms.

2020 Election

OUTCOME 3: STATUS QUO (35%)

What This Means

- **GOP** President
- **GOP** Senate
- **DEM** House

Arguments In Favor

- Data suggests **little movement** in House and Senate elections
- The "**hidden Trump voter**" may show up the same way they did in 2016

Arguments Against

- **Trump's economy** fell when it mattered most
- The **crisis** could shake up voting behavior

Market/Policy Implications

- **A "Status Quo" election would allow President Trump to continue to nominate and confirm key financial regulatory posts, continuing his deregulatory agenda for the financial services industry. Markets generally have liked divided government and financials are most likely to perform best under this scenario.**

- **A key debate of a "Status Quo" government would be how much additional fiscal support for the economy will continue or what shape of the economy recovery would take – having key impacts on credit losses and the consumer balance sheet.**

More Likely	Less Likely
• China trade fight intensifies • Spending remains elevated, but budget battles remain • Bank deregulatory agenda continues • Continued, but less robust fiscal support • Recap and Release of Fannie & Freddie • Infrastructure bill	• Tax increases • Post-COVID legislation for non-bank financials • Bankruptcy reform • Updated fiduciary standard

Status Quo

Policy Implications: Trump Wins and Status Quo

- **Continued Regulatory Reprieve.** A second term for President Trump would allow his administration to reappoint several key regulatory heads, cementing much of his deregulatory agenda from the last several years. We would expect a change atop the Federal Reserve, which, depending on the pick, could create some market volatility.
- **Recap and Release of Fannie/Freddie.** The best prospects for a full "recap and release" of Fannie Mae and Freddie Mac comes with the reelection of President Trump. A modified plan that releases Fannie and Freddie from conservatorship with a consent decree is likely in a Trump loss.
- **Legislating Largely Dead:** As we have seen for the last two years, legislating on financial services issues will likely be largely dead. Those things accomplished will be bipartisan in nature and largely viewed as a modest revision of existing rules. We would expect continued pressure on Trump regulatory officials from House Democrats on continued revisions to the Dodd-Frank regulatory framework, further limiting the extent to which any significant bipartisan legislation could gain traction. Some further regulatory adjustments for community banks may be possible, but a desire to tie them to other large bank rule adjustments by Senate Republicans could elongate any legislative process. We would expect housing and GSE legislation to be in-focus for a Republican Senate under a second term Trump presidency, but compromise with Democrats will be necessary to pass legislation.
- **Accelerated China-related Capital Markets Pressure:** President Trump and Republican lawmakers will accelerate pressure on access to U.S. capital markets by Chinese firms that do not meet U.S. auditing standards. Delisting proposals for noncompliant Chinese firms would become effective during a Trump second term, and pressure on financial firms investing in Chinese equities would likely increase. If relations with China continue to trend negative, China's market opening to U.S. financial firms could be reversed – increasing international revenue pressure on U.S. firms.

KEY POINTS

- Historically, the financial sector outperforms under a Republican presidency and a divided Congress by almost 20%.
- The Trump deregulatory agenda would be solidified via continued tenure of agency heads, but potential volatility could emerge around a replacement Fed Chair in 2022.
- A recap and release of Fannie Mae and Freddie Mac, possibly with associated housing reform legislation, would be expected under this scenario. Other legislative initiatives would face difficulty gaining traction in a divided Congress.
- Capital markets pressure on China would likely accelerate in a second term, and U.S. firms would face increased public pressure for investing in China-linked equities. U.S. financial firms could also come under pressure in the Chinese market if relations deteriorate further.

2020 Election

OUTCOME 4: OUTLIER OUTCOMES (5%)

What This Means

- GOP President
- GOP Senate
- GOP House

Arguments In Favor

- The **"hidden Trump voter"** may show up the same way they did in 2016 across all three branches
- A **robust turnaround post-virus** could attract more Republican votes
- The crisis could fuel **polarization,** increasing the likelihood of straight-ticket voting

Arguments Against

- House Republicans are dramatically trailing in fundraising and other campaign fundamentals.
- Most **polls** run counter to this outcome

Policy Impact

- Tax Cuts 2.0 to stimulate the economy.
- No check to Trump's regulatory agenda as congressional oversight largely dissipates.

What This Means

- GOP President
- DEM Senate
- DEM House

Arguments In Favor

- The **"hidden Trump voter"** may show up the same way they did in 2016 in key toss-up states
- Democrats have successfully expanded the playing field and several key races are in non-swing states

Arguments Against

- If ticket splitting is largely dead, outcome is unlikely.
- This scenario would require Democrats to win in multiple states that support Trump reelection

Policy Impact

- Outcome likely similar to that of status quo election.
- Legislative actions unlikely with many Trump vetoes likely.
- Fiscal fights dominate potentially resulting in continuing resolutions/government shutdowns.
- Trump continues regulatory agenda, but Congress tries to block as part of must-pass bills.

Sector Performance

Historical performance of financial industries under each political party

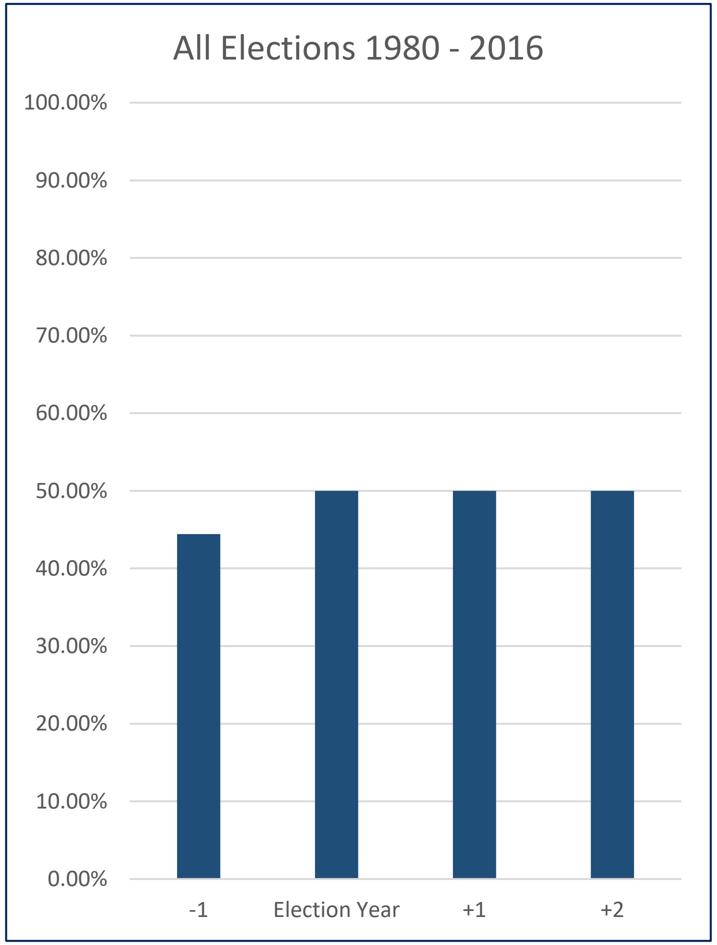
Summary

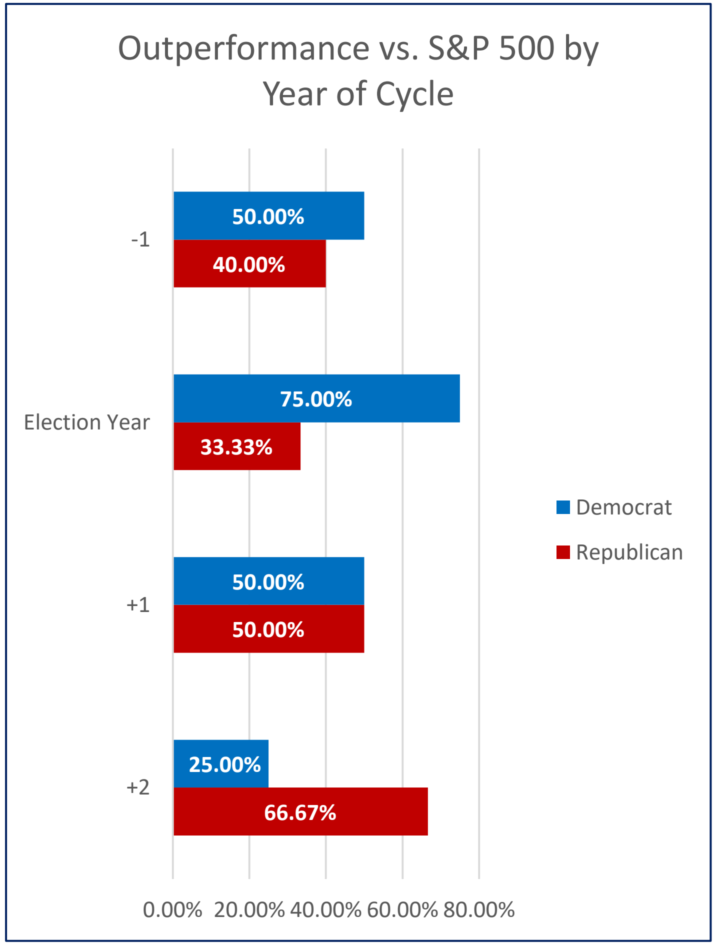
MARKET OVERVIEW EXECUTIVE SUMMARY

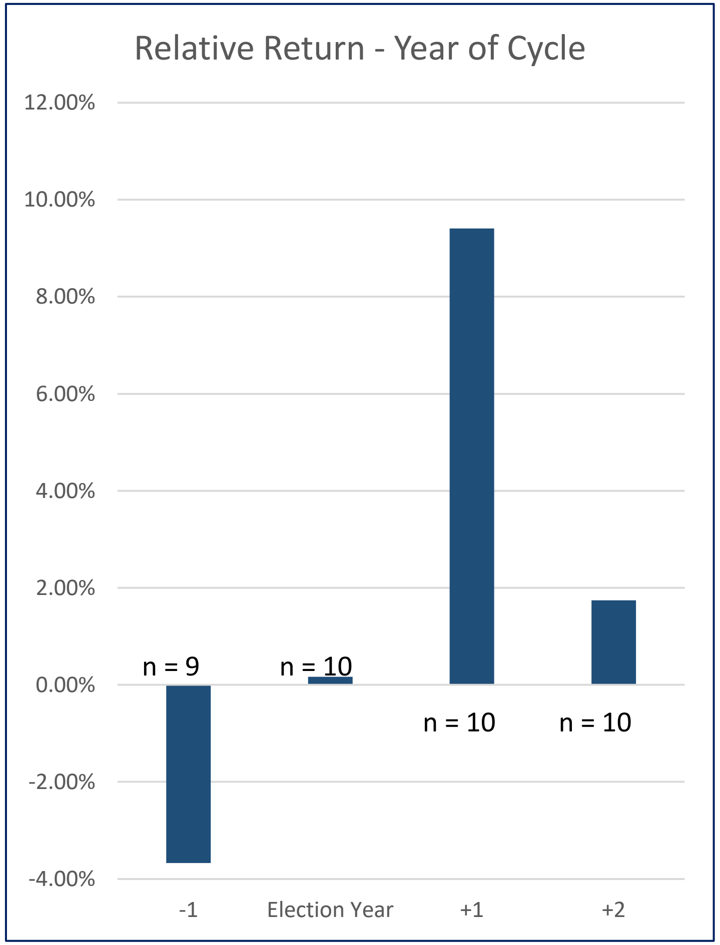
- **Cautious Market Setup.** Equity markets tend to trade cautiously into elections, and that could easily be the case for the next few months given the Democratic lead, potential for election dispute, and strong 2Q equity rally.
- **Financials Summary.** The financial services industry is heavily regulated and D.C. can have a significant impact on the sectors earnings and business activity. The industry has already seen historic regulatory reform with the passage of the Dodd-Frank Act following the financial crisis, the debate going forward will be the size and scope of the regulatory response in a post-COVID world.
- **It's Different This Time.** What's different this time is blindingly obvious. The economy needs substantial, sustained fiscal support through at least 2021 to return to anything resembling full employment, so a split government may not be as bullish as it has been historically.
- **Dem. Sweep Better Than Biden Victory/Republican Senate?** The initial market reaction to a Democratic sweep is likely the most negative for the sector, but with prospects of fiscal support, a regulatory agenda focused on non-bank financials (potentially a market share gain for banks), these trends could reverse. In a divided government with Biden as President, reduced support for fiscal relief and agenda focused on regulatory actions could be more impactful. Adding to potential headline risk is the increased probability of Senator Elizabeth Warren joining the Administration (Treasury Secretary or Fed Chair?) if she is in a Senate minority (Reminder: MA has a Republican Governor who would pick her interim replacement – which may keep her in the Senate in a 50/50 tie or narrow Dem majority).
- **Divided Government Status Quo.** An election that would lock in existing deregulatory trends, prevent tax changes, and prevent changeover atop key financial regulatory agencies would be viewed as positive for financials. Market would hope for continued fiscal and monetary support.
- **Don't Over-react To Initial Election Stock Moves.** But as historical data suggest, performance over the next four years is often the exact opposite of what investors expect heading into an election, so it is prudent not to over react to initial stock moves.

Financials

Percent of Elections Outperforming S&P 500 by Year of Cycle

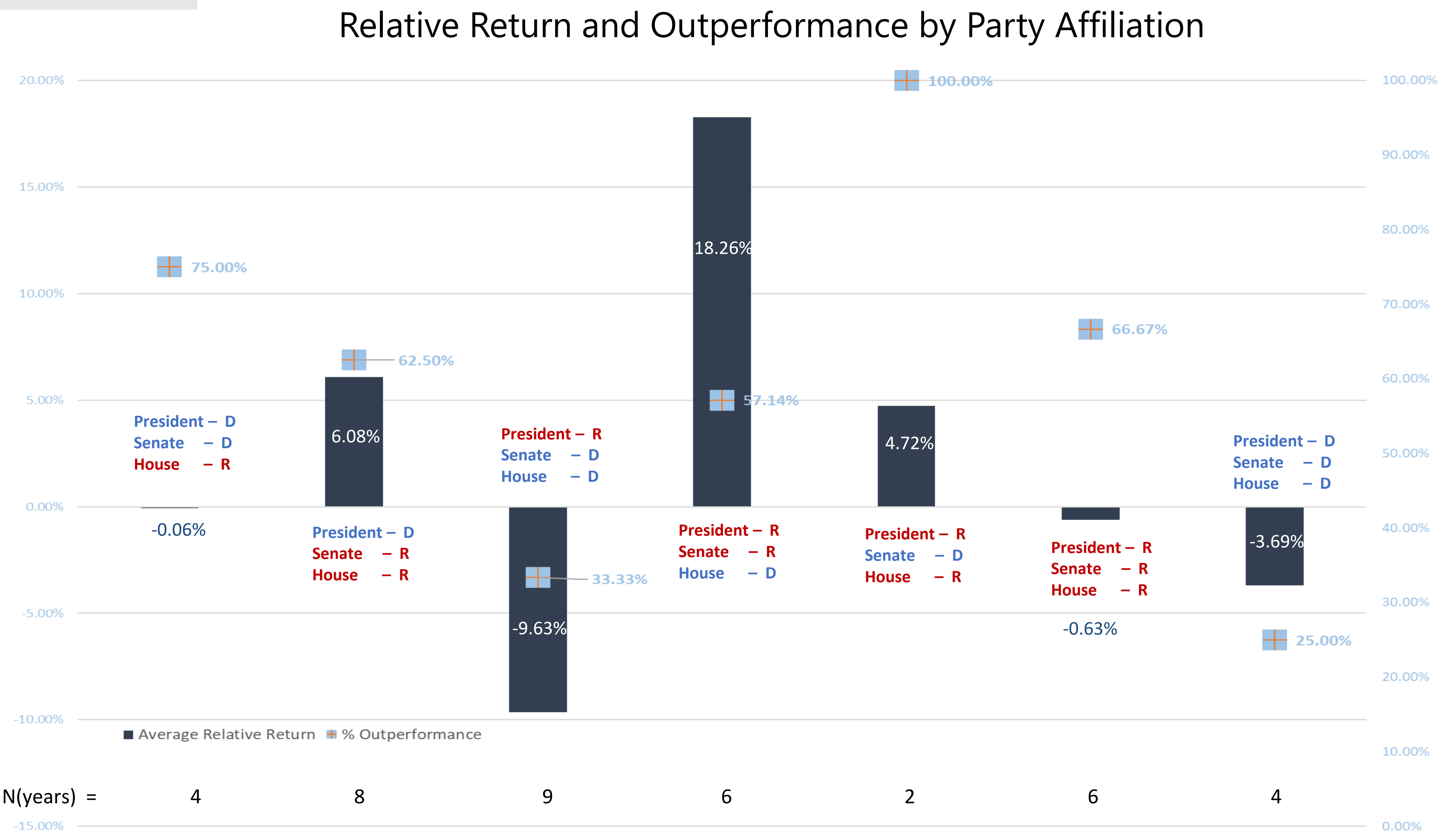






Source: Bloomberg, Raymond James research

Financials



Source: Bloomberg, Raymond James research

Financials

Key Takeaways: Financials

Republican Presidents

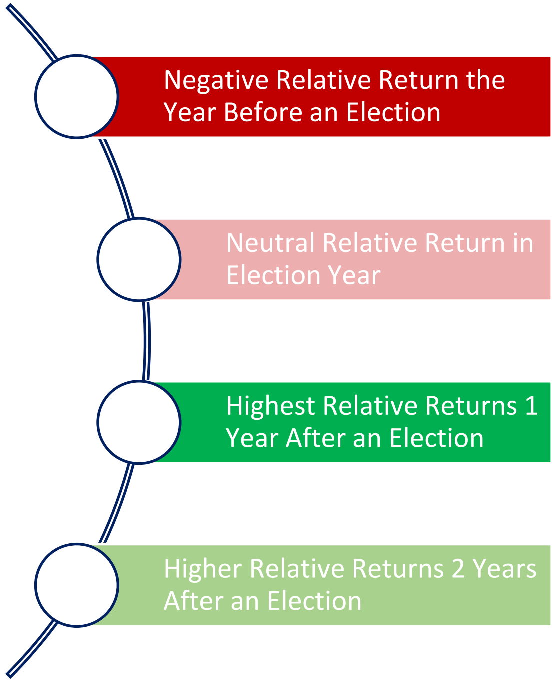
- Financials historically **outperform** under Republican leadership by an avg. of 42%.
- This sector performs **better under a divided GOP government** vs. a unified government, except when facing a unified Dem Congress.

Democrat Presidents

- Financials historically **slightly outperform** under Democratic leadership by an avg. of 2%.
- This sector performs **better under a divided Dem government** vs. a unified government.

Our View

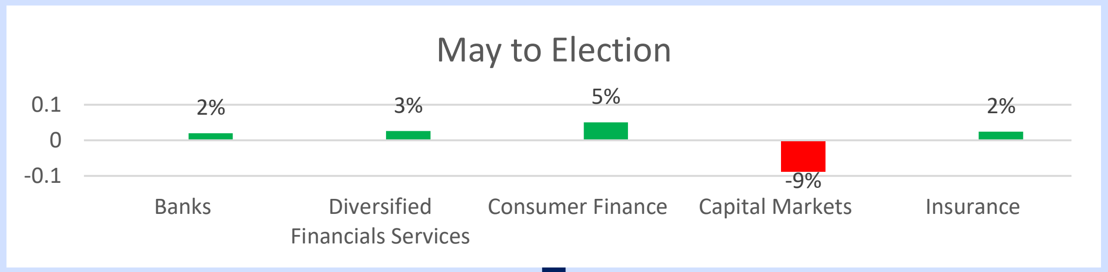
- The best year for financials is generally the year after the election, which could set up a rebound for financials in 2021.
- A Dem sweep will bring regulatory concerns to the group, with non-bank financials and consumer products most impacted.

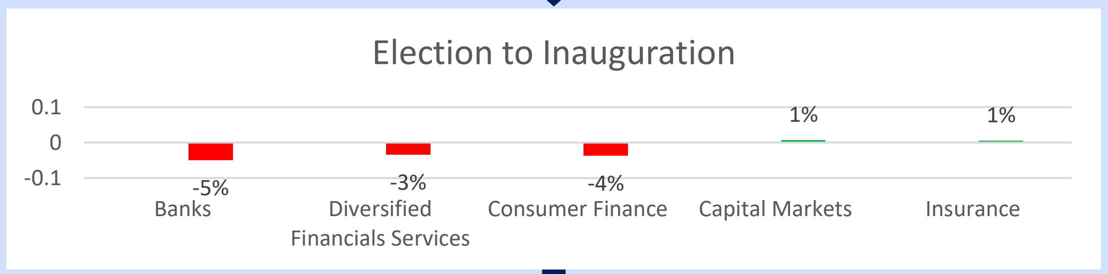


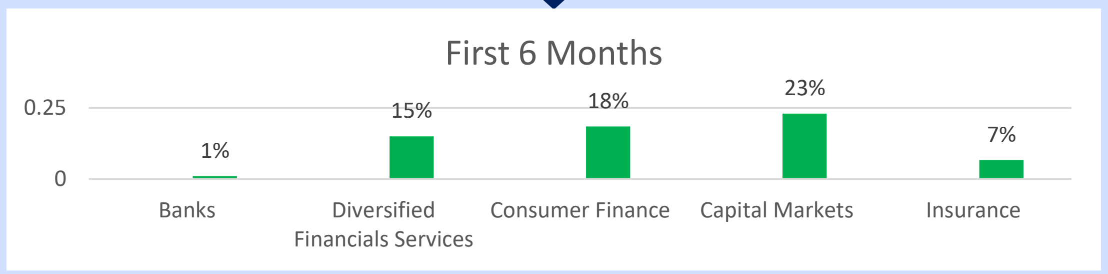
Market Overview

RELATIVE PERFORMANCE AROUND ELECTION DAY

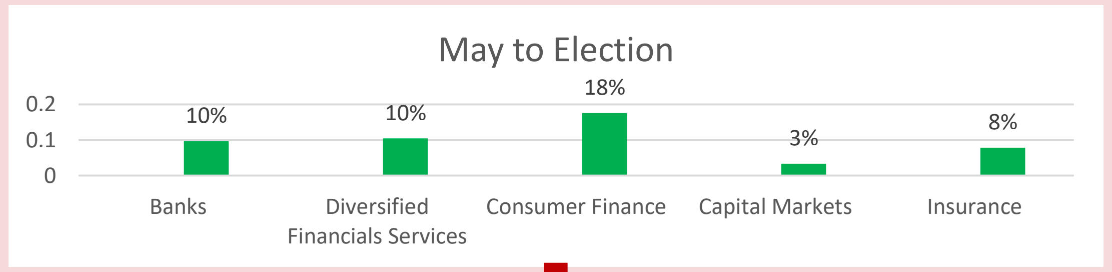
Democrat Victory

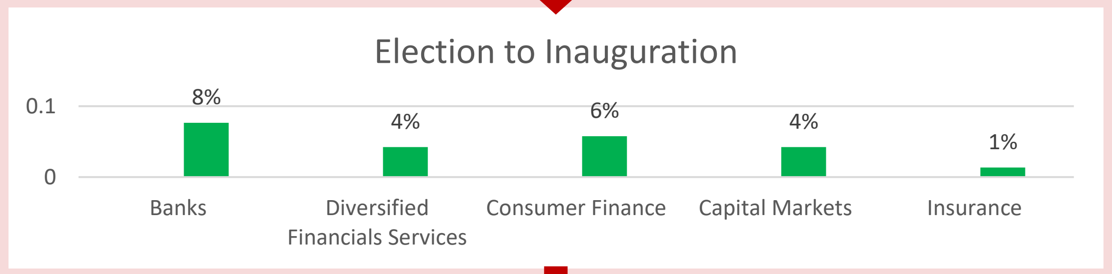


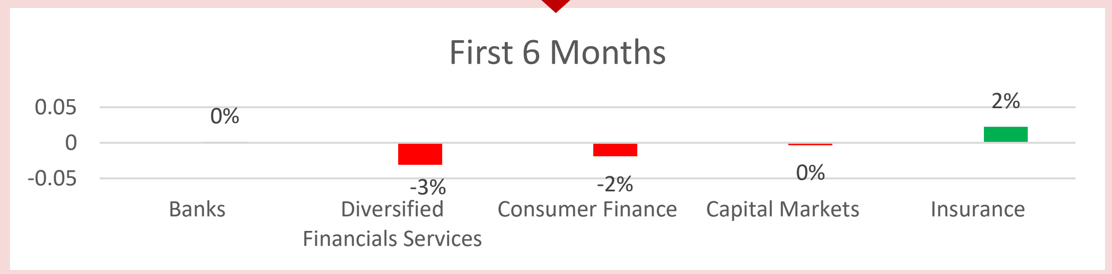




Republican Victory







Source: Bloomberg, Raymond James Research

Industry-by-Industry Performance

Historical performance of financial industries under each political party;
Analysts' best positioned names under different scenarios;
Key takeaways

Banks

KEY TAKEAWAYS: BANKS

Historical Takeaways

Averages Over Time

- Outperforms in E-1
- Underperforms in E0
- Outperforms in E+1
- Outperforms in E+2

- On average, this industry has historically performed best under **Republican, divided governments**.
- It has **performed poorly under a Democrat sweep and a full Dem Congress with Republican President.**

Analysts' Best-Positioned Per Scenario

NTB, CASH

SBCF, PB, HOMB

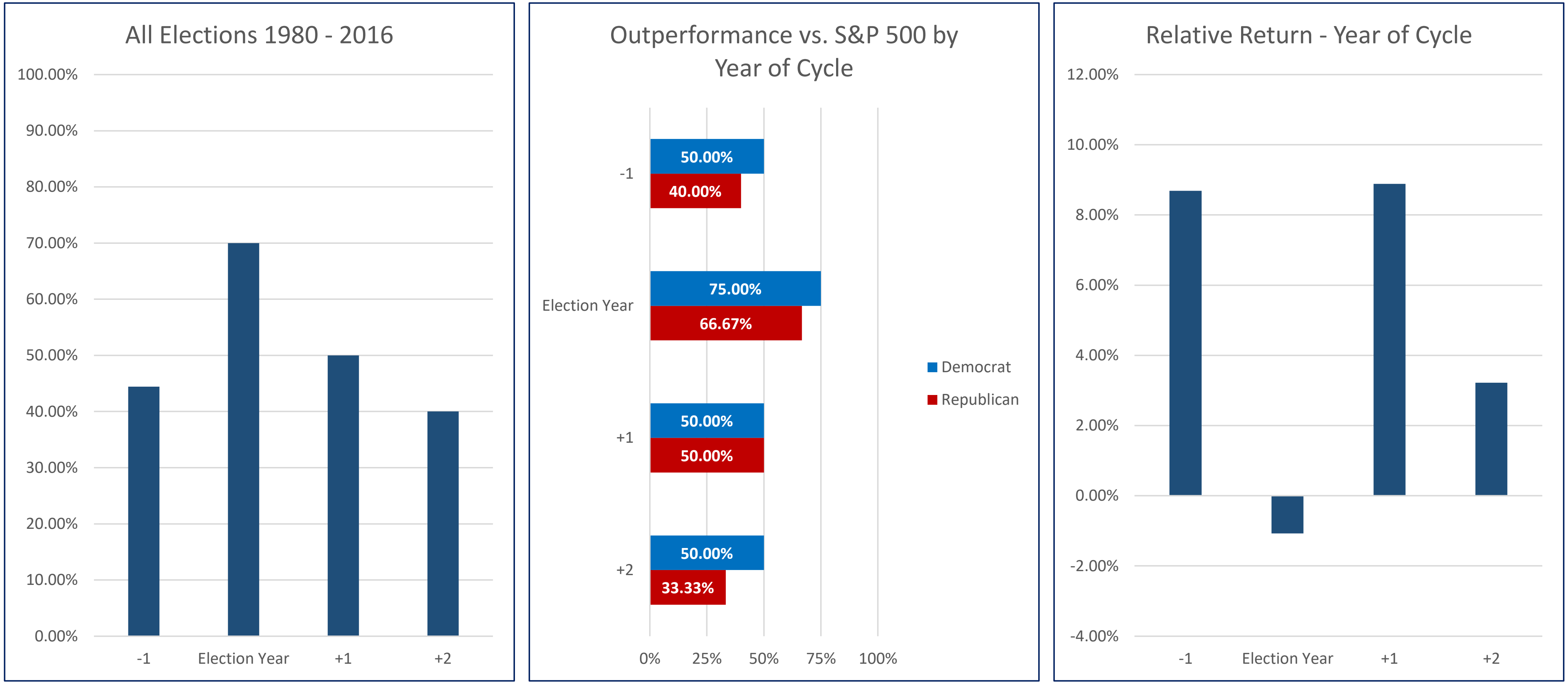
AX, PPBI, OCFC, WBS, CADE, WTFC, TCF

Key Takeaways

- We believe a Dem sweep would be a less bad scenario for bank investors relative to divided government under Biden, where investors can avoid those banks more impacted by higher taxes and the larger banks which tend to fall under the regulatory microscope a bit more than the smaller banks.
- In a Dem sweep, we would focus on banks that might benefit from higher likelihood of stimulus, especially as it relates to small business lending practices, with the ability to offset pressures from higher taxes better than peers.
- While taxes won't go up with a Biden win and Republican Senate, we believe there would be less likelihood of additional stimulus if it is needed, which could lead to higher credit pressures at the banks.

Banks

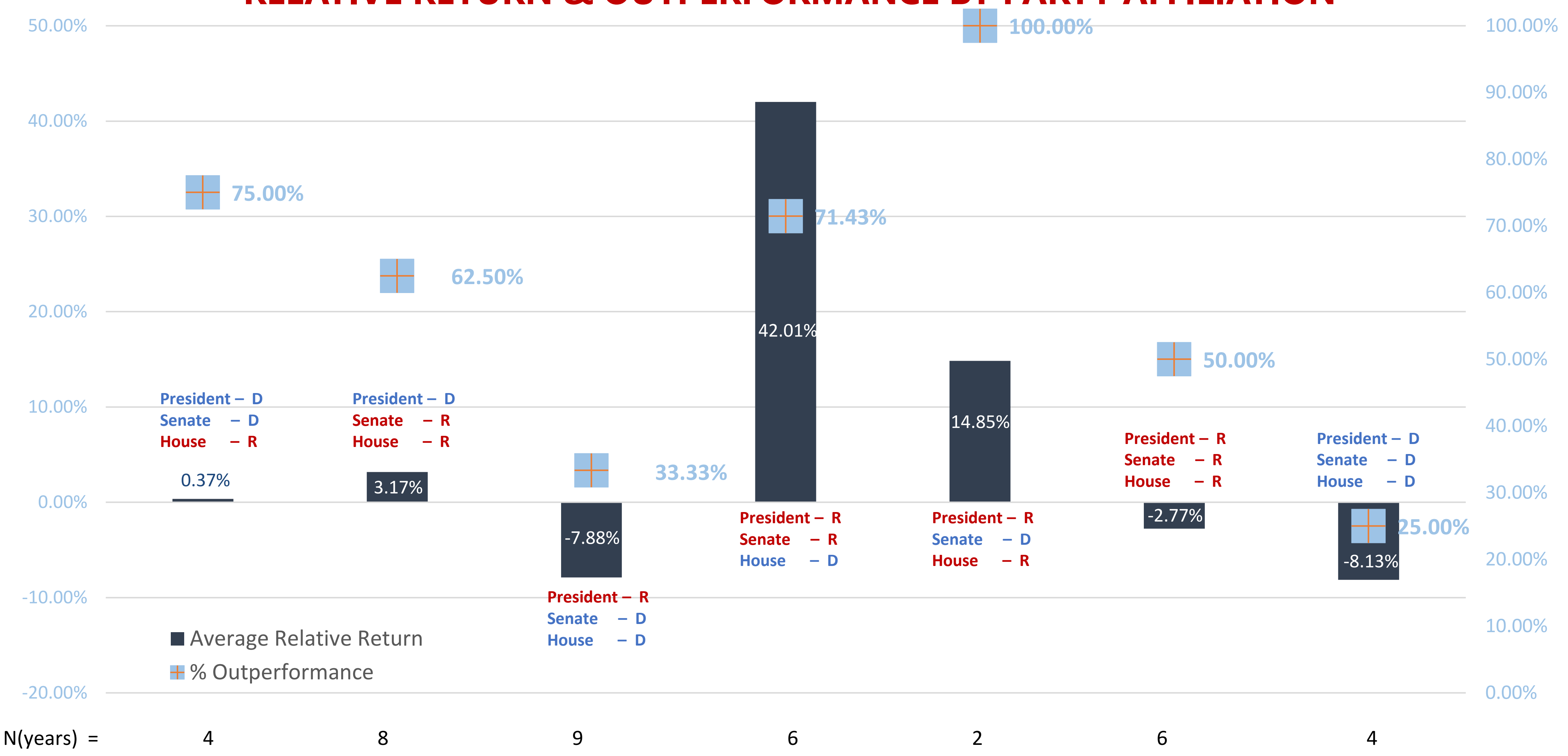
PERCENT OF ELECTIONS OUTPERFORMING S&P 500 BY YEAR OF CYCLE



Source: Bloomberg, Raymond James research

Banks

RELATIVE RETURN & OUTPERFORMANCE BY PARTY AFFILIATION



Source: Bloomberg, Raymond James research

Banks

ANALYSTS' BEST-POSITIONED NAMES: BANKS

Dem Sweep

Feaster	NTB	We see Bank of N.T. Butterfield as uniquely positioned in a Democratic sweep in the November elections given its insulation from a change in corporate tax rates. Additionally, higher tax rates in the U.S. could drive migration to tax havens, which would benefit the bank's trust and asset management businesses. Finally, the bank's well capitalized balance sheet leaves it with significant loss absorption capacity to weather whatever credit issues may arise, while continuing to support its dividend.
Wallace	CASH	In a Democratic sweep, while maybe not great for bank stocks in general, we actually believe this would be a less-bad scenario for bank investors, where they can avoid those banks more impacted by higher taxes and the larger banks which tend to fall under the regulatory microscope a bit more than the smaller banks. Instead, we would focus on banks that might benefit from higher likelihood of stimulus, especially as it relates to small business lending practices, with the ability to offset pressures from higher taxes better than peers. With its investment tax credit business from its solar lending practice and it meaningful niche small lending business, we believe Meta is uniquely positioned for relative outperformance in this scenario.

Banks

ANALYSTS' BEST-POSITIONED NAMES: BANKS

Biden + Divided Government

Rose, Feaster	SBCF, PB, HOMB	We believe this is actually the worst case scenario for the banks as they will face increased regulatory pressures due to the presidential appointees, but more gridlock in Congress. So while taxes don't go up, we believe there would be less likelihood of additional stimulus if it is needed, which could lead to higher credit pressures at the banks. In this scenario, we believe investors will be better suited to play more defensive names that operate in states with positive in-migration trends, no/low state income tax, and business friendly environments.

Banks

ANALYSTS' BEST-POSITIONED NAMES: BANKS

Trump + Divided Government

Rose, Long, Wallace, Feaster	AX, PPBI, OCFC, WBS, CADE, WTFC, TCF	Status quo is probably the most bullish scenario for the banks, as what you see is what you get. In this scenario, we assume the regulatory environment will not worsen and the tax rate will remain unchanged. Continued stalemates around stimulus, if needed, could be a negative, but Republicans are probably more willing to compromise in this scenario.

Diversified Financial Services

KEY TAKEAWAYS: DIVERSIFIED FINANCIAL SERVICES

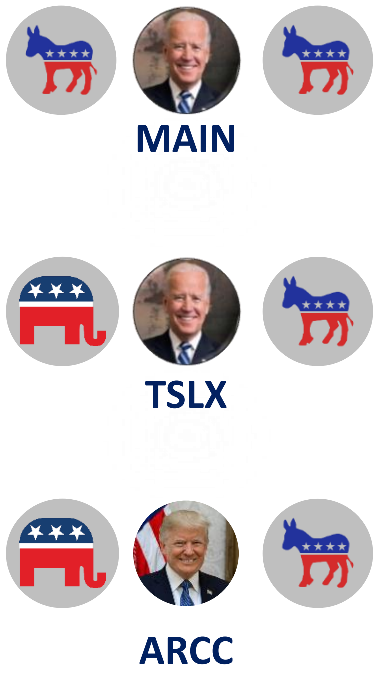
Historical Takeaways

Averages Over Time

- Outperforms in E-1
- Underperforms in E0
- Underperforms in E+1
- Outperforms in E+2

- On average, this industry has historically performed best under **Republican, divided governments**.
- It has **underperformed with a Republican President and Democratic Congress.**

Analysts' Best-Positioned Per Scenario

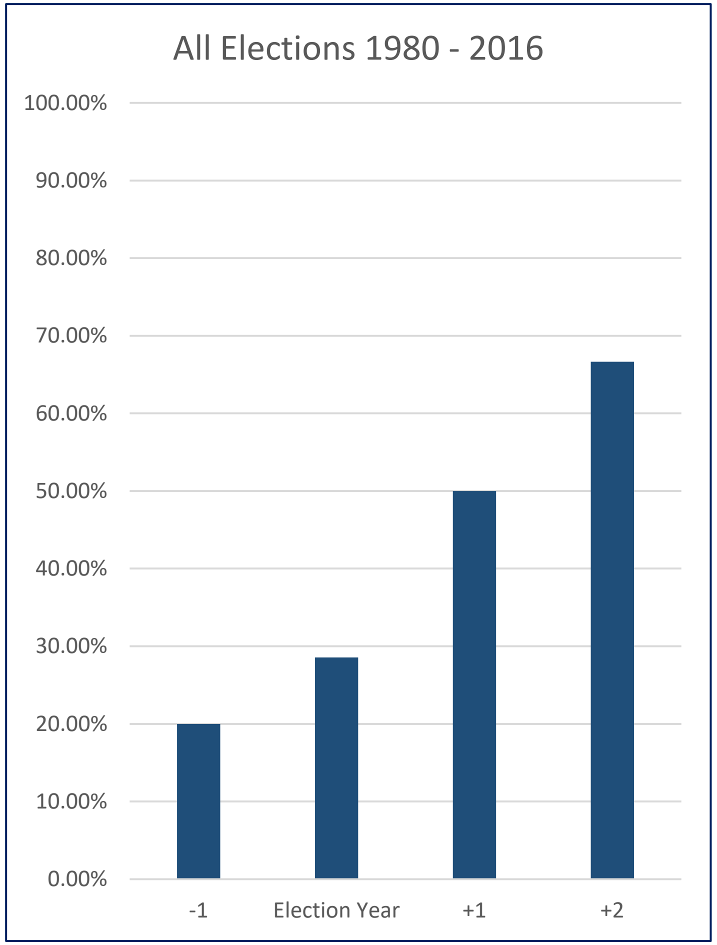


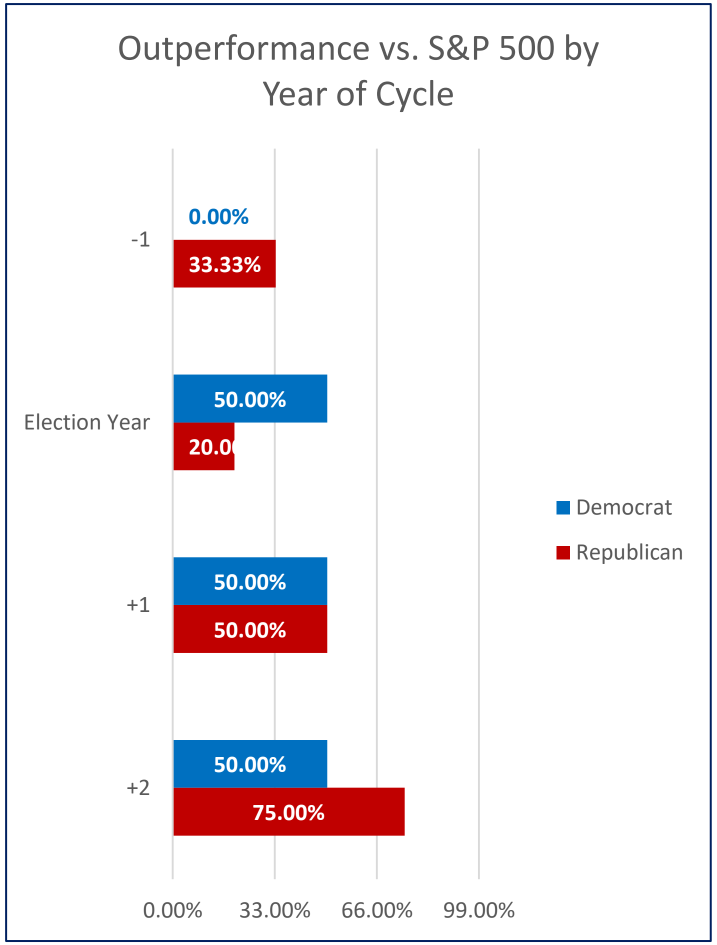
Key Takeaways

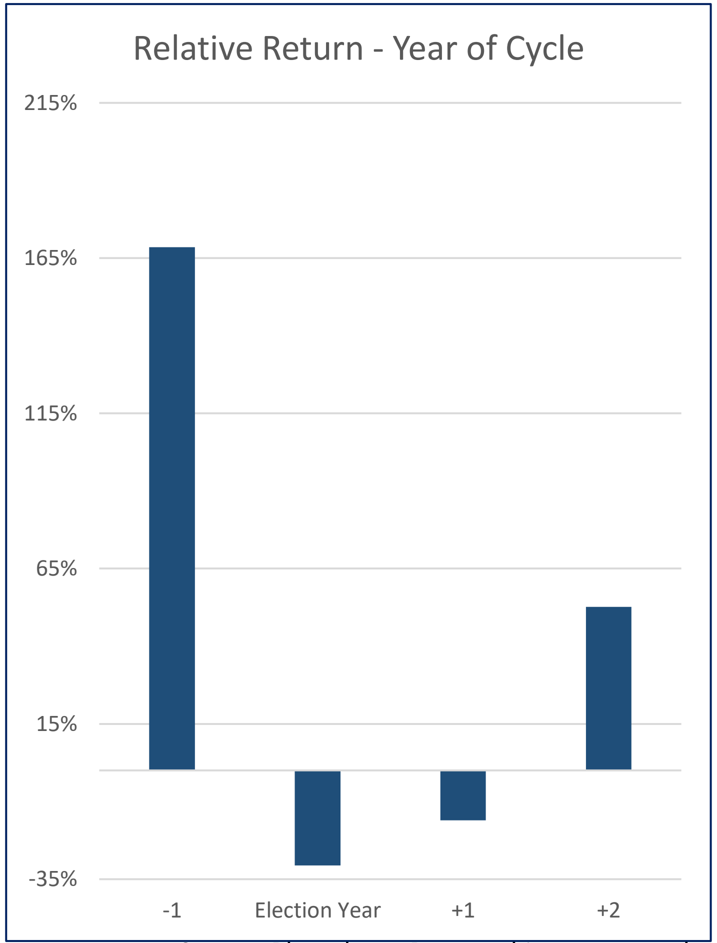
- Taxation changes (carried interest, capital gains, dividend income) could have benefit to the BDCs in both fundamental market activity (more PE/buyout activity sooner) and relative value of non-qualified dividend income.
- Risk of regulation of shadow bank system could impact industry competitive pressures.

Diversified Financial Services

PERCENT OF ELECTIONS OUTPERFORMING S&P 500 BY YEAR OF CYCLE



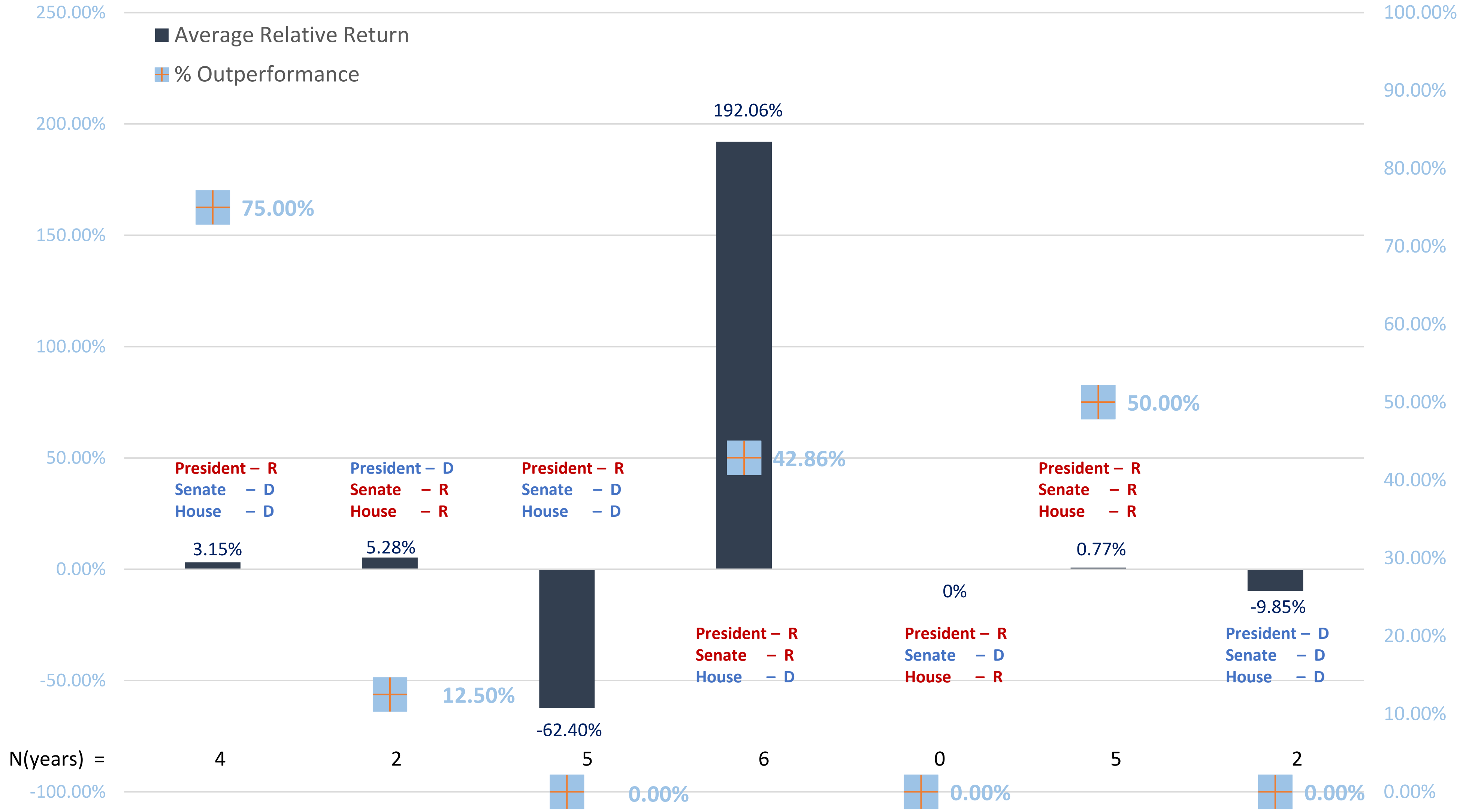




Source: Bloomberg, Raymond James research

Diversified Financial Services

RELATIVE RETURN & OUTPERFORMANCE BY PARTY AFFILIATION



Source: Bloomberg, Raymond James research

Diversified Financial Services

ANALYSTS' BEST-POSITIONED NAMES: DIVERSIFIED FINANCIAL SERVICES

Dem Sweep

Dodd	MAIN	More fiscal support would greatly benefit small businesses; potential for (capital gains) tax increase could drive acceleration in business sale activity.

Diversified Financial Services

ANALYSTS' BEST-POSITIONED NAMES: DIVERSIFIED FINANCIAL SERVICES

Biden + Divided Government

Dodd	TSLX	Stalemate in Washington, less fiscal support favors BDCs with more diversified lending tools and robust credit track records.

Diversified Financial Services

ANALYSTS' BEST-POSITIONED NAMES: DIVERSIFIED FINANCIAL SERVICES

Trump + Divided Government

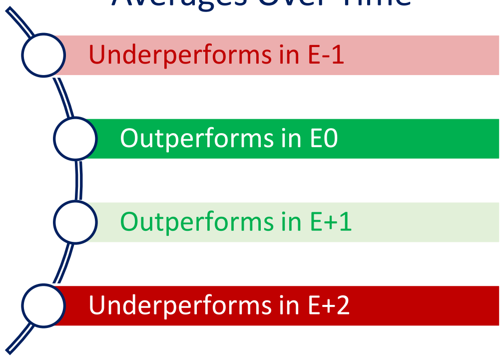
Dodd	ARCC	Largest BDC and major non-financial bank lenders likely to benefit from continued light regulatory touch on non-bank lenders.

Consumer Finance

KEY TAKEAWAYS: CONSUMER FINANCE

Historical Takeaways

Averages Over Time



- On average, this industry has historically performed best under **full Dem governments and well**.
- It has **mixed performance under divided governments.**

Analysts' Best-Positioned Per Scenario

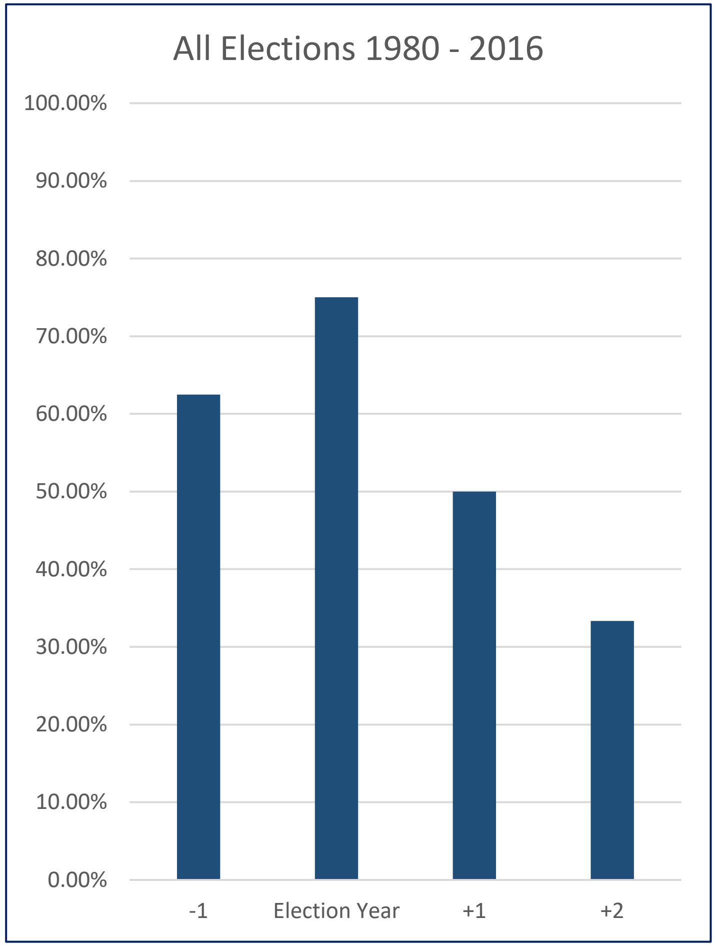
PRAA, ECPG

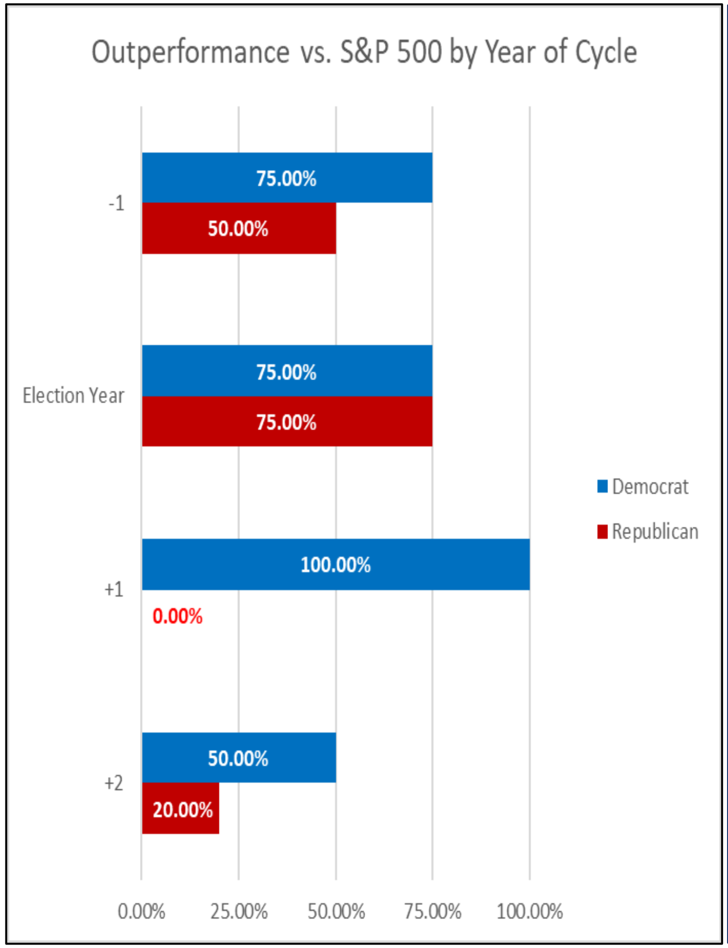
Key Takeaways

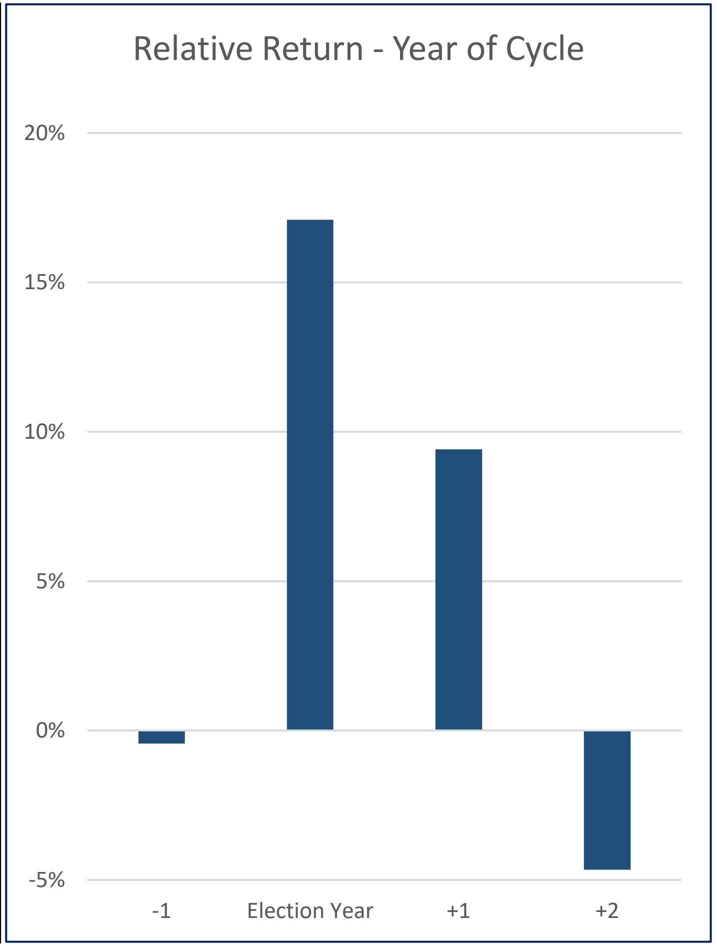
- A Democratic sweep could position the industry for much more consumer support, and have a net benefit to credit quality.
- Under a status quo scenario, a divided government would reduce the risk of legislative or material regulatory action on debt collectors.

Consumer Finance

PERCENT OF ELECTIONS OUTPERFORMING S&P 500 BY YEAR OF CYCLE



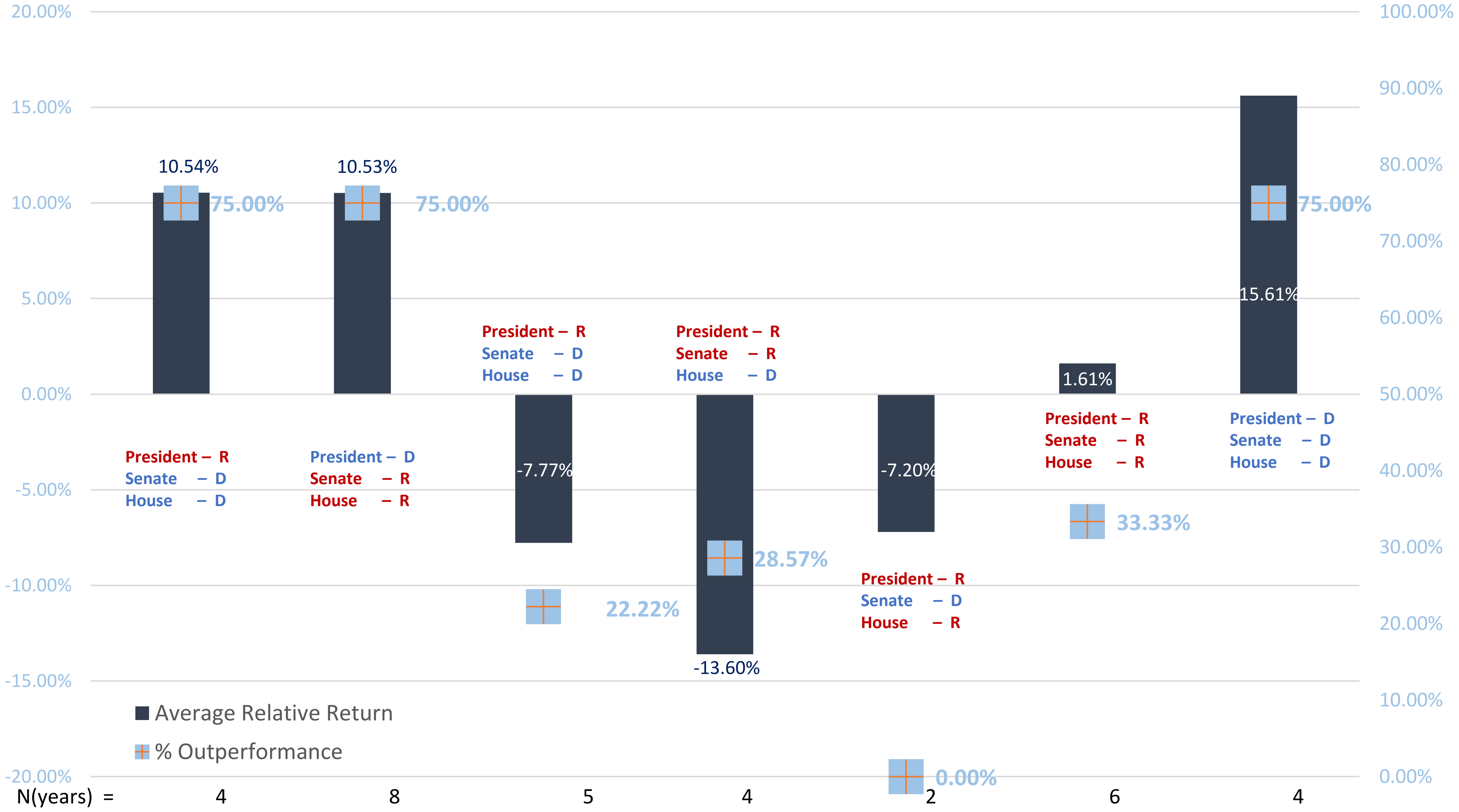




Source: Bloomberg, Raymond James research

Consumer Finance

RELATIVE RETURN & OUTPERFORMANCE BY PARTY AFFILIATION



Source: Bloomberg, Raymond James research

Consumer Finance

ANALYSTS' BEST-POSITIONED NAMES: CONSUMER FINANCE

Trump + Divided Government

Dodd	PRAA, ECPG	A divided government reduces risk of legislative or material regulatory action on debt collectors.

Capital Markets

KEY TAKEAWAYS: CAPITAL MARKETS

Historical Takeaways

Averages Over Time

- Underperforms in E-1
- Underperforms in E0
- Outperforms in E+1
- Outperforms in E+2

- On average, this industry has historically performed **well under unified and divided governments**.
- It has **performed well under a Democrat sweep.**

Analysts' Best-Positioned Per Scenario

MSCI

ENV, AMK

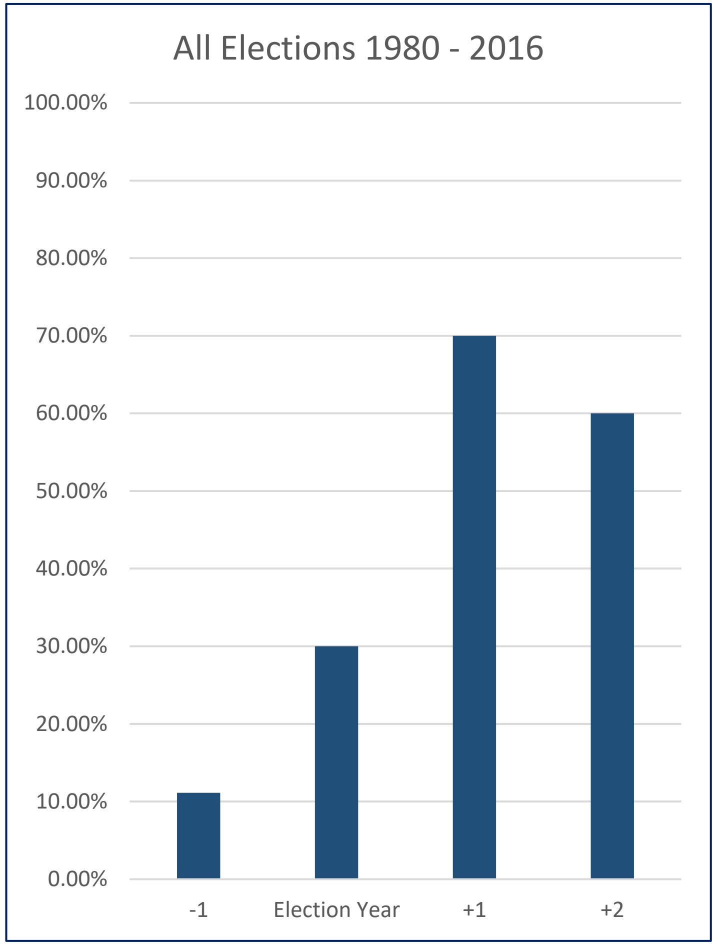
SCHW

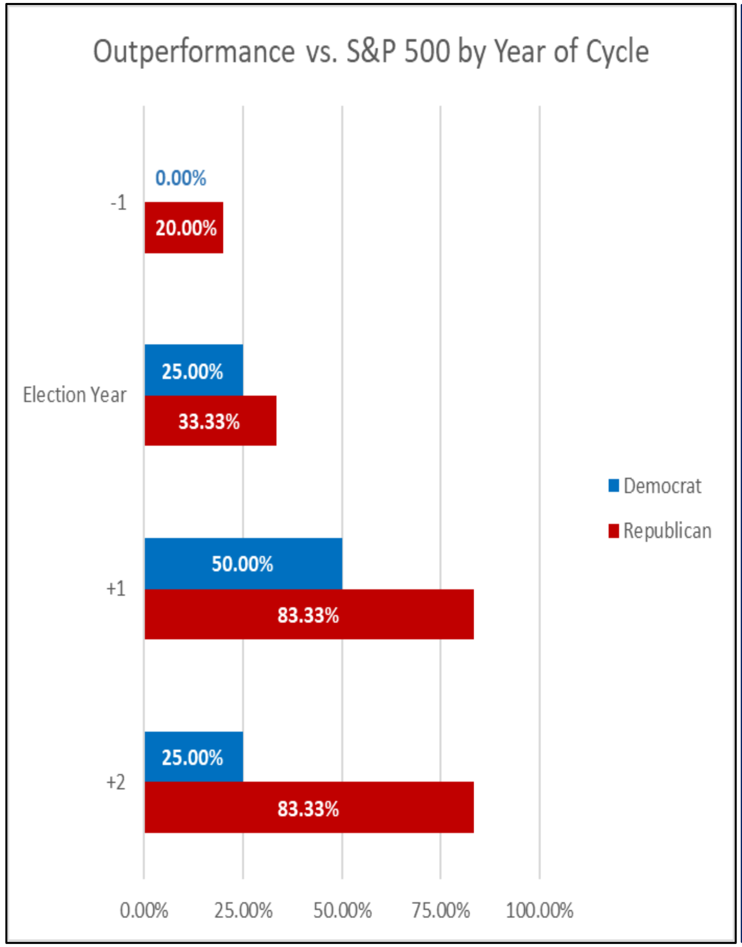
Key Takeaways

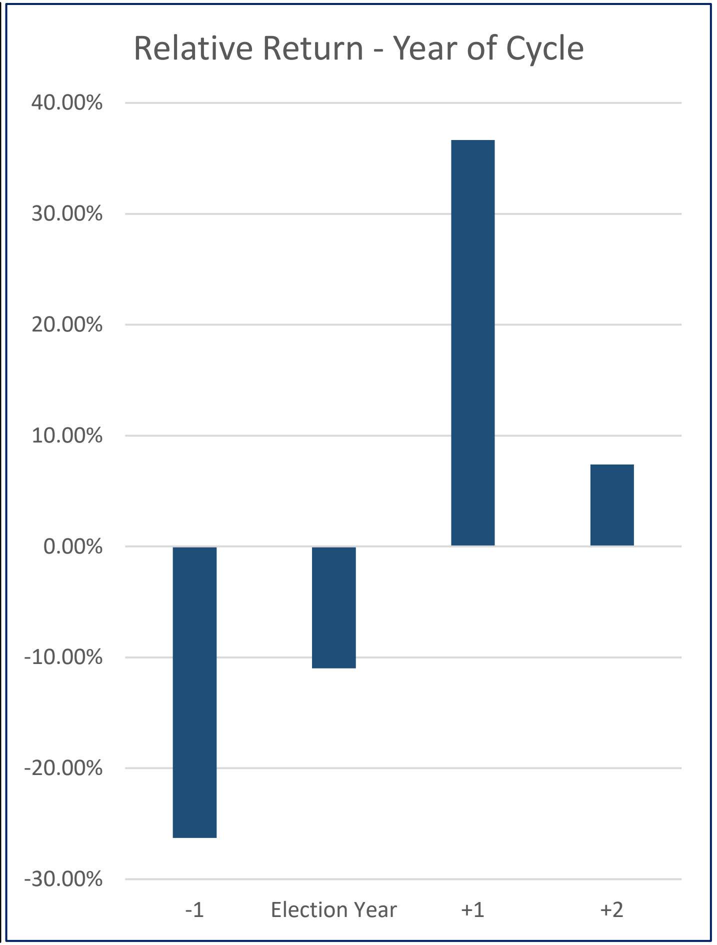
- In a Dem sweep, renewed focus on a fiduciary standard, financial transaction tax, credit rating agency reform, tax changes, M&A limits will all have a potential impact on the sector.
- Status quo election continues US-China trade tensions and delisting of Chinese equity and investment restrictions on Chinese firms accelerate. Lower regulatory risk seen as positive for M&A activities.
- In a Biden divided government, all focus is on financial regulation (fiduciary standard?), but limited fiscal support could impact macro economic environment.

Capital Markets

PERCENT OF ELECTIONS OUTPERFORMING S&P 500 BY YEAR OF CYCLE



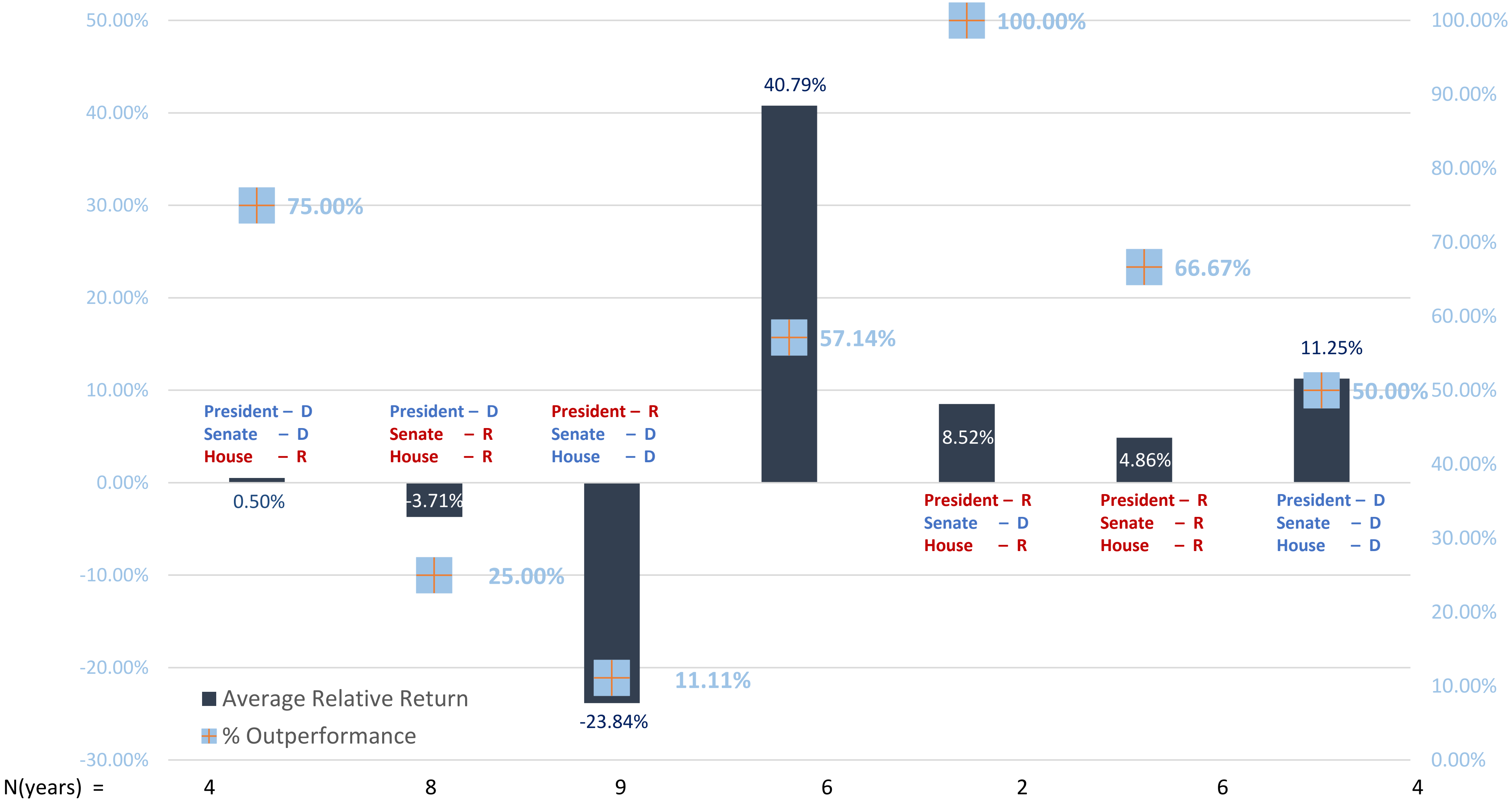




Source: Bloomberg, Raymond James research

Capital Markets

RELATIVE RETURN & OUTPERFORMANCE BY PARTY AFFILIATION



Source: Bloomberg, Raymond James research

Capital Markets

ANALYSTS’ BEST-POSITIONED NAMES: CAPITAL MARKETS

Dem Sweep

O’Shaughnessy	MSCI	A sweep by Democrats would likely serve to incentivize and further elevate the status of ESG investing, benefitting MSCI’s ESG ratings business and ESG index subscriptions. In addition, MSCI derives a substantial percentage of its revenue from outside the U.S. and would therefore be less impacted by a corporate tax rate increase than most other capital markets firms.

ANALYSTS’ BEST-POSITIONED NAMES: CAPITAL MARKETS

Biden + Divided Government

O’Shaughnessy	ENV, AMK	A Democrat-led White House would likely renew the Obama Administration’s push towards a broad fiduciary requirement for the wealth management industry. A renewed push would likely re-invigorate financial advisor adoption of fee-based pricing models and potential re-accelerate breakaway broker trends, both of which would be a positive for two of the leading technology providers for fee-based financial advisors.

Capital Markets

ANALYSTS' BEST-POSITIONED NAMES: CAPITAL MARKETS

Trump + Divided Government

O'Shaughnessy	SCHW	Continued regulatory leniency regarding balance sheet sizes and leverage ratios should facilitate the onboarding of TD Ameritrade client cash onto Schwab's balance sheet and thus maximize deal accretion.

Insurance

KEY TAKEAWAYS: INSURANCE

Historical Takeaways

Averages Over Time

- Underperforms in E-1
- Outperforms in E0
- Outperforms in E+1
- Underperforms in E+2

- On average, this industry has mixed performance under divided and unified governments.
- It has **performed poorly under the status quo makeup of government.**

Analysts' Best-Positioned Per Scenario

AFL, AJG, CB, WLTW

ALL, KMPR, ORI, PGR

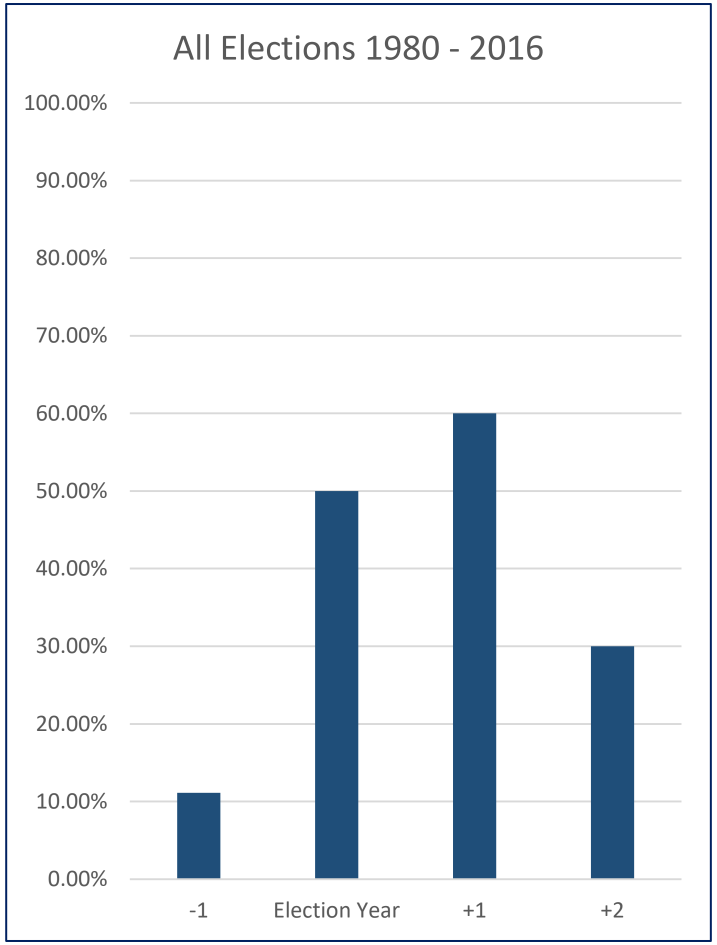
AJG, BRO, BRP, EHTH, FFG

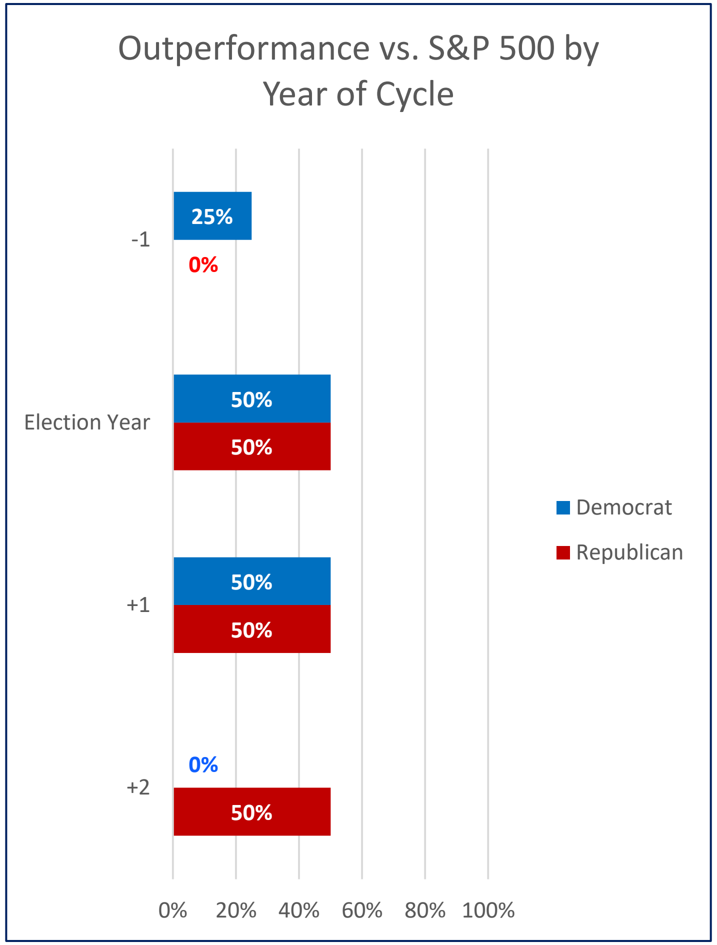
Key Takeaways

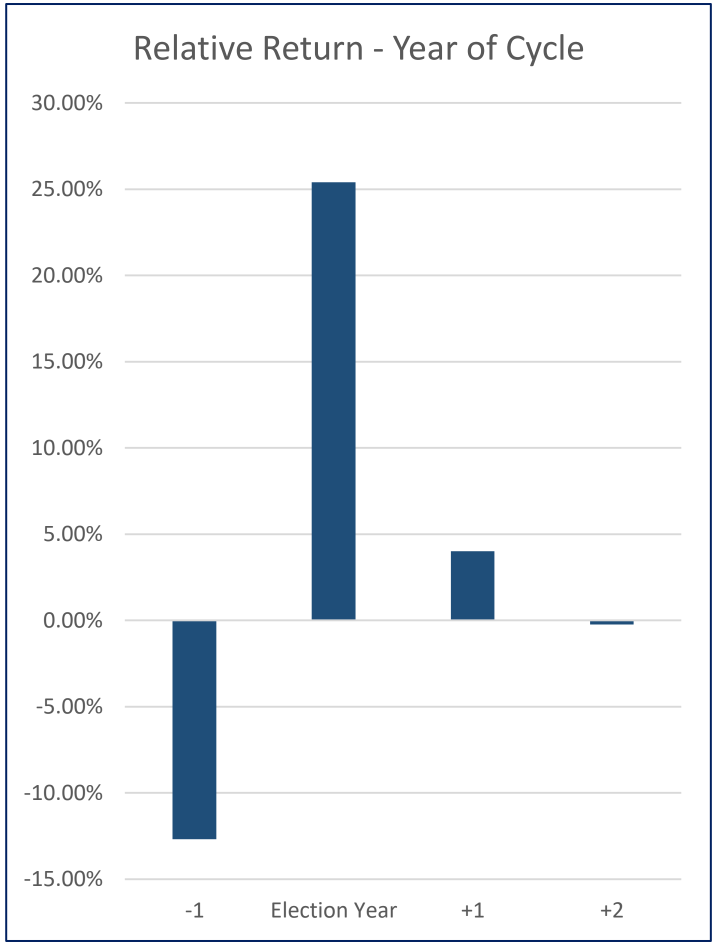
- In a Dem sweep we would favor P&C companies (which are regulated at the state level) and internationally domiciled companies.
- Under a Trump presidency we would expect insurance brokers to outperform, driven by robust M&A activity and enhancements to Medicare Advantage plans. Life insurers could benefit from sales of tax advantage products.

Insurance

PERCENT OF ELECTIONS OUTPERFORMING S&P 500 BY YEAR OF CYCLE



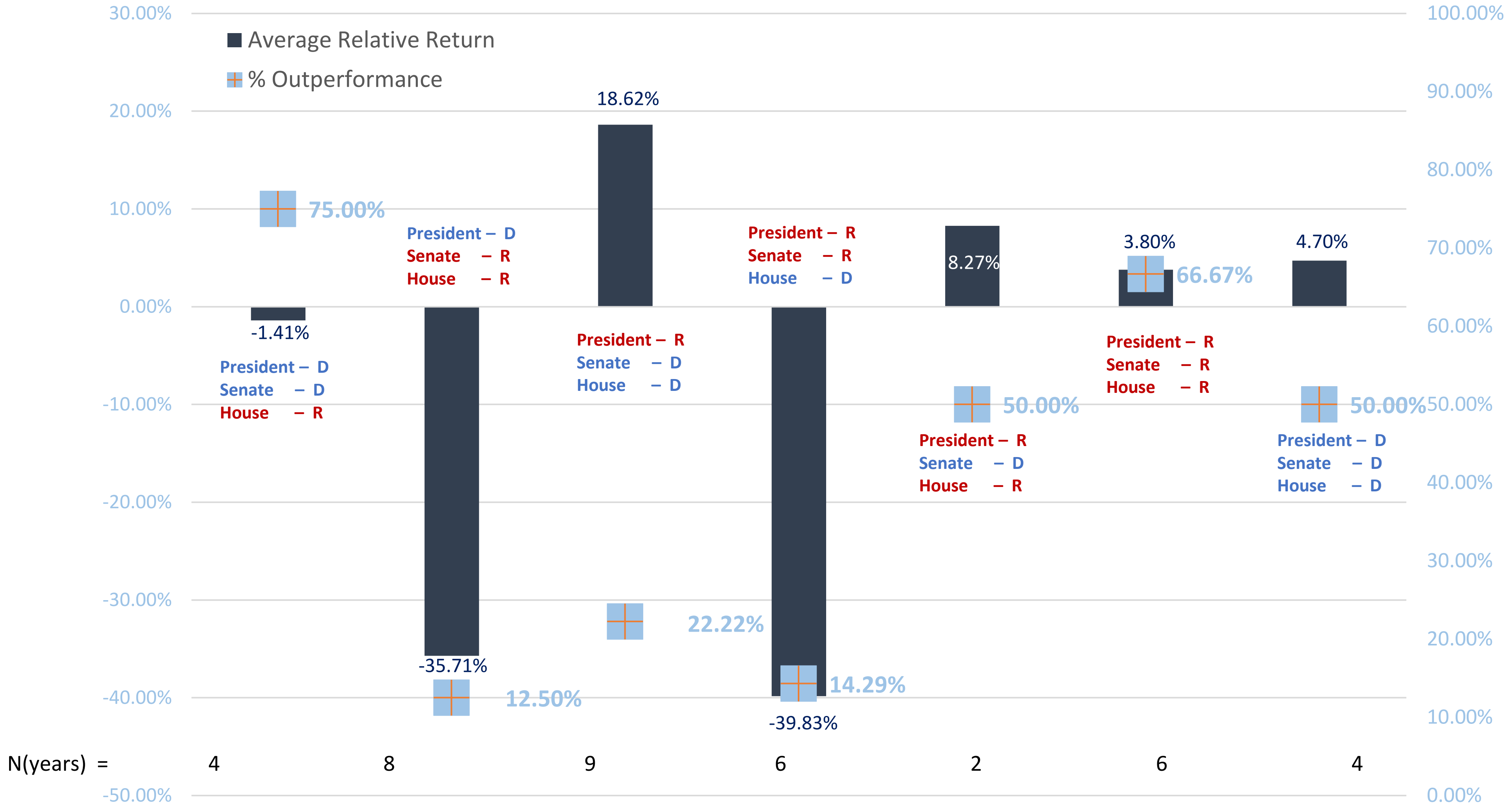




Source: Bloomberg, Raymond James research

Insurance

RELATIVE RETURN & OUTPERFORMANCE BY PARTY AFFILIATION



Source: Bloomberg, Raymond James research

Insurance

ANALYSTS' BEST-POSITIONED NAMES: INSURANCE

Dem Sweep

Greg Peters	AFL	AFL could play well into the "providing access to healthcare for the uninsured" theme. AFL offers short-term disability, life, accident, critical care, hospital indemnity, and dental & vision insurance in the U.S.
	CB	CB is domiciled in Zurich and wouldn't necessarily be meaningfully impacted by a scenario where US corporate taxes are increased to 28%. CB (and P&C companies more broadly) are also regulated at the state level.
	AJG, WLTW	AJG and WLTW (and insurance brokers more broadly) could benefit from increased regulation as it would increase the need for advise. WLTW is also domiciled in Ireland and wouldn't necessarily be meaningfully impacted by tax changes in a Dem sweep.

Insurance

ANALYSTS' BEST-POSITIONED NAMES: INSURANCE

Biden + Divided Government

Greg Peters	ALL	This scenario would comprise a classic tug of war environment, so nothing material is likely to happen. Businesses that are low-key, low-controversy, and sell "necessary" products are more likely to prosper.
	KMPR, PGR	
	ORI	

Insurance

ANALYSTS' BEST-POSITIONED NAMES: INSURANCE

Trump + Divided Government

Greg Peters	AJG	The U.S. insurance brokerage landscape is a highly fragmented market with over 37,000+ insurance agencies. The number of U.S. insurance brokerage deals have been on the rise, primarily as a result of the benefits of scale and successful agency owners seeking an exit and/or business transition to the next generation. There were 626 deals closed in 2018 compared with 362 deals in 2014. We believe the recent increase in deal activity is also due in part to a more favorable tax environment fallowing the Tax Cuts and Jobs Act of 2017.
	BRO, BRP	
	EHTH	Health insurance brokers like EHTH should benefit as result of the enhancements/expansion of Medicare Advantage plans. EHTH should also continue to benefit from reduced limitations around short-term medical plans.
	FFG	Life insurers could benefit from sales of tax advantage products. The legacy DOL fiduciary rule could have hindered sales through independent agents.

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Company Citations

Company Name	Ticker	Exchange	Closing Price	RJ Rating	RJ Entity
Aflac Incorporated	AFL	NYSE	$36.66	MO2	Raymond James & Associates
Ares Capital Corporation	ARCC	NASDAQ	$14.28	MO2	Raymond James & Associates
Arthur J. Gallagher & Co.	AJG	NYSE	$106.37	SB1	Raymond James & Associates
AssetMark Financial Holdings, Inc.	AMK	NYSE	$23.87	MO2	Raymond James & Associates
Axos Financial, Inc.	AX	NYSE	$24.26	SB1	Raymond James & Associates
Brown & Brown, Inc.	BRO	NYSE	$45.79	MO2	Raymond James & Associates
BRP Group, Inc.	BRP	NASDAQ	$22.80	MO2	Raymond James & Associates
Cadence Bancorporation	CADE	NYSE	$9.20	SB1	Raymond James & Associates
Chubb Limited	CB	NYSE	$123.44	MO2	Raymond James & Associates
eHealth, Inc.	EHTH	NASDAQ	$69.84	MO2	Raymond James & Associates
Encore Capital Group Inc.	ECPG	NASDAQ	$45.01	MP3	Raymond James & Associates
Envestnet, Inc.	ENV	NYSE	$81.78	SB1	Raymond James & Associates
FBL Financial Group, Inc.	FFG	NYSE	$37.99	MO2	Raymond James & Associates
Home BancShares, Inc.	HOMB	NASDAQ	$16.38	MO2	Raymond James & Associates
Kemper Corporation	KMPR	NYSE	$78.89	SB1	Raymond James & Associates
Main Street Capital Corporation	MAIN	NYSE	$30.84	MP3	Raymond James & Associates
Meta Financial Group, Inc.	CASH	NASDAQ	$19.17	SB1	Raymond James & Associates
MSCI Inc.	MSCI	NYSE	$368.74	MP3	Raymond James & Associates
OceanFirst Financial Corp.	OCFC	NASDAQ	$15.81	SB1	Raymond James & Associates
Old Republic International Corporation	ORI	NYSE	$16.12	SB1	Raymond James & Associates
Pacific Premier Bancorp, Inc.	PPBI	NASDAQ	$21.33	SB1	Raymond James & Associates
PRA Group, Inc.	PRAA	NASDAQ	$44.76	MP3	Raymond James & Associates
Prosperity Bancshares, Inc.	PB	NYSE	$54.62	MO2	Raymond James & Associates
Seacoast Banking Corporation of Florida	SBCF	NASDAQ	$19.73	MO2	Raymond James & Associates
Sixth Street Specialty Lending, Inc.	TSLX	NYSE	$17.81	MP3	Raymond James & Associates
TCF Financial Corporation	TCF	NASDAQ	$26.36	SB1	Raymond James & Associates
The Allstate Corporation	ALL	NYSE	$95.36	SB1	Raymond James & Associates
The Bank of N.T. Butterfield & Son Limited	NTB	NYSE	$25.93	MO2	Raymond James & Associates
The Charles Schwab Corporation	SCHW	NYSE	$34.55	MP3	Raymond James & Associates
The Progressive Corporation	PGR	NYSE	$90.84	SB1	Raymond James & Associates
Webster Financial Corporation	WBS	NYSE	$27.64	SB1	Raymond James & Associates
Willis Towers Watson Public Limited Company	WLTW	NASDAQ	$202.10	MP3	Raymond James & Associates
Wintrust Financial Corporation	WTFC	NASDAQ	$43.11	SB1	Raymond James & Associates

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