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The Election Outcome and Its Impact on Financial Markets

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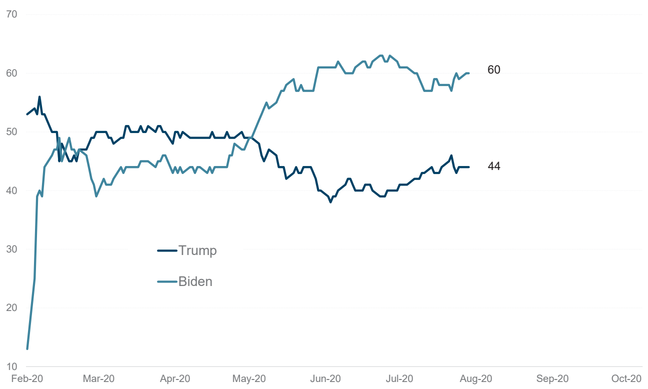
With presidential candidate Joe Biden consistently ahead of President Trump in the polls and the Democrats feasibly regaining control of the Senate, the possibility of a full sweep is certainly high—much more so than we felt possible earlier in the year. The president's poor handling of the coronavirus outbreak, increases in racial inequality protests, the subsequent collapse in the economy, and the end of the presidential campaigns of Senators Warren and Sanders seem to have hurt the president and are pushing Joe Biden closer to the finish line. **As we enter the homestretch for the upcoming November presidential election, in this *Economics Weekly,* we highlight some of the issues associated with a Trump second term versus a Biden presidency and Democratic-controlled Congress, and their potential impacts on interest rates and financial markets.**

The Race

The probability of a Democratic president and a Democratic House and Senate has increased in the last few months, as depicted in charts 1 and 2. According to PredictIt (chart 1), a measure of current pricing by market participants who are making actual bets on the election outcome, Joe Biden is ahead with a 60% probability against President Trump with a 44% probability (totals don't always sum to 100%, due to volatility and when the most recent trades were conducted in each contract).

Meanwhile, Real Clear Politics' average of the national polls shows that Biden has a current reading of 50, against Trump's 42.4. Lastly, *The New York Times* reports that Biden is now ahead in six key battleground swing states that helped carry Trump to victory in 2016—Michigan, Wisconsin, Pennsylvania, Florida, Arizona, and North Carolina. Other surveys show Florida (with 29 electoral college votes), Georgia (16 votes), and Ohio (18 votes) as still being toss-up states.

Chart 1.
PredictIt - "Who Will Win the U.S. Presidential Election in 2020?"
(Implied probability based on betting contracts by market participants)



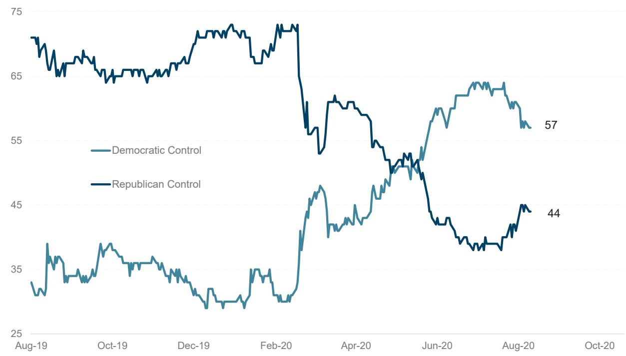
Source: PredictIt, Bloomberg, William Blair Equity Research

Chart 2.
Real Clear Politics U.S. Presidential Election Polling Average
Average of National Polling Data

Source: Real Clear Politics, William Blair Equity Research

The current betting on the Senate shows punters are placing a 57% probability on a Democratic Senate, against a 44% probability of it remaining in the hands of the GOP (chart 3).

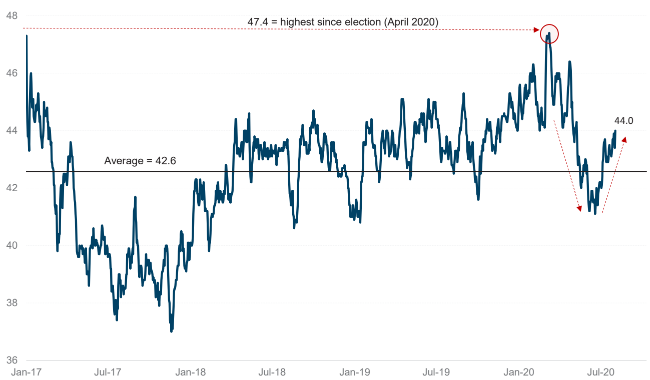
Chart 3.
Race for Control of the U.S. Senate
PredictIt probability of a Democratic or Republican controlled Senate based on financial market betting contracts



Source: PredictIt, Bloomberg, William Blair Equity Research

Given that this year's election is with an incumbent president fighting for a second term in office, the vote is likely to be more of a referendum on the president's first four years, hence his current approval ratings are vitally important here (chart 4).

Chart 4.
Real Clear Politics President Trump Approval Ratings
(Average of National Polls)



Source: Real Clear Politics, Bloomberg, William Blair Equity Research

Trump's ratings reached their all-time high on April 1, 2020, during the initial "rally around the flag" phase of the pandemic. They subsequently plunged to 41.1% on July 12 on the back of the virus resurgence. Since then, he's managed a mini-recovery, likely driven by what has been the initial V-shaped thrust of the first few months of the recovery against the easy comparisons of March through May.

The latest higher frequency data, however, suggests that the pace of activity has flattened out. We suspect it will prove a tougher slog for the president in the coming months, particularly as we reenter the flu season this autumn and may be faced with conflicting policies related to virus protocol as the school year starts.

Bottom line, Biden is ahead in the polls, though the lessons from the last election suggest that this is far from a done deal. Furthermore, one recent Fox News poll asked people who they thought their neighbors would vote for (to adjust for the fact that many people don't want to admit they would vote for Trump); this question resulted in a five-point lead for Trump. Hence, the reality is that there is still plenty of time between now and November 3 for anything to happen—particularly in the current COVID environment. Following the Democratic National Convention, the Republicans now have just one Democratic presidential and vice presidential candidate to focus their energies on, and the debate will become more heated as people drift back from summer holidays.

Assuming a Trump Victory

If Trump wins a second term in office, we really shouldn't expect too much of a change from the current slightly chaotic policy style. While there has clearly been a lack of consistency across many policy areas, there have been some notable areas where this administration has been quite consistent.

Domestically, this administration has consistently pushed for an America First agenda; one that has seemingly attempted to unwind all of the initiatives from the Obama administration. The president has consistently tried to run the domestic economy as hot as possible. This has included lowering taxes—both at the personal and corporate levels—with no major spending cuts to offset the cost of the tax cuts, resulting in much higher pre-COVID deficit and debt levels. He has had little in the way of a green agenda; he's taken a much tougher stance on illegal immigration—including the infamous border wall; and he's pushed greater deregulation of the financial and energy sectors.

Internationally, the president has preferred to pursue a very aggressive and polarizing foreign policy, where the stance has been to confront those countries that he feels have been taking advantage of the U.S. While this has included the U.S.'s traditional allies such as Europe (in particular Germany), Canada, and Mexico, for the most part the focus has been on China. Here, the president has been far more vituperative than either of the previous two administrations were in their attempts to tackle the ongoing areas of disagreement around China's aggressive trade practices and wider security threat.

President Trump has also been very consistent in his like for lower interest rates and for a less independent Federal Reserve that would take its direction from the White House. In reality, however, it is questionable how much influence the president actually has over interest rates.

The president can attempt to affect changes in interest rates through three key ways:

1) **Fiscal policy** – Raising or lowering the public deficit and debt through spending and tax initiatives can have an impact on the level of interest rates. This was certainly the case with the Clinton administration, which worked closely with the Greenspan Fed to achieve a united goal of lower rates and a lower national deficit/debt. Trump has so far shown little concern for the level of the public debt, and this seems unlikely to change in a second term.

2) **Political power** – The president can privately (as was the case most prominently with Nixon) and publicly (as is the case with the current president) badger the Fed into getting their way. At its heart, the Fed is a very political animal, and it knows that its existence is entirely at the discretion of Congress. It also seems fair to say that the attacks on the Powell Fed will have given it at least some pause in its actions over the last few years.

3) **Fed appointments** – The president also has the power to appoint members to the Fed's Board of Governors, which has included the renomination of Chairman Powell.

While past attempts to appoint controversial individuals such as Stephen Moore and Herman Cain were unsuccessful, Trump's appointment of Judy Shelton, a proponent of the gold standard and a prominent Fed critic who has questioned its very existence, is proving more successful. Her appointment has already passed by the Senate Committee on Banking and is now awaiting a full Senate confirmation. Uncontroversially, he has also put forward an existing Fed official Christopher Waller, who is a noted dove and whose appointment is also moving forward.

Today, the Fed is of the view that "lower for longer" is the correct policy path as it transitions to an average inflation targeting program, and perhaps in the future yield curve control. Hence, to this effect the president and the Fed are somewhat united in their current views, even though the Fed would prefer for it to be acknowledged that it arrived at its conclusion independently and for different reasons.

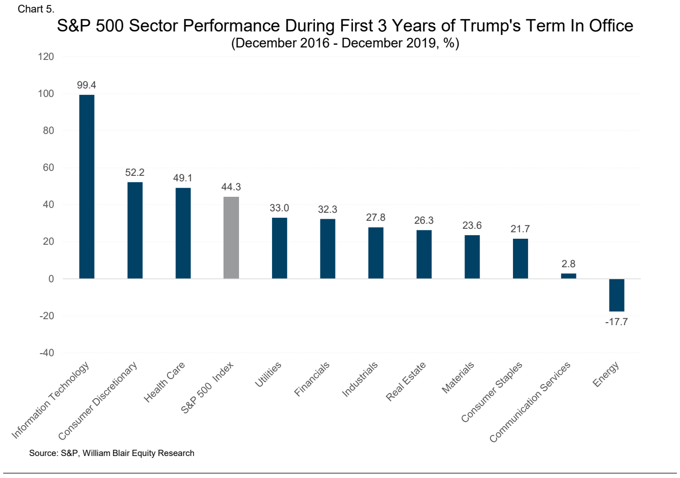
In general, while the president may have some moderate influence on rates, it is likely to be fairly small within the greater scheme of things, unless quite radical policies are taken with central bank independence heavily eroded.

With regard to the stock market, despite plenty of volatility and confusion around a number of policies emanating from the White House, the equity market has very much felt that President Trump has its back.

Trump has consistently gauged his success as a president on the behavior of the stock market and has generally favored lower taxes and increased spending—factors that favor equity investors in the near term. Yet, like interest rates, here too it is questionable as to just how much influence the president can have over the direction of the equity markets. For example, President Trump has consistently favored the energy sector and expressed his love of coal and the materials sector, as well as his disregard for the green agenda.

When elected, he was also expected to favor real estate (given his background) while deregulating the financial sector, with the result that these sectors were expected to do the best from a Trump presidency. Yet, over the first three years of his term in office (excluding the impact from COVID), these have been some of the worst-performing sectors in the S&P 500 (chart 5). The best-performing sectors have been information technology, consumer discretionary, and healthcare, which the president has consistently attacked.

Chart 5.

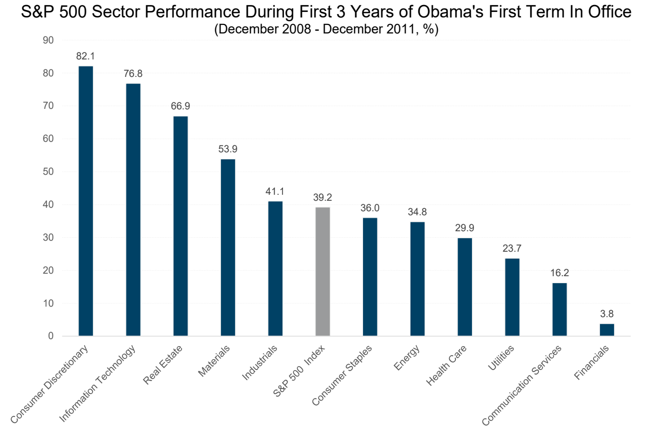


Source: S&P, William Blair Equity Research

While we acknowledge that there is an election cycle (something we wrote about at the start of the year here), the reality is still that the president's impact has been significantly less than the impact from structural trends taking place across the wider global macro economy, which are largely outside of the president's immediate sphere of influence. Such trends today include: 1) energy facing the headwinds of greater efficiency, the green agenda, and productivity improvements; 2) financials suffering from lower interest rates, regulation, and central bank intervention; and 3) information technology benefiting from the tailwind of an ongoing major innovation wave and digitization.

What might also help to bring this point across is looking at the same sector performance chart during the first three years of the Obama administration (chart 6), compared to Trump's first three years (chart 5). With some exceptions, in large part due to the 2008-2009 global financial crisis, relative sector performance has been quite similar.

Chart 6.



Source: S&P, William Blair Equity Research

In short, a Trump victory would likely see the continuation of a policy stance that attempts to run the domestic economy as hot as possible, and by enough that it gives him sufficient cover to continue to pursue a much more aggressive foreign policy stance.

Despite the uncertainty related to policy decisions emanating from the White House, the stock market has continued to do exceptionally well under this regime. To a large extent, however, this may have more to do with structural changes taking place in the underlying global economy than the influence of the president himself—though the tax cuts and the belief that he seems to "have the market's back" have likely also played a role.

The danger with another four years of Trump is that many decisions seem more shorter term in nature. And while they may be helping some areas of the economy to burn a little brighter in the very near term, over the longer term, some of these decisions are likely exacerbating underlying fault lines within the economy—in particular, issues revolving around racial and income inequality and the environment—and we may see some of these longer-term adverse effects shine through in even greater relief as the second term progresses.

Assuming a Biden Victory

If candidate Joe Biden accedes to the White House, from what we can gather from his campaign platform, the script would be quite similar to an Obama-style government, though lacking much, if not all, of the "change the world" euphoric energy that personified that administration.

Biden would be the oldest U.S. president, at 78 years old, if he takes office (Trump would also be the oldest U.S. president at 73 years old today, Reagan left office at 77), and there have been ongoing questions revolving around his physical and mental fitness for the role. Furthermore, while there seems to have been a strong vision for America's future presented by similarly aged candidates, such as Senators Elizabeth Warren (71) and Bernie Sanders (78)—strong enough not to appeal to many in the Democratic party—the Biden vision is a little more opaque.

If elected, he is being viewed by many as a one-term president, effectively a safe pair of hands elected to remove President Trump from office. His platform is just left enough to get the backing of those further left in the party, but still suitably neutral to attract the bulk of the party and any disenchanted swing voters.

Domestically, and certainly for the investor community, one of the greatest concerns would be his promise to raise taxes.

This would include pushing the corporate tax rate back to 28% and closing loopholes, following the Trump administration's slashing the rate from 35% to 21% (the OECD average corporate tax rate is 21.5%). He also wants to increase the capital gains tax (from 20% to 39.6%, for those with incomes over $1 million). Lastly, he would like to increase income taxes on wealthier Americans (those above $400,000 in annual income) to 39.6% from 37%. Hence, domestically he is seeking to redress at least some of the income inequality discrepancies by raising taxes on higher-income households.

He would also like to raise the minimum wage from $7.25 per hour to $15.00, and expand the Affordable Care Act by providing a public option and potentially limiting the amount that healthcare companies can charge. The extra income generated would be used to support an infrastructure spending initiative, particularly on green infrastructure. Biden is placing a lot of emphasis on the expansion of clean and renewable energy.

His first priority, however, would be to tackle the coronavirus, where he promises to incorporate more public health officials, greater testing, and support for displaced workers.

Internationally, Biden would seek to restore fraught relations with U.S. allies, downplay the use of tariffs as a political weapon, decrease the protectionist rhetoric and actions, and try to tackle the China issue in a multilateral approach through a renegotiated Trans-Pacific Partnership deal. It is unclear what his stance on Iran, Russia, and North Korea might be.

With respect to the direction of interest rates, Biden very much believes in an independent Federal Reserve and would undoubtedly let it guide policy in the same way Obama let the Bernanke and Yellen Feds do.

His touted fiscal policies, however, risk slowing economic growth further and thereby helping to keep rates low.

Even with a weak economy, the risk would be that to prevent a schism of the left within the Democratic party and to ensure their continued support, a united Democratic Congress would attempt to push through tax increases under the guise of fiscal sustainability and restoring greater income equality, following the bloated deficits resulting from the virus-related spending and Trump tax cuts.

With regard to Biden's potential impact on the stock market, our view is that he would be less equity market friendly than President Trump has been, though he would not a be major negative. The market would be most at risk from a clean sweep, whereby the Democrats retain the House and win over the Senate.

President Trump's corporate tax cut boosted corporate earnings by approximately 10%; hence, a partial scaling back of that policy—if implemented—would cause a partial reversal of those gains, similarly to the extent that he raises the capital gains tax and closes any tax loopholes. Again, this would likely need a clean sweep in the Senate.

Furthermore, we would expect a President Biden to halt and potentially reverse at least some of the deregulation that has been carried out by the Trump administration, particularly with regard to energy and the financial sector. He would cut the number of permits for drilling on government land and offshore, which might not be an immediate threat to the sector given current oil prices, but could be one in the future.

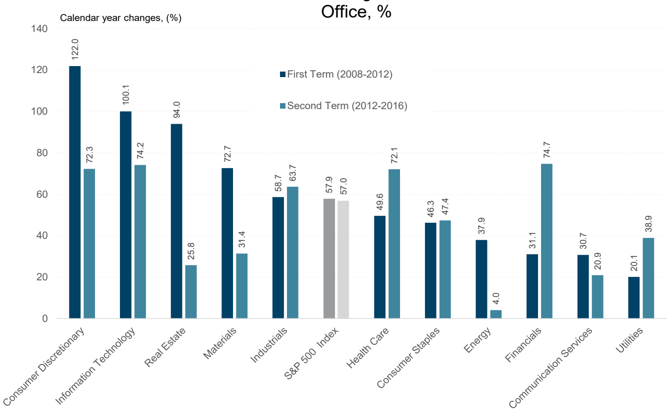
Biden's healthcare initiatives might also be expected to have some adverse implications for the healthcare sector; though as with the Obama administration, these would be very industry specific within healthcare, with some industries actually benefiting. President Trump has also indicated a desire to tackle prescription drug pricing.

On big tech, Biden has been much less vocal on the need for greater antitrust legislation than other candidates, such as Elizabeth Warren, or even President Trump with his dislike of Amazon.

On the premise that Biden would in many ways be a continuation of the Obama administration, it is worth looking at what sectors performed the best and worst during Obama's two terms in office (chart 7).

Chart 7.

S&P 500 Sector Performance During First & Second Obama Terms in Office, %



Source: S&P, Bloomberg, William Blair Equity Research

Once again, the message is that while politics can have a big impact on the stock market, the wider trends in the macro economy matter more.

In short, Biden is being viewed by many as a one-term president, a safe pair of hands elected to remove President Trump from office, with a platform that is suitably neutral compared to other Democratic candidates. His presidency would in many ways be viewed as an extension of the Obama-era policies, yet seemingly without much of the vision, drive, and euphoria that accompanied those.

A platform of raising taxes is a tough one to run on, and would require a united Congress to implement. His presidency would also likely be associated with lower interest rates, and while he is not be as equity market friendly as President Trump, he is unlikely to represent a major negative influence on share prices in aggregate.

Conclusion

Presidential candidate Joe Biden has been consistently ahead in the polls leading up to the November 3 election—though we should not underestimate the popularity of President Trump nor the fact that many who support his policies and will vote for him do not necessarily like to identify themselves to national pollsters.

Market-based betting data also suggest that the Senate might swing to the Democrats, making it a clean sweep for the party. If this were to happen, it tangibly increases the risk that the Trump tax cuts would be partly reversed, and equity markets would necessarily respond adversely to this.

In terms of its impact on interest rates, as much as the president may have any influence here, rates would likely remain low, particularly if taxes were to be increased.

The stock market would likely do less well under a Biden presidency than a Trump presidency, though Biden is unlikely to represent an outright major negative for stocks.

A greater risk to the equity market would be a Biden presidency that was accompanied by Democratic control of Congress—which is a possibility at this point. In such an outcome, however, much would also depend on the degree to which the more centrist Biden would have to pander to the far left to ensure their continued support.

A second term for President Trump would likely see a continuation of seemingly chaotic policymaking, but one built around the central themes of running the domestic economy as hot as possible (through more tax cuts, spending increases and deregulation, climate change skepticism, and income and racial discord), while internationally forging an aggressive America First policy.

Trump would likely continue to badger the Fed for lower interest rates, although the Fed is already positioning itself for lower-for-longer rates regardless. Meanwhile, his platform for greater deregulation, tax cuts, and spending increases, as well as his appetency for a strong stock market as a gauge of his success in office, are generally viewed by equity investors as a near-term positive.

More generally, history suggests that while the president can have an impact on the stock market in the near term —there is an election cycle after all—current underlying macroeconomic trends tend to have an even larger overriding impact.

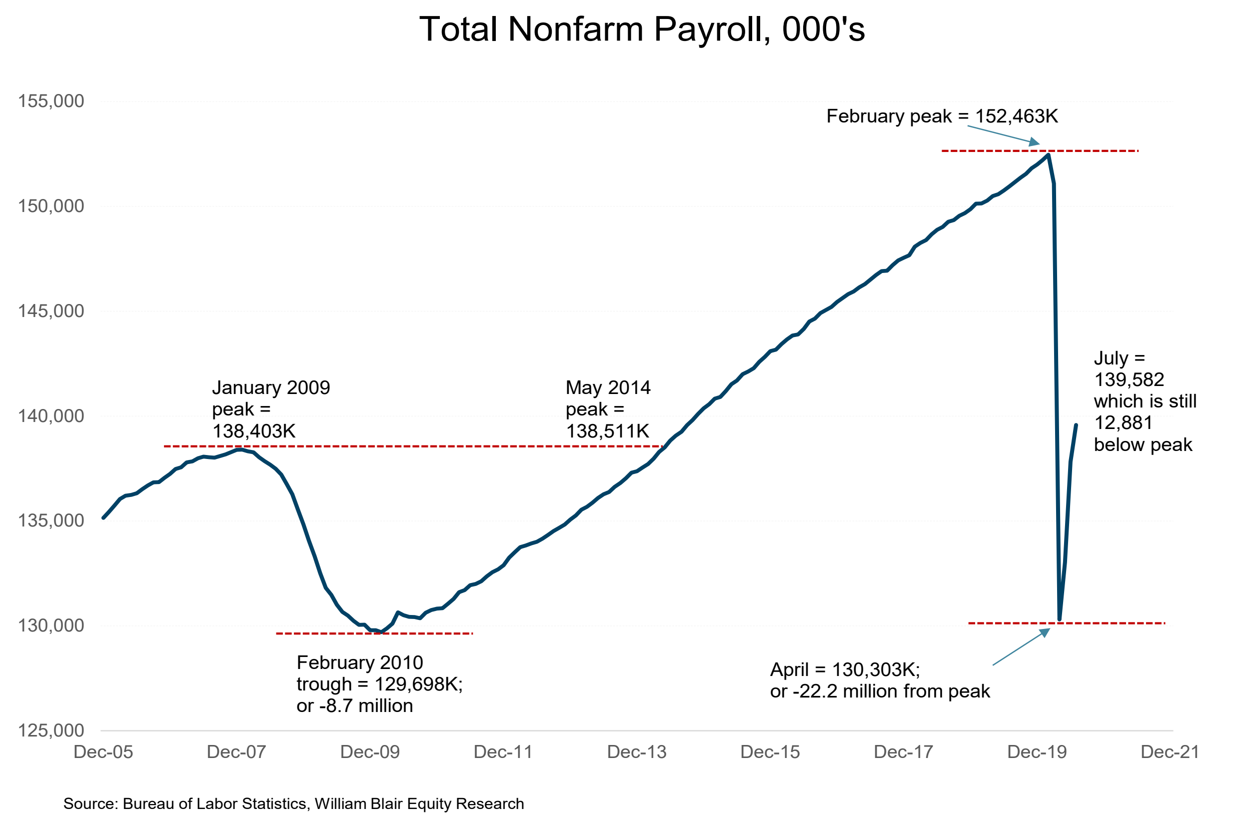
There is always a high degree of uncertainty around presidential elections, and this one is no different, particularly if faced with a contentious vote that could result in recounts around mail-in ballots and ongoing lawsuits. Neither candidate is likely to have much sway over interest rates. And, while they will have an impact on the equity markets, this will generally be more industry/stock specific, as opposed to aggregate sectors or the greater aggregate market, whose direction is largely dictated by wider trends in the macro economy.

Highlights in the Week Ahead

Date	Time (EDT)	Indicator	Last	Consensus	WB Estimate	Actual
1 Sep	10:00 a.m.	ISM Manufacturing Index (Aug)	54.2	54.5	53.6	
2 Sep	10:00 a.m.	Factory Orders (Jul)	6.2%	3.8%	4.3%	
2 Sep	2:00 p.m.	Fed's Beige Book				
3 Sep	8:30 a.m.	Nonfarm Productivity (Q2 Final)	7.3%	7.3%	7.3%	
		Unit Labor Costs	12.2%	12.2%	12.2%	
3 Sep	8:30 a.m.	Trade Balance (Jul)	-$50.7bn	-$52.3bn	-$51.9bn	
4 Sep	8:30 a.m.	Nonfarm Payrolls (Aug)	1763K	1575K	1000K	
		Unemployment Rate	10.2%	9.9%	10.0%	
		Average Hourly Earnings	0.2%	0.0%	0.0%	

Sources: Bloomberg, William Blair Equity Research

Indicator of the Week: Employment Situation



Economic Scorecard

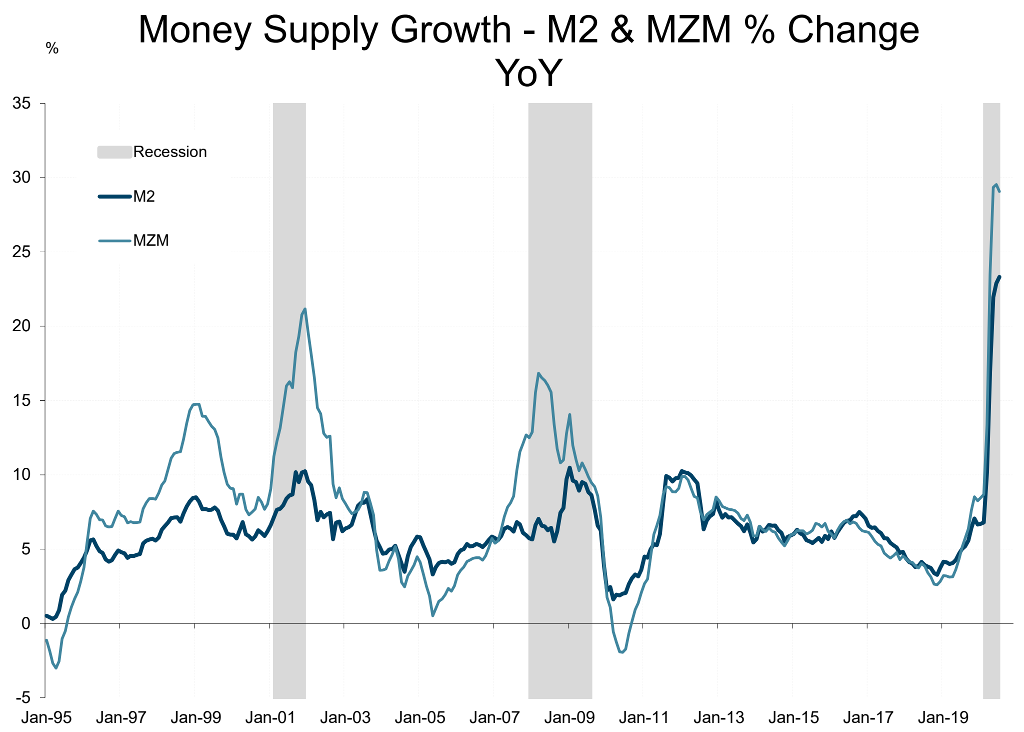
Rolling monthly heat map, % Change on Year Ago (unless otherwise noted)

	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20
Growth																			
US Leading Indicators	2.9	2.7	2.4	2.4	1.7	1.5	1.0	0.3	0.2	0.3	0.3	0.8	0.4	-7.2	-13.1	-10.4	-7.7	-6.8	
US Coincident Indicators	2.2	2.2	1.8	1.8	1.7	1.5	1.5	1.6	1.4	1.5	1.2	1.2	1.5	-0.8	-12.3	-10.4	-7.9	-6.8	
US Lagging Indicators	3.1	3.2	2.9	2.4	2.8	3.5	2.9	2.8	2.6	2.5	2.2	1.6	1.7	3.5	7.5	5.0	2.2	0.6	
Consumer																			
Total Retail Sales	2	3.6	3.9	2.9	3.4	3.5	4.3	4	3.3	3.3	5.6	4.9	4.5	-5.6	-19.9	-5.6	2.1	2.7	
Personal Income	4.7	4.6	4.4	4.1	3.8	3.4	3.5	3.5	3.6	3.9	2.9	3.7	4.1	1.8	14	8.8	7.4		
Real Disposable Personal Income	3.4	2.9	2.4	2	1.9	1.6	1.8	2	1.8	2.1	0.8	1.6	2	0.6	16.2	10.2	8.1		
Real Personal Consumption	2.2	2.5	2.4	2.3	2.6	2.4	2.3	2.6	2.3	2.1	3	2.7	2.6	-4.7	-16.7	-10	-5.5		
Personal Saving Rate (%)	8.6	8	7.5	7.3	7.1	7	7.3	7.3	7.2	7.5	7.2	7.6	8.3	12.8	33.5	24.2	19		
Consumer Confidence (Conference Board)**	131.4	124.2	129.2	131.3	124.3	135.8	134.2	126.3	126.1	126.8	128.2	130.4	132.6	118.8	85.7	85.9	98.3	91.7	
Employment																			
Employment Growth	1.4	1.4	1.4	1.3	1.3	1.3	1.3	1.4	1.3	1.4	1.4	1.4	1.6	0.5	-13.4	-11.7	-8.6	-7.5	
ASA Temporary Staffing Index	-1.3	-1.9	-3.0	-2.4	-1.7	-4.6	-4.7	-5.1	-6.5	1.4	-6.9	-6.2	-6.8	-24.4	-36.6	-33.9	-27.4	-23.8	
ISM Employment Index Manufacturing*	53.2	57.1	52.4	53.1	54.3	51.3	47.6	46.5	47.9	46.8	45.2	46.6	46.9	43.8	27.5	32.1	42.1	44.3	
ISM Employment Index Services*	55.6	55.9	54.5	57.1	55.2	55.7	53.7	51.7	53.9	54.9	54.8	53.1	55.6	47	30	31.8	43.1	42.1	
Unemployment Rate, %	3.8	3.8	3.6	3.6	3.7	3.7	3.7	3.5	3.6	3.5	3.5	3.6	3.5	4.4	14.7	13.3	11.1	10.2	
Average Hourly Earnings	3.5	3.4	3.3	3.3	3.4	3.5	3.5	3.1	3.2	3.3	3	3.1	3	3.4	8	6.6	4.9	4.8	
Initial Jobless Claims (avg. wkly. chg. '000s)	225	217	216	217	221	214	217	213	215	216	226	210	214	2667	5040	2288	1499	1339	
Jop Openings	7.2	7.3	4.3	3.9	-1.3	-1.2	-1.1	-3.2	1.0	-9.5	-10.3	-6.8	-0.6	-18.4	-31.4	-26.4	-18.0	-18.6	
Layoff Announcements	117.2	0.4	10.9	85.9	12.8	43.2	39	-24.8	-33.5	-16	-25.2	27.8	-26.3	266.9	1576.9	577.8	305.5	576.1	
Housing Market																			
Housing Starts	-11.7	-9.9	-0.2	-4.9	3.8	1.4	7.6	2.2	11	13.9	42.1	27.1	37.8	5.5	-26.3	-18.1	-1.2	23.4	
New Home Sales	4.4	5.7	4.2	-8.7	18.4	7.1	18.1	21.8	27.9	13.4	29.6	21.5	7.7	-12.6	-14.2	14.5	9	36.3	
Existing Home Sales	-2.5	-5.6	-3.7	-1.1	-2.0	0.8	2.5	3.2	4.2	3.1	10.4	8.8	7.1	0.8	-17.2	-26.6	-11.7	8.7	
Median House Price (Existing Homes)	-2	-7.4	7.8	-1.3	0.4	-5.9	1.7	-3.8	-1.8	6.3	-0.1	7.7	3.4	5.7	-8.5	0.1	8.1	7.2	
Existing Homes Inventory (Mths' supply)	3.9	3.9	4	4	4	3.9	3.8	3.9	3.9	3.9	3.6	3.5	3.2	3.6	3.9	4.5	3.7	2.8	
New Homes Inventory (Mths' supply)	6.1	5.8	6.1	6.7	5.5	6	5.5	5.3	5.5	5.6	5.3	5	5.5	6.5	6.8	5.4	4.6	4	
NAHB Homebuilder Sentiment*	62	62	63	66	64	65	67	68	71	71	76	75	74	72	30	37	58	72	
Inflation																			
Consumer Price Index	1.5	1.9	2	1.8	1.6	1.8	1.7	1.7	1.8	2.1	2.3	2.5	2.3	1.5	0.3	0.1	0.6	1	
CPI Less-food & energy	2.1	2	2.1	2	2.1	2.2	2.4	2.4	2.3	2.3	2.3	2.3	2.4	2.1	1.4	1.2	1.2	1.6	
Producer Price Index	1.9	2	2.4	2.1	1.6	1.6	1.9	1.5	1	1	1.4	2	1.1	0.3	-1.2	-0.8	-0.8	-0.4	
PPI Less-food & energy	2.5	2.3	2.5	2.4	2.2	2.2	2.3	2	1.6	1.2	1.3	1.6	1.2	1.1	0.6	0.3	0.1	0.3	
PCE Price Index	1.4	1.5	1.6	1.5	1.5	1.5	1.5	1.4	1.4	1.4	1.6	1.9	1.8	1.3	0.5	0.5	0.8		
PCE Prices Less-food & energy	1.7	1.6	1.7	1.6	1.7	1.7	1.9	1.7	1.7	1.6	1.6	1.8	1.9	1.7	0.9	1.0	0.9		
Business Activity - US																			
Industrial Production	2.7	2.3	0.7	1.7	1.0	0.4	0.3	-0.2	-0.8	-0.4	-0.8	-0.9	-0.2	-4.6	-16.3	-15.8	-11.0	-8.2	
New Cap Gds Orders less-aircraft & parts	5	4.6	3.5	1.1	-1	-1.9	-1.3	1.2	-0.3	2.2	2.5	0.9	2.3	-1.1	-8.2	-7.3	-0.1	0	
Business Inventories	5.1	5	5.3	5.3	5.1	4.7	3.9	3.4	2.9	2.7	1.9	0.8	-0.2	-0.5	-2.3	-4.8	-5.8		
ISM Manufacturing PMI*	54.1	54.6	53.4	52.3	51.6	51.3	48.8	48.2	48.5	48.1	47.8	50.9	50.1	49.1	41.5	43.1	52.6	54.2	
Markit US Manufacturing PMI*	53	52.4	52.6	50.5	50.6	50.4	50.3	51.1	51.3	52.6	52.4	51.9	50.7	48.5	36.1	39.8	49.8	50.9	
ISM Non-Manufacturing Index*	58.5	56.3	55.7	56.3	55.4	54.8	56	53.5	54.4	53.9	54.9	55.5	57.3	52.5	41.8	45.4	57.1	58.1	
Markit US Services PMI*	56	55.3	53	50.9	51.5	53	50.7	50.9	50.6	51.6	52.8	53.4	49.4	39.8	26.7	37.5	47.9	50	
Business Activity - International																			
Germany Manufacturing PMI Markit/BME*	47.6	44.1	44.4	44.3	45	43.2	43.5	41.7	42.1	44.1	43.7	45.3	48	45.4	34.5	36.6	45.2	51	
Japan Manufacturing PMI Jibun Bank*	48.9	49.2	50.2	49.8	49.3	49.4	49.3	48.9	48.4	48.9	48.4	48.8	47.8	44.8	41.9	38.4	40.1	45.2	
Caixin China Manufacturing PMI*	49.9	50.8	50.2	50.2	49.4	49.9	50.4	51.4	51.7	51.8	51.5	51.1	40.3	50.1	49.4	50.7	51.2	52.8	
China Manufacturing PMI*	49.2	50.5	50.1	49.4	49.4	49.7	49.5	49.8	49.3	50.2	50.2	50	35.7	52	50.8	50.6	50.9	51.1	
UK Manufacturing PMI Markit/CIPS*	52.1	55.1	53.1	49.4	48	48	47.4	48.3	49.6	48.9	47.5	50	51.7	47.8	32.6	40.7	50.1	53.3	
France Manufacturing PMI Markit*	51.5	49.7	50	50.6	51.9	49.7	51.1	50.1	50.7	51.7	50.4	51.1	49.8	43.2	31.5	40.6	52.3	52.4	
Currencies* **																			
Euro (EUR/USD)	-6.7	-9.0	-7.1	-4.5	-2.7	-5.3	-5.3	-6.1	-1.4	-2.6	-2.2	-3.1	-3.0	-1.7	-2.3	-0.6	-1.2	6.3	
Renmimbi (USD/CNY)	5.7	7.0	6.4	7.7	3.7	0.9	4.8	4.1	0.9	1.0	1.2	3.2	4.5	5.5	4.9	3.4	2.9	1.4	
Yen (USD/Yen)	4.4	4.3	1.9	-0.5	-2.6	-2.8	-4.3	-4.9	-4.3	-3.6	-1.0	-0.5	-3.1	-3.0	-3.8	-0.4	0.1	-2.7	
Sterling (GBP/USD)	-3.6	-7.0	-5.3	-5.0	-3.9	-7.4	-6.2	-5.7	1.4	1.4	3.9	0.7	-3.3	-4.7	-3.4	-2.3	-2.3	7.6	
Canadian $ (USD/CAD)	2.7	3.5	4.2	4.3	-0.3	1.4	2.1	2.6	0.1	-0.1	-4.7	0.9	1.8	5.3	4.2	2.0	3.7	1.7	
Mexican Peso (USD/MXN)	2.4	6.9	1.2	-1.5	-3.4	2.7	5.1	5.4	-5.4	-4.1	-3.7	-1.4	1.9	21.8	27.6	13.0	19.6	16.3	
US Equities																			
S&P 500	2.6	7.3	11.2	1.7	8.2	5.8	0.9	2.2	12.0	13.8	28.9	19.3	6.1	-8.8	-1.1	10.6	5.4	9.8	
S&P 400 Midcap	2.5	0.9	5.2	-7.0	-0.3	-0.9	-8.0	-4.2	7.1	7.0	24.1	9.4	-5.0	-23.9	-16.5	-2.6	-8.3	-5.2	
S&P 600 Smallcap	5.7	0.1	2.9	-11.8	-6.3	-8.1	-16.4	-10.8	1.6	3.2	20.9	4.9	-9.1	-27.1	-20.9	-9.6	-12.7	-10.2	
Russell 2000	4.2	0.7	3.2	-10.3	-4.7	-5.8	-14.1	-10.2	3.4	6.0	23.7	7.6	-6.3	-25.1	-17.6	-4.9	-8.0	-6.0	

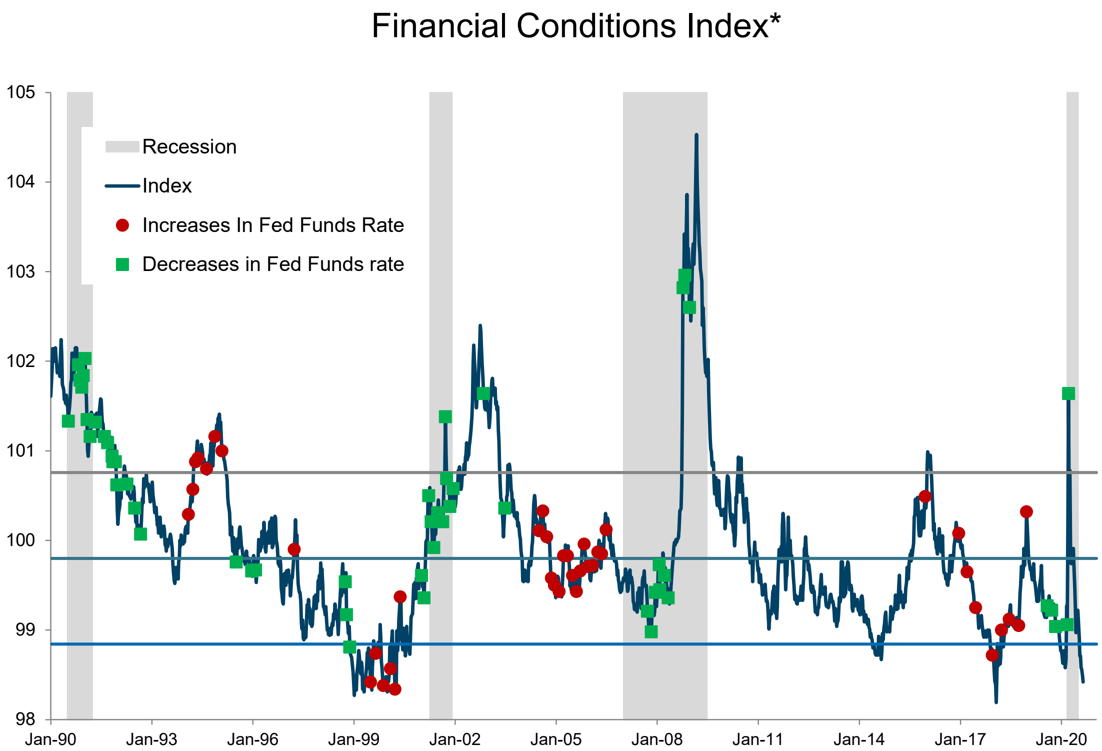
* Diffusion Index, **1985=100, ***Currencies - green/red = strengthening/weakening foreign currency vs dollar

Source: ISM, Federal Reserve, Census Bureau, Bureau of Labor Statistics, Conference Board, Bloomberg, William Blair

Other Economic Indicators

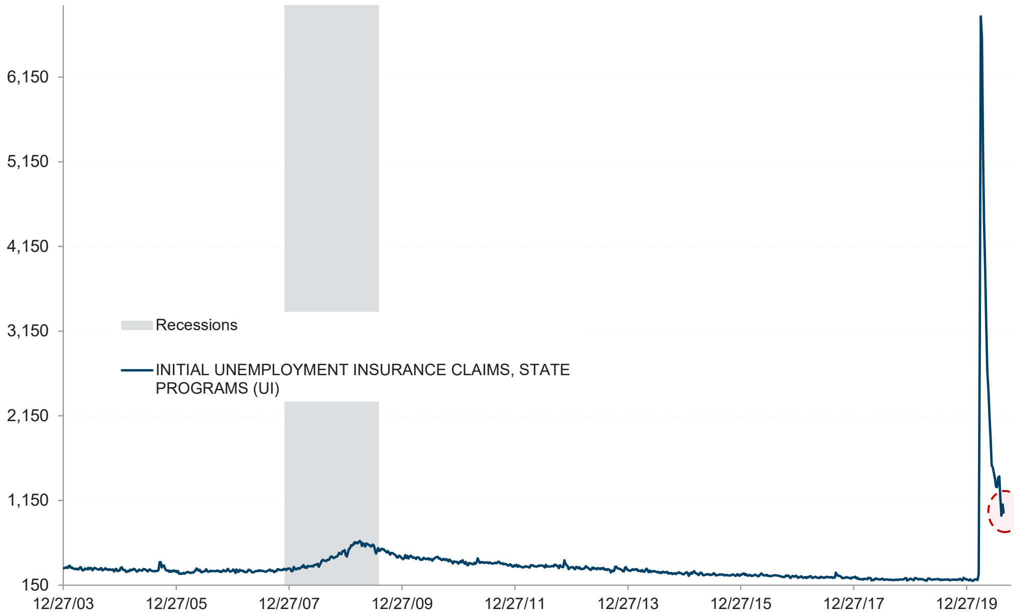


Source: Federal Reserve, William Blair Equity Research



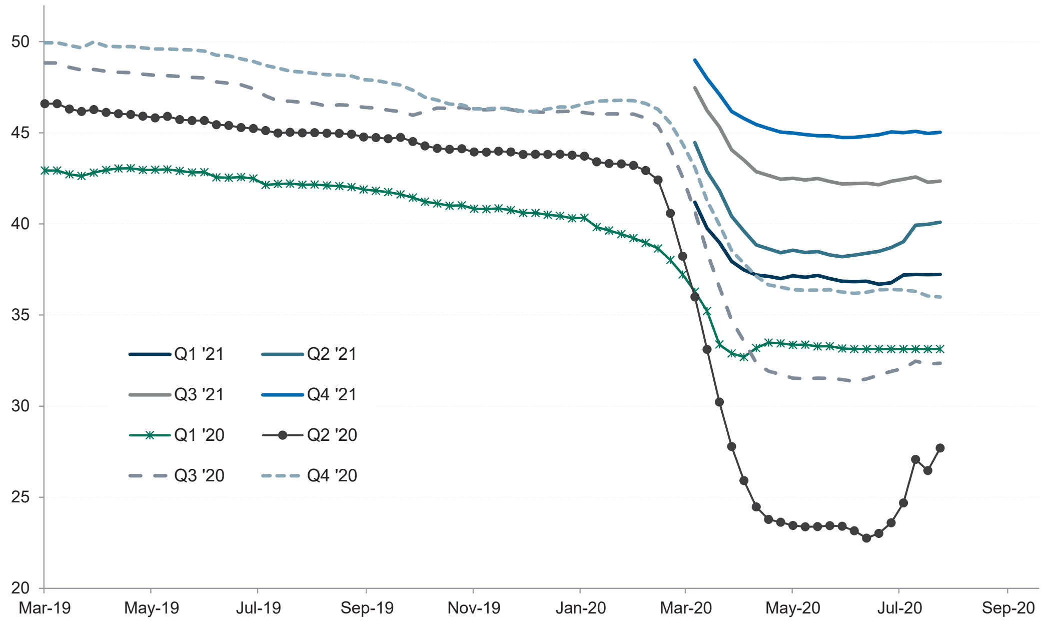
*The Goldman Sachs FCI is a weighted sum of a short-term bond yield, a long-term corporate yield, the exchange rate, and a stock market variable. Since 2005, the long-term corporate yield has been measured as a sum of the 10-year swap rate and the 10-year credit default swap spread.
Source: Bloomberg, William Blair

Initial Jobless Claims
('000s, Seasonally Adjusted)



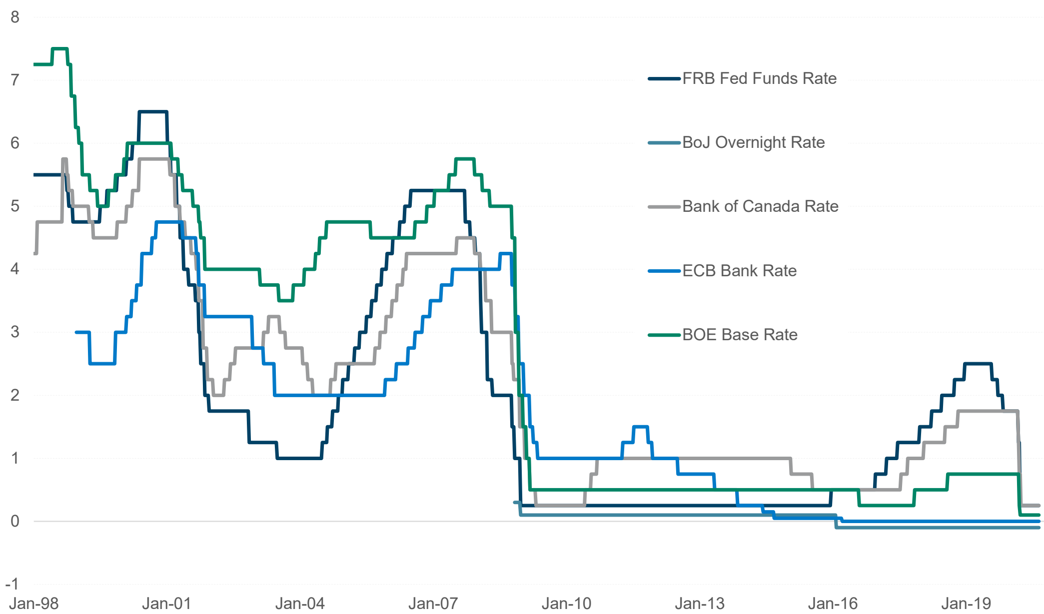
Source: Department of Labor, Bloomberg, William Blair Equity Research

Progression of S&P 500 Bottom-Up EPS Estimates
(2020 Q1 - 2021 Q4, $/Shr)



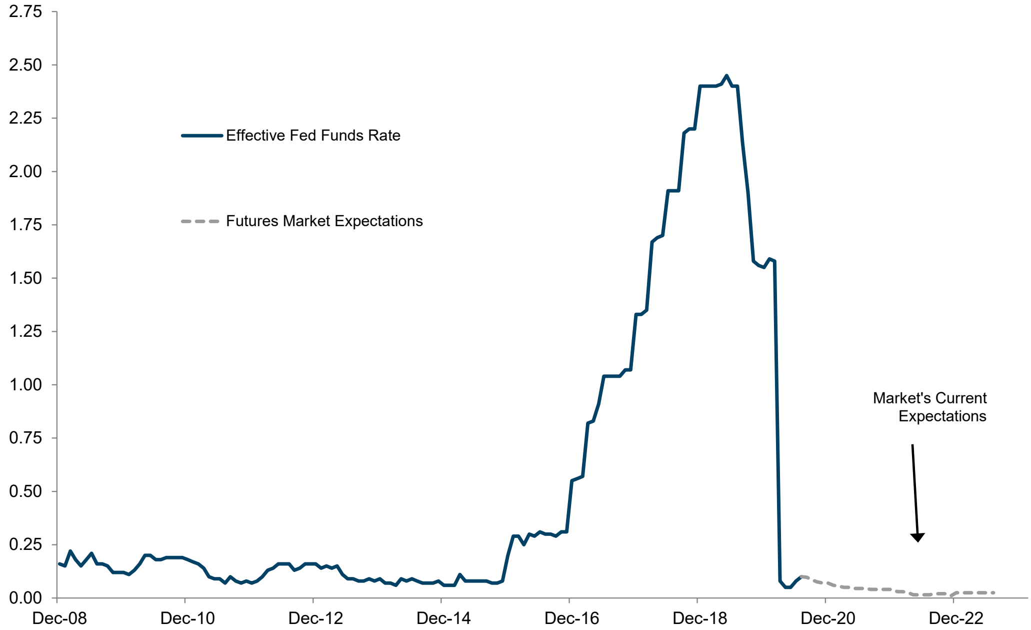
Source: Refinitiv, William Blair

Central Bank Target Short-term Interest Rates, %



Source: Bloomberg, William Blair Equity Research

Fed Funds Rate, The FOMC's Expectations & Futures Market Expectations, %



Source: Bloomberg, Federal Reserve, William Blair

S&P 500 Sector Performance

Global Industry Classification System	Current Weight* 27-Aug-20	Week Ago 20-Aug-20	Month Ago 27-Jul-20	Qtr-to-Date 30-Jun-20	Year-to-Date 31-Dec-19
S&P 500 Index	**100.00**	**2.93**	**7.57**	**12.39**	**7.85**
S&P400 MidCap Index		**1.09**	**3.69**	**8.58**	**-6.15**
S&P600 SmallCap Index		**0.52**	**5.06**	**8.84**	**-11.33**
Dow Jones Industrials		**2.71**	**7.18**	**10.38**	**-0.16**
Nasdaq Composite		**3.20**	**10.34**	**15.57**	**29.56**
Communication Services	**11.31**	**4.06**	**10.18**	**16.32**	**15.19**
Advertising	0.06	3.74	-2.58	3.04	-28.17
Alternate Carriers	0.04	3.09	16.91	13.06	-14.15
Broadcasting	0.14	5.16	10.48	10.60	-29.78
Cable & Satellite	1.12	2.10	4.46	15.61	6.25
Integrated Telecommunication Services	1.52	0.79	3.36	3.48	-13.91
Interactive Home Entertainment	0.42	-0.61	4.07	11.33	37.97
Interactive Media & Services	5.88	5.61	13.80	20.96	29.86
Movies & Entertainment	1.61	5.12	10.66	17.97	16.29
Publishing & Printing	0.03	-0.67	16.79	26.67	5.78
Wireless Telecommunication Svcs	0.47	-0.14	9.11	10.65	46.96
Consumer Discretionary	**12.08**	**2.91**	**10.01**	**18.47**	**26.30**
Apparel Retail	0.37	4.18	7.43	10.54	-12.44
Apparel & Accessories & Luxury Goods	0.16	6.17	6.36	11.07	-37.69
Auto Parts & Equipment	0.10	0.80	2.79	11.07	-9.08
Automobile Manufacturers	0.23	2.15	8.33	15.78	-21.88
Automobile Retail	0.30	-0.28	3.98	10.03	5.38
Casinos & Gaming	0.20	7.68	26.96	18.85	-31.11
Computer & Electronics Retail	0.10	-0.43	13.58	27.44	26.67
Consumer Electronics	0.07	-0.37	2.27	5.20	5.13
Department Stores	0.01	11.15	6.76	1.67	-58.08
Distributors	0.08	2.00	8.60	12.94	-11.51
Footwear	0.46	2.62	14.02	13.04	9.41
General Merchandise Stores	0.49	-0.40	12.89	14.53	18.39
Home Furnishings	0.04	6.43	10.66	4.73	-24.45
Home Improvement Retail	1.45	3.41	8.94	17.38	34.03
Homebuilding	0.25	-1.31	6.24	28.68	27.33
Hotels, Resorts & Cruise Lines	0.29	7.12	19.50	17.61	-42.13
Household Appliances	0.04	-2.78	7.31	37.29	20.54
Housewares & Specialties	0.02	-1.16	-6.73	1.96	-15.76
Internet Retail	6.09	3.22	10.97	22.55	72.86
Leisure Products	0.04	4.17	12.31	7.65	-23.60
Restaurants	1.15	3.16	7.05	14.51	3.72
Specialized Consumer Services	0.01	2.94	-0.40	3.37	-37.13
Specialty Stores	0.15	1.17	5.20	8.80	9.98
Consumer Staples	**7.55**	**1.70**	**4.30**	**11.00**	**3.17**
Agricultural Products	0.08	2.83	6.15	12.08	-3.52
Brewers	0.02	1.10	3.93	9.34	-30.30
Distillers & Vintners	0.18	1.93	3.19	7.27	-0.51
Drug Retail	0.11	-0.93	-1.26	-7.20	-33.28
Food Distributors	0.10	3.62	11.19	9.82	-29.82
Food Retail	0.09	0.67	4.03	6.82	24.73
Household Products	1.71	0.50	7.83	13.45	13.89
Hypermarkets & Supercentres	1.79	3.28	4.83	14.14	16.22
Packaged Foods & Meats	1.13	1.37	2.96	10.05	4.56
Personal Products	0.17	8.75	11.58	13.62	-0.16
Soft Drinks	1.47	1.45	0.65	7.19	-4.10
Tobacco	0.68	1.60	2.63	13.10	-8.61
Energy	**2.26**	**-1.34**	**-6.04**	**-6.94**	**-41.39**
Integrated Oil & Gas	1.12	-1.98	-8.90	-9.10	-39.24
Oil & Gas Equipment & Services	0.19	-1.34	-3.15	5.33	-49.00
Oil & Gas Exploration & Production	0.47	0.06	-2.49	-4.73	-42.58
Oil & Gas Refining & Marketing & Transportation	0.25	-0.64	-7.81	-11.27	-44.16
Oil & Gas Storage & Transportation	0.23	-1.75	2.37	-4.34	-37.31

Financials	**9.32**	**3.61**	**4.82**	**8.65**	**-18.10**
Asset Management & Custody Banks	0.77	2.49	4.51	6.93	-4.34
Consumer Finance	0.48	6.30	5.86	8.70	-26.14
Diversified Banks	2.66	4.37	4.10	5.65	-33.34
Financial Exchanges & Data	1.14	1.32	3.16	9.12	14.78
Insurance Brokers	0.50	0.18	-1.29	5.63	1.42
Investment Banking & Brokerage	0.74	3.96	3.99	7.76	-8.25
Life & Health Insurance	0.40	2.57	3.60	7.70	-26.52
Multi-line Insurance	0.16	2.13	0.62	2.07	-35.22
Multi-Sector Holdings	1.01	5.22	12.88	21.50	-4.25
Property & Casualty Insurance	0.68	2.69	0.94	6.36	-8.91
Reinsurance	0.03	2.55	0.49	7.60	-19.85
Regional Banks	0.74	5.02	5.93	5.69	-29.64
Health Care	**13.61**	**0.91**	**1.62**	**7.32**	**5.48**
Biotechnology	2.06	1.29	-3.80	-2.74	9.28
Health Care Distributors	0.23	0.92	-5.07	0.71	7.67
Health Care Equipment	3.56	3.28	3.95	14.58	9.63
Health Care Facilities	0.18	2.31	6.25	34.53	-11.92
Health Care Services	0.63	-1.33	-1.57	-2.62	-10.65
Health Care Supplies	0.23	2.65	2.82	12.07	0.63
Health Care Technology	0.07	2.25	1.09	6.84	-0.21
Life Sciences Tools & Services	1.13	-0.30	-0.95	11.72	18.22
Managed Health Care	1.51	-1.16	3.02	4.52	3.23
Pharmaceuticals	4.00	0.03	3.51	8.06	1.93
Industrials	**8.06**	**2.38**	**8.00**	**13.25**	**-4.30**
Aerospace & Defense	1.67	1.81	4.66	3.44	-23.64
Agricultural & Farm Machinery	0.22	9.80	19.22	33.52	21.11
Air Freight & Logistics	0.66	1.61	27.41	42.69	35.69
Airlines	0.21	9.00	17.68	7.82	-45.51
Building Products	0.43	2.45	9.85	23.57	9.23
Construction & Engineering	0.06	0.95	12.03	13.25	7.63
Construction Machinery & Heavy Trucks	0.50	1.94	3.63	15.15	1.59
Diversified Support Svcs	0.19	2.71	11.40	23.59	18.19
Electrical Components & Equipment	0.44	2.30	6.93	12.97	1.99
Environmental & Facilities Services	0.32	3.50	7.88	11.32	5.69
Human Resource & Employment Services	0.02	-3.77	3.19	2.20	-14.50
Industrial Conglomerates	1.04	2.85	3.28	7.12	-13.34
Industrial Machinery	0.81	1.16	5.53	13.61	-0.52
Railroads	0.87	2.61	9.99	15.34	8.16
Research & Consulting Svcs	0.29	0.00	1.09	4.78	11.93
Trading Companies & Distributors	0.20	1.38	6.30	15.16	17.55
Trucking	0.13	2.16	8.26	17.88	41.53
Information Technology	**28.00**	**4.76**	**14.03**	**16.51**	**33.06**
Application Software	2.58	11.67	20.56	21.84	50.58
Communications Equipment	0.79	-0.12	-8.69	-6.48	-9.89
Data Processing & Outsourced Services	4.34	3.89	8.50	11.46	16.57
Electronic Components	0.19	0.78	3.13	17.42	4.17
Electronic Equipment & Instruments	0.12	-3.42	-2.61	-1.12	-5.74
Electronic Manufacturing Services	0.13	3.30	2.30	13.51	0.60
Internet Software & Services	0.14	1.47	-0.73	3.22	17.91
IT Consulting & Services	1.10	1.59	4.21	9.01	1.97
Semiconductor Equipment	0.46	-3.13	-1.55	4.23	9.60
Semiconductors	4.05	2.56	10.18	10.88	21.62
Systems Software	6.70	5.42	10.51	11.05	41.72
Technology Distributors	0.05	2.24	-1.26	-1.16	-19.60
Technology Hardware, Storage & Peripherals	7.35	5.61	30.27	35.24	62.48
Materials	**2.47**	**1.59**	**1.29**	**11.96**	**2.96**
Commodity Chemicals	0.19	5.26	2.73	10.24	-19.92
Construction Materials	0.10	-0.94	-5.51	4.41	-19.29
Copper	0.07	1.36	9.88	28.78	13.57
Diversified Chemicals	0.03	3.41	-5.78	6.10	-6.78
Fertilizers & Agricultural Chemicals	0.17	1.65	5.14	14.52	-6.11
Gold	0.17	-3.67	-6.20	4.89	49.05
Industrial Gases	0.65	2.31	0.88	19.25	19.98
Metal & Glass Containers	0.09	4.73	6.40	14.18	22.69
Paper Packaging	0.22	1.94	1.45	6.83	-11.38
Specialty Chemicals	0.74	1.35	2.22	8.80	-0.61
Steel	0.05	-0.22	3.93	10.01	-19.06

Real Estate	**2.55**	**1.42**	**2.97**	**3.91**	**-6.43**
Health Care REITs	0.18	3.28	12.32	9.46	-26.33
Hotel & Resort REITs	0.03	5.49	9.78	5.01	-38.92
Industrial REITs	0.30	-0.29	0.63	9.32	14.04
Office REITs	0.15	1.83	0.69	1.15	-24.62
Real Estate Service	0.05	7.42	11.86	4.71	-22.74
Residential REITs	0.29	2.20	4.73	-2.07	-25.23
Retail REITs	0.20	2.50	7.57	-1.29	-40.22
Specialized REITs	1.35	0.89	1.14	4.48	14.25
Utilities	**2.71**	**-0.78**	**-1.59**	**3.75**	**-9.33**
Electric Utilities	1.80	-0.69	-1.95	3.74	-9.33
Gas Utilities	0.04	-2.67	-3.50	-0.60	-11.51
Independent Power Producers & Energy Traders	0.04	-0.21	17.45	23.60	-10.24
Water Utilities	0.09	-2.02	-2.05	9.88	15.07
Multi-Utilities	0.86	-0.78	-1.47	2.63	-10.65

*Current Weight is market cap based, based on calculations by William Blair Intl. Ltd.

IMPORTANT DISCLOSURES

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DOW JONES: 28492.30
S&P 500: 3484.55
NASDAQ: 11625.30

Additional information is available upon request.

Current Rating Distribution (as of August 27, 2020):

Coverage Universe	Percent	Inv. Banking Relationships *	Percent
Outperform (Buy)	71	Outperform (Buy)	21
Market Perform (Hold)	29	Market Perform (Hold)	8
Underperform (Sell)	1	Underperform (Sell)	0

*Percentage of companies in each rating category that are investment banking clients, defined as companies for which William Blair has received compensation for investment banking services within the past 12 months.

The compensation of the research analyst is based on a variety of factors, including performance of his or her stock recommendations; contributions to all of the firm's departments, including asset management, corporate finance, institutional sales, and retail brokerage; firm profitability; and competitive factors.

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