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Attendance List:	Adam Glassman Mark Cabana Edward Hill
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Hosted By:	Adam Glassman

Adam

Thank you very much. Hello, everyone, and welcome to the GTS Liquidity Speaker Series Election Day Edition. My name as mentioned is Adam Glassman. I'm Head of Deposit, Balance, and Rate Strategy for GTS at Bank of America. Elections, particularly at the Federal level, tend to influence the direction of the country and affect many aspects of our lives, but this year just feels a bit intensified to say the least.

We are in the midst of a global health crisis. We have seen unprecedented economic shock, and there are tensions abroad. The incoming or incumbent administration along with the possibility of a newly sculpted Congress will be in a position to make decisions that will affect all of us as businesses and people. Today, we are going to discuss some policy implications in the backdrop of a very uncertain day, and my hope is that today's session will help us to think about the effects of potential policy changes on the real economy, the market, and any head or tailwinds that face us lying ahead. I'm joined here today by Mark Cabana, Head of US Rate Strategy at Bank of America Global Research; and Edward Hill, Public Policy Executive, also here at Bank of America.

Before we get started on very specific policies, I thought we could talk a bit about where we are sitting today. The strong early voting could mean that we get a sense of a result earlier rather than later. But high volumes of mail-in ballots could cause delays and uncertainty.

Ed, can you speak for a couple of minutes about the process to get to a result and how this year might be different, and what happens if one of the sides contests the results?

Ed Thanks, Adam. Thanks for having me here. This year as you point out is really different because of the high amount of early voting and the high amount of mail-in balloting. Each state has different procedures, policies around vote counting and also by the way around recount, and so it's a little bit hard to generalize exactly how each state is going to work given the short time period we have here, but I think a few things to watch.

Donald Trump likely has to win Florida if he's going to be elected, and there's a reason why Michael Bloomberg put $100 million of his own money in support of Joe Biden in Florida, which Florida closes on the East Coast. They close at seven o'clock, so they're the first major state to close their ballots, and they have a pretty good history of counting ballots. In fact, they process their mail-in ballots early. Meaning they try and determine the validity of them, and they're going to run them through the counting machines right at seven o'clock this evening.

Meaning Florida could report relatively early. Obviously if it's very close it could take some time, but if it goes for Joe Biden it seems a very difficult path for Donald Trump to be elected President. On the other hand, you look at a couple states like Michigan and Pennsylvania, also key states that are heavily contested in this race, in the case of Pennsylvania, they allow mail-in ballots to be received up until three days after Election Day as long as they're postmarked by today. And in the case of Michigan, 14 days after Election Day, so November 17th as long as they're postmarked today.

So those states which could be crucial in determining the outcome also, could take a long time to determine the race. I like to tell people if Biden wins Florida, know you can go to sleep early knowing that Biden's likely the president. And if Trump wins Florida, you can go to sleep early knowing that perhaps it will take any number of days.

Just by comparison, Adam, in 2018 in a senate race in Arizona the Republican was leading by 1% on Election Day. The Democrat ended up winning by 2.56 days later. So we saw a 3.5 point swing, and given the great number of mail-in ballots this year and in some cases the extended time periods, I think we could see swings greater than that as the ballots come in.

Last thing, last point is remember Democrats are voting by mail at much greater levels than Republicans. Many Republicans are doing in-person early voting, but mail-in ballots are much greater in some states; 50% to 100% higher Democrats, and that creates this opportunity for what some folks have called a red mirage. Meaning Trump could be winning in some of these states like Michigan, like Pennsylvania on Election Day but then be overwhelmed by the mail-in ballots that are counted after Election Day.

That same phenomenon could work in reverse in Florida, because they're actually going to count their mail-in ballots early, and it creates an opportunity for an early blue mirage where Biden may jump out to an early lead and Trump may come back. The only point is don't pay attention to early returns. We have to figure out what happens once the votes are counted.

Adam — Great. Thanks, Ed. I heard you say I can go to bed early tonight, but something tells me that's not going to happen.

Ed — Don't drink too much coffee.

Adam — Mark, maybe you could give us some thoughts on what to expect in the short term and medium term in the markets if there is some time we need to absorb and sort through the results.

Mark

Yes. Sure. Unfortunately I think it's confusion. As Ed was describing, there are a number of different rules in a number of different states, and it will take time in all likelihood to sort out where we are headed both for the Executive Branch but also as well as the Senate. It's just going to be a very different type of election than we are used to.

You're used to by 11 p.m. or so Eastern Time having a pretty good sense for how the balance of power looks. It will likely take days or perhaps weeks until we have a greater sense of where things are going, and that's a very, very different take than what markets are used to. So what does all that mean for markets?

Well, in our view best case outcome is that you get a clean and clear sense of where the election is headed early. If there could be a victor declared tonight, I think that would be the best case from a market's perspective. And what we would likely see is you would likely see a bit of a risk-on move and higher rates modestly across the curve, especially at the backend, just due to the passage of the risk event.

Now we can talk about the various permutations of who wins and who controls the Senate and what that means for markets, but I do think that just clearing the risk event would be a great sense of relief to markets. Now if we don't have that outcome and if we don't know what the balance of power looks like for days or weeks, then you would think that that is probably a bit more risk-off. There would be lots of focus parsing through what we can gleam from counties and states that may have already reported, and the markets will try and take direction from that.

But the truth is it's just going to be a prolonged period of uncertainty, and we know if there's one thing that markets don't like it is uncertainty. And so I would expect to see perhaps more volatility and more market gyrations in that type of an outcome. However, I think we can trust that we should have a pretty good direction of where things are headed by the end of this week or certainly a week or so from now as those votes are counted, and hopefully we can avoid a prolonged period of uncertainty and contested recounts.

Again, for markets I think they're hoping for a clear outcome sooner rather than later.

Adam

Great. Thank you, Mark. Just moving on to some policy issues, stimulus has been a major contributor to stabilizing the economy thus far during this pandemic. Once we have an outcome, I would suspect that Government stimulus mostly fiscal but possibly monetary policy stimulus, would be one of the first topics that need to be addressed. The current administration and Congress obviously seem unlikely to come to an agreement before today.

Ed, how can different election outcome scenarios both in the shape of the Senate and the administration that sits in the Executive Branch shape the look, size, and timing of additional stimulus?

Ed

Adam, if there's a status quo election, say Donald Trump wins the White House and brings enough Republicans along with him for them to maintain control of the Senate, I think we're kind of where we are now, which is the White House and the Democratic Speaker of the House, Nancy Pelosi, are close-ish to a deal. They've been talking about $1.8 trillion in additional COVID relief. Mitch McConnell has plainly said that he doesn't think that can pass the Senate, so they'll have to continue to work through that. But I do think there is a desire to get something done, and once the election politics are taken out of that, I think you could see something maybe sooner rather than later perhaps even in a lame duck.

If Joe Biden wins and if he takes along a Democratic Senate with him, they're looking at a substantially bigger package. They're talking about between $2 trillion and $4 trillion. There's always a chance I guess you could try and do some sort of partial deal in the lame duck and come and plus it up or top it off with additional funds after the new government is fully in place on January 20th, but probably the likely outcome would be that everything has to wait until the first quarter with the new government, and Democrats can write a bill that substantially looks like what it is that they want to do with those higher numbers.

If we had a status quo election, I actually think we'd maybe get something sooner, although smaller. If we have a blue wave or a blue sweep, likely it will take a little bit longer, but we'll probably end up with a bigger package.

Adam Great. Thanks, Ed.

Mark, what do you think the market will think of those two types of scenarios; one where you get some stimulus sooner and the other where it might be delayed a bit into Q1? And then additionally, curious to hear your thoughts about if we get a bigger stimulus package or any stimulus package at all, what effect do you think that will have on future responses from a monetary policy standpoint from the FOMC – that's fed.

Mark Yes, sure. Well as I noted, I think the markets are going to cheer a clean outcome either way. Just again having certainty I think matters the most to markets at least initially, especially with the broad assumption that there will be stimulus coming one way or the other. I do think that the market's response is probably a bit more muted to a status quo; so again, a Trump victory and a Republican-held Senate Democratic House. Just because in that scenario you're going to be looking at a smaller size, albeit an earlier program which will help the country get through what is shaping up to be or what's looking like a relatively tough winter from at least a COVID-case count perspective.

On the flipside, if there is a blue wave—so if Biden wins and takes the Senate—then we think that rates could rise anywhere between let's call it 10 to 20 basis points from here; potentially push somewhere around 1% at least in the ten-year. Just due to the expectation that there will be potentially a bigger package, and although we may have to wait for that package, expectations will likely build for future stimulus that is of quite some size. That reaction may be faded if there is a slowdown in economic activity over the winter, because there is no stimulus and there would still be fairly large amounts of social distancing going on, but I do think that you're likely to see the biggest rate increase on the back of a blue sweep.

The one scenario that I think would disappoint markets to some extent even if it is a pretty clean outcome, would be a Biden win and a Republican Senate. That will be seen as gridlock, and that will be seen as limiting the potential size of the stimulus package. In that scenario given how much rates have recently moved, you'd probably see rates decline to some extent just, because there will be some I guess fear that the economy may not get as much stimulus as it really does need.

Now what's the fed's response? Well with regards to short-term interest rates it's very straightforward. They're not raising rates any time soon. But with regards to their balance sheet policies or asset purchase policies, if you do see a blue wave and if you see rates rise above 1%—potentially let's say they end up pushing 1.25%—we think it's quite possible that the fed would lean against that by increasing either the pace of asset purchases or the duration of the existing asset purchases that they have right now.

Let me stress that I don't think that there is a particular ten-year level that is going to be the threshold where the fed will think about making some asset purchase adjustments, but I do think that they're going to be much more focused on the conditions rather than the calendar. And the conditions that I'm talking about are a potential rate rise that would result in a broader tightening of financial conditions, where you start to see a bit of a negative feedback loop from the rate rise into the real economy. Think risk assets lower. Think mortgage market slowing. Think consumer confidence beginning to turn.

If you see those types of conditions, I think that is what prompts the fed to make adjustments in their purchase program and likely lean against the rise in interest rates. But I don't think that they respond immediately, and they do have a meeting on Thursday this week, and we completely expect that they will try and make it as much of a non-event as they possibly can until the dust settles after the election and we know a bit more about the path of fiscal policy.

Adam: Great, Mark. Thanks for that. The next topic I'd like to talk about is tax reform. The current administration had made significant progress with their agenda, and as a result a lot of the corporations saw significant declines in tax rates. As corporates think about their expenses and their budgets for 2021 and beyond, tax reform is probably something that is going to be closely monitored.

Ed, can you talk about your views into what clients can expect from each of the administrations, assuming that the new Congress will appease their plans?

Ed The Trump Administration's been relatively vague. They've talked about middle class tax cuts—the Trump Campaign I should say—but they've also talked about lowering the corporate rate further from 21% down to 20% which was their original proposal; so marginal but directionally lower. The Biden Campaign's been a lot more specific about how they've talked about taxes overall. According to the Tax Foundation and non-partisan think tank, they estimate that the total of Biden Campaign's tax proposals are about $4 trillion over ten years, so meaningfully larger, and notably in the corporate space an increase from 21% not back to the 35% it was before Trump, but to 28%.

Now, I don't believe that Biden is going to be able to implement even with an all-Democratic Congress the full $4 trillion in tax increases but it's hard to know exactly which ones will and which ones wont, and it's hard to know will even a Democratic Congress say well particularly if it's a 50/50 senate or a 51/49 senate in favor of the Democrats, perhaps 28% is a little too high. They always see the average US company's competitors operating in the developed countries is somewhere around 25%. Perhaps that's a better number.

I don't think you should take these numbers with the Biden Campaign as [indiscernible – 18:09], but I certainly think that directionally there is an interest in raising a lot of these taxes.

The final point I'd point out, Adam, is that historically most tax changes, particularly tax increases, are prospective in nature. So if they were to be adopted in say 2021, historically we would expect them to be effective for the following tax year. Now under the Clinton years there were some sort of retroactive changes that were on the personal side that were passed in

August and made retroactive to the beginning of that tax year. I think it was '94 if I remember correctly, but don't hold me to that. So it is entirely possible that these higher taxes could be effective January 1st of this year even though they won't be adopted perhaps until later in the year, but historically most tax increases don't work that way. Historically most are effective on a going-forward basis.

Adam — Right. Thanks. Mark, given that in the recent past, last couple years let's say, a large portion not all of it of companies earnings had a tax reform component that helped jolt them. How do you think the market's reaction to tax reform would be in the out years of 2022 and beyond if there's a change of administration?

Mark — I think that a lot depends on what a new Biden Administration might want to do in the early days of their administration. My assumption is that even though the Biden Administration clearly wants to undo some of the Trump tax cuts of 2017 that they will likely wait for that. Now, maybe I'm wrong.

Maybe we do see a bill like Ed suggests where there are higher taxes that are retroactive to January 1st. But my broad assumption is that a Biden Administration will come in with two overarching goals initially: One, get COVID under control; and two, get the economy going again. I think that the Biden Administration is very well aware of the fact that if they want to get the economy going again it doesn't make a tremendous amount of sense to start raising taxes initially or in the first 100 days. I would imagine that that might be a legislative item that will wait for the next 100 days or perhaps later in the first year of a Biden Administration until the economy is on better footing and until we are in a better place in dealing with the virus.

Now, if that's right then I think that we don't really see too much impact at least initially on corporates from tax law changes. But if I'm wrong, if a Biden Administration comes in and wants to raise taxes retroactive to January 1st and has the legislative ability to do that, then that's obviously negative. That will take a bit of the let's call it blue wave euphoria out of the market, and it will really start to focus on a bit more nuts and bolts issues of how it impacts the bottom line, and that's naturally going to be a headwind.

I do think that the ultimate market response will depend upon under a Biden Administration how the legislative agenda does begin to shape up and where they prioritize tax hikes within that. If it's early, that's clearly a negative. If it's later, then I think that that would be much more digestible for the market.

Adam

Makes sense. Thanks, Mark.

From a foreign policy perspective, China relations, trade tensions, the UK's Brexit, what's happening in the Middle East, Ed, can you talk a little bit about how some of these hot button foreign policy issues play out if the incumbent administration holds office or if there is a change in administration?

Ed

I don't think I have a lot to say about if Trump is reelected, because I think it will actually be a lot more of the same. I do think a key goal of the Trump Administration in the coming years – in 2021 – would be to lockdown a free trade agreement with the UK. But I think you can see increased tensions with Europe continue; adversarial relationship with China, focus on the Middle East particularly Israel, and perhaps a little less attention to South America. I think those orders gets mixed, changed up, in a Biden Administration.

I think China would continue to be a key area of focus, and while I don't see sort of directionally a different direction towards China, I think strategically I think the Biden Administration wants to work more through multinational coalitions whether they be formal like working through NATO or whomever or informal coalitions. And for that reason I think you're going to see less of an adversarial relationship with Europe. Even if you look at what the Biden Administration has said about a free trade deal with the UK, they're for it, but they're for it as long as the UK respects internal European politics.

Notably they pointed out a violation of the Good Friday Agreement between Northern Ireland and Ireland that if there's some sort of border or major trade restrictions between Northern Ireland and Ireland that that would make a UK free trade deal harder, so a lot more European-centric focused with the idea of building coalitions. I think the Middle East broadly would fall way down the list. Biden seems very interested in promoting green energy and alternative energy sources. Despite going back and forth at times, he seems to have settled on this idea that fracking should continue certainly on private lands, and deemphasize the Middle East really and with much more of an emphasis on South America looking at immigration and other trade-related issues with the idea of a much friendlier relationship with South America and Central America and for that matter North American countries.

Adam Great. Thanks, Ed.

Mark, with the last couple of minutes here, maybe to give a reaction to how the markets which tend to flow with whatever administration and the priorities may be, but how do you think the different reactions to those foreign policy priorities might play out?

Mark It's a great question, and here I think a lot of it will have to do with perhaps style over substance. What I mean by that is that at least with regards to key bilateral relationships, such as the relationship with China, I honestly don't think that Trump and Biden have dramatically different policies. But where I do think that there is a key difference is in the style by which they would go about trying to affect their agenda.

I think it's safe to say that with China Trump would advocate for more tariffs. Those tariffs would be a bit more unpredictable, and I think that that would be more difficult for markets and businesses to plan around. Whereas under a Biden Administration, I think that again it would largely aim for the same outcomes, but it would be more multilateral in its approach and it would I think in all likelihood be a bit more telegraphed in terms of what the intentions are and how they're going to be achieved. Now again while the end result on China may be somewhat similar, I do think that markets would prefer having a better telegraphed policy that either administration would want to pursue.

I know when I think about a lot of the uncertainty over the course of 2018 and 2019 and what we were hearing from businesses, there was a lot of uncertainty about what was happening with China, and a lot of that had to do with the tariffs and when they would be imposed and when they might not be imposed. And I would think that anything that can reduce that uncertainty on the foreign policy front would be welcomed by markets. So less uncertainty, likely means a higher growth, slightly higher rates, better revenues overall, and so that I think will be the key thing that markets and businesses will likely focus on. What is the strategy? Is it known, and how does it affect overall business uncertainty?

Adam

That's great. I have five or six other topics here, but unfortunately we are out of time. And I know I'll likely reach out separate on some of these as well, and I encourage you, all, on the call to reach out to your Bank of America representative if you have further questions.

Mark, Edward, thank you so much for your time today and sharing that knowledge with us. It certainly helped me, and I hope it helped everyone on the call as well. I'll hand it over to our operator.

Ed

Thanks, Adam.

Coordinator

Thank you. That concludes your conference call for today. You may now disconnect. Thank you for joining, and enjoy the rest of your day.

[END OF CALL]