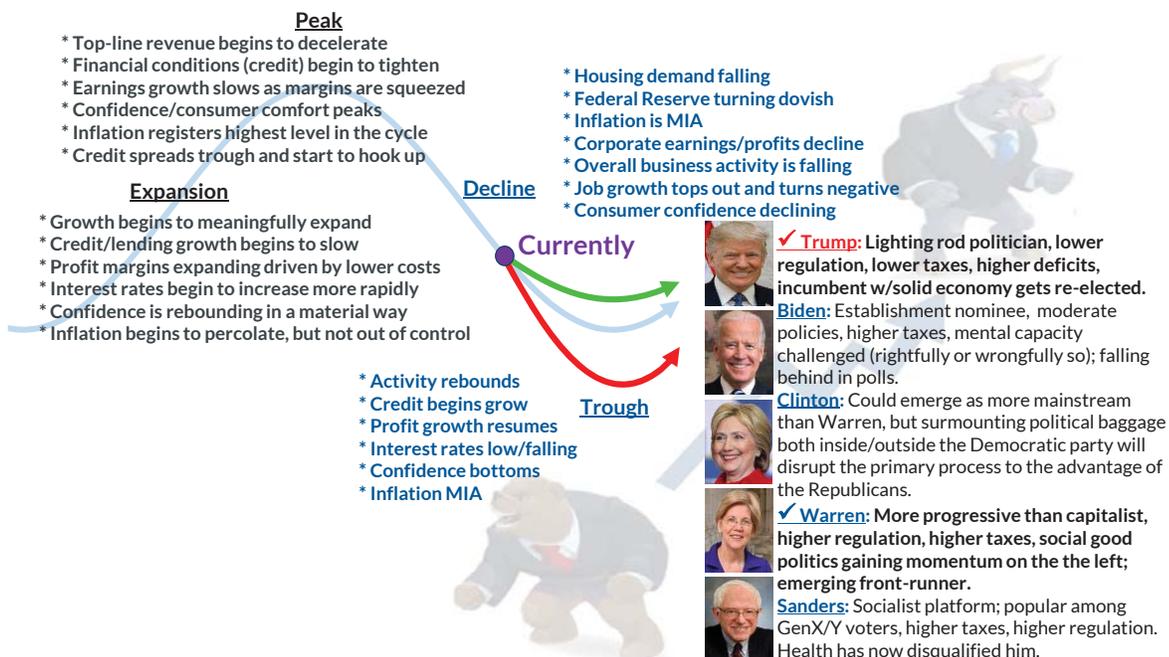




“This place is under new management, by order of the Peaky Blinders.”

Over the weekend, I binged-watch Season 5 of the Peaky Binkers, the UK version of The Godfather (Parts 1 & 2). The Netflix/BBC recast is not for the faint of heart, but I highly recommend it for anybody who enjoyed the Puzo/Coppola trilogy. Season 5 begins in mid-1929, two years after Thomas Shelby is elected to Parliament. The "Company" is now setting up business in the USA under the "watchful" eye of Michael Grey, cousin to Thomas Shelby. Following the 1929 crash, the UK economy continues to struggle through the Great Depression, which not only required the formation of a coalition government (The National Government) but also stoked the emergence of a growing populist movement (British Union of Fascists). Sound familiar? Our point here is not to make a political statement, as our readers know us to be politically agnostic relating to portfolio positioning. However, Season 5 reminded us of just how ugly and self-serving politics can be, and the depths and extent that politicians will endure for election. I genuinely do not believe anything has changed in almost 90 years -- or 2,000 years for that matter. Therefore, with the Presidential Election quickly approaching, we felt it essential to review our views on how the economy and market will fare given a series of political outcomes.

Economic Lifecycle | 2020 Election Edition



Source: NEPG

In the exhibit above, we have updated our Economic Lifecycle illustration to reflect our expected path of future economic growth given the election of either President Trump, former Vice-President Biden, Senator Warren, Senator Sanders -- and yes, former Presidential Candidate Clinton. We have also overlaid our expectations for the equity capital markets.



Let's unpack.

1. We currently believe the US economy is somewhere between Decline and Trough. While we have witnessed a distinct slowdown in business activity, topping of employment trends, and declining corporate profits; we have yet to see a wash-out in consumer confidence or an uptick in credit. We believe the US economy will continue to soften through the 2020 election cycle; the big question is, however, "Do we suffer a recession before then?"
2. In our opinion, the re-election of President Trump is contingent solely on the health of the economy. We believe tariffs will serve as an economic and market distraction, and any formal impeachment hearing will serve as political noise. The bottom line is, if the US can avert a recession until November 2020, President Trump will be elected to a second term. Likewise, if there is an economic downturn following 2020, Trump's policies may provide for a relatively shallow trough, supported by lower regulation, lower taxes, and higher deficits. As a result, we believe the equity capital markets may benefit from a Trump Presidency over all others in the short-term (next 3-4 years).
3. Senator Warren has emerged as the Democratic front-runner in our opinion, and based on the latest [Quinnipiac Poll](#), would defeat President Trump by a margin of 8 points. However, despite potentially winning the White House, we believe her election would not portend so well for the economy or the equity markets. The healthcare sector (services/drug manufacturing) and defense sectors would suffer, and it remains unclear the real funding sources for all the component parts of her [Economic Patriotism](#).
4. Although Senator Biden is seemingly losing ground in the [polls](#), he is viewed by many prospective voters as the best chance to defeat President Trump. In the event he does win the White House, we believe the economy will fare better than it would under President Warren, but not as well when compared to President Trump. Although liberal, Senator Biden's politics and policies are more centrist than either Senator Warren or Sanders. Demands on the healthcare system would be less acute; his energy platform is "less green," and he supports a strong military.
5. At this point, we believe Senator Sander's health has all but disqualified him from the nomination. The question that remains is, who will his supports rally behind? Our guess is Senator Warren.
6. Lastly, there is growing controversy regarding a [Clinton 2020 run](#). Over the past several days, there has been increasing speculation and banter regarding [Round 2 of a Trump vs. Clinton duel](#). However, we believe this will be a low-probability event as the former Secretary of State/Senator has amassed a fair amount of political baggage for one, and secondly, may detract from the growing "social good" political movement of the Warren campaign. In the remote chance of her election; however, we believe the economy responds better than Warren or Sanders, but worse than Biden.

Dems At A Glance | Salient Policy Differences

	Biden	Warren	Sanders
College Tuition	2yrs free	100% Free	100% Free
Student Debt	Expand/Fix	Cancel some debt	Cancel all debt
Environment	+ nuclear, limited oil drilling	Ban fracking, lower emissions	Eliminate nuclear, ban fracking, emissions
Assault Weapons	Voluntary buyback	No assault weapons	Ban sale and distribution
Health Care	Expand ACA; no Medicare for all	Medicare for All; US manufacture generics	Medicare for All; int'l reference for pricing generics
Taxes	Increase Capital Gains 2x (>\$1mn income), raise corporate taxes	Wealth Tax + corporate taxes greater than '17 rates	Eliminate capital gains on some, Wall Street and Wealth Tax
Defense Spending	Boost defense spending	Slash the budget	Slash the budget

Source: Politico.com



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