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China phase 2? Not so much



China



USA

Relations between the United States and China have deteriorated so badly in recent weeks that even President Trump has had to concede that a phase 2 trade deal with China is probably not going to happen. Instead, China has taken center stage as a political issue in the run-up to this fall's elections with the president blaming China for spreading COVID-19.

The increase in rhetoric from the US has coincided with the Chinese government imposing a new national security law on Hong Kong. The new law is seen in the US, the UK, and other western countries as China reneging on its commitment to allow Hong Kong a significant degree of autonomy for the 50 years after the British handed the city back to China. In response, Congress passed the Hong Kong Democracy and Human Rights Act (HKDHRA) as well as the Hong Kong Autonomy Act (HKAA). Both bills were aimed at pressuring the Chinese to stop the crackdown on demonstrators in Hong Kong and restore the autonomy the city had previously enjoyed.

In June, Secretary of State Mike Pompeo declined to certify under the HKDHRA that Hong Kong enjoyed a degree of autonomy significant enough to continue the "special status" the city enjoyed under certain US laws. This status covers trade and financial transactions, law enforcement cooperation, educational exchanges and visa-free travel. Following the secretary's determination, the president issued an Executive Order (EO) revoking the "special status" and directing his administration to prohibit the export of sensitive technology to Hong Kong, to withdraw from the extradition treaty, to halt Fulbright exchanges, and to require travelers with Hong Kong passports to apply for visas. In addition, the EO directs the Secretaries of State and the Treasury to identify persons and entities that have helped draft or implement China's national security law or who have otherwise undermined Hong

Kong's autonomy, civil liberties or human rights. The EO does not contain a timeline for making the designations and, other than generally requiring the property of those identified to be blocked, any other penalties are left to the discretion of the Secretary of the Treasury. This is at odds with the HKAA in which Congress laid out strict timelines for designating individuals and, in the case of foreign financial institutions, provided a list of 11 possible sanctions from which the president must choose; Congress will certainly demand that the administration follow the law.

The Chinese have responded with predictable anger and have vowed to impose sanctions of their own. In fact, they barred Senators Ted Cruz (R-Texas) and Marco Rubio (R-Florida) from traveling to China, not that either one had any public plans to do so in the near term.

Efforts to pressure US investors into reconsidering potential investments in China continued apace. After the Federal Retirement Thrift Investment Board's decision not to pursue an investment option that would have included Chinese equities, the administration has pressured the Railroad Retirement Board (a government agency that administers benefits for railroad workers) to follow suit. More broadly, Attorney General William Barr has warned American executives that they should be careful regarding their business and personal relationships in China and be on guard for how they might be used to advance China's agenda in the United States. He even suggested that efforts by corporate executives to cultivate a "mutually beneficial relationship" on behalf of a foreign company or government could implicate the Foreign Agent's Registrations Act. On the Hill, the Senate has approved legislation that would require the de-listing of Chinese equities from US exchanges if they did not subject themselves to the same auditing standards

as American companies. The bill is currently pending in the House and may be added to the National Defense Authorization Act (NDAA), which will be voted on soon. Just released this week is a report by the President's Working Group on Financial Markets with recommendations on how to protect US investors in Chinese companies, as directed by the President in an Executive Order issued in June.

The relationship took another dramatic turn when the US abruptly ordered the

closure of the Chinese consulate in Houston based on allegations of theft of intellectual property and scientific research. The Chinese responded by ordering the closure of the US consulate in Chengdu. And in another twist, the FBI arrested a Chinese researcher at the University of California for visa fraud. It's already been a long, hot summer for US-China relations and with four months to go until November, the temperature is likely to keep rising.

Key Themes

- + Sanctions
- + Trade Deal
- + Supply Chain
- + Investor Protections
- + Investments in Chinese Companies
- + Chinese Listings on US Exchanges
- + Hong Kong Autonomy

Recent legislative and administration actions on China

Action	Purpose / Status
Uyghur Human Rights Policy Act of 2020	<p>Condemns gross human rights violations of ethnic Turkic Muslims in Xinjiang, calls to end arbitrary detention, torture, and harassment of these communities in China.</p> <p>- Trump signed into law June 17</p>
Hong Kong Autonomy Act	<p>Imposes sanctions with respect to foreign persons and businesses who crack down on Hong Kong residents' right to free speech and peaceful assembly.</p> <p>- Trump signed into law July 14</p>
Holding Foreign Companies Accountable Act	<p>Requires certain issuers to disclose to the SEC information regarding foreign jurisdictions that prevent the Public Company Accounting Oversight Board from performing inspections.</p> <p>- Passed Senate May 20; House bill passed as part of amendment to NDAA (defense appropriations) in July; expected to become law as part of the NDAA later this year</p>
White House - Investments, listings on US stock exchanges	<p>Warned the retirement savings fund for federal government workers against investing in Chinese stocks; put similar pressure on the retirement fund board for railroad workers.</p> <p>Directed the Presidential Working Group on Financial Markets to study practices of Chinese companies listed on US exchanges.</p>
Federal Agencies - Diplomatic, trade, sanctions	<p>State Department ordered the closure of China's consulate in Houston. State and Commerce Departments revoked Hong Kong's special status.</p> <ul style="list-style-type: none"> + Suspended regulations that provide preferential treatment to Hong Kong over China, including export license exceptions + Ended controlled defense exports to Hong Kong + USTR pending additional actions + Potential impacts to commercial agreements, law enforcement cooperation, sanctions enforcement, export controls, format treaties or agreements, travel bans, visa restrictions, asset freezes

02

Biden's green campaign



Former Vice President Joe Biden may be taking a page from President Trump's playbook when it comes to his campaign on energy and environmental issues.

Just as candidate Trump vowed to reverse all of President Obama's energy and environmental regulations, Biden is campaigning to overturn President Trump's record on these issues.

Energy and the environment are a core pillar of both parties' respective platforms. However, on the campaign trail, candidates are not necessarily presenting legislative solutions on these issues but rather rally cries to motivate voters.

When candidate Trump crisscrossed the Midwest and the Rust Belt in 2015, he promised to undo "intrusive" regulations, and allow energy projects to be developed and proceed, in order to facilitate US energy dominance and independence along with millions of jobs. Candidate Trump used climate and environmental

policies advanced by Obama as a weapon to generate voter support through fear and nostalgia, whereas Biden is using the promise of jobs, global leadership, and a path to the future to push his clean energy and environment agenda - an attempt at a more "hopeful" message when the country is clamoring for optimism.

Trump and his administration have worked hard to achieve his campaign pledges by jettisoning the Paris Climate Agreement, approving both the Keystone XL and Dakota Access pipelines, increasing both offshore and onshore access for fossil fuel development, scrapping the Clean Power Plan (CPP) regulation that called for greater reductions in carbon emissions, support for the coal industry and the jobs it provides, and infrastructure certainty with reforms to the National Environmental Policy Act (NEPA), among other policies.

Fast forward to 2020 and Biden's agenda on energy and the environment:

Biden's 2020 agenda on energy and the environment



Source: Cogent Strategies as of July 28, 2020.

These are big and aspirational objectives rooted deep in undoing many of the Trump administration's regulations. But recent polling by Pew clearly shows why Biden has picked this set of clean energy and climate policies as a means to reach Democrats. In April, 88% of Democrats considered climate change a major threat, and in June, a strong majority of both liberal and more moderate Democrats supported more aggressive climate policies.

Equally insightful is a look at the architects behind Biden's clean energy and climate platform. In early May, Biden teamed up with Senator Bernie Sanders (I-Vermont) to create joint "unity" task forces in an effort to bring the party together after the contentious primary season. The six task forces, comprised of five Biden picks and three Sanders picks, will have a direct hand in shaping Democratic policy and the party's platform in 2020 and beyond.

Biden-Sanders unity task force on climate change**Biden's picks:****Rep. Donald McEachin (D-VA)**

Member of the House Committee on Energy and Commerce and Co-Founder of the United for Climate and Environmental Justice Congressional Task Force

Former Secretary of State John Kerry

Task Force Co-Chair

Gina McCarthy

Former Environmental Protection Agency (EPA) Administrator

Kerry Duggan

Former Deputy Director for Policy to Vice President Biden

Rep. Kathy Castor (D-FL)

Chair of the House Select Committee on the Climate Crisis

Sander's picks:**Varshini Prakash**

Co-Founder of Youth Activist Group Sunrise Movement

Rep. Alexandria Ocasio-Cortez (D-NY)

Task Force Co-Chair and Co-Author of the Green New Deal Resolution

Catherine Flowers

Founder of the Center for Rural Enterprise and Environmental Justice

Source: Cogent Strategies as of July 28, 2020.

One interesting takeaway here is that the policies recommended by the task force on climate change fall short of mirroring the heavily politicized Green New Deal (GND) favored by progressive Democrats, including Sanders and Climate Change Task Force Co-Chair, Rep. Ocasio-Cortez (D-New York). Biden has said he embraces the main tenants of the GND, but the sheer costs (up to \$92 trillion over 10 years, based on estimates by the American Action Forum from February 2019) and aggressive 2030 timeline make the plan highly unlikely to ever be enacted as currently drafted. Either way, these players - both progressive and moderate - will continue to play an outsized role in any energy and environmental debates over the next four years, whether they are in the Biden administration or part of his kitchen cabinet of external advisors.

The success or failure of Congress sending generation-changing environmental and energy legislation through the 117th Congress and onto the president will be heavily influenced by whoever controls the Senate come January 2021. Should Biden take the White House and Democrats claim the Senate, the fate of many policies - energy, environmental or otherwise - will be determined by presumptive Majority Leader Chuck Schumer's (D-New York) critical decision to alter the filibuster rules. In addition, there are over 100 moderate Democrats in the House who will not warm to energy and environmental policy positions that dismantle back-home industries without thoughtful legislation that creates a safe path for smart energy investment, reduces emissions, enhances clean job opportunities, and boosts the economy post-COVID-19. The same holds true in the Senate, where leaders will struggle to marshal energy and environmental legislation through a 60-vote threshold. Depending on the outcome of the election, the Senate Energy and Natural Resources (ENR) Committee will likely be chaired by either Senators Joe Manchin (D-West Virginia) or John Barrasso (R-Wyoming), and the Senate Environment

and Public Works (EPW) Committee may be chaired by either Senators Tom Carper (D-Delaware) or Shelley Moore Capito (R-West Virginia). These senators will play a key role in any policies put forward in the Senate that might see the president's desk and won't simply turn their backs on back-home industries like fossil fuels or petrochemicals that may be caught in the crosshairs.

While the campaign trail looks black and white on climate issues, there is a small-but-growing gray area on energy issues inside the Beltway. Members understand that one of the fastest job growth areas in the country, pre-COVID-19, was clean energy which, coincidentally, is an area of importance for moderate, suburban voters. In fact, seven Republican senators - including five that are in-cycle - recently penned a letter supporting clean energy policies in any future COVID-19 congressional package. Regardless of which party controls the Senate in the next Congress, it can be expected that positive attitudes toward clean energy will continue to grow.

What can one really expect from a Biden administration? Efforts will certainly be made to make good on his campaign promises, but the results will not be a perfect echo. He will successfully rejoin the Paris Agreement. Power plant regulations will be put forward (many of the country's largest utilities already pledged net-zero emissions by 2050), methane emissions will more than likely be regulated again, and hundreds of billions of dollars will be invested in clean tech energy jobs. And with the congressional middle calling for a more balanced clean energy agenda that focuses on the climate and emissions reductions, support for some initiatives will only continue to build. Voters, state leaders of both parties, and many companies are already there; Biden will use that as leverage to not only undo what Trump accomplished on the environment but go even further.

03

Senate elections: Show me the money



Power is up for grabs again in Washington this November. With former Vice President Biden leading in almost every poll and the US House of Representatives expected to stay in Democratic control, much of the focus has shifted to which party will control the US Senate come January. The last period of unified Democratic congressional control dates back to when President Obama took office. While the reign of Democrats was short - just two years - it managed to produce both the Dodd-Frank Act and the Affordable Care Act before the Republicans reclaimed the House in 2010.

Whether this scenario will play out again depends on just a handful of Senate races, given that the current Republican majority is only three senators. While President Trump's approval rating will be a large determining factor in each key Senate race, money will also be a critical measurement. Money raised is often associated with voter enthusiasm, and while that does not always convert to winning an election, it's a solid yardstick.

Let's look at what the fundraising numbers tell us about the upcoming elections in five key states:

Most Democrats in competitive senate races outraised Republicans in Q2 2020

■ Denotes who raised the most money in the second quarter ■ Denotes incumbents

Toss up races	Candidates	Q2 raised (\$M)	Cash on hand (\$M)	Total raised (\$M)
Arizona	McSally (R)	9.28	29.33	10.98
	Kelly (D)	12.78	44.03	23.94
Colorado	Gardner (R)	3.60	17.51	10.69
	Hickenlooper (D)	5.22	14.20	4.57
Maine	Collins (R)	3.61	16.90	5.58
	Gideon (D)	9.37	24.23	5.40
Montana	Daines (R)	5.00	13.01	7.14
	Bullock (D)	7.81	11.16	7.59
North Carolina	Tillis (R)	2.63	14.84	6.88
	Cunningham (D)	7.40	14.92	6.62

Sources: FEC, Cogent Strategies as of July 28, 2020.

These Q2 numbers and the evening-out of the cash on hand suggest that momentum is indeed on the side of the Democratic challengers in each of these five toss-up Senate races. Yet, while Democratic Senate candidates are outraising Republicans, party committees and other major groups on both sides are spending the cash about equally so far. Republican groups have spent nearly \$171M on Senate races while, Democrats have spent more than \$166M on advertising. The biggest difference in how those advertising dollars are being spent is that, according to advertising analytics,

96.6% of the Republican spend has been defensive while 97.4% of Democratic ad dollars have been offensive. Granted, Republicans have more Senate seats to defend this cycle, but at some point, the GOP will need to start playing offense. Defense may win championships (in sports), but it doesn't win elections.

So, with less than 100 days to go until the election, the conventional wisdom that whichever party wins the White House will control the Senate seems to be holding true.

04

Rewriting the convention playbook

The Democratic and Republican conventions have historically provided a national stage to nominate presidential and vice presidential candidates and an opportunity for party regulars to celebrate the achievements of the incumbent party or coalesce around a platform that seeks to change the trajectory of the country's political and policy priorities. But that's the historical perspective. This is 2020.

In early April, before former Vice President Biden had become the presumptive nominee, Democrats decided to push back their party convention from mid-July to mid-August in the hopes that the pandemic would be brought under control. By late June, it became clear that while the August date would remain, the convention itself would have to be downscaled and turned into a largely virtual event with delegates being asked not to travel to Milwaukee.

Earlier that month, after a public war of words with the Democratic governor of North Carolina, President Trump announced that the Republican convention was being moved from Charlotte to Jacksonville, Florida. The president did not like the idea of a scaled-back affair based on the governor's insistence of "a safe RNC convention in Charlotte," one that would follow health guidelines issued by the Centers for Disease Control and Prevention (CDC). Fast forward to the end of July when reality caught up with the president; he instructed his team to cancel all in-person Jacksonville convention events given the spike in COVID-19 cases in Florida.

What were once considered opportunities to create momentum going into the fall campaign, this year's Democratic and Republican conventions will now both be virtual affairs. In a world that has reluctantly grown accustomed to life in the age of Zoom, this is yet another sobering reality check, but perhaps a predictable one.

While Republicans are now scrambling to reimagine their convention following the president's reversal, Democrats have had the advantage of months of planning for an entirely virtual event that will be "anchored" in Milwaukee, Wisconsin. There, Biden will accept the nomination of his party virtually, as he recently announced. Scaled back to a smaller arena, there currently remains an in-person element to the largely made-for-TV convention. Delegates will vote for their nominee remotely from satellite "mini-conventions" throughout the country. And while the Democratic National Committee (DNC) chair says that decisions about the convention have been and will continue to be based on science - a not-so-subtle dig at the president - some are questioning whether any gatherings, large or small, should be held at all. So while the Republicans are rushing to pull off their virtual convention, Democrats are not necessarily out of the woods yet as COVID-19 may dictate some last-minute twists and turns to their party's convention.

Barring any additional changes, the Democrats have their convention framework set and have their presidential nominee. That leaves one box left to be checked: Biden's vice presidential running mate.

The process of selecting a vice presidential candidate has told us a lot about Biden's overall approach to decision making. While his choice to publicly announce that it will be a woman was seen as an effort to help secure the nomination, his team's close hold on who she will be has come in stark contrast to the habitually "leaky" Trump White House. And with the Black Lives Matter movement sweeping the nation, many are speculating that Biden will select a woman of color.

What we do know is that Biden feels strongly about finding a running mate, who is "simpatico," in his own words. He is looking to recreate the relationship of trust he had with President Obama. Front runners include the following accomplished group of women:



Susan Rice is considered the most simpatico of the group, given her many years of work and collaboration with Biden during the Obama years. Yet, having never held elected office and being a target of Republican attacks for her handling of and response to the Benghazi attacks make her a possible liability in attracting independent voters.



Kamala Harris continues to be viewed as a Democratic superstar. She is vetted and has been on the national stage for some time now, including her three successful statewide elections in California. Her lackluster primary performance and noteworthy attack against Biden at one of the primary debates ("I know you're not a racist, but...") may well cost her this coveted opportunity. Additionally, her record as the top prosecutor of the State of California has come under scrutiny as Democrats continue to raise the specter of police brutality and incarceration rates among people of color.



Karen Bass has gone from long shot to a possible contender, though she continues to lack a national profile or network and is not seen as someone proven on the national stage. Nonetheless, she brings with her years of leadership and advocacy on health care and race issues and is seen as someone who would be comfortable in the role of team player. A progressive lawmaker, she did raise eyebrows among Florida Democrats when she lamented the passing of Fidel Castro.



Val Demings, the Orange County, Florida, congresswoman and former Orlando police chief, raised her national profile as one of the House impeachment managers. And while her years as a top law enforcement officer may have led to her appointment as the only non-lawyer on the team, it has also raised questions as to her role in addressing her former police force's reputation for use of excessive force. She is seen as a straight shooter and collaborative.



Keisha Lance Bottoms recently drew national attention when she imposed a mandatory mask order in Atlanta and almost immediately faced a lawsuit brought by the governor who opposes such a mandate. She is viewed favorably by the Biden camp, having endorsed the former vice president in June 2019. She has worked on criminal justice reform and made headlines when she refused to allow Immigration and Customs Enforcement (ICE) to continue detaining immigrants in an Atlanta jail.



Tammy Duckworth has emerged as a serious contender, being politically aligned with the majority of the Senate Democratic Caucus, bringing a diverse background, unimpeachable military credentials and attack dog ability. Her recent sparring with Tucker Carlson and quick wit (calling Trump "Cadet Bone Spurs") has endeared her to a broader Democratic audience, not to mention the fact that she made Senate history by being the first sitting senator to give birth while in office and cast a vote on the Senate floor with her newborn by her side.



Elizabeth Warren has remarkable staying power, continuing to appear on the various shortlists. Having been on the national stage for many years, her politics are well known as she represents the progressive wing of the Democratic party. In fact, in the aftermath of the Democratic primary, she and Senator Bernie Sanders (I-Vermont) continue to play an outsized role as we are headed into the general election campaign. Their influence and pressure from activists throughout the country may have resulted in Biden, possibly, being the first candidate who has moved toward the left - versus the center - after having secured the nomination. Regardless of whether Warren gets the nod, we can be assured that she will continue to influence certain aspects of policymaking in a Biden administration.

Source: Official Photos

There remain other experienced contenders including Stacey Abrams, who gained national attention when she ran an extremely close race for governor in the deeply red state of Georgia, and a trio of governors, Gretchen Whitmer of Michigan, Gina Raimondo of Rhode Island and Michelle Lujan Grisham of New Mexico. All three state leaders have shown leadership in their handling of the pandemic and could provide momentum for the Democratic ticket that comes with such an announcement.

In years past, the timing of the vice presidential pick has always coincided with the party's convention. The last

two Democratic presidential nominees announced their choices two days (Obama in 2008) and three days (Clinton in 2016) in advance of their conventions.

But this is 2020! The Biden team said the announcement for his running mate would be made in the first week of August, but has now been pushed into the following week. This is perhaps a move to gain additional momentum going into a virtual convention that - this year - might not guarantee the same level of enthusiasm the real deal has traditionally provided.

Invesco US Government Affairs



Andy Blocker
Head of US
Government Affairs

Andy Blocker serves as Head of US Government Affairs for Invesco. In this role, he drives Invesco's legislative and regulatory advocacy initiatives with policymakers, engages with clients and opinion leaders on public policy developments, and seeks to maximize the company's political footprint. Previously, Andy served as executive vice president of public policy and advocacy for the Securities Industry & Financial Markets Association, where he led a team engaging lawmakers on international, federal and state issues impacting the financial services industry. Andy spent five years as managing director for the US Office of Public Policy for UBS. He also served as vice president of government relations for the New York Stock Exchange, as managing director of government and international affairs for American Airlines, and for the White House as special assistant to the president for legislative affairs.



Jennifer Flitton
Vice President of Federal
Government Affairs

Jennifer Flitton is Vice President of Federal Government Affairs with the US Government Affairs team, where she advocates on behalf of Invesco's policy initiatives with policymakers and regulators and ensures the firm is an influential part of the Washington conversation. Ms. Flitton joined Invesco from the Securities Industry and Financial Markets Association, where she led lobbying initiatives on behalf of the asset management and broker dealer industries. She spent 16 years on Capitol Hill, last serving as the deputy chief of staff and legislative director for Congressman Patrick McHenry, and as Congressman McHenry's designee to the House Financial Services Committee's Oversight and Investigations Subcommittee.



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All data is in USD, unless otherwise stated. The opinions expressed are those of Andy Blocker and Jennifer Flitton as of July 15, 2020 and are subject to change without notice. These opinions may differ from those of other Invesco investment professionals.

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