

Monthly Global Macro Update

CHART OF THE MONTH: The Big Election

Chart 1:

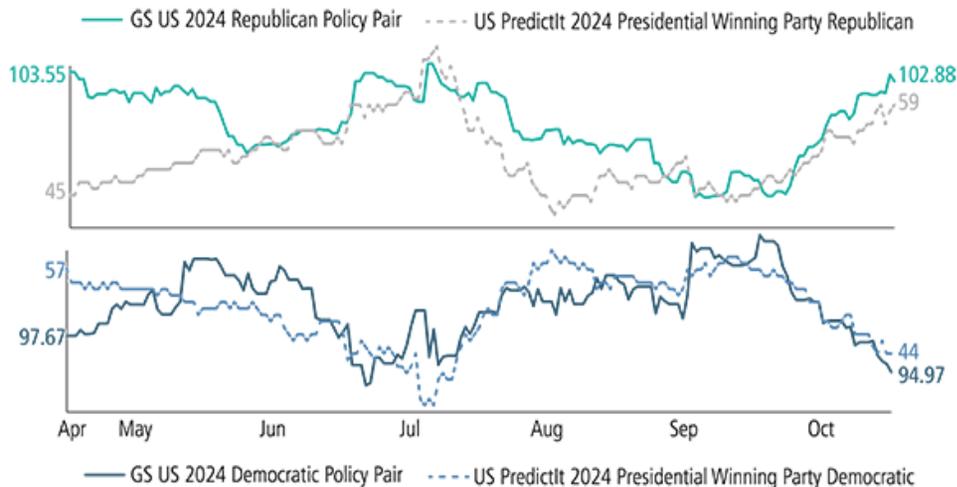
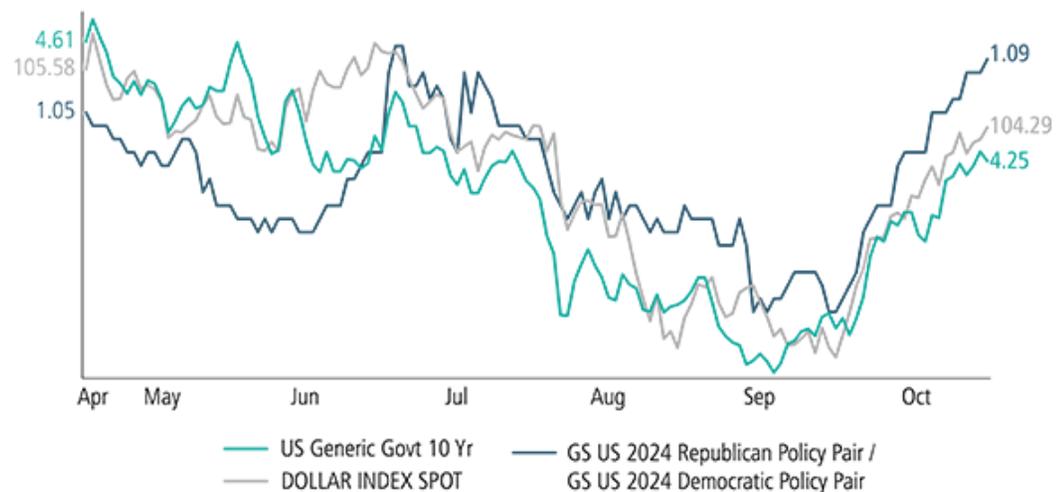


Chart 2:



HIGHLIGHTS

Next week's election is in focus as investors seek to anticipate the major potential impacts to markets and the economy. In this month's chart feature, we offer some observations around implications for popular trading positions.

- Chart 1 above shows the PredictIt polls indicator with two Goldman Sachs baskets designed to reflect equity names that would benefit from a Republican win versus a Democratic win.
- Chart 2 presents the U.S. dollar and 10-year Treasury yield with the relative performance of the Republican basket versus the Democratic basket.
- A few interesting observations, if one believes in the correlations above:
 - In terms of sector and style relative performance, the market is leaning heavily towards a Trump win...
 - ... and if one believes that recent presidential odds are the principal component driving markets, then the higher 10-year Treasury yield has also largely been driven by a larger term premium, which has resulted in a stronger dollar.
 - Thus, it seems likely that the largest sector unwinds would result from a Harris win, in which case the 10-year Treasury yield would move lower along with the U.S. dollar.
- The more complex question, if the above relationships turn out to be correct, is what could be some potential trades in the event of a Trump win?
- If, as we assume, European bond yields moved higher consistent with U.S. yields, we would look for this relationship to fade given the weakening growth outlook in Europe.
- Because investor exposures have been reduced in front of the election, it is quite possible that "Trump trades" that have not done as well, such as small-cap outperformance and financial sector outperformance, could reprice aggressively.
- Good luck. We are all hoping that this election is over next week!

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