

QUALITY USA PORTFOLIO POSITIONING FOR 2024 U.S. ELECTIONS

The information presented in this article has been prepared based on data available as of September 2024. Subsequent developments or new information after this date may impact the accuracy or relevance of the content.

The impact of U.S. presidential elections on the markets is often debated in the lead-up to the vote. While discussions of policies can cause short-term market fluctuations, in the long run, politics usually have a minor influence on stock market performance compared to broader factors like economic growth or interest rates. Although impact on the overall market may not be as discernible in the long-term, and we certainly do not advocate for changing your investment strategy based on election outcomes, certain sectors and individual stocks can be more sensitive to political changes. Therefore, it's still worthwhile to review an investment portfolio for potential political risks.



KEY RISKS IN A REPUBLICAN WIN

International relationships: Republican side is likely to take a more aggressive stance on trade, possibly increasing tariffs on imported goods, especially from China, and heightening geopolitical tensions

Quality USA Portfolio is skewed towards asset-light companies and majority of holdings have a relatively low presence in the Chinese market. Only 1/3 of Portfolio companies rely significantly on China for their supply chain and only 1/3 derive substantial revenue (>10%) from China

Clean energy: In case of a Republican win, clean energy initiatives could be scaled back and some components of the Inflation Reduction Act could even be dismantled

Quality USA Portfolio does not have any exposure to pure-play renewable energy or electric vehicle companies, as quality is scarce in these sectors. Only 13% of the Portfolio – suppliers of products to the exposed markets – could be indirectly impacted, although share of revenue at risk is minimal

Immigration policies: Trump's immigration stance could impact companies reliant on global talent, decreasing labor availability and increasing employee costs

Quality USA Portfolio has limited representation – 4% – in the most labor-intensive industries, such as Retail, Hospitality and Food Service. While many Technology companies also rely on immigrant labor, companies have recently been less aggressive in expanding their workforce, instead aiming to increase productivity, including with the help of AI



KEY RISKS IN A DEMOCRATIC WIN

Big Tech regulation: Democratic win could result in a tighter regulatory landscape, especially for technology companies, which could face increased scrutiny over privacy, data protection, and their market power

Quality USA Portfolio has lower exposure to the Big Tech companies than the benchmark. While these companies could face headline risks, higher operational costs, as well limited M&A opportunities, they have also proven their adaptability, flexibility and ability to protect margins

Health care: Healthcare companies and medical insurers could face increased regulatory scrutiny due to Democratic commitment to expanding access to affordable healthcare

Quality USA Portfolio holdings include only one Big Pharma company (Merck) and one healthcare insurer (UnitedHealth), which are adept in navigating the changing political landscape, focusing on business diversification, innovation and prudent cost control

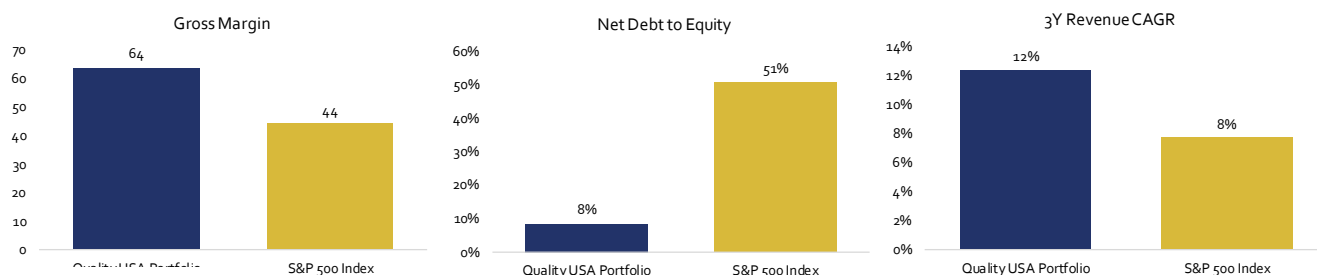
Climate change: Democratic focus on combating climate change could lead to more stringent regulations on carbon emissions and fossil fuel production

Quality USA Portfolio does not have any exposure to the Energy sector and minimal exposure to heavy polluters from other sectors: portfolio weighted average carbon intensity is 80% below the S&P 500

Food industry price controls: Harris has proposed a ban on price gouging in the food and grocery sectors

Quality USA Portfolio holds only one company from the affected sectors (Costco), but Costco, positioned as value leader (13% gross margin vs. Walmart's 39% and Kroger's 22%), would likely be less exposed to potential disruption

Regardless of which side wins the election, what seems clear is that neither candidate is expected to make fiscal discipline a central focus of their platform. Republicans favor tax cuts, while Democrats are likely to support spending on social and climate change initiatives. For financial markets, this means that we are unlikely to go back to the era of ultra-low interest rates, while inflation might remain slightly higher than it was over the last decade before the pandemic. As far as portfolio construction goes, we believe such environment will continue to favor Quality companies with low leverage, strong pricing power and relative resilience of demand to interest rates. Quality USA Portfolio companies exhibit high gross margins, resilient balance sheets and they have maintained robust growth rates in the recent elevated rate environment.



Source: Hérans Quality AM, Refinitiv; median values, as of 01/09/2024

We will continue to closely follow developments of the elections as we get more details of specific policies of each candidate. However, our initial assessment shows that Quality USA Portfolio exposure to potential political risks is limited and Quality companies are well-positioned to thrive under either administration. Business-wise, positive aspects can also be found in either side's agenda. For example, Trump is likely to favor tax cuts and deregulation, while Harris' win could mean more stability and continuation of existing policies, resulting in less uncertainty for companies.

Disclaimer: This document may contain confidential information that is not intended for third parties. If you are not the intended recipient of this document, you must not publish or pass on its content in any way. This document is for information purposes only and constitutes neither an offer nor a recommendation to undertake any type of transaction or to buy or sell securities. Management offers no guarantee of the completeness, correctness, or security of this document. Hérans Quality Asset Management accepts no liability claims that might arise from the use or non-use of the content of this document.