# DAY 3 IAPF BENEFITS WEEK

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# WELCOME



Eunice Dreelan
Head of Intermediary Business
Irish Life Group / IAPF Council

# SPEAKERS



Dr. Barra Roantree,
Research Officer
ESRI



Elliot Hentov,
Head of Policy Research
State Street Global Advisors

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# PLATFORM FEATURES

**Q&A**

Ask questions / make comment via the Q&A feature on the platform

Handouts

**?!?!?**

Technical Issues – info@iapf.ie

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# Report examines adequacy of income in retirement

**Present at-risk-of-poverty rate for pensioners is low: 11% vs 16% for u18s**

**But concerns future cohorts not adequately prepared**

- Lower growth and returns on savings
- Decline of Defined Benefit pensions

**Will those approaching state pension age have adequate income in retirement?**

**Which groups will be most at risk of inadequate incomes?**

# Existing research

## Research & policy here focused on replacement rates

$$rr = \left. y_{SPA} \middle/ y_{SPA-t} \right.$$

- e.g. Bercholz et al. (2019) Nivakoski (2014); Nivakoski & Barrett (2019); Government's Pensions Roadmap 2018–2023
- Coherent rationale given aim of smoothing consumption
- … but earnings volatile & often peak in years before retirement

## We assess multiple indicators of adequacy

- Consider both replacement rate & poverty-line benchmarks
- Poverty-line benchmarks relate income adequacy to minimum resources needed to buy essential goods and services

# Data & methodology

**Use TILDA data to calculate likely income in retirement for those approaching the State Pension Age (60-65 now)**

- Cohort born 1955-60 expecting to retire between 2022 & 2027
- Assume everyone working continues to do so until they retire at age 67, with earnings rising in line in forecast wage growth
- Full technical details contained in appendix of paper

**Consider three measures of income**

1. Narrow: income from state, occupational & personal pensions
2. Broad:     … + annuitised value of net financial assets
3. Broadest: … + half annuitised value of primary residence

# Consider a range of adequacy benchmarks

## Three based on replacement rate approach

1. 50% of pre-retirement **earnings** (if earnings>0)

2. 67% of pre-retirement household **income**

3. 80% of pre-retirement household **income**

## And three based on poverty-line approach

1. 60% of median household income (official at-risk-of-poverty line)

2. 50% of median household income (OECD at-risk-of-poverty line)

3. VPSJ Minimum Essential Standard of Living (MESL):

|  | Urban (pw) | Rural (pw) |
|---|---|---|
| **Pensioner living alone** | €250.05 | €314.02 |
| **Pensioner couple** | €315.38 | €387.46 |

# While not many who replace large % of pre-retirement income...
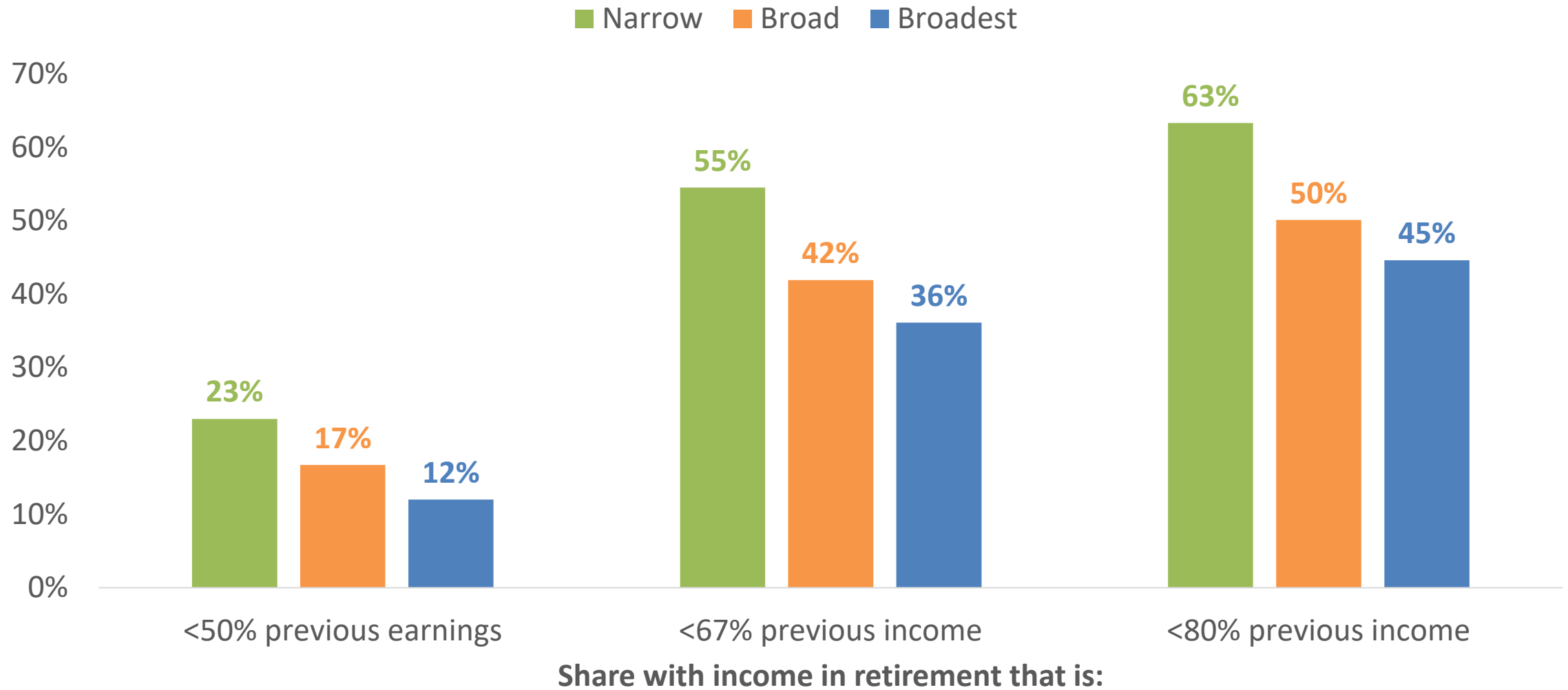
# … few will be at-risk-of-poverty either



Share with income in retirement that is:
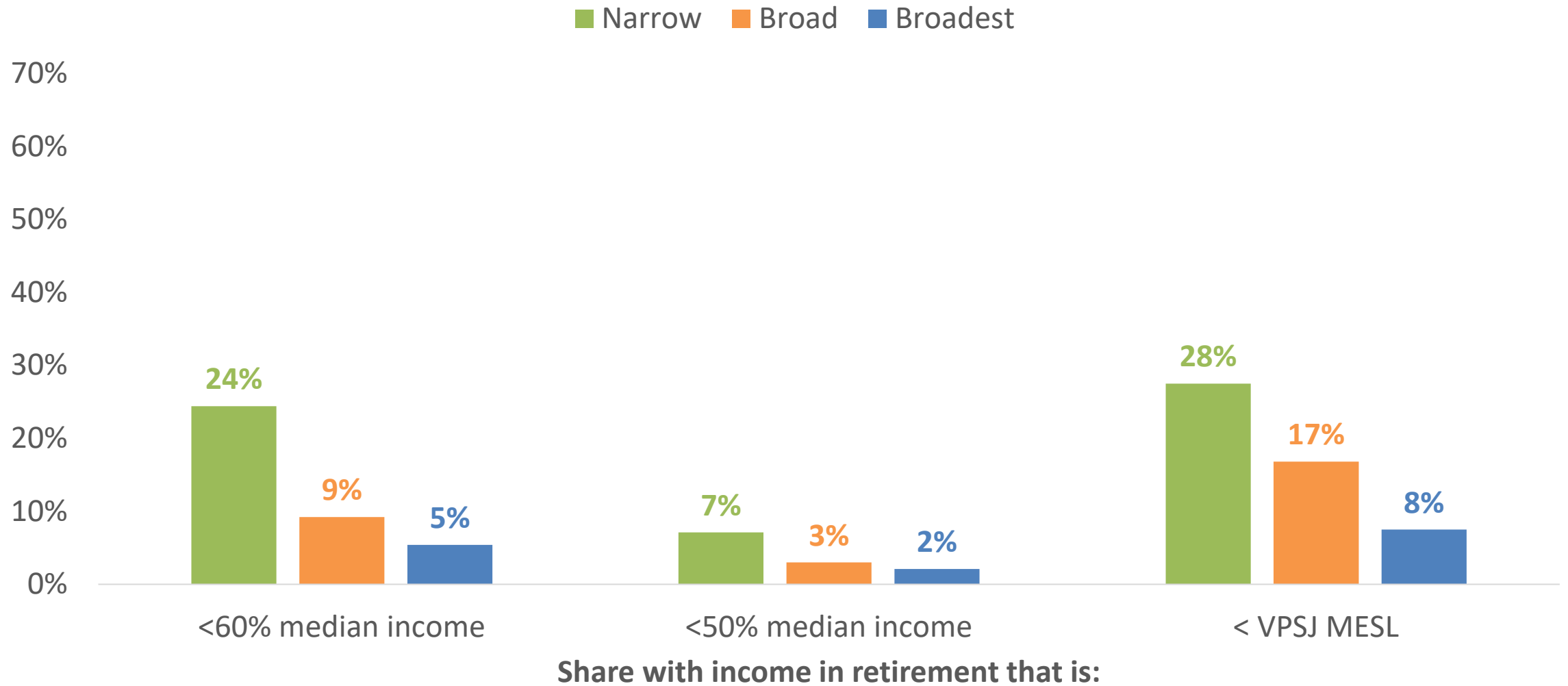
# Measures suggest quite different groups are at risk

**Those at risk of having inadequate income in retirement using <u>replacement rate</u> benchmarks are more likely to:**

- have higher education

- live in a non-farming household (when assets included)

- live alone in the years approaching retirement

**Those at risk of having inadequate income in retirement using <u>poverty line</u> benchmarks are more likely to:**

- have lower secondary-education or less
- live alone in the years approaching retirement

# Conclusions

**On all measures, those living alone are at greater risk of having inadequate income in retirement**

- Suggests Living Alone Increase may be well targeted instrument for addressing concerns about income adequacy in retirement

**Those at-risk-of-poverty may be overlooked by income inadequacy targets that are based on previous earnings**

- These to the forefront of government policy in recent decades

**Need for more explicit discussion about inherent trade-offs involved in meeting replacement rate benchmarks**

- More saving for retirement comes at the expense of lower living standards during working life when needs might be high

# THANK YOU
## Dr. Barra Roantree, ESRI

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# 2020 US Elections

Elliot Hentov, PhD
Head of Policy Research
State Street Global Advisors

October 2020

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# Smaller, Exclusive Voter Pool Shifts Policy Positions Away From Centre
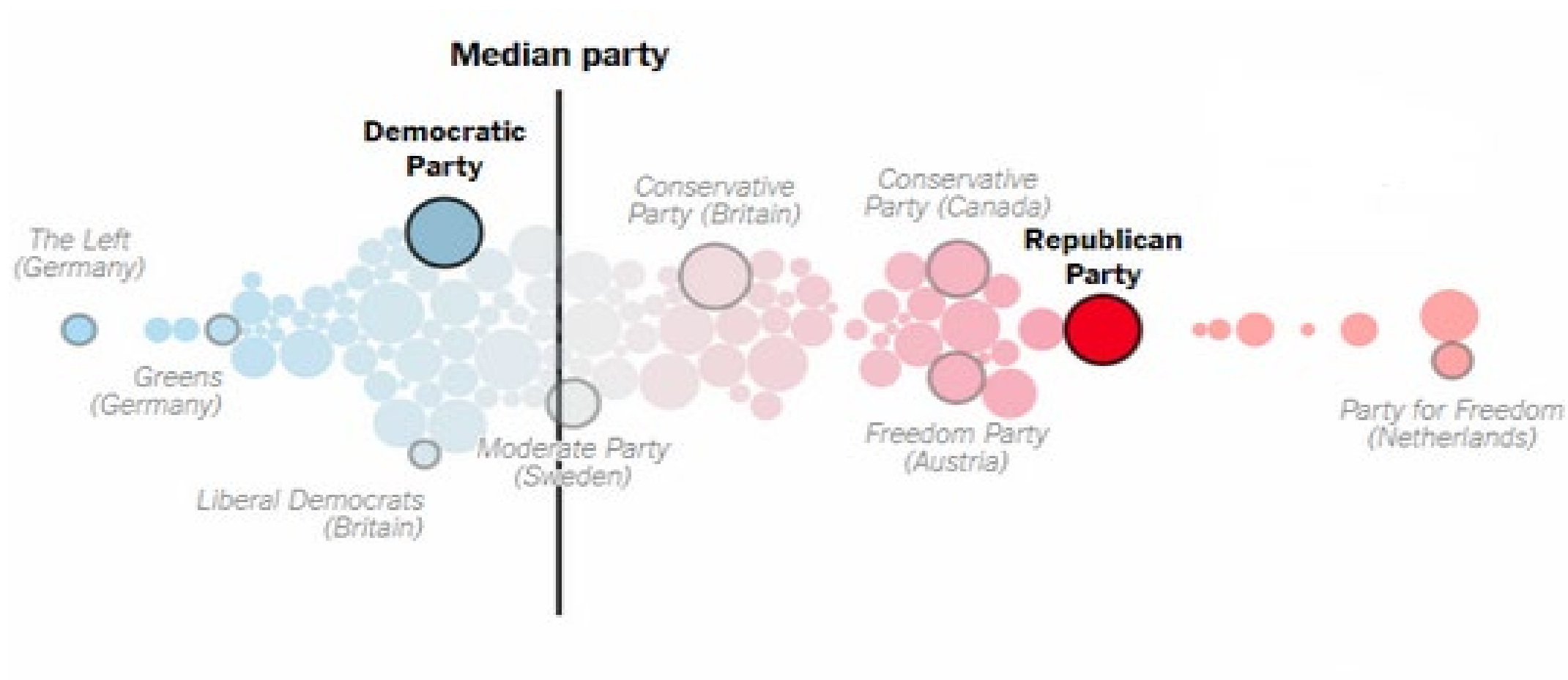
# Macro Data Now Strongly Negative

| Indicator | Minimum Threshold | 2016 Comp | Pre-Covid | Current | Yes/No |
|---|---|---|---|---|---|
| Real Disposable Income Growth (%) | 1.3 | 0.7 | 2.2 | 1.05 | X |
| Nonfarm Payrolls | 127k | 208k | 176k | -1.92m | X |
| Real Personal Consumption (%) | 2.4 | 2.7 | 3.9 | -2.5 | X |
| Real GDP (%) | 1.1 | 2.05 | 2.05 | -1.35 | X |
| Consumer Confidence | 84.8 | 107.9 | 109.8 | 86.5 | √ |
| Presidential Job Approval Rating (%) | 47 | 51 | 44 | 42 | X |

Note: Threshold indicators only represent historical correlations with incumbent party victory and statistical significance generally peaks for Q2 or Q3 data of election year starting in 1960. Current and 2016 comparison values are average of last two quarters or Q2–Q3 2016 respectively.

# Trump Has "Very Stable" Approval Rating



All polls

80%

70

60

**53.4**% Disapprove

50

**43.2**% Approve

40

30

20

Not only lowest STD in presidential history, but absolute lowest in first two years (no honeymoon)

JAN. 23, 201 APRIL   JULY   OCT.   JAN. 2018   APRIL   JULY   OCT.   JAN. 2019   APRIL   JULY   OCT.   JAN. 2020   APRIL   JULY   OCT.

KEY   ESTIMATE━━━ ╌╌╌ PROJECTION
90% OF POLLS PROJECTED TO FALL IN THIS RANGE

Today          4 years
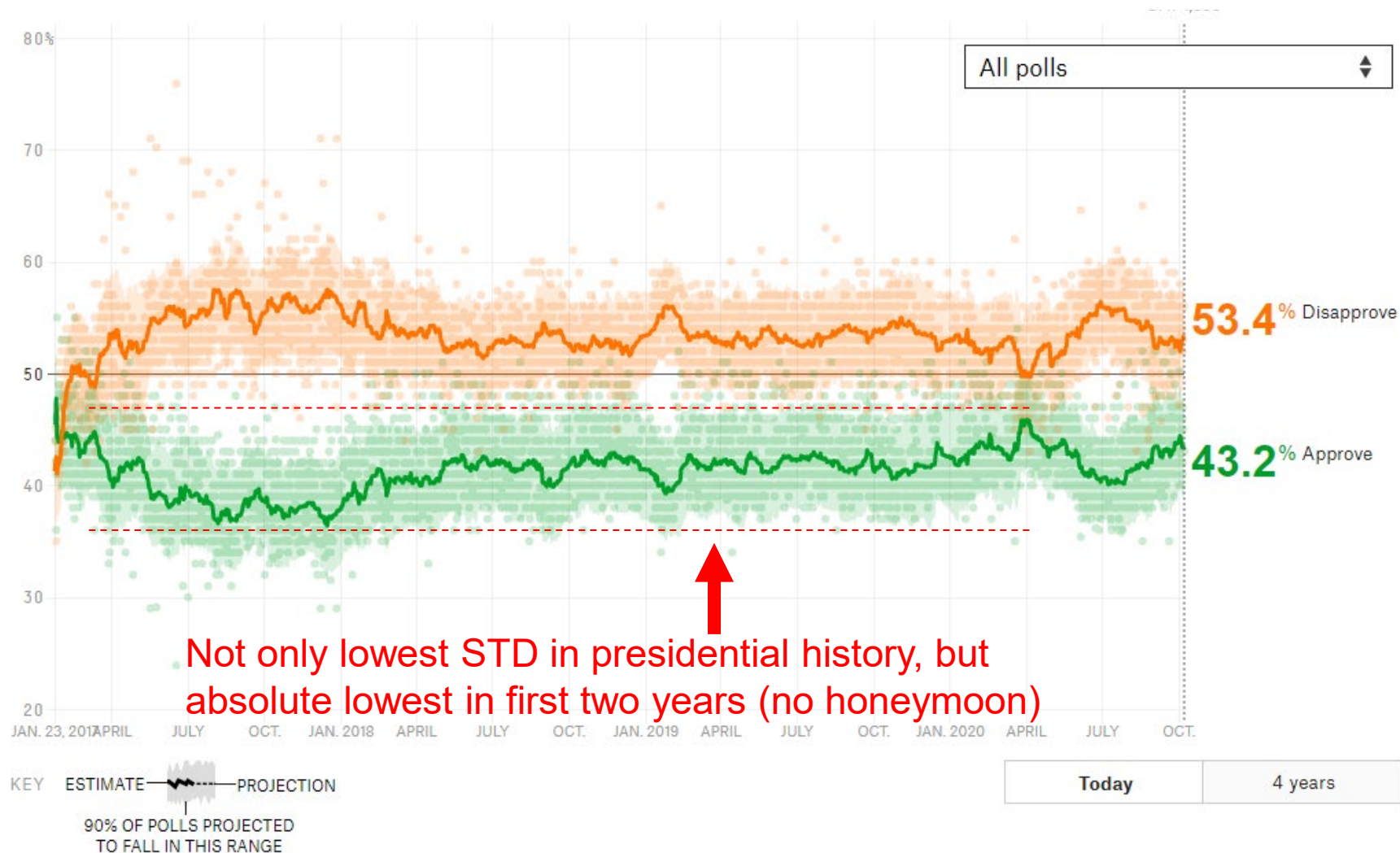
Source: State Street Global Advisors Global Macro Policy Research; 538.com

# Approval Rating Worked Well In 2018

**Midterm presidential party gains / losses vs approval rating**
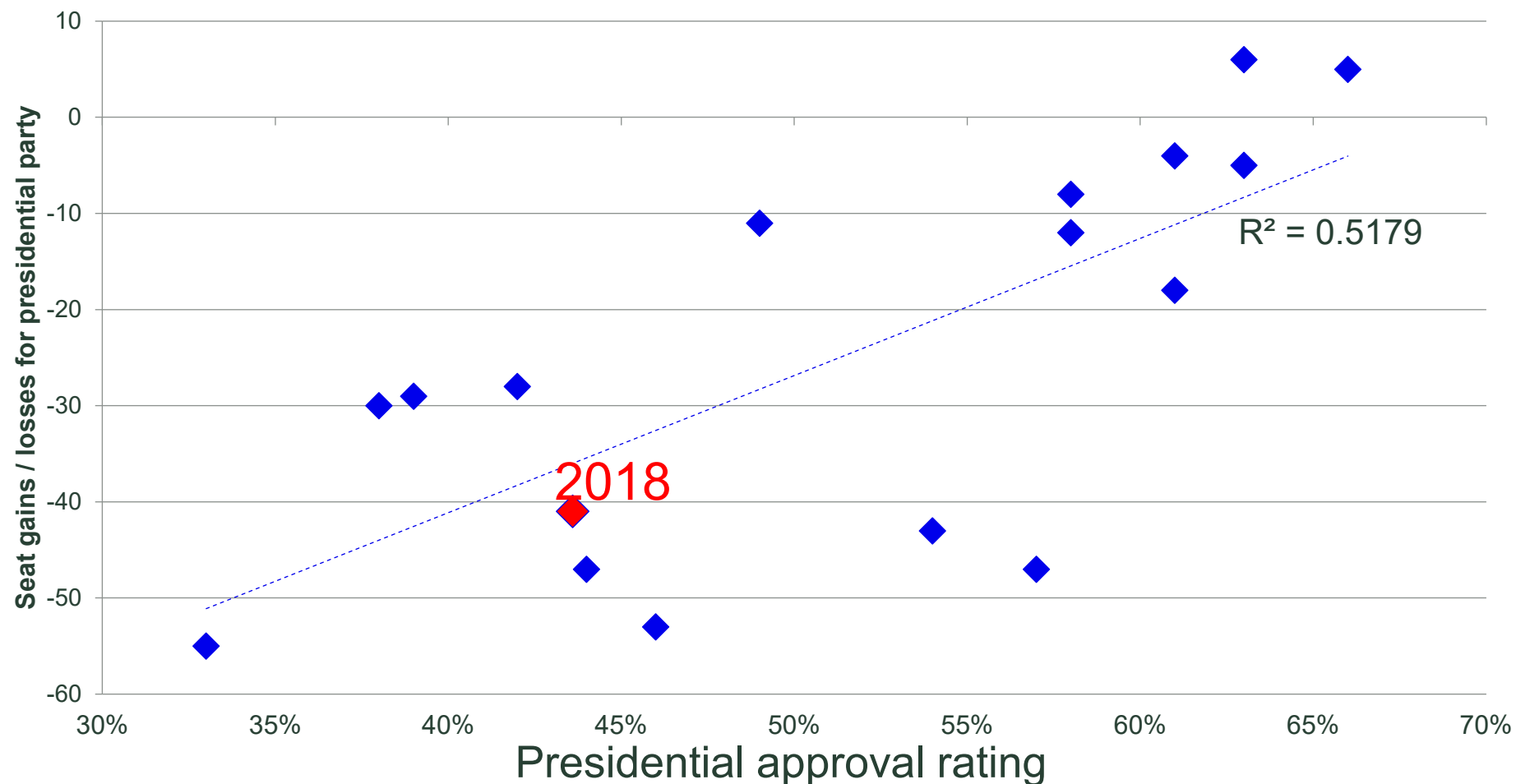
# Betting Markets Distrust The Polls
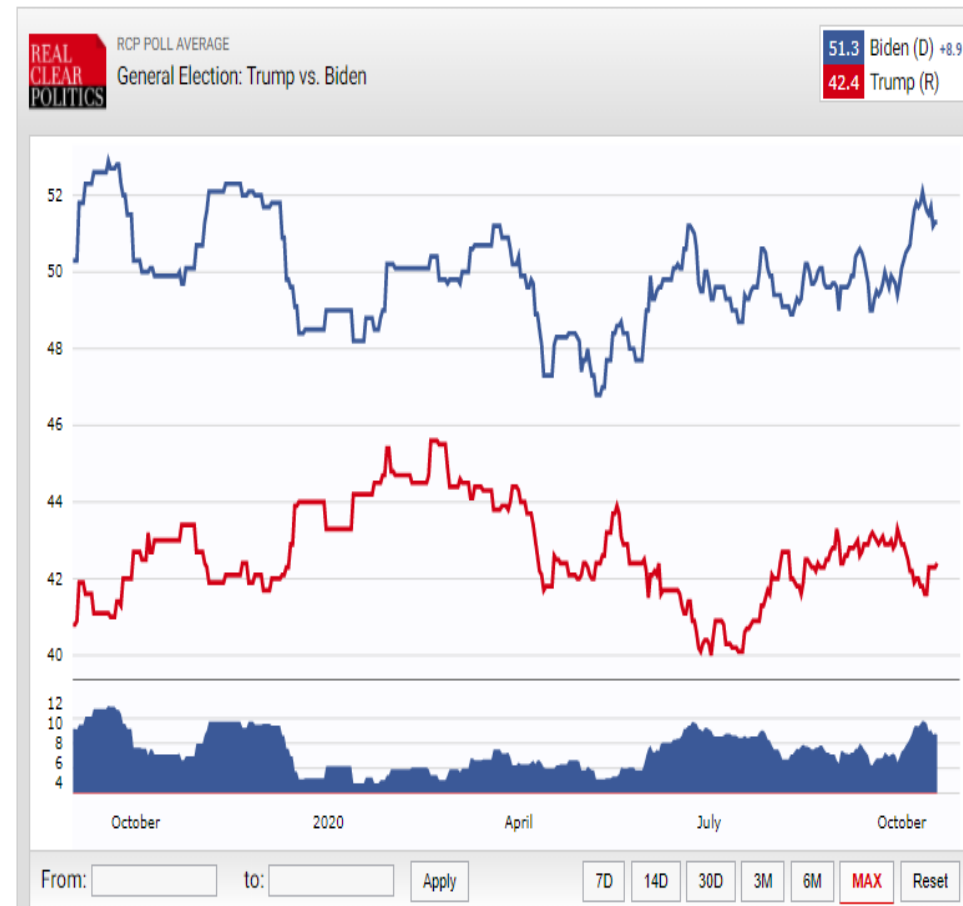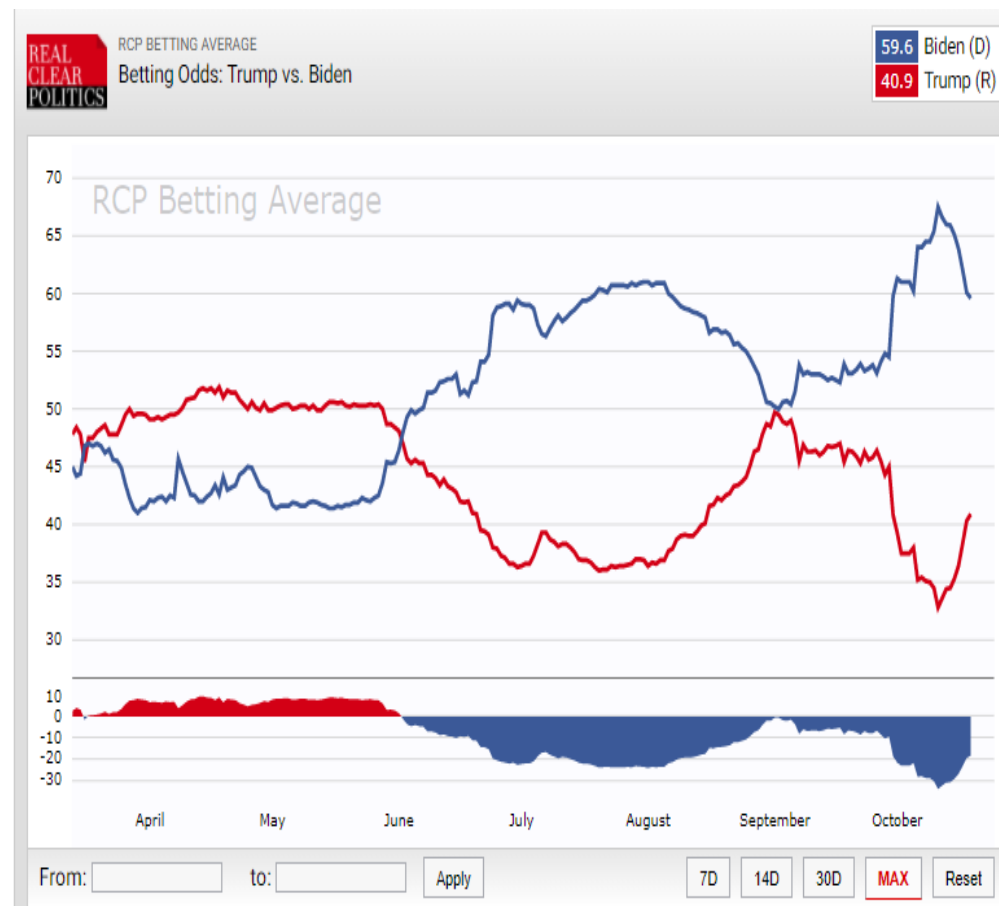
Source: RealClearPolitics as of 18 October 2020
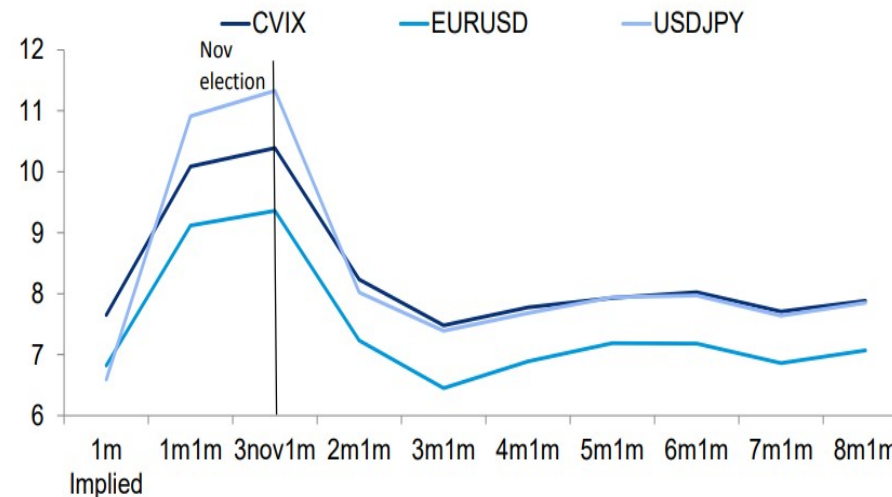
# Options Markets Approaching Consensus
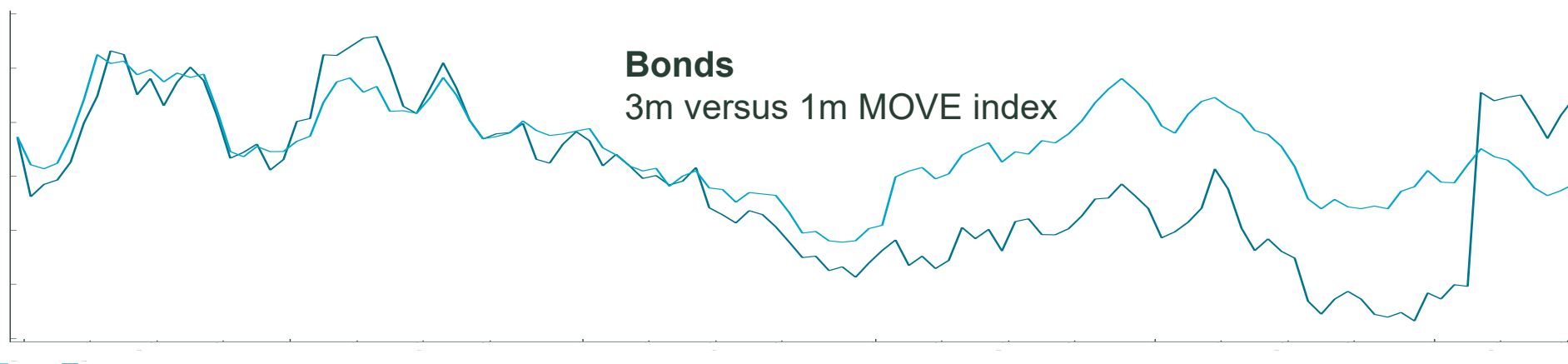
**Equities**



VIX Futures Curve - 9 October 2020
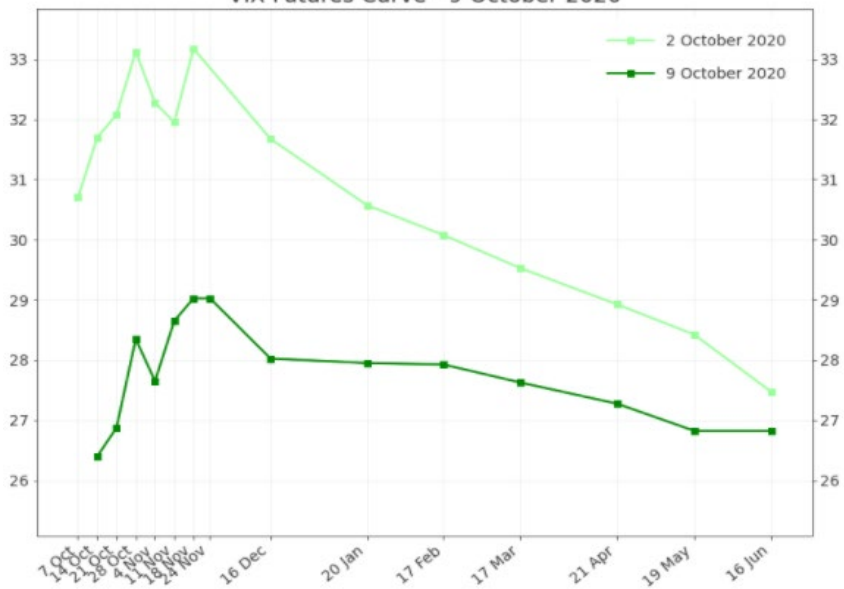
**FX**

FX Market Implied Volatility



**Bonds**

3m versus 1m MOVE index

Source: SSGA Global Macro Policy; Macrobond; Macroption; CBOE; Bloomberg; Deutsche Bank Research;

# US Elections Remain Tight Without Landslide

US polarisation in Electoral College means Democratic candidates need to outperform by wider margins.
Last three Republican victories relied on narrow margins in two states or less.

### Number of Swing States Victory versus Popular Vote Margin
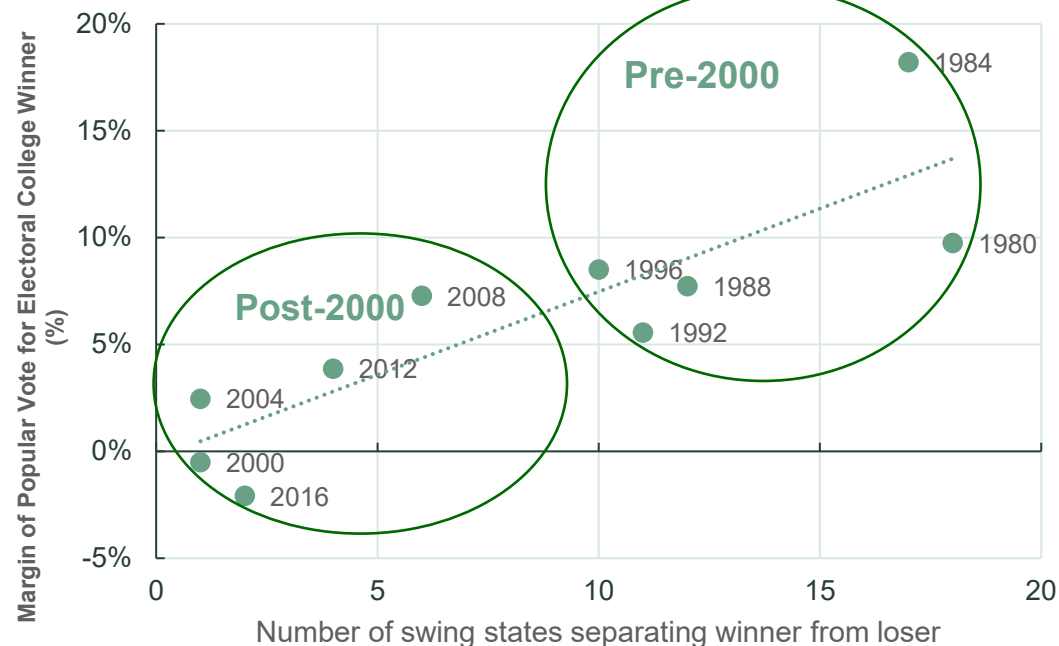


### Trump needs to win FL+3 of these states

| | 2016 Margin (%) | Trump Approval Rating (%) (19 October 2020) | Avg Poll Margin for Biden (%) (19 October 2020) | Real GDP (% AR last Q4/19 + Q1/20) | Net Δ in Manu Jobs (Q1 + Q2 2020) | Covid-19 deaths / million (19 October 2020) | EC Votes |
|---|---|---|---|---|---|---|---|
| NC | 3.4 | 45 | +2.7 | 1.2 | -34,000 | 380 | 15 |
| FL | 1.2 | 46 | +1.4 | 1.7 | -13,300 | 740 | 29 |
| AZ | 3.9 | 45 | +3.9 | -0.2 | -5,000 | 800 | 11 |
| WI | 1.0 | 45 | +6.1 | 0.7 | -22,400 | 270 | 10 |
| PA | 1.2 | 43 | +4.4 | 1.2 | -28,300 | 660 | 20 |

Source: SSGA Global Macro Policy Research; Real Clear Politics; US Bureau of Economic Analysis; US Bureau of Labor Statistics. Red shaded denotes support for Trump re-election, blue shaded supporting factor for Biden's prospects and gray neutral indicator. Assumes Trump retains victory in all other states that he won with a margin of 5% or greater in 2016, including Maine-02 district. Trump then only needs 65 EC votes elsewhere. Michigan and swing states narrowly won by Democrats in 2016 now largely out of reach.

# Senate Make-Up Least Certain Outcome

**2020 House Control**
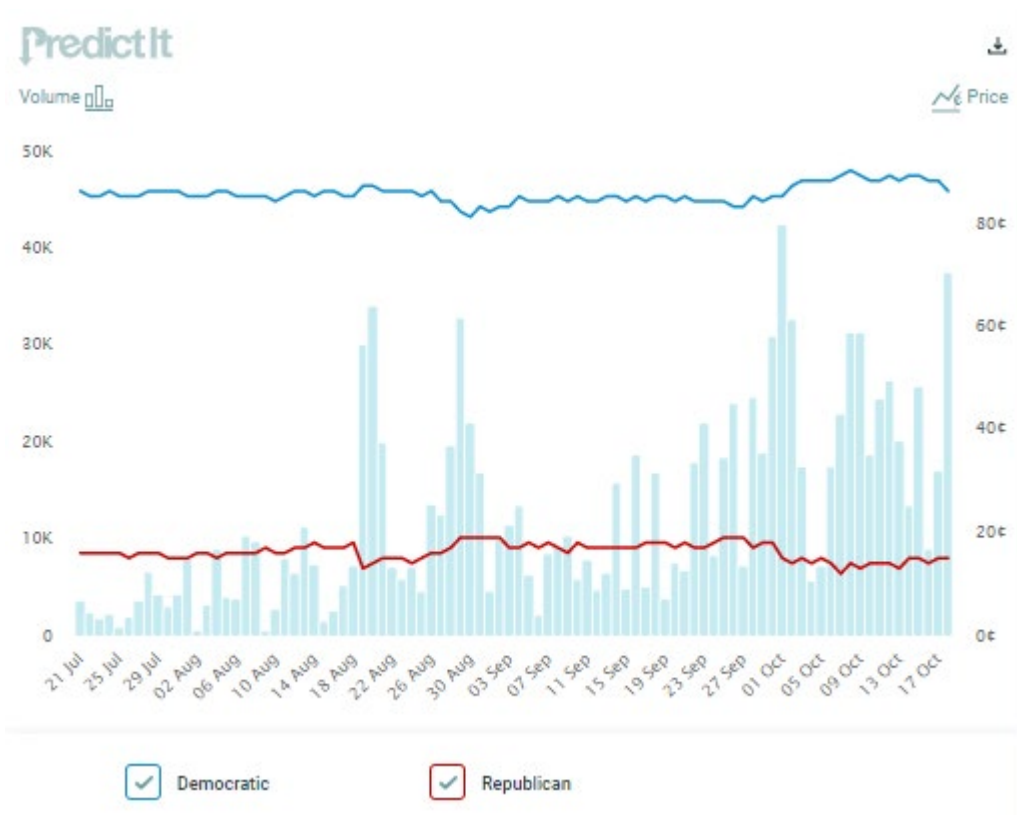


**2020 Senate Control**
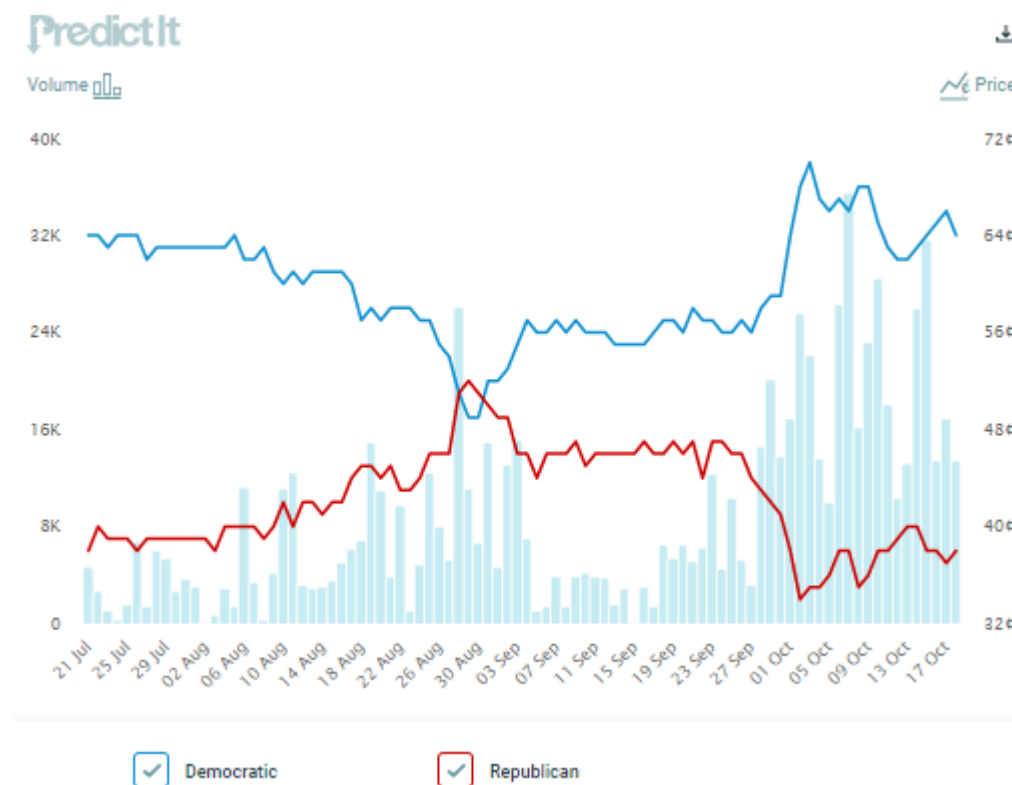
# Presidential — Senatorial Polling Discrepancy Holds Key

| State | Current Party | Presidential | Senate |
| --- | --- | --- | --- |
| Alabama | Dem | Trump +20 | Tuberville +10 |
| Colorado | Rep | Biden +10 | Hickenlooper +9 |
| Arizona | Rep | Biden +3.9 | Kelly +8.3 |
| Maine | Rep | Biden +11 | Gideon +4.2 |
| North Carolina | Rep | Biden +2.7 | Cunningham +4.3 |
| Iowa | Rep | Biden +1.2 | Greenfield +4.8 |
| Georgia | Rep | Biden +1.2 | Perdue +1.0 |
| Montana | Rep | Trump +8.2 | Daines +3.3 |
| Kansas | Rep | Trump +6.5 | Marshall +1.5 |
| Michigan | Dem | Biden +7.2 | Peters +4.9 |
| Texas | Rep | Trump +4.4 | Cornyn +7.6 |

# Contesting Elections Would Be Rational And Hold Good Prospects For Alternative Victory

| Dispute Strategy | How It Works | Appealing to |
| --- | --- | --- |
| "Muck it Up" | Trigger legal proceedings that prevent certification of individual state results, leading to both candidates failing to win 270 electoral votes. House of Representatives then votes by state delegation (not one Rep, one vote) | Trump only |
| "Overturn" | Trigger legal proceedings in friendly courts to overturn result or suspend additional vote counting, first in state courts and then possibly escalating to Supreme Court | Mainly Trump |
| "Parallel Result" | Amidst legal dispute, demand state governor or state legislature to appoint alternative slot of Electors to dispatch to EC. Congress then decides on which slot to count. | Both Trump/Biden |

Source: State Street Global Advisors Global Macro Policy Research

# Election Scenarios

Any smooth election will likely generate a year-end relief rally, but policy premium depends on the composition of the outcome. Historically, Democratic administrations correlate with higher economic growth but not necessarily higher equity returns.

### Confirmed Winner

| Trump | | Biden | |
|-------|--|-------|--|
| Grid lock | Grid lock | No Grid-lock | |

| Relief rally + focus on macro fundamentals | Muted relief rally + focus on macro fundamentals | Muted relief rally + expected policy premium for new regime winners |
|---|---|---|

### Disputed Winner

| Trump | | Biden | |
|-------|--|-------|--|
| Grid lock | Grid lock | No Grid-lock | |

| No relief rally; some uncertainty premium persists | Constitutional crisis likely in both cases, with persistent high uncertainty for weeks; political risk overshadows macro fundamentals |
|---|---|

*Current polling*

Republican
Democrat

Upper block refers to US Senate; lower block refers to US House of Representatives. Color indicates party of control.

## Average Annual Return of S&P 500 and Real GDP Growth by Party Occupancy, 1948–2019
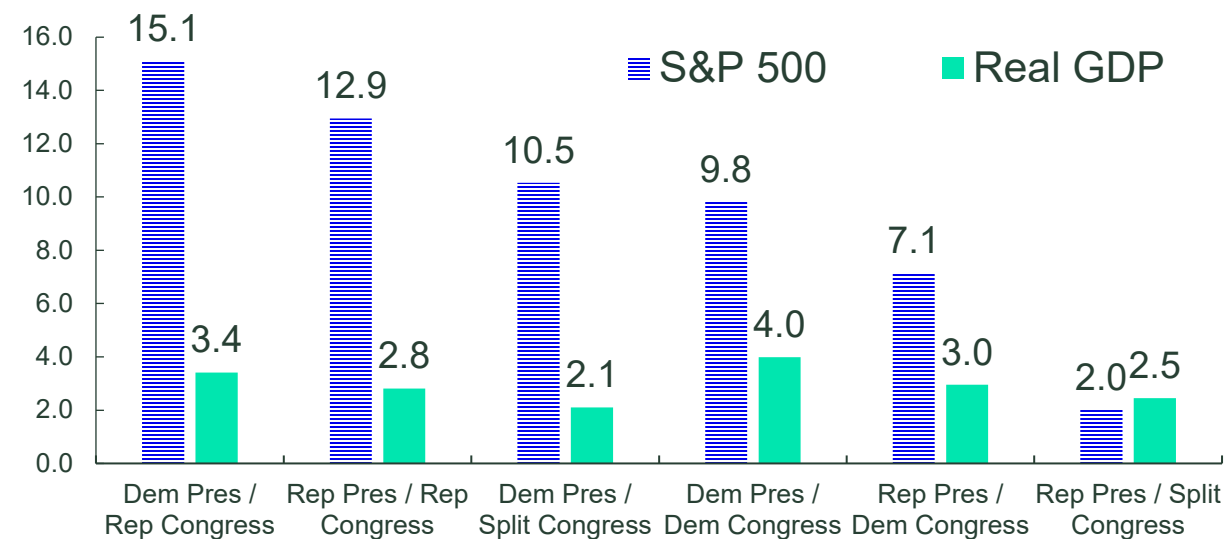


S&P 500 | Real GDP

| Category | S&P 500 | Real GDP |
|---|---|---|
| Dem Pres / Rep Congress | 15.1 | 3.4 |
| Rep Pres / Rep Congress | 12.9 | 2.8 |
| Dem Pres / Split Congress | 10.5 | 2.1 |
| Dem Pres / Dem Congress | 9.8 | 4.0 |
| Rep Pres / Dem Congress | 7.1 | 3.0 |
| Rep Pres / Split Congress | 2.0 | 2.5 |

# Key Dates:

✓ First presidential debate (29 Sep)

✓ VP debate (7 Oct)

✓ 2nd and 3rd presidential debates (15/22 Oct)

✓ Supreme Court Nomination Hearings (October)

✓ Election Day (3 Nov)

✓ Safe Harbor Day (8 Dec)

✓ Electoral College deadline (14 Dec)

✓ Congress Electoral College Count (6 Jan)

✓ Inauguration Day (20 Jan)

Source: State Street Global Advisors Global Macro Policy Research

# Equity Returns Will Not Match Other Election Years

| Type of Year | S&P 500 Average Annual Return (%) |
| --- | --- |
| All Years | 8.61 |
| Midterm Election | 5.03 |
| Presidential Election | 6.32 |
| Presidential Election with Incumbent Candidate | 11.57 |

Trump 2020 falls into this category, but 2018 (midterm) returns were (-6.24%), i.e. a negative outlier

## S&P 500 in Presidential Elections in Timeline (End July=100)
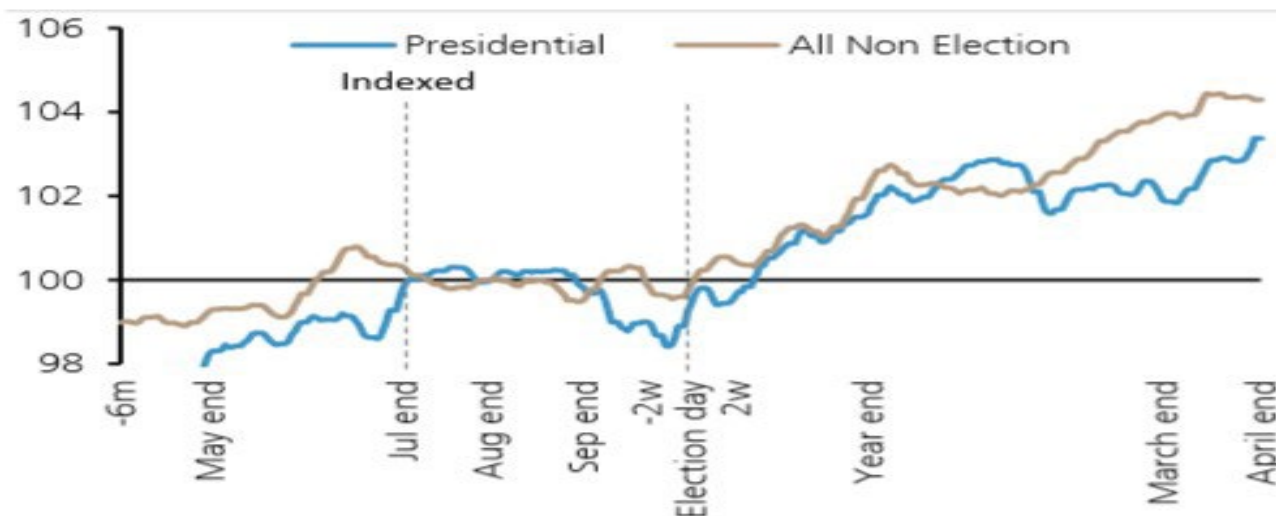


Post-election, S&P 500 performs moderately better with incumbent re-election than victory of opposition candidate.

This difference is largely due to stronger macro conditions during incumbent victories.

Source: SSGA Global Macro Policy; Macrobond, UBS.

# Sectors Reflect Relative Political Risk

**Relative Sector Performance of S&P 500 around 2016 US Election (25 Oct = 100)**



Legend:
- S&P 500 Energy
- S&P 500 Materials
- S&P 500 Industrials
- S&P 500 Consumer Discretionary
- S&P 500 Consumer Staples
- S&P 500 Health Care
- S&P 500 Financials
- S&P 500 Information Technology
- S&P 500 Telecommunication Services
- S&P 500 Utilities
- S&P 500 Real Estate
- S&P 500
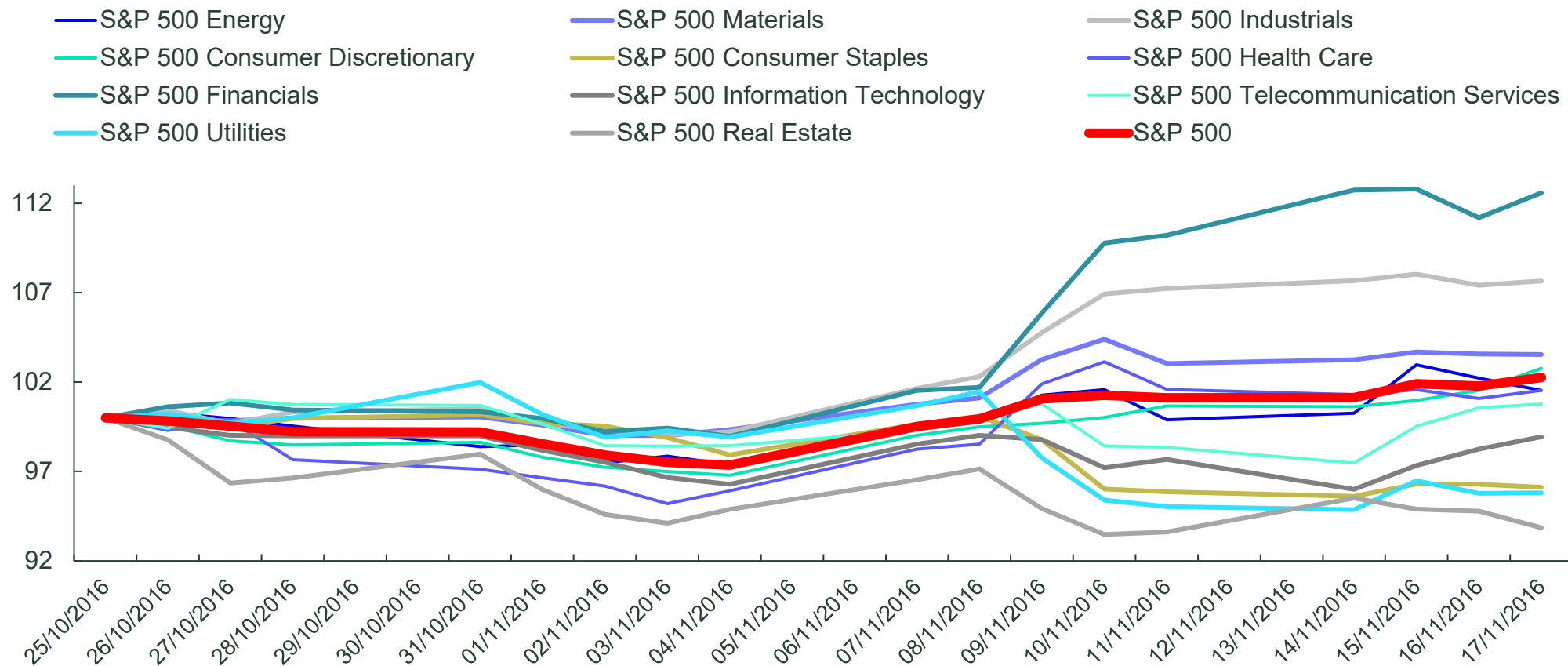
Source: SSGA Global Macro Policy Research, S&P Global.

# Democratic Sweep Would Be New Regime

Trump "Beta" Regime:

*Wealth Transfer from Government to Corporate Balance Sheets*

- Lower corporate taxes

- Regulatory relief

- Boost financial asset demand

- Neutralise antitrust enforcement

2020 Elections
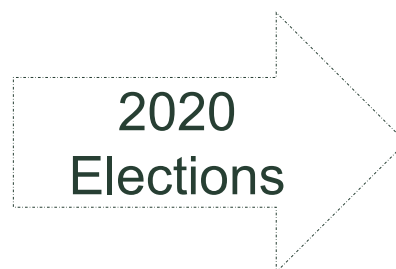
Biden "Alpha" Regime:

*Wealth Transfer from Corporate to (Government and) Household Balance Sheets*

- Higher corporate taxes

- Regulatory intervention

- Weaken financial asset demand

- Boost real demand

- Return of antitrust enforcement

Source: SSGA Global Macro Policy Research

# Investment Implications

# How To Play Election Scenarios?

## Potential Election Scenarios

| | | | | |
|---|---|---|---|---|
| President | Biden | Biden | Disputed | Trump |
| Senate | Democratic | Republican | Disputed | Republican |
| House of Representatives | Democratic | Democratic | Disputed | Democratic |
| Rationale | • Investments in clean energy, infrastructure, R&D in healthcare<br>• Anti-buyback stance<br>• Trade predictability | • Investments in clean energy & infrastructure<br>• Personal tax reforms<br>• Anti-buyback stance<br>• Trade predictability | • Prioritise Defensive Strategies | • Maintain status quo<br>• Foreign policy volatility |
| Equity investment themes | • Fossil Fuel Free/ESG,<br>• Infrastructure<br>• Health Care<br>• Dividends<br>• EM exporters | • Fossil Fuel Free/ESG<br>• Infrastructure<br>• Consumer Discretionary<br>• Dividends<br>• EM exporters | • Low volatility<br>• Staples<br>• Utilities | • Infrastructure<br>• Utilities<br>• Oil & Gas<br>• Mid and Small Caps. |
| FX | • Lower USD<br>• US allied currencies benefit, e.g., CAD, MXN and INR as does EM Asia | • Moderately Lower USD with moderated effects of Dem sweep | • Higher FX Vol<br>• Flight to quality with JPY, EUR, CHF, AUD strongest | • Short Term: Higher USD, esp versus EM<br>• Long Term: USD bear market choppier and more gradual |
| Fixed Income | • Gradual rise in long-term yields alongside relief rally and expectations of higher nominal growth | • ST Yields unchanged with flattening curve as tighter fiscal stance keeps lid on LT yields | • Initial drop in yields but stabilising moderately lower as capital flows offset domestic risk off rotation | • Modest rise in long-term yields alongside relief rally |

# Returns, Investment Flows & Macro

- Return mid-spread for sectors (in particular, Tech) more sensitive around election than smart beta and broad-cap equities
- Media sentiment as well as macro indicators currently not in Trump's favour.
- Gradual increase in equity holdings after the election historically (excluding recession years)

**Media Sentiment (Trump versus Biden)**

Election Month = 0
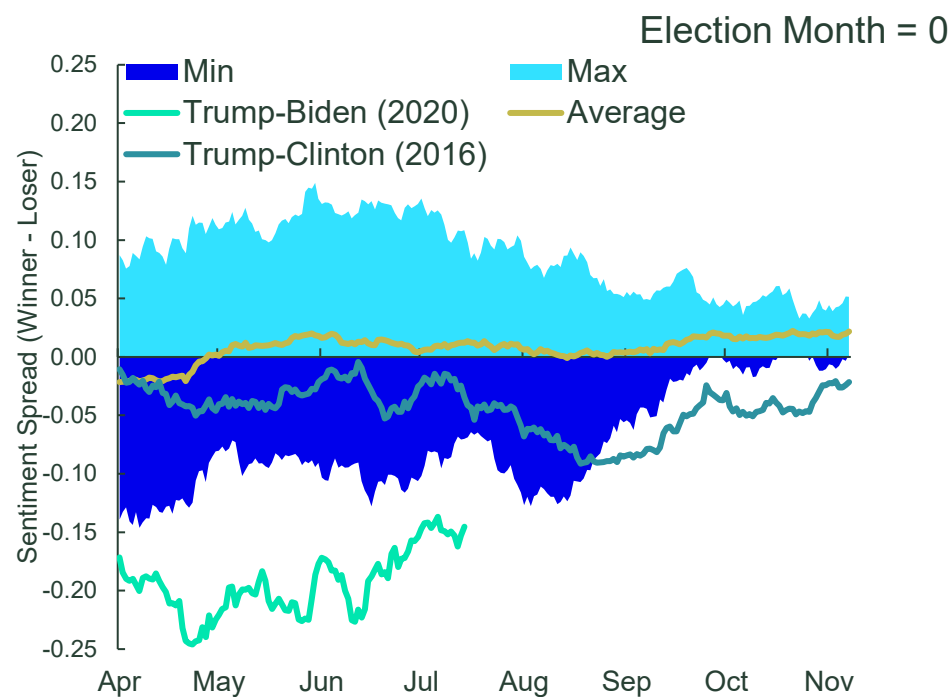


**Asset alloc change around elections since 1998**

Election Month = 0
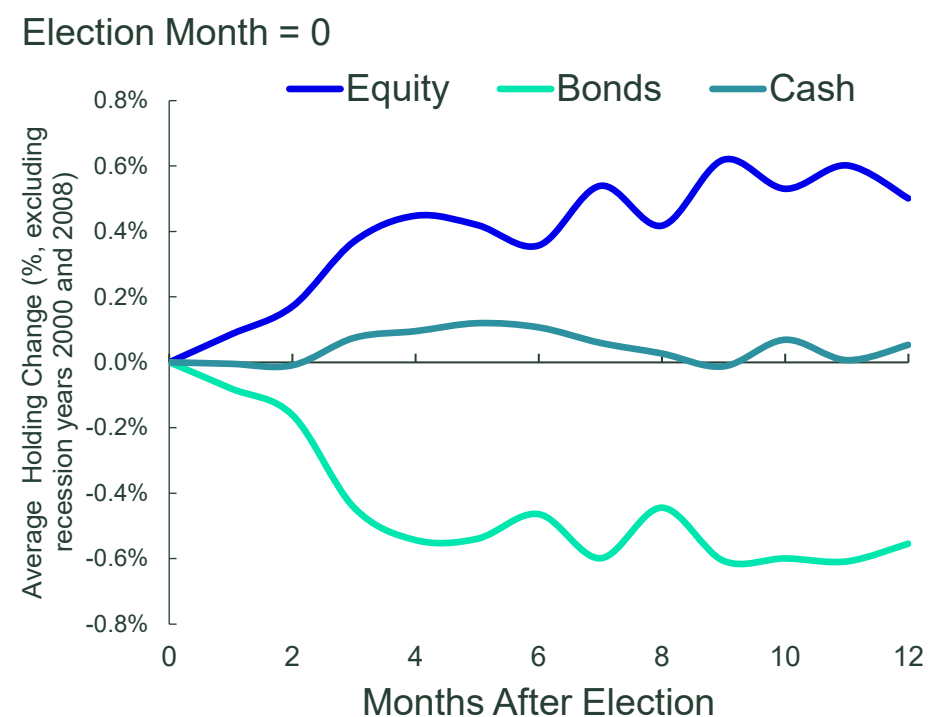


Source Bloomberg Finance L.P. as of 31 July 2020

# Climate Change/Green Policies

- Biden embraces carbon neutral policies ($2 trillion policy) versus Trump (fossil fuel heavy industries)
- Fossil fuel free (unlike Energy, Oil & Gas) did not correlate well with movement of crude
  - Premium on fossil fuel free stocks?
- In any event, a change in policy can be a boon for green investments

**Fossil Fuel Free, Energy & Crude Oil Performance**



**FFF Excess Return**



$R^2 = 0.9135$
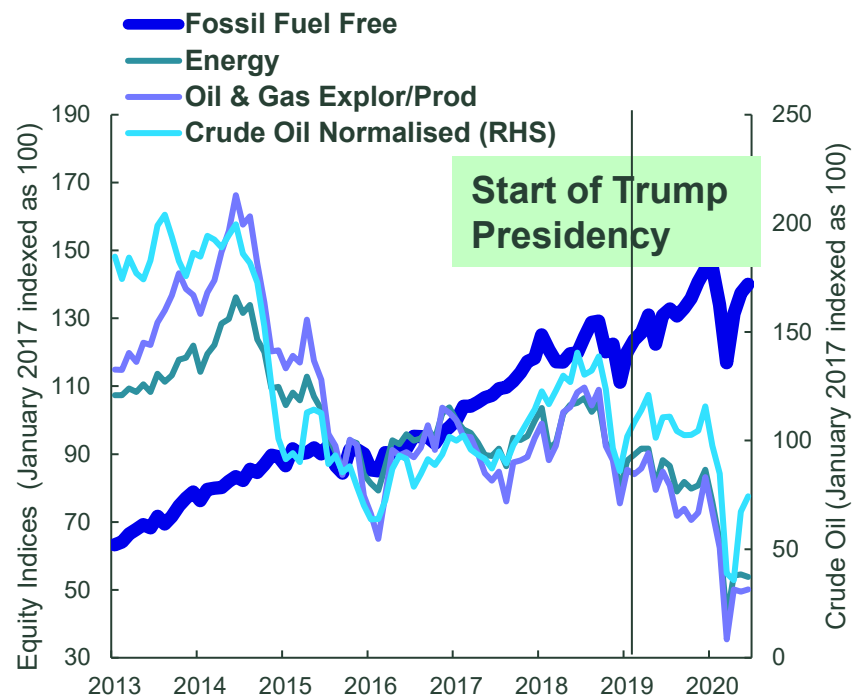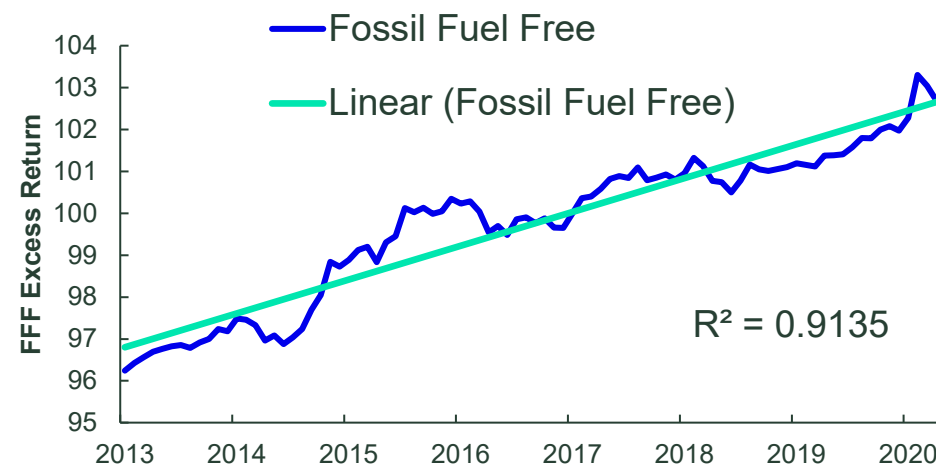
**Products in Focus**

| US-domiciled | SPDR S&P 500 Fossil Fuel Free Res |
|---|---|
| UCITS | SPDR S&P 500 ESG Screened |

Source Bloomberg Finance L.P. as of 31 July 2020 for both charts.

# Buybacks & Dividends

- Policies on buybacks remain unclear; both candidates criticised company buybacks on occasions.
- Companies may have been diverting some of 2017 tax cuts to increase buybacks.
- Investors seeking income may wish to consider dividends, both for the absence of political risk as well as their relative "payment stability" (v buybacks).

## Dividends, buybacks & cash paid in the US



Legend:
- Dividends ex Financials
- Buybacks ex Financials
- Cash Holdings ex Financials

y-axis: % of total amount paid in each sector In 2019

Sectors: Ind, Health, Tech, Comm Serv, Discret, Utilities, Materials, Real Estate, Staples, Energy
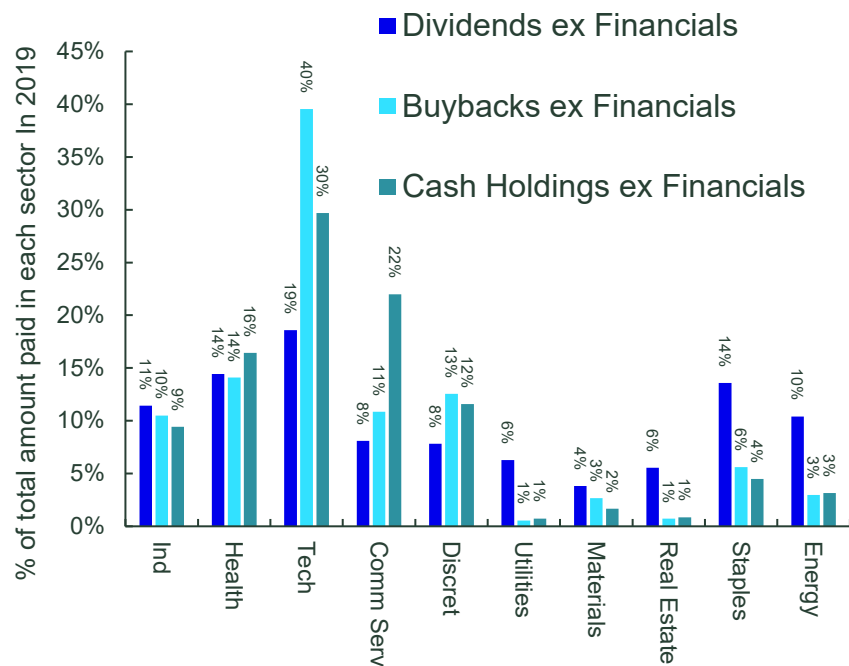
## YoY growth of diversus, buyback & cash (ex Fin)



Legend:
- Cash Dividends Paid
- Buyback Paid
- Cash Holdings

y-axis: Year-on-year Growth Rate (%) since 1990

Values shown: 70.8%, 26.2%, 15.1%, -4.2%, -11.5%, -47.4%
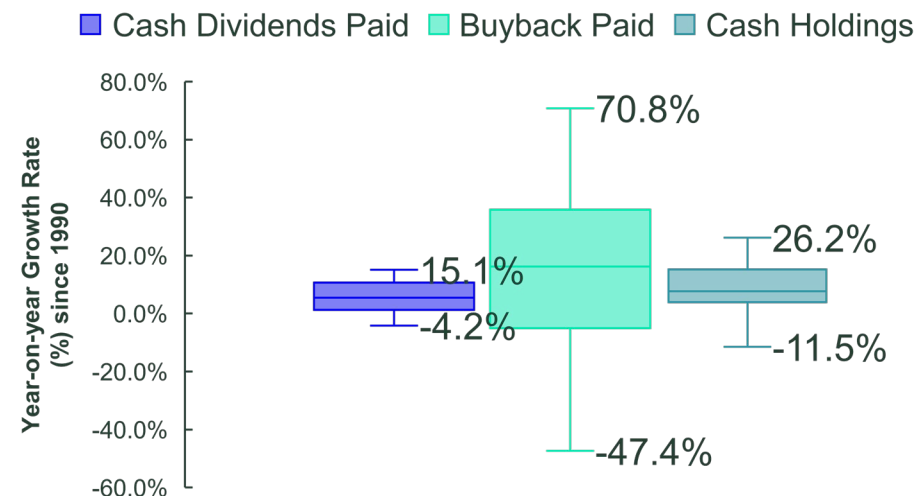
### Products in Focus

| US-domiciled | SPDR S&P 500 High Dividend Yield |
|---|---|
| UCITS | SPDR S&P High Yield Dividend Arist |

Source Bloomberg Finance L.P. as of 31 July 2020

# Corporate Tax

- Biden: **Corporate tax to rise from 21% to 28%,** Trump: Keep status quo.
- Analysis of 2017 tax cuts indicate which sectors were most affected by tax changes.
- **Comm Services, Utilities and Consumer Staples** were biggest beneficiaries last time but **would be most adversely affected** if any tax cut reversal

## Est. Impact on EPS before and after Tax Cuts
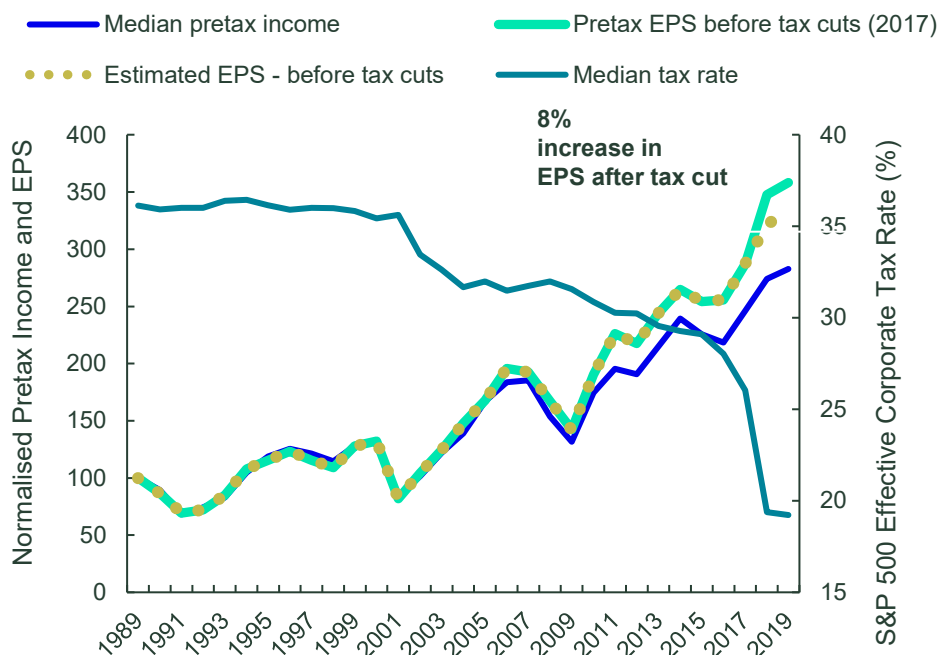


## Median Tax Rate of S&P 500 Sectors — 2017 & 2018
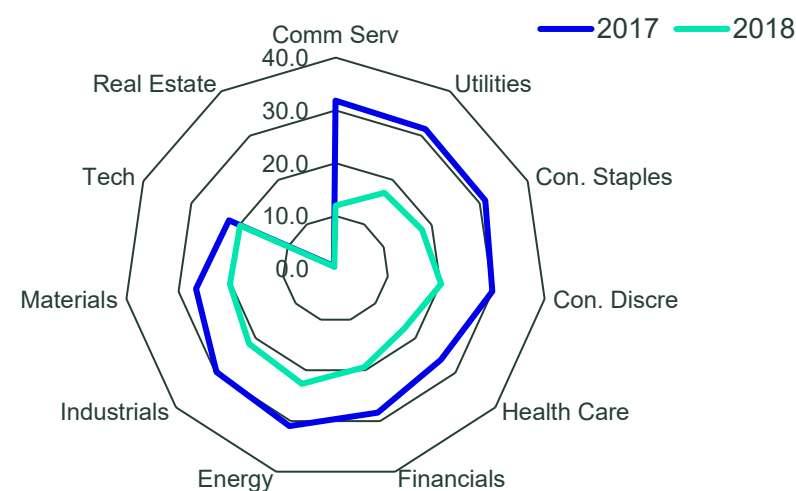


### Products in Focus (Least sensitive to tax rises)

| US-domiciled | US Real Estate, US Tech, US Materials |
|---|---|
| UCITS | US Real Estate, US Tech, US Materials |

# In EM, Equity Channel Shows Mean Reversion With Permanent Loss

- From our EM research, equity markets do revert to mean over time (typically > month)

- But lost price gains are not recovered, so negative events generate permanent hit

- With reserve currency status, downside risk is contained but similar pattern should hold given uncertainty and expected decline in earnings growth

**Legend (top-right chart):**
- Historical average
- After positive events
- After negative events

Y-axis: Annualized performance, %
X-axis: 2-day, Week, Month, Quarter, Year

**Legend (bottom chart):**
- Positive events
- Negative events

Y-axis: Monthly rolling returns, bps above/below historical averages
X-axis: -21 -18 -15 -12 -9 -6 -3 0 3 6 9 12 15 18 21 24 27 30 33 36 39 42 45 48 51 54 57 60 63

Trading days before (-) and after the event

# Fed is Highly Exposed to Election Outcome

Nominees/Appointees to Fed Board of Governors 2009–2019 (incl. Fed Chair)
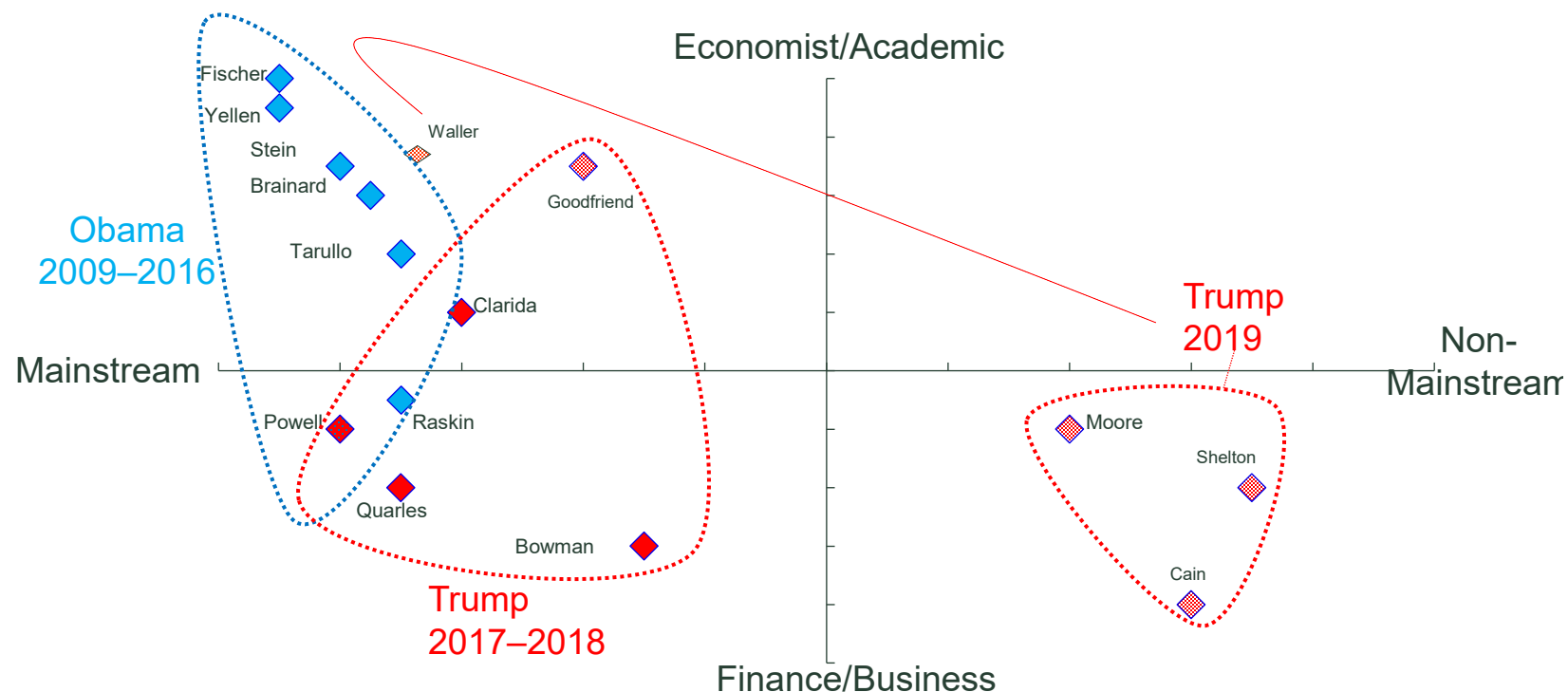
# Supreme Court Pillar of Minority Rule

**Popular Vote of President and Senate Confirmation for Current Supreme Court Justices**
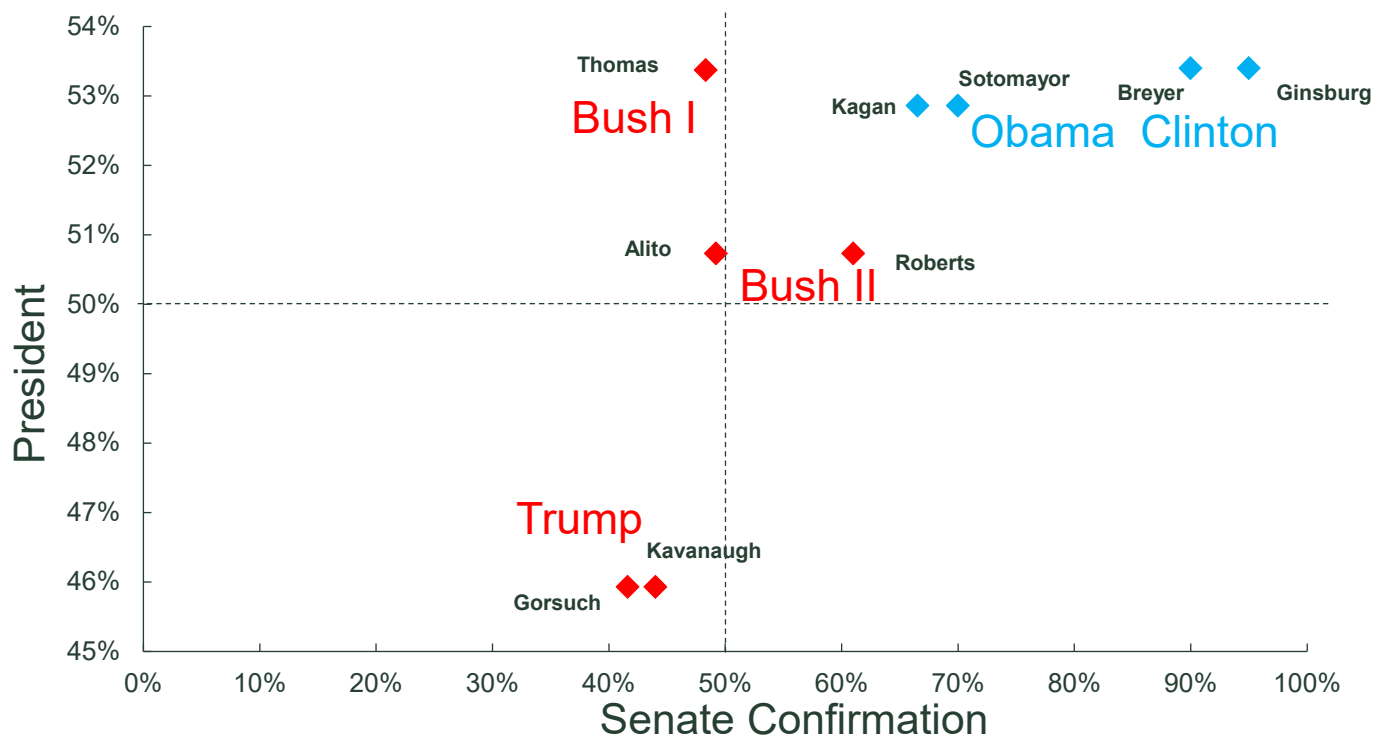
President

54%
53% — Thomas ◆    Sotomayor    Breyer ◆  ◆ Ginsburg
       Bush I        Kagan ◆ ◆
52%                  Obama   Clinton
51% — Alito ◆   ◆ Roberts
50% -------------- Bush II --------------
49%
48%
47% — Trump
       Kavanaugh
46% — ◆ ◆
     Gorsuch
45%
     0%  10%  20%  30%  40%  50%  60%  70%  80%  90%  100%

Senate Confirmation

# In EM, FX Channel Has Strongest Transmission

- Our past EM research showed FX channel reacted fastest and strongest to headline risk

- FX transmission runs via expectations on future trade, capital flows, macro outlook (growth, fiscal, inflation) and current sentiment

- With reserve currency, sentiment and capital flows would matter most, but limited alternative asset choices constrain devaluation



Legend: Historical average, After positive events, After negative events. X-axis: 2-day, Week, Month, Quarter, Year. Y-axis: Annualized performance, %



Legend: Positive events, Negative events. Y-axis: Daily currency spot returns, %. X-axis: Trading days before and after an event (-10 to 10)

# Important Disclosures

# Important Disclosures
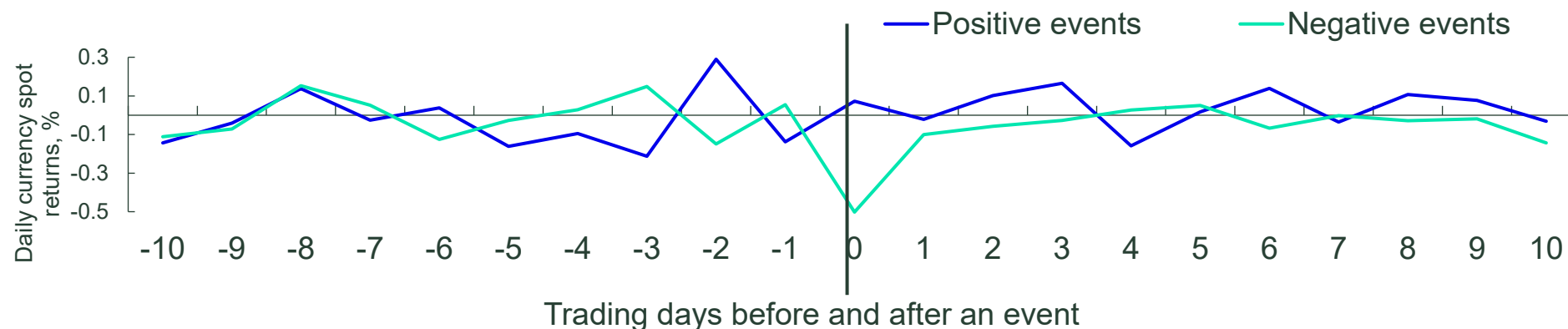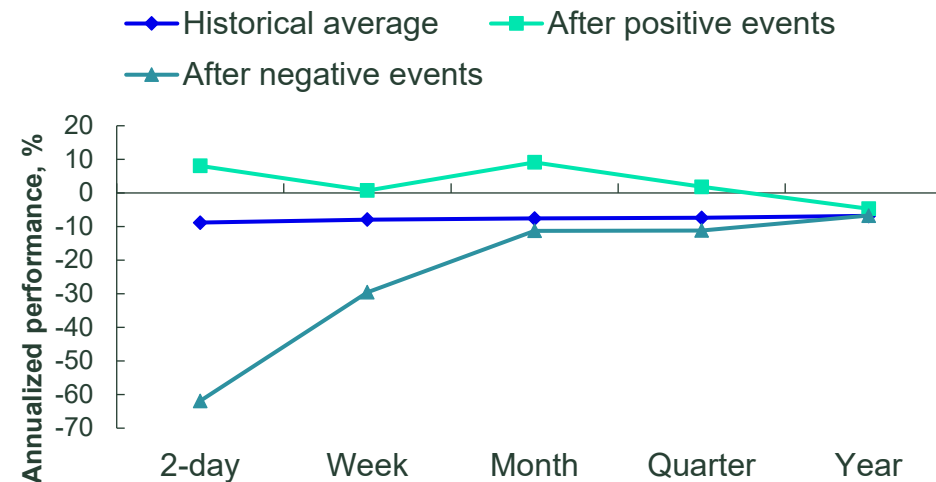
Past performance is not an indicator of future results. Diversification does not ensure a profit or guarantee against loss.

Actively managed funds do not seek to replicate the performance of a specified index. The Fund is actively managed and may underperform its benchmarks. An investment in the strategy is not appropriate for all investors and is not intended to be a complete investment program. Investing in the Fund involves risks, including the risk that investors may receive little or no return on the investment or that investors may lose part or even all of the investment. Equity securities are volatile and can decline significantly in response to broad market and economic conditions. Investing involves risk including the risk of loss of principal.

Investing in foreign domiciled securities may involve risk of capital loss from unfavorable fluctuation in currency values, withholding taxes, from differences in generally accepted accounting principles or from economic or political instability in other nations.

Investments in emerging or developing markets may be more volatile and less liquid than investing in developed markets and may involve exposure to economic structures that are generally less diverse and mature and to political systems which have less stability than those of more developed countries.

Investments in small-sized companies may involve greater risks than in those of larger, better known companies.

# THANK YOU

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