

## INDEX House View

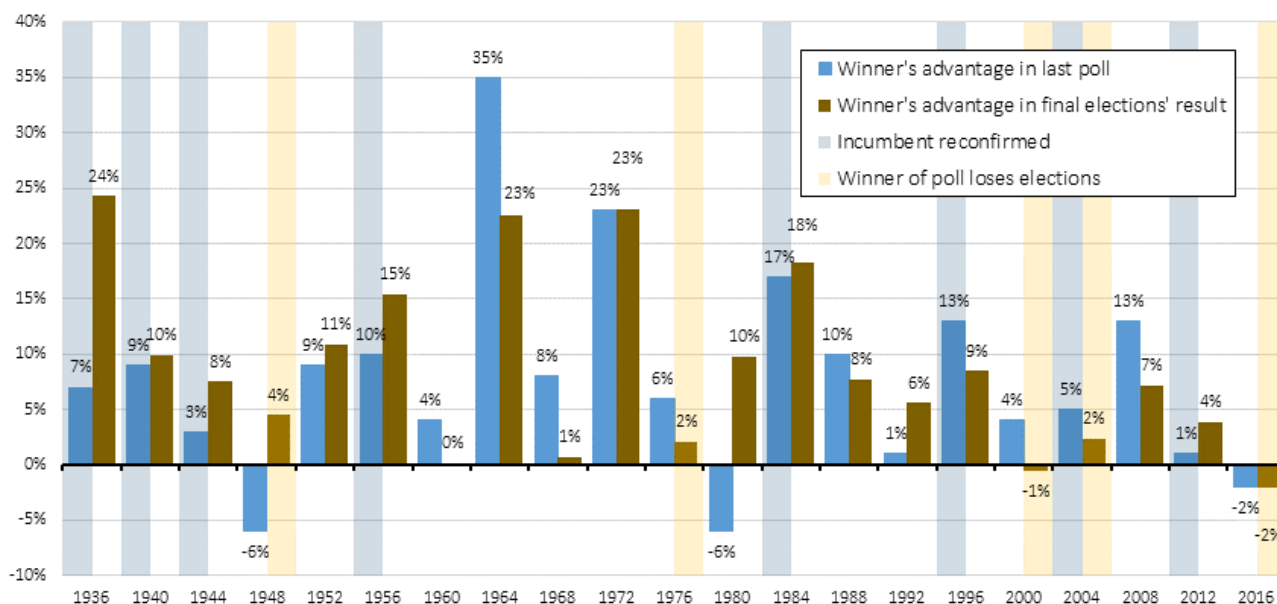
### Us elections, climate change and China

With little more than two weeks until November 3rd, the US elections are presenting global markets with a number of uncertainties that can easily, although temporarily, derail the argument for growth of already expensive equity valuations. We see these uncertainties as principally being around climate change and the relationship with China. This also means the policies chosen by the next administration will have a profound effect on earnings, industries and eventually market valuations.

### US presidential elections

In an attempt to size up the odds that two major candidates have in winning the next presidential elections, we examined the last 21 presidential election results versus the poll results. Many media commentators argue that polls – questionnaires distributed to groups of individuals of varying numbers around the US – do not really have a reliable forecasting power. However, this consideration seems to be based on 2016's results only. The correlation between polls and final results of the last 21 US presidential elections tells us something different: the winner of the last poll has 66.13% probability of becoming the next president, while the winner of the average of the last five months of poll results has a probability of 65.47% to become the next president. This is 2 chances out of 3. One would be right in saying the sample is too small to be statistically significant. Yet this stretch of history is the unique in that it enjoyed high levels of information and high participation in the elections, something simply not seen before 1900.

### Last 21 presidential election statistics – how strong are polls in predicting election winners?



Source: Gallup, Dixiecrats, Reform Party, Literary Digest

By these numbers, Mr. Biden has a strong chance of winning. There are already signs that the market is fine with this outcome, despite statistical studies showing that if an incumbent president is not reconfirmed, markets lose value. Should a market correction come whatever the elections result – perhaps a sign that the US are entering a more serious recession – we believe excellent companies with global operations should not experience a considerable depression in earnings, hence their market valuations. This is because the US are only a part, and a relatively decreasing one, of global consumer demand.

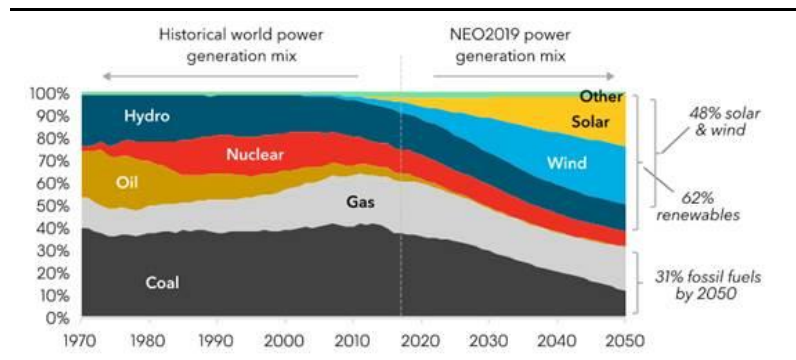
### Climate change

Before getting into this important topic, we should remind our readers that the present US administration considers to be fake a number of scientific facts from NASA (National Aeronautics and Space Administration of the US, <https://earthobservatory.nasa.gov/world-of-change/global-temperatures>), NOAA (National Oceanic and Atmospheric Administration of the US, <https://www.climate.gov/news-features/understanding-climate/climate-change-global-temperature>), JMA (Japan Meteorological Agency,

<https://www.jma.go.jp/jma/en/Activities/cc.html>), the Australian Bureau of Meteorology (<http://www.bom.gov.au/climate/change/#tabs=Tracker&tracker=timeseries>), Copernicus (European Union's Earth Observation Programme, <https://www.copernicus.eu/en>), to name the largest and most authoritative government agencies.

Most often, the criticism of those who deny climate change exists centers around the origin of data backing the phenomenon. How could these agencies measure temperature and CO2 concentration in the atmosphere for more than 100 years? There was simply no technology to record it! The answer is simple and available to the masses on the world wide web: Greenland's ice, and any glacier's ice really, has stored exactly these two info – temperature and CO2 concentration in the atmosphere – for the last 800,000 years. By extracting a vertical “carrot” of ice this info is available as the age of a tree is available in the rings of its horizontal section.

### Global power generation mix



Source: Bloomberg New Energy Outlook 2019

The crux of the matter is economic in nature. President Trump wants to continue fossil fuel energy production to see the US economy grow. The conversion of the traditional energy sector into a combination of solar, wind and hydro is simply not a choice, or probably too difficult to comprehend in 5 minutes. This is despite the fact that solar power today is very competitive economically to oil at even depressed prices of \$30-40 per barrel, thus actually fully being an alternative to fossil fuel.

In addition, the growth of installed capacity of new infrastructure globally is larger on renewables than on fossil fuel, so the conversion trend is already happening.

Instead, since his inauguration, President Trump has blocked more than 160 efficiency trends and climate-conscious policies, effectively going back to a fossil fuel dependent economy. This is a clear loss for the US, which today is poised to lose on many fronts to more intelligent, nimble and social-conflict-free competitors.

But there is still a chance. It is reasonable to expect that mr. Biden will undo this madness and likely take the global role of the US in a more mature and professional way. This is all the more essential in a phase where China is challenging the American global dominance. We see this as a must for the US to survive, not even to thrive.

### China

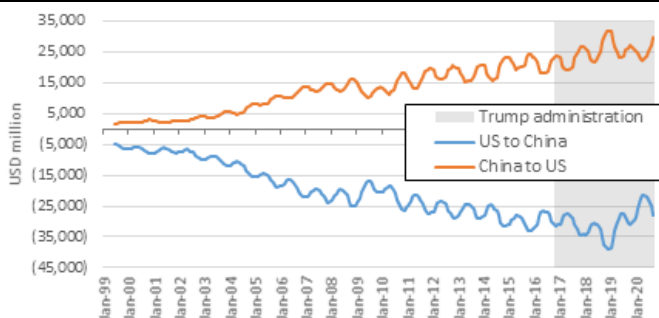
During the pandemic, economies around the world are being sustained in two different ways: help to industry, or help to consumers.

China pushed government expenditure on public infrastructure, real estate and manufacturing to jump-start the economy. This is the same model of the past 20 years, so in a way it is a solution limited in time – in GDP contribution terms, consumer demand must still overtake government-driven expenditure for the country to step up in its development (so far, retail sales growth had a much less impressive jump than the other indicators). In essence, China is coming back from the pandemic stronger than its competitors. Exports, trade balance, currency, interest rates, industrial production and eventually GDP have only strengthened both in absolute and relative terms. Considering we do not believe GDP numbers to be accurate, find below our selection of economic data in comparative terms to the US.

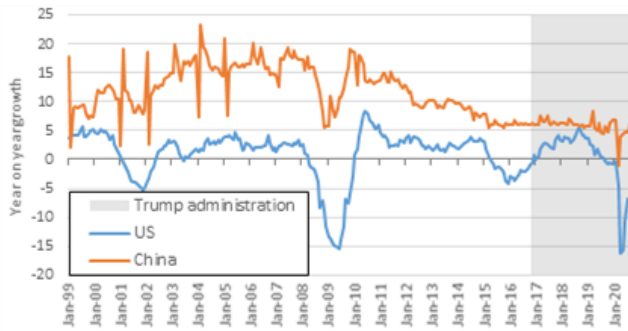
### Global trade balance – exports minus imports



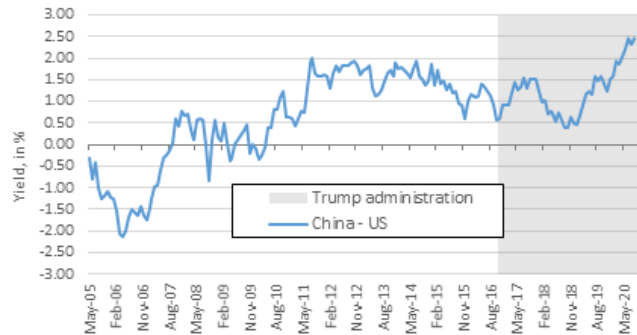
### Relative trade balance – US vs China (6-month trailing average)



### Industrial production



### Interest rate differential –10-year gov't yields, China minus US



Source: Bloomberg, Index & Cie calculations

By contrast, the US have chosen to sustain household savings and retail consumption, not industry. In fact, US personal income has gone up more than the government aid received. This measure could have the effect of delaying the US real recovery through consumer demand, simply because Americans won't spend money if they don't have job security – the government aid is destined to disappear at some point, unlike in Europe. With this, internal production does not produce enough to meet a reduced consumer demand, so imports grow. That's why Chinese imports grew quite fast globally and US trade deficit did not improve substantially (in fact it worsened globally and improved marginally with China). We can now say that US consumers still buy Made in China and that the Trumpian goal of stifling China's growth by rebalancing trade between the two country has failed.

A long story short, it is unwise to bet against China and very difficult to stop it from expanding economically. The country has shown to be resilient from a government point of view, a phenomenon that began with the Open Door policy of Deng Xiaoping on the late 1970s. Since then, the CCP has taken a stronghold of the country and its economy, a unity that is now playing in favor of China against the highly polarized and socially unstable US. Should President Trump be reconfirmed, he would surely triple the efforts to stop the Chinese rise to power. Should mr. Biden be elected, it is likely he will do quite the same, perhaps in a more collaborative way.

### Conclusion

This US presidential elections is heavy with significance for the future of the global economy, and for the globe itself.

As human beings, we would love to see a concerted political effort in limiting the human destruction of our planet. Whether it is the US or China, or a United Nations resolution on climate protection, it is less important than the goal itself.

As investors, we look for value creation via earnings growth and returns on capital. We cannot bring ourselves to dislike the Chinese story based on cultural or managerial differences, so we rather participate in its inevitable growth. At the same time, we privilege companies and themes that have the environment at heart, seek energy efficiencies, save water and capture CO2. This view does not necessarily include electric cars, since the electricity to run them still comes predominantly from fossil fuel generation.

Lastly, we remain focused on investment opportunities that we know will resume their market valuation growth once political clarity comes in November.

For further details, please contact:

---

**INDEX & Cie Limited**

Index Tower, 20<sup>th</sup> Floor, # 2001

Dubai International Financial Center

PO Box 507069, Dubai, UAE

[www.indexcie.com](http://www.indexcie.com)

**Tommaso Leodari**

Chief Investment Officer

Email: [tl@indexcie.com](mailto:tl@indexcie.com)

---

**Disclaimer**

The information herein contained, including any opinions and any terms and conditions presented (the "Information") has been prepared and distributed by INDEX & Cie Ltd. (the "Asset Manager"), and is directed at, and related financial products or services are only available to wholesale clients (non-retail customers) who qualify as either Professional Clients (as defined in DFSA's Rulebook, Glossary Module ("GLO") or Market Counterparties (cf. GLO) under the Rules (cf. GLO) enacted by the Dubai Financial Services Authority ("DFSA"). This document is being furnished to the intended recipient solely for information purposes and no other Person (cf. GLO) shall act upon the Information. Any investment carries its own risks; the investor must be aware of the risks posed by an investment (cf. GLO) and is fully responsible for the risks incurred. The Information is not and cannot be understood as impartial investment research. The Asset Manager does not guarantee the accuracy or completeness of the information and the opinions expressed herein are the Asset Manager's opinions at the moment they are conveyed only and are subject to change without prior notice. The Asset Manager is not under any obligation to update or keep current the Information and the opinions expressed herein. Neither the Asset Manager nor any of its officers directly responsible for the Information (or a close relative - cf. GLO - of the latter) have a financial interest or material interest that relates to any on the investments herein recommended or suggested, nor the Asset Manager either, as far as the Asset Manager is aware of, any Asset Managers associate (cf. GLO) owns (unless stated otherwise elsewhere in this document) 1% or more of the total issued share capital of any of the Issuers (cf. GLO) mentioned herein. The Asset Manager does not act as a corporate broker to any of the Issuers (cf. GLO), although one of the Asset Manager's associates may act or have acted as such. The Asset Manager has not undertaken any corporate business with or for any of the Issuers over the past 12 months, nor has in the pipeline any future relevant corporate finance business initiative involving the latter, nor is a market maker (cf. GLO) in any of the investment recommended. None of the Issuers herein mentioned has a material shareholding in the Asset Manager. This document cannot be reproduced, in whole or in part, in any form or by any means, without the Asset Managers specific authorization and any distribution of the information on behalf of the Asset Manager is strictly prohibited. Neither this document nor any copy hereof may be sent or taken or transmitted into or distribute, directly or indirectly, in any jurisdiction other than the Dubai International Financial Center. Any failure to comply with this restriction may constitute a violation of the laws of the jurisdiction where the document is being redistributed. This document does not constitute or form part of, and should not be construed as any offer or sale or subscription of or solicitation of or invitation to make any offer to purchase or subscribe for any financial products or services and neither this document nor any part of it shall form the basis of or be relied on in connection with or act as an inducement to enter into any contract or commitment whatsoever. The Asset Manager does not accept any kind of liability for losses or damages which may arise from the use of this document or its contents, nor for the unlawful reproduction and/or redistribution of the same. The Asset Manager is duly licensed and Regulated by the DFSA.