

IT'S NOT JUST THE RUST BELT: KEEP YOUR EYE ON THE SOUTHWEST FOR THE ELECTION

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10/12/2020

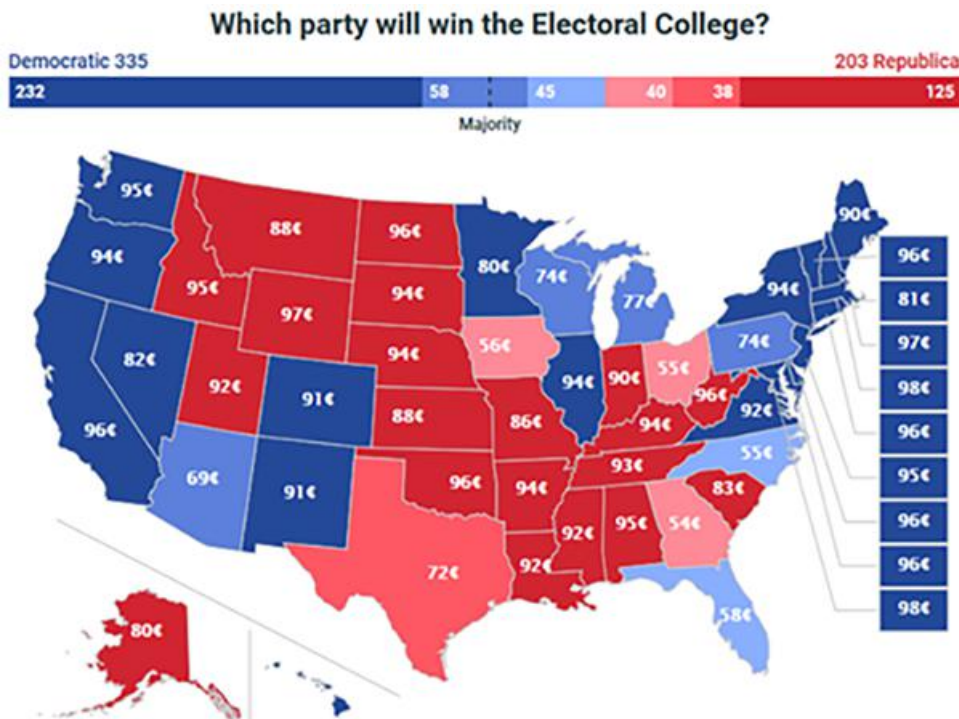
This is the third of a three-part blog post series. Part one lays out [why COVID-19 can affect the growth versus value decision](#). Part two discusses [Florida, the hotly contested swing state](#). Here, we discuss the battle for the Southwest.

Do not get lulled into focusing on just Ohio, Wisconsin and the rest of the Rust Belt. We need to talk about the southwestern swing states.

Figure 1 shows the state-by-state pricing for victory by both Biden and Trump on PredictIt, the marketplace for event futures.

At extremes are solidly “blue” states like New York, where Biden contracts cost 94 cents, paying off a six-cent profit when it expires at one dollar upon the Democratic challenger’s taking of New York. On the other extreme, Wyoming, where it costs 97 cents to lay money on Trump taking that state. A three-cent profit looms “if” Trump takes it.

Figure 1: PredictIt Presidential Election Odds



If you think about sectors and asset classes in a Biden versus Trump framework, we keep coming back to the Energy and Financials sectors. Energy is easy enough: a Biden win means a push into alternatives such as solar and geothermal, while Trump is the oil guy. In Financials, Biden is the “reign in Wall Street” candidate, while Trump represents the

status quo.

Those two sectors are critical, because they populate value indexes in size (figure 2).

Figure 2: Sector Weights, U.S. Large Caps

U.S. Large Cap Sector Weights			
Sector	S&P 500 Value	S&P 500	S&P 500 Growth
Basic Materials	2.6%	2.3%	2.1%
Consumer Cyclical	6.2%	11.4%	14.9%
Financial Services	18.5%	13.0%	9.4%
Real Estate	3.2%	2.7%	2.4%
Communication Services	8.1%	10.6%	12.2%
Energy	4.4%	2.0%	0.5%
Industrials	10.8%	8.8%	7.4%
Technology	7.9%	24.5%	35.2%
Consumer Defensive	11.3%	7.5%	5.0%
Healthcare	20.5%	14.3%	10.2%
Utilities	6.8%	3.1%	0.7%
Total	100.0%	100.0%	100.0%

Source: Morningstar, as of 10/7/20. Weights subject to change.

Election “Kremlinology” focuses so much on states like Florida, North Carolina and Michigan that it is easy to divert our eyes from what the market believes are two southwestern states that Biden will capture: Arizona and Nevada. At 69% and 82% probabilities, respectively, Biden cannot be faulted for taking his eye off them when there is work to do in the Midwest and East.

But in Nevada, Biden has two forces working against him: first, recent violence on the Las Vegas Strip has gotten national attention, playing into Trump’s “law and order” pitch.

Secondly, Nevada’s COVID-19 hospitalizations have more than halved since early August (figure 2), lifting the urgency for a vaccine and perhaps alleviating some of the public’s sense of helplessness.

Figure 3: Swing State COVID-19 Hospitalizations

State	Currently Hospitalized	Peak	Peak Date	Decline From Peak
Arizona	728	3,517	July 14	-79%
Florida	2,141	9,520	July 21	-78%
Michigan	862	3,986	April 13	-78%
Pennsylvania	687	2,800	April 27	-75%
Nevada	498	1,165	August 01	-57%
Ohio	863	1,144	July 28	-25%
North Carolina	1,051	1,291	July 29	-19%
Minnesota	457	New High	--	N/A
Wisconsin	907	New High	--	N/A
Iowa	449	New High	--	N/A

Source: The COVID Tracking Project, as of 10/8/20.

If Nevada, which Hillary Clinton took by 2.4 points, ends up being a surprise Trump victory, Arizona will probably tag along, for a few reasons.

For one, Trump won the state last time, and handily (48.1% to 44.6%). Additionally, the state’s legendary senator and face of the “Never Trump” camp, John McCain, passed away in 2018.

Also, like in Nevada, it appears the worst of the COVID-19 hit may be in the rearview

mirror. The state's daily death and case counts have fallen sharply, though the latter has started to rise again in recent weeks. Nevertheless, with cases leading mortality by 3-4 weeks, it is possible Arizona's 7.3 million residents could witness single-digit daily deaths before November 3.

Figure 4: Arizona COVID-19 Daily Deaths and Cases



If both states go red this time around—which is not at all the Street's base case—you have to entertain a thesis where the Republicans retain the Senate and perhaps even take back the House, though the latter is a long shot with 11% probability. Any combination of these outcomes would divert U.S. equity eyes toward Financials and Energy, the two sectors that would benefit most from a swing to the GOP.

This means value stocks. So, make sure to keep an eye on the Southwest. If Arizona and Nevada go for Trump, he is probably looking at reelection.

In large Cap Core, an overweight in Financials is found in the [WisdomTree U.S. LargeCap Fund \(EPS\)](#). For a more decided value tilt with Energy at an 8% exposure (versus 2% in the S&P 500), try the [WisdomTree U.S. LargeCap Dividend Fund \(DLN\)](#).

If Biden prevails, two ideas are the [WisdomTree Cloud Computing Fund \(WCLD\)](#) and the [WisdomTree Growth Leaders Fund \(PLAT\)](#). They are the opposite side of the Energy and Financials trade because of their tech orientation.

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