- Trump intends to sign USMCA (or NAFTA 2.0), maybe in Argentina during G20 meeting where everyone will be watching him and President Xi
- **If we see a Democratic house:**
  - Earlier this year, Dems put out publication that outlined out what they would do if they were in control
  - Many of these match with Trump's agenda: infrastructure spending, lowering prescription drug prices , Immigration issues, criminal justice reform, etc.
- **The Fed**
  - The larger the margin of victory for Republicans in Senate, the better the news for Powell, If Trump continues to push on him, a stronger Republican Senate would be more defensive of him
- **Trade**
  - Too early to know if Cabinet request is just Trump shaking the tree, or something real. Also notable-there are Dems in Senate who are strongly in opposition to China's trade policy
- **Trump**
  - Could see him changing gears to work with Dems on infrastructure; really the only pillar of his campaign he hasn't yet addressed
  - Mueller to report to boss on report in coming weeks-but dangerous to speculate too soon

Mark Chen, Co-Head GED

- **What have we been seeing on the desk**
  - **Enormous sector rotation theme, bid towards sector ETF in anticipation of sector moves**
  - Used to be the case that midterm elections were not events that markets priced in a move for, but given recent rally off local lows, now seeing midterm election point as the highest point across curves
  - Overall event risk is not too much higher than the general event risk priced in everyday, given volatility we've been having
- **Flows**
  - **Notable change in sentiment over past 48 hour: Instead of rolling down puts, we are seeing a lot of upside call buying**
    - Some in macro space, but a lot in single names, financials, tech stocks; wave of call buying picked up intensity yesterday
    - A lot of names being bought could potentially get boost from GOP maintaining house majority in 30% scenario, but still seeing buying across the board
    - General consensus is we probably do rally out of midterm into the year-end
- **Year End**
  - **A lot of good academic data out there by DB research about general uncertainty effect easing coming out of midterm elections**
  - Think significant probability we rally into year end and out of midterm give that positioning lighter and sentiment shifting
    - Have not seen panic from clients
    - Clearly still in high vol market and even if we were to rally, would be in straight line which points to owning optionality
- **Vol regime we are in is very different from past**
  - Use to be a buy dip, sell vol environment
  - This time it's a growth story, no one day will decide growth is back on, but will come over time as a result of information filtering into market
  - Will be a medium vol regime for a while, make sure can withstand drawdowns
- **Slight premium to election so not anticipate vols meaningfully drop off only slightly**, we are not going back to VIX sub 16 world any time soon
  - 17-25 VIX level range into end of the year
  - Vol curve is the flattest we've seen in past 3 weeks meaning 1.25% pricing in SPX move is roughly
  - **Bottom line: vol not pricing in a ton on the event**

<u>II. Midterms Keeping Near Term Vols Bid – Sell to Fund Year End</u>