4 November 2020

Special Coverage:

US Elections 2020: Initial Thoughts

Accurate as at 8am GMT

- The result of the US Presidential Election is still not clear
- Watch for the outcome of Pennsylvania, Michigan and Wisconsin
- Markets are uncertain and volatility may continue, particularly if the result is contested
- Diversify through high-quality bonds, gold and safe haven currencies
- Consider taking advantage of volatility to add to equities exposure because we think the continuing recovery will drive markets higher

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What we know so far: At time of writing, Mr. Biden is leading Mr. Trump in the race to the White House 219 against 171 (CNN) or 237 vs. 213 (Fox, which forecasts earlier). But candidates require 270 Electoral College votes to win. Most of the results we already know are from safe states, which do not give us that much information on the final outcome.

Going into the election, there was a view the election would be decided collectively by large swing states (states not strongholds for either side) like Arizona, Pennsylvania, Michigan and Wisconsin. This view still holds true.

At time of writing, Arizona has been called for Joe Biden (Fox) but we still don't have results from the other three states due to large voter turnout and postal vote counting. The election appears to be closer than expected with Florida, Texas and Ohio having been called for President Trump.

What to watch out for: The outcome of Pennsylvania, Michigan and Wisconsin – which helped drive a victory for President Trump at the last election – will be critical to the result. Watch out for any results being called over the coming days, which could encourage markets to anticipate the final result.

There is also the possibility of the election being contested, which could mean uncertainty for weeks and potentially months.

How are markets doing: Markets appear to be undecided. US markets had rallied earlier on election day in the belief Joe Biden and the Democrats would perform strongly and deliver a quick result. Futures on the US stock market carried on the rally but started to fall back when it appeared the election would be closer than anticipated. US Treasuries are up too, painting a mixed picture.

Markets don't like uncertainty and volatility could persist particularly if the election result is contested.

Key dates

8 Dec – Deadline for states to resolve election disputes

14 Dec – Electoral college ballots cast for president and vice president

3 Jan – Congress convenes

6 Jan – Congress counts electoral votes and announces winner

20 Jan – Inauguration Day: President-elect formally sworn into office

Investment Implications for Four Scenarios

1. President Trump Victory with Split Congress

- ▲ Positive for financial markets, because it provides the most continuity and clarity around policy.

- ▲ Positive for US domestic stocks, the energy sector and high yield bonds

2. Biden Victory with Split Congress

- ▼ Short-term negative and mild volatility for markets because of potential for higher taxes and regulation of sectors like tech.

- ▲ Medium term, markets could rebound because many of Biden's proposals may not be approved by Congress.

- ▲ Positive for European stocks and green investment themes in the long term.

3. Biden Presidency with Democrat Congress

- ▼ Short-term negative for financial markets.

- ▲ Medium term, markets could rebound after initial volatility if spending is raised to stimulate the economy.

4. Contested Election

- ▼ Higher market volatility and increase in credit spreads

- ▼ Potentially negative for US Dollar

- ▲ Positive for Gold, Swiss Franc, Japanese Yen

Three thoughts to conclude

1. Markets are most afraid of a contested election

Expect volatility to spike if the election result is contested. If this happens, the US Dollar may come under pressure due to a sell-off in US assets. Other safe haven currencies like the Swiss Franc and Japanese Yen could do well in such a situation.

2. Political surprises may spook markets

Be wary about investing heavily in sectors that stand to benefit from a particular candidate's victory, as surprises can sometime arise. Instead, investors should base investment decisions on fundamental rationales as opposed to policy rhetoric.

Following the 2016 election, the US Dollar rallied as investors perceived President Trump's victory as a boost for US assets. However, this was short-lived as the Trump administration expressed its preference for a weaker Dollar to boost exports.

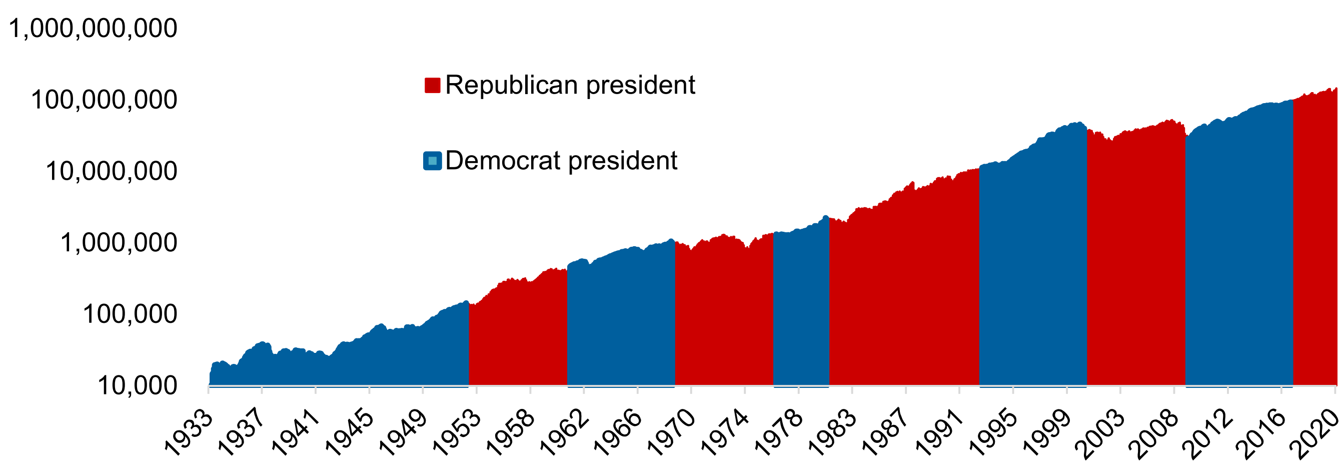
3. Take advantage of volatility and protect portfolios

We think any short-term volatility will be short-lived and investors should consider taking advantage of a sell-off to invest at cheaper prices. Equities remain our pick, particularly in the US and Asia, driven by the ongoing economic recovery fueled by continued fiscal and monetary stimulus.

To protect against short-term volatility, consider exposures to safe haven investments (Gold, High Quality Bonds) and currencies (Swiss Franc, Japanese Yen) that we think will support portfolios during uncertainty.

Long term, the stock market has trended higher regardless of who is in office

Growth of a hypothetical USD10,000 investment in the S&P 500 Index



Source: Morningstar, Standard & Poor's, as of 9 October 2020 – hypothetical of $10,000 USD invested in the S&P 500 Index

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