Special Coverage:

Joe Biden Declared Winner of US Presidential Election

- Joe Biden has been declared President-Elect of the United States
- The senate race is currently tied and will likely be decided by a January run-off in Georgia.
- Should the Republicans win control of the senate, it will be more difficult for a Biden administration to make policy changes.
- The result could be contested so investors should remain diversified.

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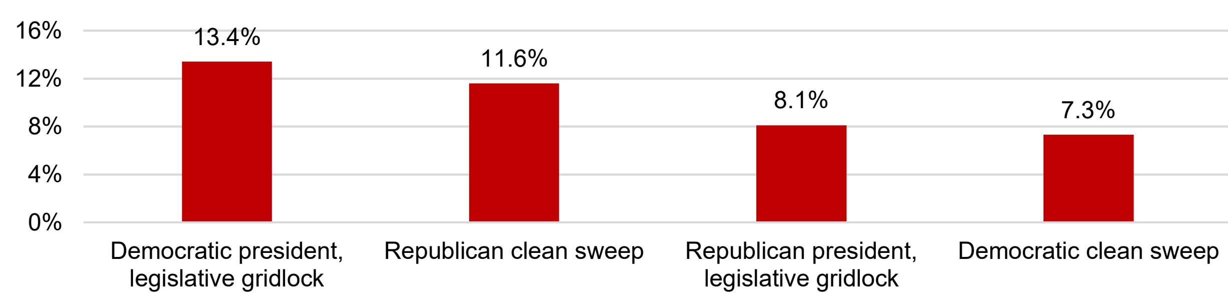
Joe Biden has been declared President-Elect and is set to be inaugurated in January. However at time of writing, President Trump has not publically conceded and there remains the risk of election results being contested .

A Biden Presidency with Split Congress should be positive for equities because this makes higher taxes and regulation less likely. January's senate run-off in Georgia will decide who controls the Senate. If the Republicans win control, as is expected, legislative gridlock might prevail making it harder for Biden to implement new policy. This would provide more policy certainty for markets. Also, a Biden administration is expected to adopt a more multi-lateral approach, potentially reducing geopolitical risks. All this should drive markets higher. Historically, a Democratic president with a split Congress has seen the strongest average gains for US stocks at over 13% annually (Chart 1).

However, downside risks remain short term. Firstly, the risk of a contested election result cannot be ignored. If we see a election dispute that drags on well into Dec and Jan, this will cause significant uncertainty and higher volatility in the near term. Secondly, the current political impasse makes further US stimulus in the near term less likely, resulting in downside risk for the economic recovery and corporate earnings.

Focus on the recovery and protect against election & Covid-19 volatility. Don't try to invest based on predicted policy. Focus on the fundamentals - Our picks include technology stocks (now viewed as defensive growth plays) and cyclical sectors such as the Industrials, Materials and Consumer Discretionary sectors. US and Asian investments are preferred regions, while we are more cautious on Europe. High quality bonds, gold, the Swiss Franc and Japanese Yen are our picks to protect from volatility around legal challenges on the election result and further waves of Covid-19.

Chart 1: US equities have performed best under a Democratic president and Split Congress
S&P 500 annual returns based on party in the White House and control of Congress (data from 1932)



Source: Bloomberg, HSBC. Investment involves risks. Past performance is not an indication for future. For illustrative purpose only.

Potential Winners and Losers in Different Congress Scenarios

Medium to long-term, we still favour equities as we believe that markets will focus on the fundamentals once the election is over. Monetary and fiscal policy are likely to continue powering the recovery in 2021, and any developments around Covid-19 treatments and pandemics will increase investor sentiment and consumer confidence.

But uncertainty around the US elections could create short-term sector winners and losers depending on the scenario.

▲ Short-term positive ▼ Short-term negative	Biden with Split Congress	Biden with Democrat-Controlled Congress
Economically sensitive sectors (Cyclicals)	▼ Fiscal stimulus could be delayed and economically sensitive or cyclical sectors may temporarily suffer until a package can pass through Congress	▲ Democratic clean sweep would make it easier for a fiscal stimulus package to pass, benefitting cyclical sectors
US Tech Companies	▲ Tougher regulatory oversight less likely because of Republican opposition in Congress	▼ Tougher regulation would be negative initially but fundamental trends of tech will shine through eventually
Emerging Market Tech Companies	▲ More open trade stance from Biden could mean Asian tech names benefiting	
Multinational Companies	▲ Reduction in trade uncertainty should help international companies	
Clean Energy	▼ Challenges of passing a clean energy bill through Congress may disappoint clean energy companies	▲ Biden has proposed to expand the use of clean energy in the transportation, power generation, and building sectors
Commodity Players (Materials, industrials, energy)	▼ Lower likelihood of infrastructure spending because of Republican opposition could impact Commodities players	▲ Commodities players could benefit due to a greater likelihood of a Biden administration increasing infrastructure spending
US Financials	▼ Risk of increased scrutiny on buybacks could hinder US banks	

Bottom line

Diversification and a focus on quality investments remain key. Short-term volatility is possible, especially if the election result is contested. But in all scenarios, we think any volatility will be short-lived. The medium-term path for markets is more contingent on fiscal stimulus and Covid-19 treatments / vaccines rather than the election result.

The US economy is benefiting from a recovery in global demand, and analysts are upgrading companies' earnings forecasts. The Fed has also confirmed it will continue providing plenty of liquidity and a safety net for the economy and financial markets.

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