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US elections: race is far tighter than expected – again

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Summary

While the results are not yet final, the 2020 US presidential race is much closer than the polls and betting markets predicted. Investors should expect some flight-to-safety response in areas like US Treasury bonds and the dollar, and technology may perform well if President Trump secures victory again.

Key takeaways

- At this stage, the results of the US elections indicate that President Trump is more competitive in key swing states than markets or polling had indicated
- While there may still be a path to victory for Democratic candidate Joe Biden, this would come through key swing states that may take days to count votes, like Pennsylvania, Michigan and Wisconsin
- Markets may continue to respond favourably to a potential second term for Mr Trump, focusing on his more business-friendly policies and lower tax regime overall; sectors like technology and financials may especially benefit
- Investors have reasons to be optimistic heading into 2021: once a result is known, the backdrop of rising economic growth, low rates, and stimulus should be good for stocks and other risk assets

US voter turnout in the 2020 presidential election may prove historic, with more than 100 million early votes cast. Nonetheless, polls and betting sites may have misjudged the final result.

While there may still be a path to victory for Mr Biden, the race has been much tighter than the Democratic "blue wave" that dominated the headlines over the past few weeks. The election will ultimately come down to a handful of swing states that may take days to finalise their vote count, including Pennsylvania, Michigan and Wisconsin.

Overnight, markets were jolted by the lack of a definitive outcome. Most notably, US 10-year Treasury yields experienced a near 10 basis-point reversal – reflecting a flight-to-safety response.

Meanwhile, it could take even longer to know who won key congressional races, which so far suggest the Democrats and Republicans may be heading for a tied Senate. Generally speaking, markets have performed best under divided government – when one party has only partial control of the House, Senate and presidency, although in this environment enacting a swift stimulus response would be a key priority.

Until the final outcome is known, we expect some flight-to-safety response, which will likely favour perceived safe havens, such as government bonds, the US dollar and gold. Investors may also look towards areas that may benefit under a potential win by President Trump, including technology and financial sectors. We may also see some volatility in Chinese and Asian equities as the outcome is decided. Nonetheless, investors may consider using any risk-off sentiment as a tactical opportunity to diversify or add to risk.

Ultimately, a president will be elected, and the policy platforms of the two candidates point to different potential implications for investors:

What a Biden victory may mean:

- A Biden administration may roll back some financial services deregulations over time and reverse some of the 2017 tax cuts, affecting sectors that benefited most from these cuts, including large technology and healthcare firms with overseas operations – although tax hikes may not be an immediate priority for the new president
- Mr Biden has promised a higher spend on fiscal stimulus, infrastructure and alternative energy – sectors such as industrials and manufacturing could benefit from this infrastructure spending
- He also plans to invest heavily in renewable energy and climate protection, funded in part by the proceeds of any tax rises. His policy agenda calls for a USD 2 trillion investment in solar, wind and other clean-energy sources

What a Trump victory may mean:

- Risk assets have broadly flourished for most of Mr Trump's first term, and he would continue his commitment to market-friendly policies, seeing the stock markets as a bellwether for the success of his administration
- Investors can also be reassured that a second term for Mr Trump would likely mean an environment of lower taxes and lower regulation overall, benefiting sectors like technology and financials
- A key question for the next Trump administration would be where it plans to focus fiscal spending, if at all – he has left his spending policies open, although, like his Democratic rival, he has highlighted infrastructure as a priority
- It is difficult to predict what Mr Trump may have in store for a second term, including his approach to US-China relations, now unconstrained by the need ever to seek re-election

Looking beyond the election

Once we have a definitive result, the path forward will be clearer for investors.

There are hopes 2021 could bring one or more viable vaccines and drug therapies to tackle Covid-19. If consumer activity around the globe improves as a result, financial markets could perform well – particularly against a backdrop of low rates and ongoing fiscal and monetary stimulus measures.

We suggest that investors keep a close watch on the flow of macroeconomic data such as jobs, wages and inflation. There have been mixed signals coming out of several regions – particularly Europe – as resurgent cases of the coronavirus take their toll on key economies. But if the US and other countries get a handle on this pandemic, it could provide a good backdrop for stocks and other risk assets:

- In the US, the value-cyclical sectors of industrials, financials and energy have been hit hard this year, while growth sectors like technology and consumer discretionary have soared. This may shift somewhat in the next 12 months, regardless of which party wins the election.
- Investors may want to consider allocations to select themes. Cyclicals (such as select industrials, energy and financials), emerging technology with long-term growth potential (such as 5G, AI and cybersecurity), infrastructure, US housing and clean energy may all be potential winners in a post-2020 US election era.
- Globally, we may see US and non-US assets driving market performance. Over time, consider Europe for select areas of value and sustainable investments. In addition, emerging markets, China and North Asia could provide secular growth potential – supported by a softer US dollar and a return to global growth in 2021. Although be mindful of further escalation of US-China tensions if President Trump wins a second term.

In the case of another slowdown, markets would likely anticipate more fiscal and monetary stimulus – which could be supportive for risk assets as well. Either way, we may see a shift in which sectors are leading, and we expect market participation to broaden in the next 12 months – meaning different sectors of the market might begin to outperform.

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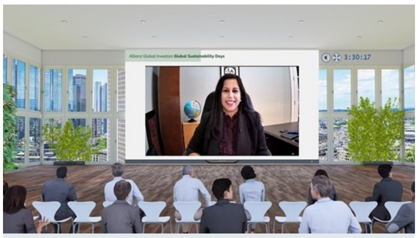

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A Biden victory and split Congress may be welcomed by markets

by Mona Mahajan | 10/11/2020

Summary

With President-elect Joe Biden facing a split Congress, investors could welcome the resulting "Biden-lite" agenda, which may include portions of his spending plans – such as fiscal stimulus and infrastructure investment – but little in the way of tax increases.

Key takeaways

- Markets staged an impressive relief rally during the week of the US presidential election; while the market narrative shifted from a Democratic "blue wave" to a narrower margin of victory for Joe Biden, the overall tone seemed to be risk-on in financial markets
- Key priorities for the Biden administration will likely include building a new pandemic taskforce, passing fiscal stimulus, funding infrastructure, and enacting climate policy via executive order
- The Biden administration's renewed focus on infrastructure spending and initiatives related to climate change and clean energy could create new opportunities for investors, including in the private markets space
- With a potential "Biden-lite" policy agenda, markets will likely shift their focus to economic fundamentals, particularly around the prospect of an effective vaccine to counter Covid-19
- Stronger potential US economic growth, alongside low interest rates and further stimulus, may provide a favourable backdrop for risk markets globally in 2021