

Market Watch | 4 November 2020

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US elections: tighter than expected

Summary

- The US elections have turned out to be a cliff-hanger. Democrat challenger Joe Biden may have a slight edge, while Republicans are likely to retain control over the Senate by a thinner margin, assuming all postal votes are counted and mostly go in favour of Biden. That is a far cry from the “Blue Wave” and a comfortable lead projected for Biden by polls heading into the elections. Any legal challenges could delay the final results further, heightening market uncertainty in the near-term.
- What next to watch:** Counting of votes in key battleground states of Michigan, Wisconsin and Pennsylvania over the coming days, amid concerns about legal challenges and social unrest. President Trump hinted at going to the Supreme Court to stop counting of postal ballots that arrive after the polls closed, underlining the uncertainty that lies ahead.
- Our net assessment:** The tighter-than-expected race means market volatility is likely to remain elevated, with equities and other risk assets under pressure, and safe-haven assets such as the USD, gold, JPY getting a near-term boost. We remain more constructive on the medium-term outlook as US regulations make it highly likely that a President is elected by 20 January Inauguration Day, and both candidates have a pro-growth policy stance, which means we would use the ensuing volatility to average into our preferred risk assets.

What's news?

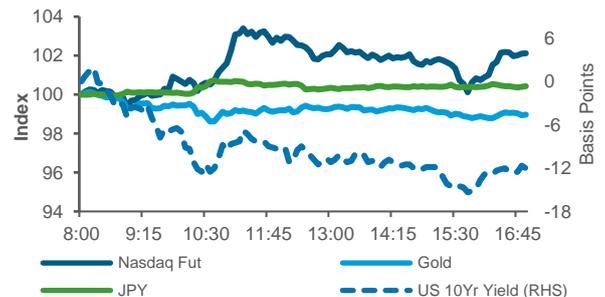
- President Trump is projected to win in Florida, an early boost for the Republican camp. After trailing Biden in most nationwide polls before the elections, Trump is also projected to win other key battleground states such as Ohio, Texas and Iowa. However, Biden likely has an edge in the three “rust-belt” states of Michigan, Pennsylvania and Wisconsin, assuming all postal ballots are counted and mostly go in his favour, taking him past the 270 electoral college votes needed to win the presidency.
- The US Congress remained split, with the Republicans likely to retain their majority in the Senate with a thinner majority. At the time of publishing, Republicans have a 48-47 Senate majority, compared with 53-47 before the elections, with chances of final outcome for some of the remaining seats delayed by weeks. The Democrats retained their majority in the House of Representatives with a slightly tighter lead.

What does this mean for investors?

- In our assessment, a Biden presidency, balanced by a narrow Republican majority in the Senate, would be ultimately moderately positive for risk assets. This is because we would likely still get more fiscal spending, albeit on a much smaller scale than if Democrats controlled the Senate, while reducing Democrats’ ability to push through growth-negative policies such as tax hikes and increased regulation.
- On foreign policy, Biden’s record on multilateralism and perceived stability is more supportive from a global risk perspective, which should be supportive of Emerging Market (EM) assets. Nevertheless, we are likely to see a continuation of a tough stance on China, albeit with a more diplomatic approach.
- In this scenario, global equity markets (Asia ex-Japan, in particular) and EM USD-denominated and local currency

Stocks and oil reprice higher odds of a Trump victory

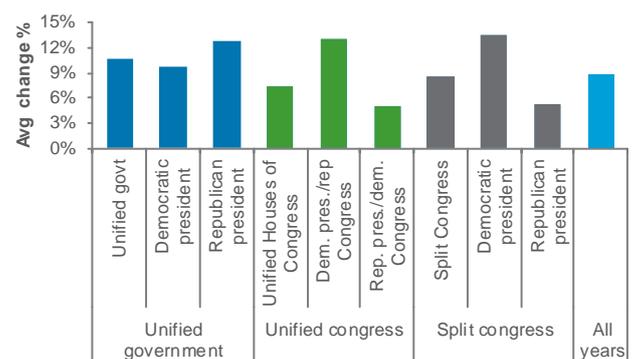
Asset class performance (Fut. = Futures), rebased at 8:00am SGT



Source: Bloomberg, Standard Chartered as of 5:00pm SGT

The best outcome from the US presidential elections is a Democrat President and a split Congress, based on historical precedence

S&P500 returns under various election outcome scenarios



Source: Bloomberg, Standard Chartered as of 5:00pm SGT

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government bonds and EM currencies are likely key beneficiaries in the medium term. The USD should also weaken as global risk sentiment improves as US economic policy uncertainty falls.

- US sectors that are likely winners include utilities, real estate and consumer discretionary while the energy sector is likely to underperform.
- On technical charts, the S&P 500 index has support at the lower end of 3209-3588 range, followed by the 200-day moving average (now 3130; about 7% from Wednesday's close). On the upside, the September record high of 3588 is stiff resistance. Subsequent resistance is at 3635.

What to watch in the near-term?

- Mail-in votes in several key battleground states (i.e. Wisconsin, Michigan and Pennsylvania) have yet to be counted. Biden looks better placed to benefit from this since polls showed a majority of Democrats voted through the post.
- However, we believe financial markets may not be adequately pricing in the possibility of a prolonged contested outcome. President Trump's speech after the early results suggest he may try to shift the narrative and alter the standards of proof (i.e. Biden to prove there was no election fraud). Trump also hinted at moving the Supreme Court to stop counting of ballots that arrive after the polls have closed. This would entail casting doubt on official election results. This raises the risk of social unrest.
- The resurgence of COVID across US states remains in the backdrop, with hospitalisation and death rates rising from very low levels. Many Democrat-controlled states could impose partial lockdowns, if the fatality rates continue to rise, leading to an economic slowdown in the coming weeks. However, in a prolonged contested election scenario, President Trump and the Republicans will have little incentive to try and pass additional fiscal measures ahead of the Inauguration Day, which could add to market volatility.

President Trump has won several battleground States, but wins in Michigan, Pennsylvania and Wisconsin could get Biden over 270 seats needed to win the elections, assuming postal ballots in those states go in his way

Latest battleground States' vote count results

State	Electoral Votes	Current Biden - Trump lead	Percent of votes counted
Arizona	11	5.1	80
Florida*	29	-3.5	96
Georgia	16	-2.2	94
Michigan	16	-5.6	78
Minnesota*	10	7.4	90
North Carolina	15	-1.8	94
Ohio*	18	-8.2	94
Pennsylvania	20	-12.6	64
Texas*	38	-5.8	84
Virginia*	13	6.5	82
Wisconsin	10	-3.7	88

Source: Associated Press, Standard Chartered as of 5:00pm SGT

*State Result has been confirmed

Potential US election scenarios, policy implications and likely short-term asset class responses

	Marginal Democrat win [^]	Status Quo	Contested Election ^{^^}	
President	Joseph Biden	Donald Trump	?	
House and Senate	D&D* (with narrow Senate majority) or D&R*	D&D* or D&R*	?	
Policy implications	Corporate taxes	Democrats to scale back corporate tax hike agenda	No reversal of corporate tax cuts	N/A
	Personal taxes	Odds of Trump tax cuts expiring in 2025 rise; minimum wages likely to rise by a lesser extent vs Strong Democrat scenario	Struggle to cut personal income tax further; leave minimum wages at USD 7.25/hour or agree to marginal rise	N/A
	Healthcare	Lower drug prices, given it has bipartisan support; expansion of Obamacare less likely	Lower drug prices; continue with efforts to repeal Obamacare; cuts to Medicaid and Medicare	N/A
	Fiscal policy	Less than USD 2trn in pandemic stimulus; toned down green infrastructure spending and cleaner tech regulations; re-enter Paris climate pact; lower chance of policies against fossil fuels	Weaker pandemic stimulus; USD 1trn infrastructure spending in traditional sectors; less support for green policies; open more Federal land for drilling; keep tariffs on imported solar panels	N/A
	Regulatory policies	Fewer regulatory changes; rely more on executive orders	Continued deregulation, anti-trust investigations on large tech	N/A
	Foreign policy	Continuation of tough stance on China, with a more diplomatic approach; re-entering TPP unlikely	Continue with trade, technology, investment war against China and early stage trade war with the EU; re-entering TPP unlikely	N/A
	Legislation	Delays in Senate legislations as Republicans use filibustering	Delays in House legislations as Democrats oppose bills	N/A
#Historical precedents	S&P500 + 13%	S&P500 +5%		
Likely asset class winners	Equities	Europe, Asia ex-Japan, Japan equities	US equities	Defensive, low volatility, income strategies likely relative winners
		Asia ex-Japan technology to outperform US technology		
		Asia ex-Japan consumer staples, consumer discretionary	Asia ex-Japan consumer staples, consumer discretionary	
		US utilities, real estate, consumer discretionary	US real estate, consumer discretionary, energy, industrials, materials, financials	
			Europe healthcare, technology	
	FX and Commodity	Value style	US cyclicals	
		EUR, AUD, GBP	EUR, AUD, GBP (3-12m view)	Safe haven FX (JPY, CHF)
		EM FX	USD (initial reaction)	USD
		Gold (smaller move)	Gold (smaller move)	Gold
Bonds	EM USD govt bonds	EM USD govt bonds	US Treasuries	
	EM local currency bonds	DM HY corporate bonds	US IG corporate bonds	
	Asia USD	US Treasuries		
Likely asset class losers	Equities	US energy	US healthcare, cyclicals	
		Low volatility style	Value style	
			Asia ex-Japan financials, industrials	
	FX and Commodity	USD (smaller move)	USD (smaller move)	
	Bonds	US Treasuries (smaller move)		EM USD govt bonds EM LCY DM HY corporate bonds

Source: Standard Chartered; Note: [^] Marginal Democrat win = Biden as President, Democrats win 51-60 Senate seats and retain majority in the House; * D = Democrat, R = Republican; #Historical precedents = Average S&P 500 index annualised returns during presidential terms under similar scenarios after past elections; ^{^^} Contested by Thanksgiving Day

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