

Market Watch | 5 November 2020

# Market Watch

## US elections: Tighter than expected (UPDATE)

### Summary

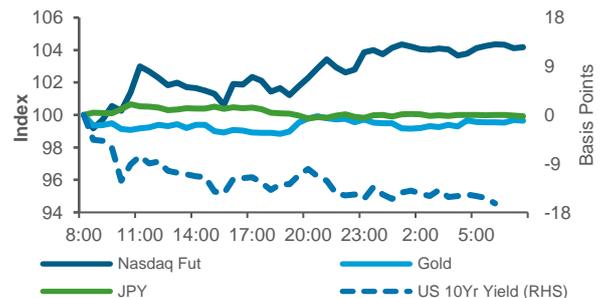
- The US election has turned out to be a cliff-hanger. Democrat challenger Joe Biden has increased his lead, as more postal votes were counted overnight. Republicans are likely to retain control over the Senate by a thinner margin. That is a far cry from the “Blue Wave” and a comfortable lead projected for Biden by polls heading into the elections. US equities, led by Technology sector, surged as the increased chances of narrow Biden win, the best scenario for risk assets, became more likely.
- What next to watch:** Counting of votes in key battleground states (Pennsylvania, Nevada, Georgia, N. Carolina, Arizona) amid concerns about legal challenges. President Trump has moved to the Supreme Court to stop counting of postal ballots that arrive after the polls closed and is trying to halt vote counts in Pennsylvania/Michigan. The Trump campaign has indicated its intention to challenge the Wisconsin result and further legal challenges could delay the final results, heightening uncertainty.
- Our net assessment:** The tighter-than-expected race means market volatility is likely to remain elevated near-term, with equities and other risk assets periodically coming 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 pro-growth policy stances. Therefore, we would use the ensuing volatility to average into our preferred risk assets.

### What's news?

- After trailing President Trump in a number of key battleground states such as Florida, Ohio and Texas, Biden has come back strongly on the back of postal ballots, to gain the lead in “rust-belt” states of Wisconsin and Michigan, albeit with narrow margins of approximately 20,000 and 70,000 votes at the time of writing. Most news agencies have ‘called’ these two states for Biden already and their loss makes Trump’s path to victory (obtaining 270 electoral college votes) more challenging. Assuming the counts are not successfully contested, this leaves Biden potentially needing just one more state victory (not including Alaska, which is a Republican stronghold and has only 3 electoral votes) to become President. As anticipated, Trump campaign asked for a recount in Wisconsin, where the margin of victory is less than 1%.
- The US Congress remained split, with 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 a 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.
- US equities rose sharply, led by the Technology sector, owing to the slimming odds of a Blue wave, which would have meant high chances of increase in taxes and regulation. Gold and the US Dollar declined modestly. The lower likelihood of a Blue Wave and potentially the elevated risk of a contested election also saw 10-year US Treasury yields drop the most since March this year.

### Tech stocks and Treasuries making the biggest moves

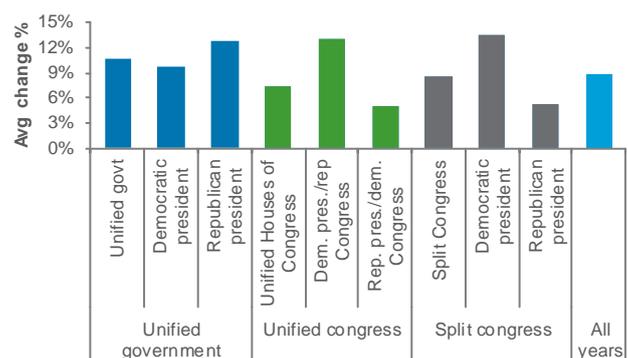
Asset class performance, rebased at 8:00am SGT on 4-11-2020



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 precedent

S&amp;P500 returns under various election outcome scenarios



Source: Bloomberg, Standard Chartered

**What does this mean for investors?**

- In our assessment, a Biden presidency, balanced by a narrow Republican majority in the Senate, would be ultimately positive for risk assets. A fiscal stimulus, albeit on a much smaller scale than if Democrats controlled the Senate, is likely, but the Democrats' ability to push through growth-negative policies such as tax hikes and increased regulation is likely limited.
- On foreign policy, Biden's record on multilateralism and perceived stability is more supportive from a global risk perspective, which should be positive for 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 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, Wednesday's jump doesn't alter the sideways range since September. The upper end of the range is the September record high of 3588, while the lower end of the range is the September low of 3209. However, looking beyond the near-term, as we pointed out in the Global Market Outlook last week, historically the median return in November-December in an US election year is 4.1%. With 3209 support holding, despite the recent volatility, this raises the odds that this year won't be an exception

**What to watch in the near-term?**

- Vote-counting continues in several key battleground states (i.e. Georgia, Nevada, N. Carolina, Arizona and Pennsylvania). Biden's position is expected to improve as more mail-in votes are counted as polls showed a majority of Democrats voted via post (although we note a significant narrowing of Biden's lead in Arizona, which has already been called in his favour by many networks).
- 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. require Biden to prove there was no election fraud). Trump also moved to the Supreme Court to stop counting of ballots that arrive after the polls have closed. This would entail casting doubt on official election results and could increase 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.

**Wins in Michigan and Wisconsin bring Biden close to 270 seats needed to win the election (264). Now awaiting results from Alaska, Pennsylvania, Georgia, North Carolina and Nevada.**

Latest battleground States' vote count results

State	Electoral Votes	Current Biden - Trump lead	Percent of votes counted
Arizona*	11	3.4	84
Florida*	29	-3.3	96
<b>Georgia</b>	<b>16</b>	<b>-1.2</b>	<b>97</b>
Michigan*	16	1.3	98
<b>Nevada</b>	<b>6</b>	<b>0.6</b>	<b>86</b>
<b>North Carolina</b>	<b>15</b>	<b>-1.4</b>	<b>94</b>
Ohio*	18	-8.2	96
<b>Pennsylvania</b>	<b>20</b>	<b>-3.9</b>	<b>88</b>
Texas*	38	-6	85
Virginia*	13	9.5	99
Wisconsin*	10	0.7	99

Source: Associated Press, Standard Chartered as of 8:00am SGT

\*State Result has been confirmed

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

	Marginal Democrat win <sup>^</sup>	Status Quo	Contested Election <sup>^^</sup>	
President	Joseph Biden	Donald Trump	?	
House and Senate	D&D* (with narrow Senate majority) or D&R*	D&D* or D&R*	?	
Policy implications	<b>Corporate taxes</b>	Democrats to scale back corporate tax hike agenda	No reversal of corporate tax cuts	N/A
	<b>Personal taxes</b>	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
	<b>Healthcare</b>	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
	<b>Fiscal policy</b>	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
	<b>Regulatory policies</b>	Fewer regulatory changes; rely more on executive orders	Continued deregulation, anti-trust investigations on large tech	N/A
	<b>Foreign policy</b>	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
	<b>Legislation</b>	Delays in Senate legislations as Republicans use filibustering	Delays in House legislations as Democrats oppose bills	N/A
<b>#Historical precedents</b>	S&P500 + 14%	S&P500 +5%		
Likely asset class winners		Europe, Asia ex-Japan, Japan equities	US equities	Defensive, low volatility, income strategies likely relative winners
	Equities	Asia ex-Japan technology to outperform US technology	Asia ex-Japan consumer staples, consumer discretionary	
		Asia ex-Japan consumer staples, consumer discretionary	US real estate, consumer discretionary, energy, industrials, materials, financials	
		US utilities, real estate, consumer discretionary	Europe healthcare, technology	
	FX and Commodity	US technology (in DDR scenario)	US cyclicals	
		Growth style (in DDR scenario)		
		EUR, AUD, GBP	EUR, AUD, GBP (3-12m view)	Safe haven FX (JPY, CHF)
		EM FX	USD (initial reaction)	USD
	Bonds	Gold (smaller move in DDR scenario)	Gold (smaller move)	Gold
		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		DM HY corporate bonds (in DDR scenario)		
	Equities	Value style (in DDR scenario)	US healthcare, cyclicals	
		Low volatility style	Value style	
		Energy (in DDD scenario)	Asia ex-Japan financials, industrials	
	FX and Commodity			
		USD (smaller move in DDD scenario)	USD (smaller move)	
	Bonds			
US Treasuries (smaller move)			EM USD govt bonds	
	US HY corporate bonds (in DDD scenario)		EM LCY	
			DM HY corporate bonds	

Source: Standard Chartered; Note: <sup>^</sup> Marginal Democrat win = Biden as President, small Democrat majority in Senate and/or 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

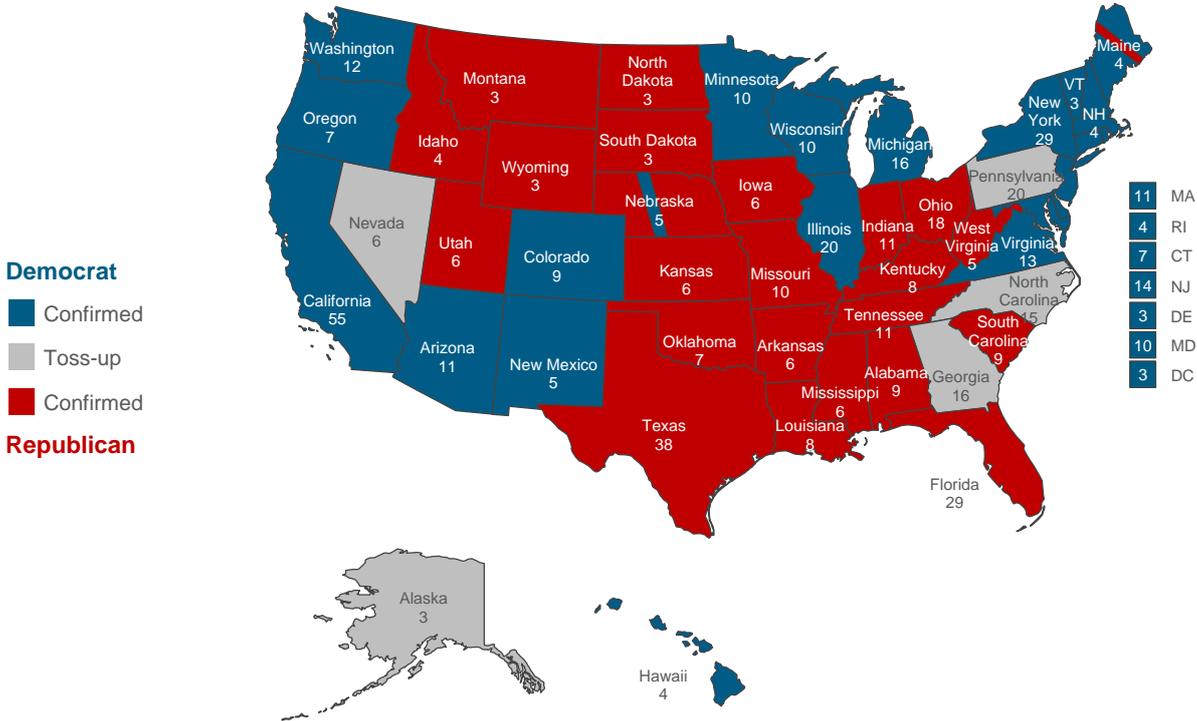
**Provisional election results: Wisconsin and Michigan have since been 'called' for Biden putting him 6 electoral votes from winning the election**

Democrats are seemingly well positioned to secure 270 seats in the electoral college and win the Presidential election



**Joe Biden/Democrats**

**Donald Trump/Republicans**



Source: RealClearPolitics, ft.com, Standard Chartered Research as of 10:00AM SGT on 5<sup>th</sup> November 2020

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