

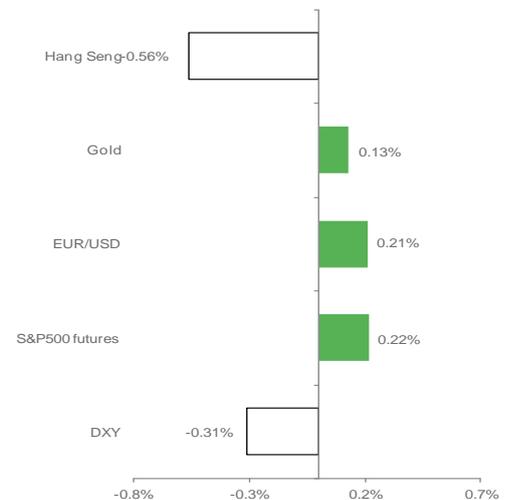
US mid-term polls: Democrats regain House

SUMMARY

- Democrats regain House; Republicans increase Senate majority.** The Democrat win in the House of Representatives, while widely anticipated, signals the first successful political challenge against President Trump. It raises the chances of legislative grid-lock in the Congress, impeding President Trump's policy agenda.
- Setback for fiscal easing.** The Republican loss of the House may dampen the scope for further tax cuts and regulatory easing.
- China trade talks next in focus.** The domestic political setback for Trump turns attention to his foreign policies, including on trade. President Trump's proposed meeting with China's President Xi at the G-20 meeting later this month is the next key event to watch.

The USD fell and Hong Kong stocks reversed gains as projections point to slim Democrat majority in the US House of Representatives

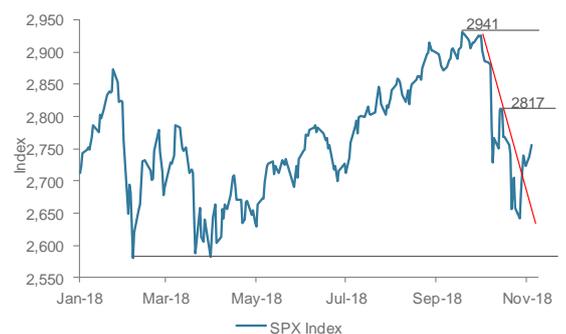
1-day change in asset prices (07 November; 2:10 PM Singapore/Hong Kong time)



Source: Bloomberg, Standard Chartered

US equity market technicals suggest the downtrend has faded and the worst is probably over

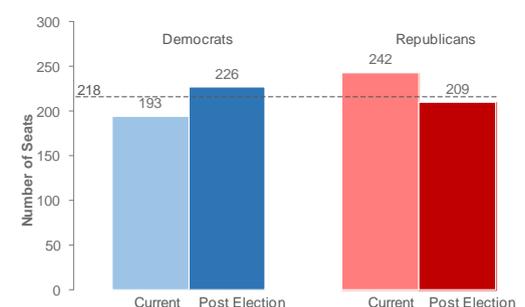
S&P500 Index, with key resistance levels



Source: Bloomberg, Standard Chartered

Democrats are projected to add 33 seats in the US House, helping them pass the 218-seat majority threshold

US House projections from fivethirtyeight.com



Source: fivethirtyeight.com

BACKGROUND

- Mid-terms seen as referendum on Trump's presidency.** President Trump and the Democrats had both framed the elections as a vote on the president's policies over the past two years. While the Democrats campaigned against Republicans' plans to roll back Obamacare and other policies seen as socially divisive, Trump closed the campaign by refocusing on key political issues that helped him win in 2016, i.e. immigration, China's trade practices.
- Democrats needed 25 additional seats to regain House majority.** Pollster projections (fivethirtyeight.com) suggest the Democrats will gain 33 additional seats, which would give them a 17-seat advantage in the 435-member House of Representatives.
- Republicans to retain the Senate.** The Republicans are likely to add to their 51-49 Senate majority, gaining a net four seats, according to projections. The stronger Republican majority would likely enable President Trump to win approval for his cabinet picks and Supreme Court nominations. Also, it would make it difficult for Democrats to push through Congressional investigations against the Trump presidency (eg. Russian influence in 2016 elections).

WHAT DOES THIS MEAN FOR INVESTORS?

- Split Congress widely expected.** This outcome was widely anticipated and factored in by markets. However, a slim Democrat win implies a moderation of the so-called 'Trump trade', symbolised by a stronger USD, US equity outperformance and higher US Treasury yields. Such a moderation is likely to be positive for Emerging Market equities and bonds, especially in Asia.
- US equities perform well after mid-term elections.** History suggests US equities perform well after US mid-term and presidential elections as political risks subside. Seasonality also favours US equities – they traditionally perform best in Q4 and Q1.

WHAT NEXT?

- US equity market technicals turning positive.** The S&P500 index's slide appears to be losing steam following the brek last week above key resistance. Any break above last week's high of 2756 would confirm that the downward pressure has faded and the worst is probably over. Interim resistance is at the mid-October high of 2817 and stronger resistance is at September high of 2941.

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