

Weekly Market View

A Democrat 'clean sweep'?

US Democrats are likely closing in on a 'clean sweep' of the elections to the White House and the two houses of the Congress. This, we believe, is good news for our preferred risk assets, given the Democrats' overall pro-growth policy stance, large-scale infrastructure spending plans and a more engaging foreign policy

Equities: Expectations for US Q3 earnings have improved over the past month. Our preferred technology and healthcare sectors are likely to outperform, with expectations for just 1% and 2% contraction in earnings.

Bonds: US Treasury yields are likely to be choppy ahead of the elections; we do not expect a sustained rise in yields above 1% in the next 12 months

FX: The USD's corrective rally has been muted thus far. A break above 1.1925 in the EUR/USD would signal that USD weakness is reasserting

Also find out...

What are the asset class implications of a Democrat 'clean sweep'?

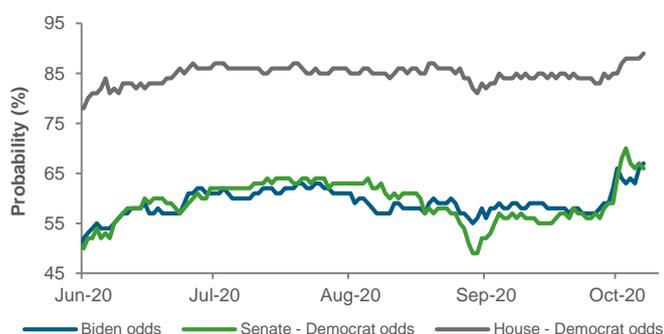
What are the implications of higher bond yields on equities?

Are S&P500 index charts indicating the correction is over?

Charts of the week: Tailwind for Democrats

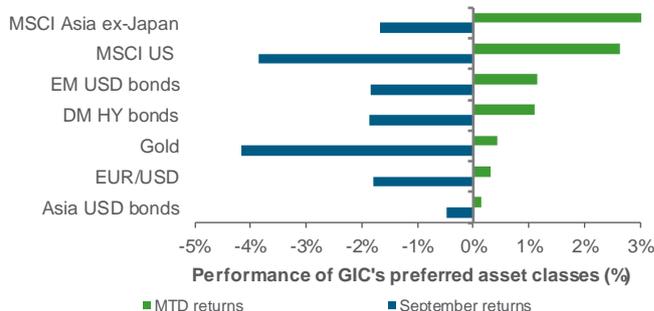
Democrats appear to be gaining ground in the race to the White House and Congress, helping a recovery in risk appetite

Democrats' chances of winning the US presidential election and majorities in the House of Representatives and the Senate



Source: Predictit, Bloomberg, Standard Chartered

Our preferred asset classes have rebounded this month, partly reversing September's pullback, amid rising expectations of a Democrat win



Editorial

A Democrat 'clean sweep'?

US Democrats are likely closing in on a 'clean sweep' of the 3 November elections to the White House, the House of Representatives and the Senate, according to polls. This, we believe, is good news for risk assets, given the Democrats' overall pro-growth policy stance, large-scale infrastructure spending plans and a more engaging foreign policy.

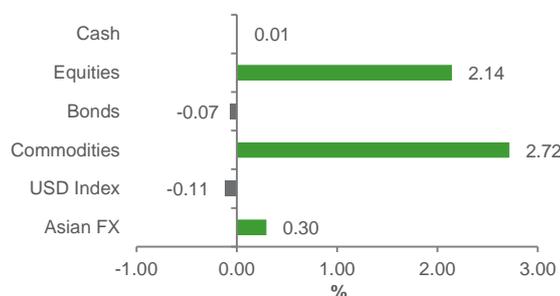
Democrat candidate Biden has widened his lead this month in the race to the White House. The first presidential debate appears to have given him a tailwind into the last mile. President Trump's COVID-19 infection might have garnered some sympathy votes from undecided voters, but his subsequent flip-flop on a new stimulus package seems to be working in the Democrats' favour, given the latter having already approved in the House a bigger USD 2.2trn stimulus package (which the Republicans did not support). A clear Biden win should reduce the chances of post-election uncertainty caused by the above-average number of postal ballots expected this time (the possibility of a prolonged period of uncertainty, as postal votes are counted, has troubled investors since Trump warned of the prospects during the first presidential debate).

The Senate race is still too close to call, though here too the Democrats appear to be gaining ground. However, the Democrats are unlikely to win a clear 60-seat majority needed to decisively overcome filibustering and, therefore, any Republican opposition to its plan to raise corporate and personal taxes. That is good news for investors who see higher taxes and regulation as main downsides from a Democrat 'clean sweep'. Democrats have the added advantage of a USD 4trn infrastructure spending plan if they win. This plan, focussed on building green energy infrastructure, healthcare and education spending, could potentially lift long-term US growth prospects, given higher growth multipliers.

We believe the above turn of events explain the restrained equity market volatility over the past week, the rebound in risk assets and the range-bound USD. We would, thus, continue to average into our preferred assets, including US and Asia ex-Japan equities and EM, Asia USD and US High Yield (HY) bonds, especially if any volatility in the next few weeks make them available at more attractive prices (see page 4 for more on asset class implications from a Democrat 'clean sweep').

Equities and commodities rebounded in the past week and Asian currencies rose amid a return of risk appetite

Benchmark market performance w/w*



Source: Bloomberg; *week of 1 Oct 2020 to 8 Oct 2020

Our proprietary market diversity indicators point to low risk of a short-term trend reversal

Market diversity across key asset classes

Level 1	Diversity	Diversity trend since 7-Sep-20	Fractal dimension
Global Bonds	●	↑	1.41
MSCI ACWI	●	→	1.46
Gold	●	↑	1.60
Equity			
MSCI US	●	→	1.47
MSCI Europe	●	↑	1.95
MSCI AC AXJ	●	↑	1.55
Fixed Income			
DM Corp Bond	●	↑	1.45
DM High Yield	●	→	1.42
EM USD	●	↑	1.67
EM Local Currency	●	→	1.75
Asia Hard Currency	●	↑	1.47
Currencies			
USD/CNH	●	→	1.33
EUR/USD	●	→	1.38
USD/JPY	●	↑	1.64
GBP/USD	●	→	1.51
AUD/USD	●	↑	1.56

Source: Bloomberg, Standard Chartered; **Fractal dimensions below 1.25 indicate extremely low market diversity/high risk of a reversal**

Legend: ● High ● Low to mid ○ Critically low

The weekly macro balance sheet

Our weekly net assessment: On balance, this week's data and policy were neutral, with focus on whether the US approves another fiscal stimulus

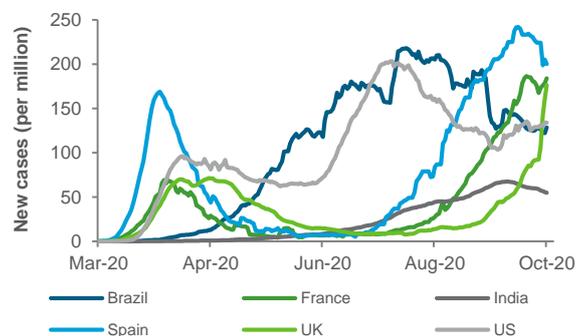
	Positive for risk assets	Negative for risk assets
COVID-19	<ul style="list-style-type: none"> Daily new cases appear to have peaked in the US, Spain, India in September President Trump was released from the hospital after a brief stay and medical treatment and has been free of COVID-19 symptoms since Tuesday, his doctor said Daily new cases in Brazil, Mexico extended their downtrend since August 	<ul style="list-style-type: none"> Daily new cases in France, the UK hit new record highs; cases in Italy, Germany rose to their highest since April More European cities tightened localised restrictions on business and social activities New US regulations will likely reduce the chance of a vaccine before the elections; European regulators said a vaccine was unlikely this year
	Our assessment: Neutral, on balance, with US cases peak and President Trump's improving health offset by tightening restrictions in Europe	
Macro data	<ul style="list-style-type: none"> German factory orders increased more than expected in August Euro area retail sales picked up by more than expected in August Japan's services sector business confidence recovered by more than expected in September 	<ul style="list-style-type: none"> US and Euro area business confidence (PMI) dropped unexpectedly in September US job creation in August fell below expectations US consumer credit fell unexpectedly in August US job openings declined for the first time in four months US initial jobless claims were above expectations German industrial production fell unexpectedly in August
	Our assessment: Negative, on balance, amid weaker-than-expected US and Euro area business confidence and a slowing US job market	
Policy developments	<ul style="list-style-type: none"> Odds of a Democrat 'clean sweep' improved after the first presidential debate and after Trump halted talks for a broader stimulus. A Democrat 'clean sweep' would increase the chances of a larger fiscal stimulus, including infrastructure spending, after the elections ECB officials signalled the need for more stimulus as growth faltered with a resurgence in COVID-19 cases 	<ul style="list-style-type: none"> US House Speaker Pelosi rejected Trump's offer for a limited stimulus, including another round of paychecks to households and stimulus for airlines and small business (Trump subsequently ordered a restart of broad stimulus talks) Fed Chair Powell warned that the US economic recovery could falter if another fiscal stimulus is not approved soon The RBA left its monetary policy unchanged
	Our assessment: Positive, on balance, as improving odds of a Democrat win raise chances of a large fiscal stimulus post-election	
Other developments		<ul style="list-style-type: none"> Media reports said the UK plans to end Brexit trade talks next week if no clear deal is in sight Reports said the US was considering restricting Chinese payment platforms
	Our assessment: Negative, on balance, with the approach of a deadline to reach a Brexit trade agreement a near-term risk	

(+) factor: US COVID-19 peak; rising odds of a Democrat 'clean sweep'

(-) factor: Tightening restrictions in Europe; Brexit trade deal uncertainty

New COVID-19 cases appear to have peaked in the US, Spain and India, though cases have continued to rise in France and the UK

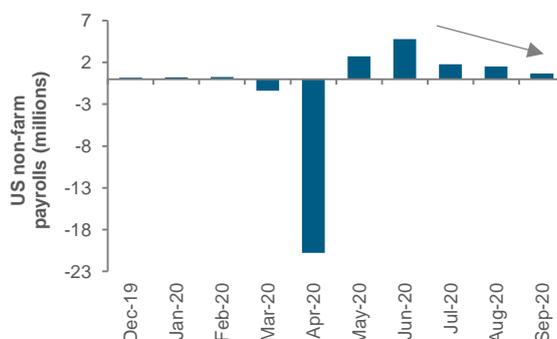
Daily new COVID-19 cases per million people in the US, key European markets, India and Brazil



Source: Our World in Data, Standard Chartered

US job market recovery has continued to slow, increasing the need for further fiscal stimulus

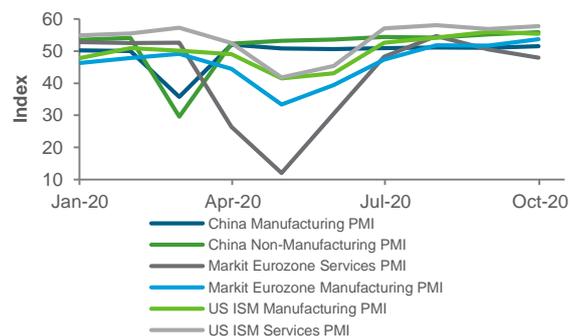
US monthly non-farm job creation



Source: Bloomberg, Standard Chartered

Business confidence indicators across major economies have moderated after their initial rebound in late Q2/early Q3; Euro area services sector activity has likely started to contract again amid rising regional restrictions

Business confidence indicators (PMIs) in the US, Euro area and China



Source: Bloomberg, Standard Chartered

Top client questions

Q What are the implications of a Democratic ‘clean sweep’?

Markets seem to be pricing in a Democrat ‘clean sweep’ as risk positive. This month, risk assets have shrugged off weaker-than-expected US data, Trump’s COVID-19 infection and tightening social restrictions in Europe, with equities and commodities both rising.

Joe Biden leading with the widest gap over President Trump since July. Nate Silver from FiveThirtyEight has given Biden an 84% probability of winning. Silver also assigns a 66% chance the Democrats will win a majority in the Senate, thus giving them unified control of both the houses of Congress.

Market narrative has clearly shifted from concerns over Biden’s tax hike proposal and a potentially contested election. All things being equal, a ‘clean sweep’ will probably lead to a larger and faster passage of a fiscal/infrastructure bill. While Biden’s policy does include tax hikes for corporations and high-income earners, this may not be as negative as perceived, given its redistributive nature towards the lower-income segments and to fund infrastructure and education.

Since the 1960s, the S&P500 does better in a ‘clean sweep’ election outcome. When Democrats control Congress and the White House, the median 12m return for the S&P500 has been 15%. When the Republicans are in control, the median return has been 12%. Both are better than the median return of 11% since 1960.

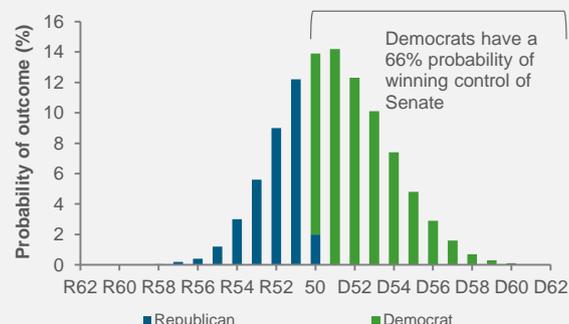
A Democrat ‘clean sweep’ could quicken the USD slide. The so-called ‘blue wave’ could lead to a more diplomatic approach to foreign policy than Trump’s. This will likely be growth-supportive and reduce the uncertainty that usually supports safe-haven demand for the USD. EM currencies may benefit from this, though a vaccine will be a more important driver, in our opinion. Regardless of the election outcome, fiscal spending is set to increase, and the US current account deficit is unlikely to improve markedly over the coming years. Taken together, this leans us towards a weaker USD in a ‘blue wave’ scenario.

A ‘blue wave’ would suggest an upward bias on inflation and higher interest rates. Biden’s proposed fiscal injection is multiples of the proposed USD 2.2trn COVID-19 stimulus passed by the House recently. This would potentially favour a steepening in the 10/30 US Treasury curve and higher inflation expectations from both loose monetary and fiscal policies. Within corporate bonds, we may see sector divergence, potentially more negative on healthcare and energy, while industrial and utilities could benefit from a significant ‘green bill’. EM bonds tend to be negatively impacted from higher US rates, though that could be mitigated by higher global growth, a weaker USD, lower geopolitical risks and higher commodity demand.

While a ‘blue wave’ would likely be positive for equities at the aggregate level, there would be more regional, sectoral and style differentiation. Infrastructure spending should be positive for the materials, alternative energy and industrial sectors. To the extent Biden adopts a less combative approach to its trade partners, especially China, equities of the rest of the world (Asia ex-Japan, Europe and EM) could also benefit. The Value style may start to outperform more sustainably at some point, given its stronger weightage to the financials, materials and industrial sectors, although for now we still prefer Quality and Growth styles.

Democrats have a more than 60% chance of winning control of the Senate

Cumulative probabilities of Democrats and Republicans winning more than 50 of the 100 Senate seats



Source: FiveThirtyEight, Standard Chartered; R = Republican, D = Democrat; eg. D60 = Probability of Democrats winning 60 seats

A Democrat ‘clean sweep’ is likely to be particularly supportive for the Value style, clean energy and industrial and materials sectors, while a divided Congress would be positive for the Growth style and the technology sector

Impact of various election outcome scenarios on different asset classes/sectors

	DDD	Divided	DRR	RRR	Divided	RDD
Growth		✓	✓	✓	✓	✓
Value	✓	✗	✗	✓	✗	✓
Technology	✗	✓	✓		✓	✓
Energy	✗	✗			✗	
Clean energy	✓		✗	✗		✗
Healthcare	✗			✓		
Industrials + materials	✓			✓		✗
Telecom services		✓	✓		✓	✓
Financials				✓		

Source: Standard Chartered; RDD = Republican White House, Democrat Senate and Democrat House of Representatives

S&P500 has immediate resistance 1% above current level

Technical indicators for key markets as on 08 Oct. 2020

Index	Spot	1st support	1st resistance
S&P500	3,447	3,381	3,480
STOXX 50	3,256	3,213	3,277
FTSE 100	5,978	5,927	6,003
Nikkei 225	23,647	23,236	23,853
Shanghai Comp	3,218	3,216	3,222
Hang Seng	24,193	23,893	24,368
MSCI Asia ex-Japan	738	721	746
MSCI EM	1,117	1,094	1,129
Brent (ICE)	43.3	40.6	44.7
Gold	1,895	1,878	1,913
UST 10Y Yield	0.79	0.73	0.81

Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Q Are US bond yields likely to rise significantly higher?

The 10-year US government bond yield has risen by nearly 10bps over the past week, despite continued uncertainty regarding the outlook for a near-term fiscal stimulus. In our assessment, the disappointment on the fiscal stimulus front was more than offset by the rising odds of a Democratic win, which reduces the risk for a contested election. This may have resulted in reduced safe-haven demand and an unwinding of speculative long investor positioning in 10-yr US government bond futures, which was at its highest since 2017. Additionally, a Democratic win, and potentially a blue sweep, would likely lead to higher US Treasury yields, if it results in a large stimulus package early next year.

However, we believe the latest Fed guidance, reiterating continued easy monetary policy, should cap any significant upside in yields, as evidenced by the fact that the 2-year US government bond yield has increased to a much lower extent. Additionally, should yields rise too quickly, the Fed can increase purchases of longer-maturity bonds to prevent yields from rising sharply, thus becoming a drag on the economic recovery.

On technical charts, while the 10-year US government bond yield has shown signs of some upward momentum, it faces tough resistance at the August high of 0.7890%. A daily close higher could open the way initially towards the 200-day moving average (now at 0.9130), potentially the March high of 1.2830%.

Overall, while the yields could be volatile in the run-up to the US presidential election and are biased slightly upwards, we do not expect a sustained rise in yields above 1.00% over the next 12 months.

Q What are the implications of higher bond yields on equities?

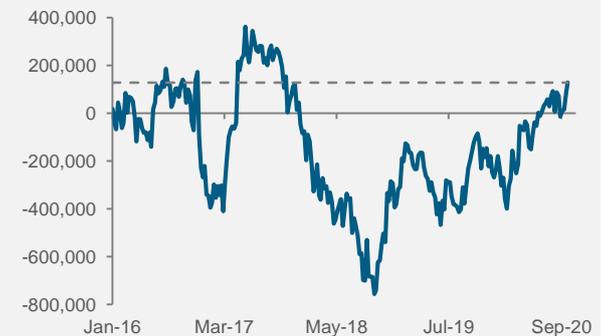
We have previously highlighted in this publication that a sustained rise in the 10-year US government bond yield was a potential catalyst for the value investment style to outperform growth. Indeed, with the rise in yields seen in the past week, the value sectors (+3.6%) have outperformed the growth sectors (+0.6%). In particular, the US banks, a key part of the value sector, outperformed with a 6.5% increase.

However, the other potential catalysts we mentioned for value to outperform have yet to emerge. We are yet to see a more dovish regulatory environment towards the financial sector – relevant, especially, for the banks. Regulatory restrictions on bank dividends and buybacks remain in place while the recent media report on banks' suspicious transaction reports (STRs) might increase public pressure for more controls. The third catalyst we mentioned, a COVID-19 vaccine, remains pending.

A further rise in US bond yields would help the value sectors, particularly US banks, though it remains to be seen how sustained the current yield increase is (see above). Investor positioning in US banks is light and major US banks report earnings next week. Apart from their earnings outlook, investors will watch out for their comments on the regulatory environment as well.

Speculative long positioning in 10-year government bonds is at the highest since 2017; moderate reversal could help extend the current run-up in yields

Bloomberg CFTC 10-year US Treasury Notes net non-commercial futures positions



Source: Bloomberg, Standard Chartered

US banking sector equities have outperformed lately with rising Treasury yields, but other catalysts for a sustained outperformance, such as a dovish regulatory environment for banks, are still missing

Relative performance of US S&P500 index, Value and Growth styles and the banking sector; index: 100 = 1 July 2020



Source: Refinitiv, Standard Chartered

Top client questions (cont'd)

Q What are the expectations from the US earnings season?

Major US banks will kick off the Q3 2020 earnings season next week, with US earnings expected to fall sharply, though less severely than in Q2. The consensus is for US earnings to fall 21% y/y in Q3 20 while revenue declines 4.4% y/y. All sectors are expected to see an earnings decline, with financials expected to see a 19% fall. Technology and healthcare are expected to perform the best, with a 1% and 2% decline, respectively. Similarly, with Q3 20 revenue growth, the best performing sectors are expected to be healthcare (+8%), consumer staples (+3) and technology (+2%). Coming into this earnings season, expectations have improved slightly from a 23% decline expected over a month ago to the 21% fall expected today. For the full year 2020, consensus expectations are for a 20% earnings decline, followed by a +27% rebound in 2021.

We rank US equities as a preferred holding, owing to the strong stimulus measures and as investors look past the sharp, but short, downturn towards a recovery in 2021. The US technology, healthcare and industrial sectors are preferred. Technology should benefit from increased demand for cloud and subscription services while healthcare benefits from increased COVID-19 spending. Industrials should benefit from the economic reopening in 2021.

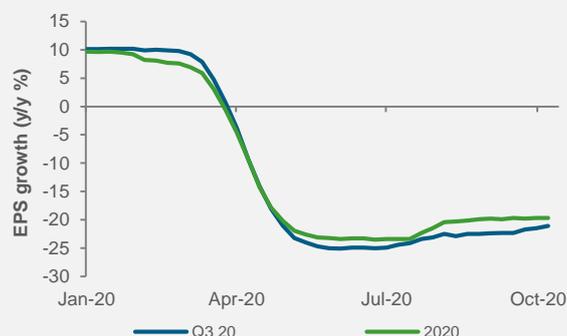
Q Are S&P500 technicals indicating the correction is over?

The close on Thursday above key resistance at the mid-September high of 3429 is a sign that the brief pause is probably over. In some ways, the recent retreat resembles the June 2020 retreat. Back then, following the retreat the index held key support above the end-April high of 2955. This time around, the index has held above the June high of 3233 (see chart). Moreover, the price action in VIX, the market's expectation of 30-day forward-looking volatility, is similar to June 2020. After the initial spike, the rally in VIX lost steam on both occasions. VIX tends to be inversely correlated with the S&P 500 index. A fall in VIX is often associated with a rise in the benchmark index and vice versa.

The implication of this is that September's pullback is likely a pause, rather than the start of a downtrend. The rise above 3429 has opened way towards the September's record high of 3588 (interim resistance is at 3480). Whether the index advances to fresh highs subsequently or settles in a broad range (extended pause) - 3209-3588 (the September low and high) - would depend on how other factors unfold, including momentum and volume. On the downside, initial support is at 3381, and fairly strong support is at the September low of 3209.

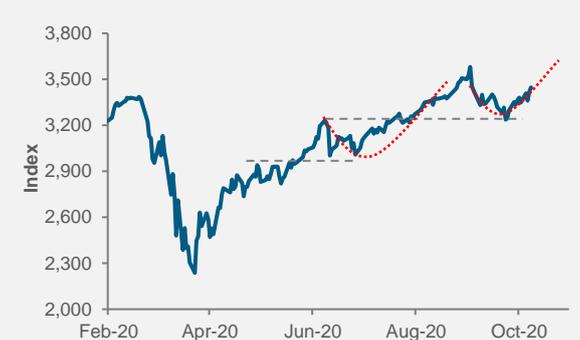
Expectations for US earnings contractions in Q3 20 and 2020 have stabilised, with signs of a gradual recovery emerging in recent months

US earnings growth estimates for Q3 20 and 2020



Source: Bloomberg, Standard Chartered

S&P500 index's rebound above key resistance at the mid-September high of 3429 indicates that the brief pause in the medium-term uptrend is probably over



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Q Is the USD corrective rebound over?

We are USD-bearish over the next 12 months based on our assessment that the Fed's recent policy shift will keep benchmark bond yields artificially low and that real rates will fall further. Rising twin US deficits will likely require investors to be compensated by a weaker currency. A weaker dollar is supportive of the global economic recovery, making non-USD assets and currencies more attractive. That said, our three-month view anticipates policy uncertainty and range-bound volatility through the US election and, possibly, until the presidential inauguration in January.

Recent developments raise questions for the near-term outlook. President Trump contracted COVID-19 and then shifted his strategy to end fiscal stimulus talks with the Democrats; however, the USD remained within a tight range when a rally might have been expected. We believe Biden's increasing lead in the polls may be driving investors to "look through" short-term uncertainty and focus on a potentially stronger medium-term USD downtrend under a 'clean sweep' outcome. In that case, USD bulls are unlikely to put a "squeeze" on elevated short USD speculative positioning.

This suggests a rising risk that the medium-term dollar decline could reassert sooner rather than later. Thus, we believe long-term investors who are holding unhedged USD assets with a view of (now fading) "US exceptionalism", can leverage the recent corrective USD rally to begin reducing exposure.

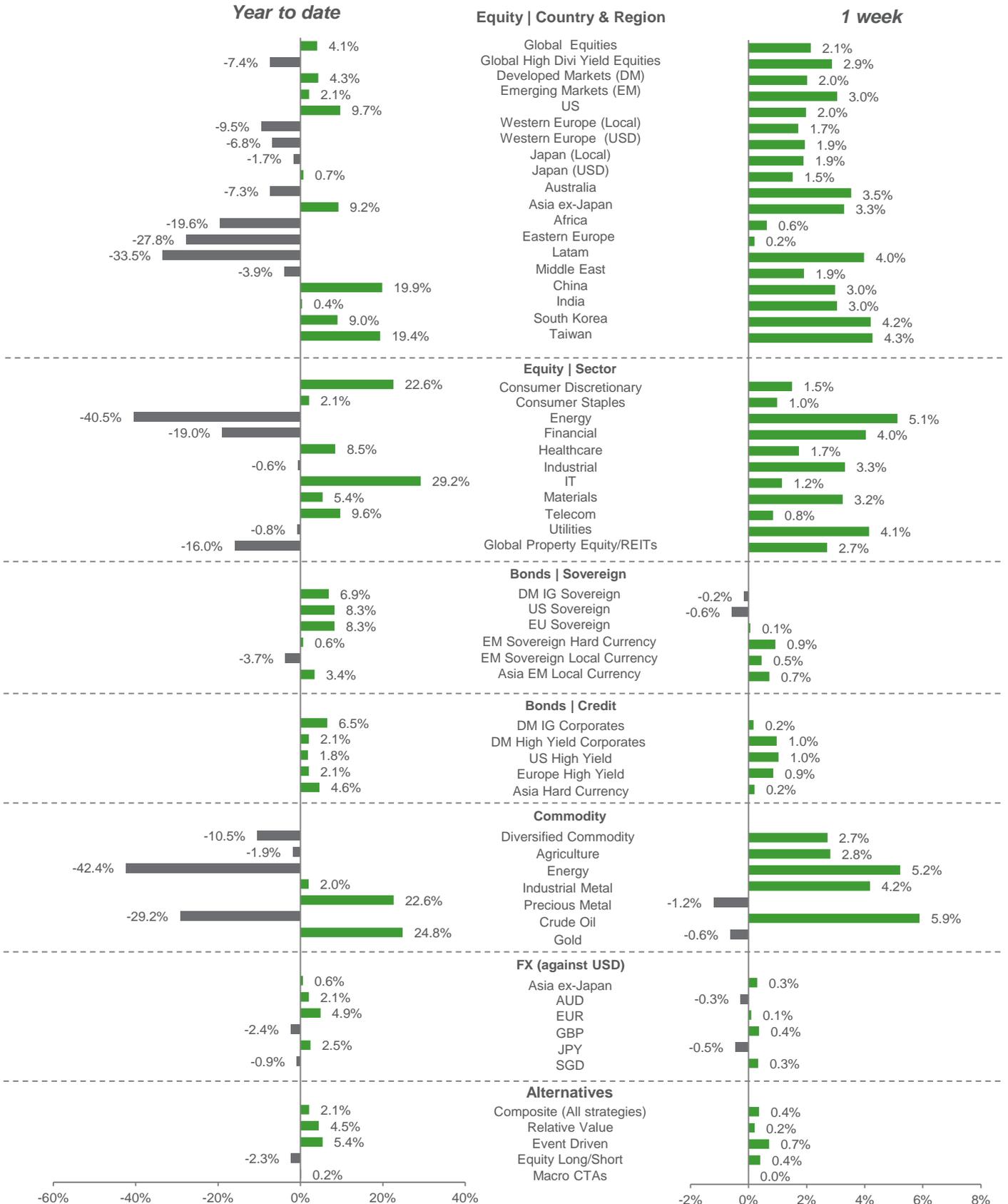
Among USD pairs, we are watching for a break in EUR/USD above key resistance at 1.1925 to guide our short-term outlook. Whilst this resistance remains intact, further bouts of USD strength remain possible, with EUR/USD facing key support around 1.1485.

The USD's corrective rally has been muted thus far. A sustained break above key EUR/USD resistance could indicate the medium-term USD downtrend is reasserting EUR/USD



Source: Bloomberg, Standard Chartered

Market performance summary *



Sources: MSCI, JP Morgan, Barclays Capital, Citigroup, Dow Jones, HFRX, FTSE, Bloomberg, Standard Chartered

*Performance in USD terms unless otherwise stated, 2019 performance from 31 December 2019 to 8 October 2020, 1 week period: 1 October 2020 to 8 October 2020

Our asset class views at a glance

Equities ▲	Bonds (Rates) ▼	Bonds (Credit) ▲	Alternative Strategies ◆	Cash ▼	Gold ▲
Asia ex-Japan ▲	Govt EM local ◆	Asia USD ▲	Equity hedge ◆	USD ▼	
US ▲	Govt DM IG ▼	Govt EM USD ▲	Event-driven ◆	EUR ▲	
Euro area ◆		Corp DM HY ▲	Relative value ◆	GBP ▲	
Japan ◆		Corp DM IG ▼	Global macro ◆	AUD ▲	
Other EM ◆				CNY ▲	
UK ▼				JPY ◆	

Source: Standard Chartered Global Investment Committee

Legend: ▲ Most preferred | ▼ Less preferred | ◆ Core holding

Economic and market calendar

	Event	This Week	Period	Actual	Event	Next Week	Period	Prior
MON	SK	Markit South Korea PMI Mfg	Sep	49.8	JN	PPI y/y	Sep	-0.5%
	EC	Sentix Investor Confidence	Oct	-8.3	JN	Core Machine Orders y/y	Aug	-16.2%
	EC	Retail Sales y/y	Aug	3.7%	IN	CPI y/y	Sep	6.7%
	US	ISM Services Index	Sep	57.8	IN	Industrial Production y/y	Aug	-10.4%
TUE	IN	Markit India PMI Composite	Sep	54.6	EC	ZEW Survey Expectations	Oct	73.9
	GE	Factory Orders WDA y/y	Aug	-2.2%	US	Real Avg Weekly Earnings y/y	Sep	3.8%
	UK	Markit/CIPS UK Construction PMI	Sep	56.8	US	CPI Ex Food and Energy y/y	Sep	1.7%
	US	JOLTS Job Openings	Aug	6493	CH	Exports y/y	Sep	9.5%
WED	GE	Industrial Production WDA y/y	Aug	-9.6%	US	PPI Ex Food and Energy y/y	Sep	0.6%
THUR	JN	BoP Current Account Adjusted	Aug	¥1647.5b	US Presidential Elections Second Debate			
	GE	Exports SA m/m	Aug	2.4%				
FRI/SAT	JN	Household Spending y/y	Aug	-6.9%	US	Retail Sales Ex Auto and Gas	Sep	0.7%
	CH	Caixin China PMI Composite	Sep	54.5	US	Industrial Production m/m	Sep	0.4%
	UK	Industrial Production y/y	Aug	-	US	Capacity Utilization	Sep	71.4%
	IN	RBI Repurchase Rate	9-Oct	-				
	FR	Industrial Production y/y	Aug	-				
	CH	Money Supply M2 y/y	Sep	10.4%				
CH	New Yuan Loans CNY	Sep	1277.5b					

Source: Bloomberg, Standard Chartered; key indicators highlighted in blue; *refers to Jan-Feb 2020 combined data

Previous data are for the preceding period unless otherwise indicated. Data are % change on previous period unless otherwise indicated

P - preliminary data, F - final data, sa - seasonally adjusted, y/y - year-on-year, m/m - month-on-month

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