

Weekly Market View

A divided mandate

The US elections did not result in a 'Blue wave'. A likely Democrat president in the White House and a split Congress have historically been positive for equities. We believe any volatility in the coming days due to legal challenges from the Trump camp would be an opportunity to add risk

Equities: The market reaction after the elections is supportive for our stance across regions and equity sectors. The following pages explain why.

Bonds: US Treasury yields typically rise after the elections as uncertainty fades, although legal contests mean this time could be different, temporarily.

FX: The USD has broadly weakened after the elections but could still see a short-term bounce if uncertainty over the final outcome persists.

Also find out...

What do history and technical charts say about the S&P500 outlook?

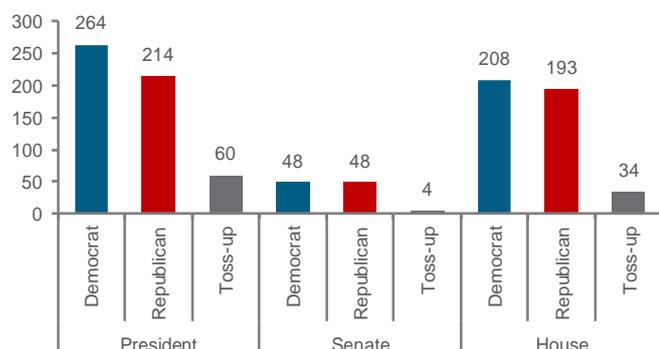
Which assets are likely to benefit from a divided US election outcome?

Is this the start of a meaningful USD decline?

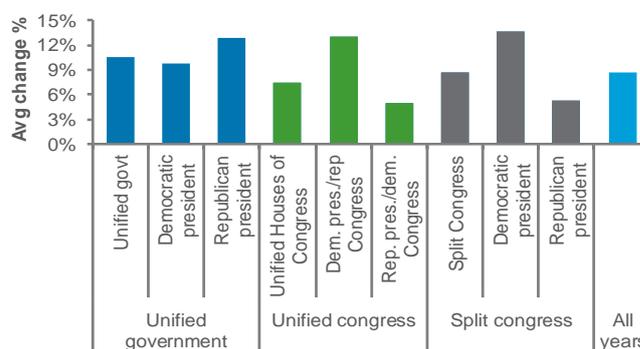
Charts of the week: Markets like a divided mandate

Historical returns suggest investors prefer a Democrat President and a divided Congress in the US elections

Projected* leads of the two parties; electoral college votes/seats



S&P500 average annual returns under various election outcomes



Source: *Associated Press (12:30PM SGT), Standard Chartered; Note: Democrat Senate seat tally includes two Independents who usually support the Democrats

Editorial

A divided mandate

The US elections have delivered a few surprises, arguably leading to the best-case scenario for risk assets. For one, the Democrats have failed to secure the landslide, or 'Blue Wave', that polls were forecasting, despite a record voter turnout. Although Democrat Joe Biden appears increasingly likely to become President, if current projections are right (see map on page 5), the best Democrats are likely to achieve is a tie in the Senate, but only if any runoff elections in Georgia go in their favour.

Such an outcome would mean that the Democrats' ambitious, but market-unfriendly, plans to reverse tax cuts, double minimum wages and tighten regulations across the technology and energy sectors are unlikely to go ahead fully and foreign policy is likely to be more measured. Markets appear comfortable with the turn of events – riskier assets surged, led by non-US stocks, US High Yield and Emerging Market bonds and oil, while the USD fell (see pages 6-8).

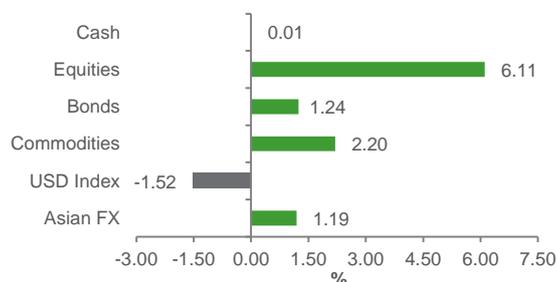
The other consequence of a divided government is that the chances of the Democrats' USD 2-4trn infrastructure spending programme have likely faded (though the two parties may still agree on a limited COVID stimulus). We believe this explains the outperformance of our preferred US Growth sectors, such as healthcare and technology, over Value stocks as investors turn more willing to pay a premium for secular growth narratives in the absence of special government stimulus (see page 4).

The elections are by no means over. As anticipated, Trump has lodged legal challenges to stop counting of postal ballots in some states and has asked for a recount in Wisconsin, where he was projected to lose narrowly. The challenges could potentially delay the outcome for weeks, raising the risk of social unrest and market volatility. The Fed's sustained liquidity support, reiterated this week, should help support markets.

Trump's potential path to the White House is narrower than Biden's as, at the time of writing, he needs to win all the remaining states where results have not been projected, while Biden needs to win only one. As both candidates advocate pro-growth agendas in their own ways, the medium-term outlook is still likely to be constructive for risk assets now that the prospect of a Democrat 'clean sweep' is off the table. Investors were briefly warming up to the 'Blue Wave' narrative in early October, but the market performance this week confirms historical precedents that they like the idea of a president restrained by a divided Congress better.

Equities and other risk assets rose and the USD fell amid expectations of a Biden win and a divided Congress

Benchmark market performance w/w*



Source: Bloomberg; *week of 29 Oct 2020 to 05 Nov 2020

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

Market diversity across key asset classes as of 04 Nov.

Level 1	Diversity	Diversity trend since 05-Oct-20	Fractal dimension
Global Bonds	●	↑	1.77
MSCI ACWI	●	↑	1.70
Gold	○	→	1.47
Equity			
MSCI US	●	↑	1.66
MSCI Europe	●	↑	2.06
MSCI AC AXJ	●	→	1.53
Fixed Income			
DM Corp Bond	●	↑	1.76
DM High Yield	●	↑	1.89
EM USD	●	↑	1.89
EM Local Currency	●	↑	2.21
Asia Hard Currency	●	↑	1.95
Currencies			
USD/CNH	○	→	1.33
EUR/USD	●	↑	1.63
USD/JPY	●	→	1.65
GBP/USD	●	↑	1.75
AUD/USD	●	↑	2.14

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

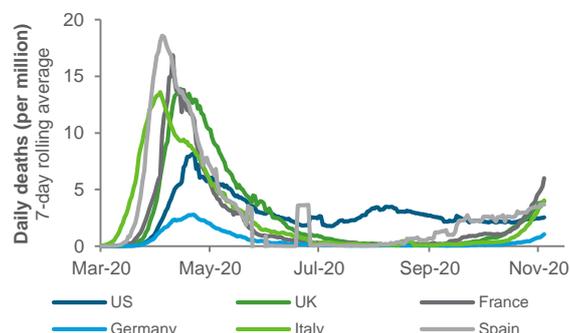
The weekly macro balance sheet

Our weekly net assessment: On balance, data and policy were neutral
(+) factor: Prospect of a divided US Congress; strong business confidence data
(-) factor: Europe's tighter restrictions; lower chances of near-term US stimulus

	Positive for risk assets	Negative for risk assets
COVID-19	<ul style="list-style-type: none"> Daily new cases continued to decline from August/September highs in India and Brazil 	<ul style="list-style-type: none"> Daily new cases continued to rise across Europe, forcing more stringent restrictions in England, Italy and Sweden US daily cases hit new record highs and the death toll rose, raising the chances of tighter restrictions after the elections
	Our assessment: Negative, on balance, amid tighter restrictions across Europe and an acceleration in cases in the US	
Macro data	<ul style="list-style-type: none"> China's private manufacturing and services business confidence rose more than expected US ISM Manufacturing PMI and personal income rose more than expected in October Euro area Manufacturing and Services PMI rose above expectations in October 	<ul style="list-style-type: none"> The ECB cut its 2021 growth forecast to 4.2% from 6.3%; ECB's Guindos said Q4 20 contraction cannot be ruled out US initial jobless claims were above expectations US ISM Services PMI slowed more than expected in October Euro area retail sales fell more than expected
	Our assessment: Positive, on balance, with stronger-than-expected business confidence indicators from the US, Euro area and China	
Policy developments	<ul style="list-style-type: none"> Fed Chair Powell, while leaving monetary policy unchanged, said the economy needed more fiscal and monetary support amid a resurgence in the pandemic BoE announced a larger-than-expected bond-buying plan and the UK extended its job-support programme to March The RBA cut rates to record lows and announced an AUD 100bn bond buying programme 	<ul style="list-style-type: none"> Increased prospects of a divided Congress have reduced the chances of an immediate fiscal stimulus
	Our assessment: Neutral, on balance, as further stimulus from central banks were offset by reduced prospects of an immediate US fiscal stimulus amid expectations of a divided Congress	
Other developments	<ul style="list-style-type: none"> US elections indicate a Biden presidency and a divided Congress, a combination preferred by investors because of reduced risk of higher taxes and more regulation 	<ul style="list-style-type: none"> President Trump's camp launched legal challenges in some states, likely delaying the final election results EU's chief Brexit negotiator said serious differences remained despite efforts China halted Ant Group's record IPO
	Our assessment: Neutral, on balance, with rising prospects of a Biden presidency, offset by uncertainty over legal challenges	

Rising COVID-19 fatalities have forced several European governments to impose partial or total lockdowns

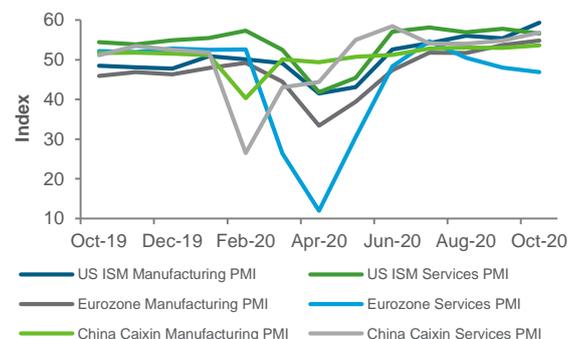
Daily new deaths per million of population in Europe and the US



Source: Our World in Data, Standard Chartered

Euro area services sector business confidence has started to soften as COVID-19 infections force more economic restrictions

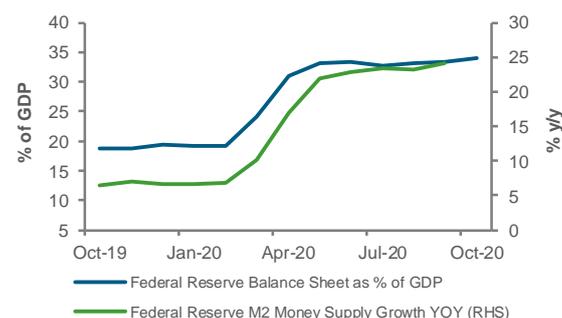
Business confidence indicators (PMI) in the US, Euro area and China



Source: Bloomberg, Standard Chartered

Fed's liquidity boosts through bond purchases have stabilised; the resurgence of COVID-19 could lead to more monetary support if it forces renewed lockdowns

Fed's balance sheet and M2 money supply growth



Source: Bloomberg, Standard Chartered

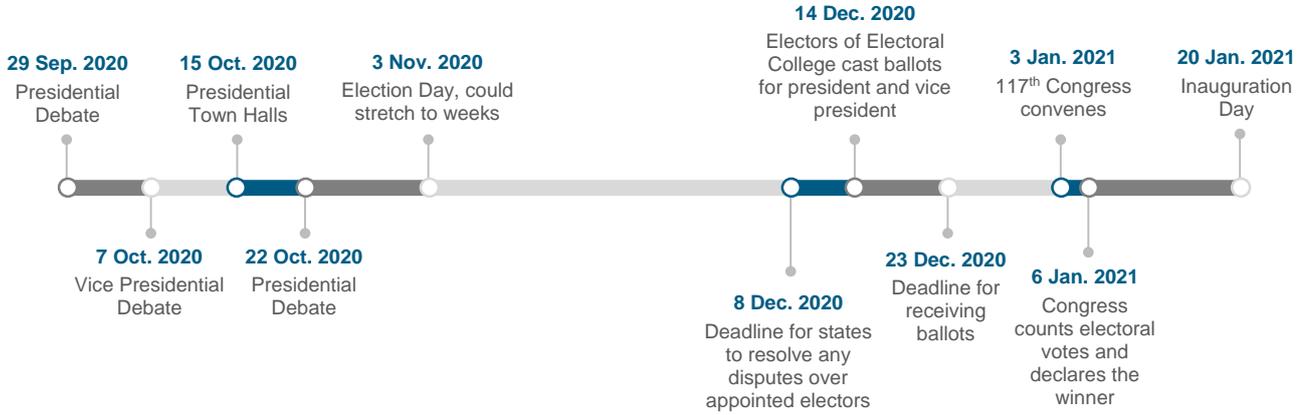
US elections: Policy and asset class implications

	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 a strong Democrat scenario	Struggle to cut personal income tax further; leave minimum wages at USD 7.25/hour or agree to a 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 +14%	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 real estate, consumer discretionary, energy, industrials, materials, financials	
		US utilities, real estate, consumer discretionary	Europe healthcare, technology	
		US technology (in DDR scenario)	US cyclicals	
		Growth style (in DDR scenario)		
	FX and Commodity	EUR, AUD, GBP	EUR, AUD, GBP (3-12m view)	Safe-haven FX (JPY, CHF)
		EM FX	USD (initial reaction)	USD
		Gold (smaller move in DDR scenario)	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		
DM HY corporate bonds (in DDR scenario)				
Likely asset class losers	Equities	Value style (in DDR scenario)	Value style	
		Low volatility style	Asia ex-Japan financials, industrials	
		Energy (in DDD scenario)		
	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: [^] 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

Election timeline and electoral vote share of states

What happens next?



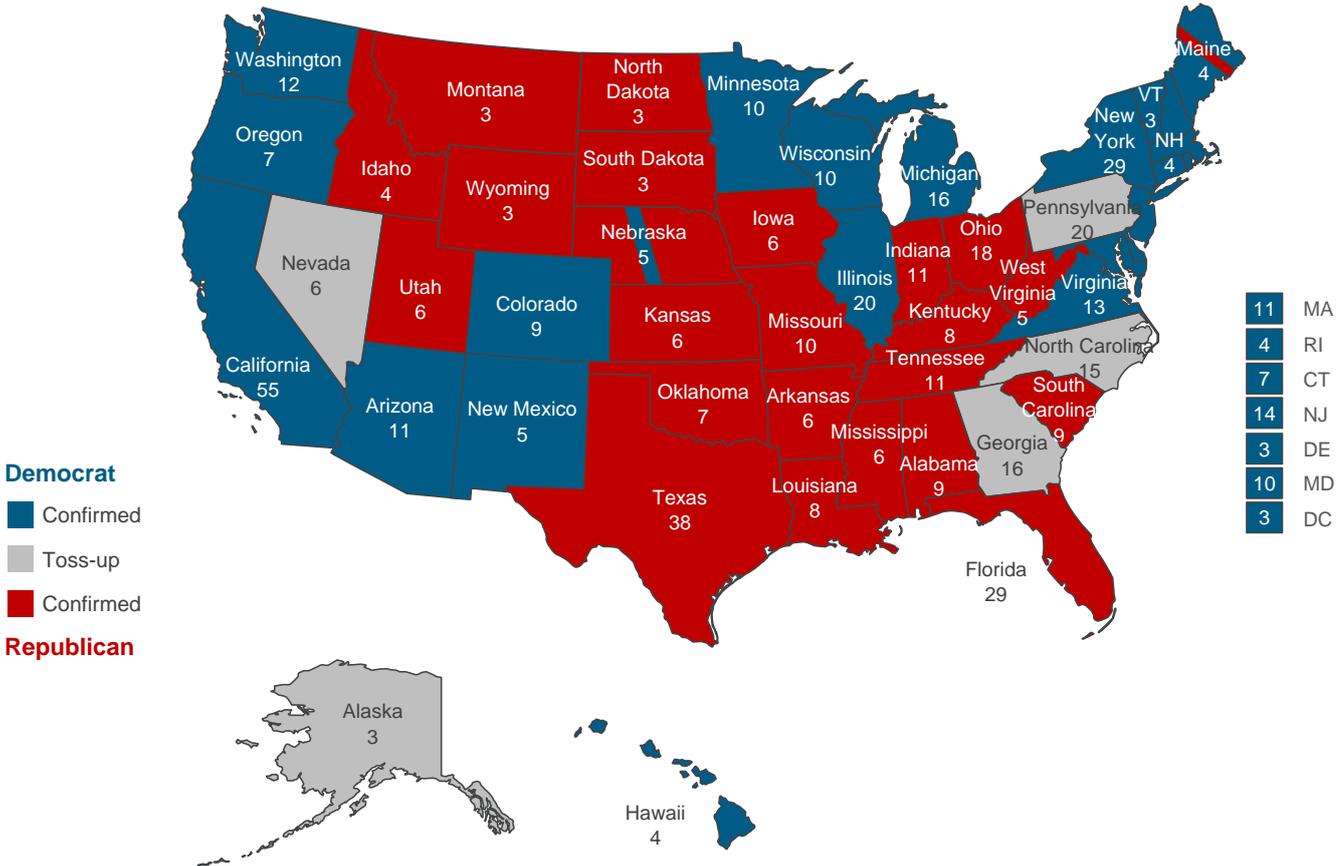
Provisional election results show Democrat challenger Biden needs 6 more electoral college votes to win the election

US map shows electoral college votes by states; Either candidate needs 270 of the 538 electoral college votes to win the presidential election



Joe Biden/Democrats

Donald Trump/Republicans



Source: Associated Press; 270towin.com; Standard Chartered Research as of 12:30PM SGT on 06 November 2020

Top client questions

Q What are the implications of the US elections on the outlook for equities?

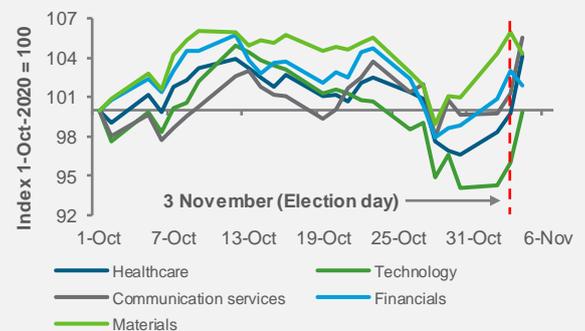
With fading probability of a strong Democrat win, sectors we identified as potential losers in a strong Democrat scenario have surged. As seen in chart, healthcare, which had feared tax rises and onerous drug pricing regulations under a 'Blue Wave', bounced. Likewise, the technology and communication services sectors, which feared heavier regulations under a 'Blue Wave', also rebounded. On the other hand, materials, which would have benefitted from a strong 'Blue Wave' fiscal plan, faded. Financials also turned out weaker, tracking US Treasury bond yields lower.

Historically, the scenario that generated the strongest returns in US equities was a Democrat president and a split Congress, averaging 14% annual returns. This scenario looks more likely now than a week ago, boosting the case for US equities. We also continue to believe that our US sector preferences for healthcare, technology and industrials will outperform on a 6- to 12-month view. Healthcare is rebounding now as noted above, and we believe this strength can continue as COVID-19 will likely sustain a higher level of demand for healthcare services. Bond yields also remain low, which typically favours the sector. Technology's strength would also continue, in our view, as the structural growth in cloud computing and ecommerce remains intact, driving superior earnings growth for the sector. Industrials may not benefit in the near term from a strong fiscal plan under a split Congress, but we believe a fiscal plan will be passed eventually to counter the damage wreaked by COVID-19. This would set industrials up to outperform in 2021.

In terms of investment styles, we continue to prefer Quality and Growth over Value. Consistent with the sector discussion above, Quality and Growth comprises much of the technology sector while Value comprises much of the financials sector. We do not see the conditions in place yet for a sustained outperformance of the Value style. Higher bond yields on optimism of stronger economic growth could deliver bouts of Value outperformance, but a rise in yields would ultimately be capped by the Fed, which remains keen on low rates to support growth. The other drivers we previously identified – lighter regulation (including the removal of buyback restrictions) and a COVID-19 vaccine – remain work in progress.

Healthcare, communications services and technology sectors performed the strongest on the first day of trading after the elections, underlining the relief from the fading prospects of a Democrat 'Blue wave'

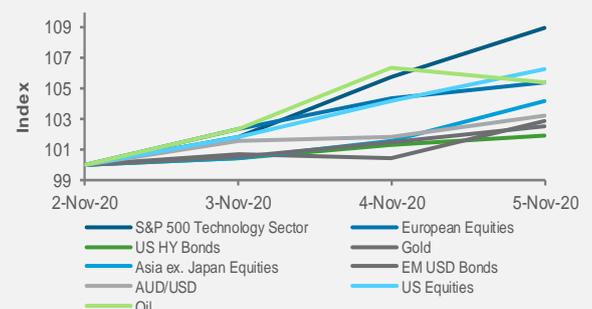
Performance of various S&P500 sectors in recent days



Source: Bloomberg, Standard Chartered

Global stocks, including the US technology sector, US HY and Emerging Market bonds and oil have risen, while the USD fell against pro-risk currencies in the days after the US elections

Performance of various assets since election day (100 = 2 Nov. close of trading)



Source: Bloomberg, Standard Chartered

S&P500 faces resistance 2.3% above the current level

Technical indicators for key markets as on 05 Nov. 2020

Index	Spot	1st support	1st resistance
S&P500	3,510	3,350	3,591
STOXX 50	3,216	3,044	3,301
FTSE 100	5,906	5,687	6,016
Nikkei 225	24,105	23,353	24,481
Shanghai Comp	3,320	3,256	3,352
Hang Seng	25,696	24,637	26,225
MSCI Asia ex-Japan	770	745	783
MSCI EM	1,166	1,124	1,187
Brent (ICE)	40.9	38.5	42.3
Gold	1,945	1,899	1,970
UST 10Y Yield	0.76	0.72	0.85

Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Q What do history and technicals tell us about the likely course of the S&P500 index?

The equity market volatility on the day following the 2020 US election turned out to be muted compared with the 2016, with the result that US equities remain within the well-established range since September. History could serve as a guide in terms of the trend as the calendar year draws to a close.

Since 1970, the S&P500 has shown a tendency to post positive returns in November-December (median return of 2.8%). This trend is also maintained in a US election year, with a median return of 4.1%. The index is up about 4% quarter to date and 4.2% from 3 November (the election day), suggesting that, so far, it has behaved pretty much in line with the historical “script”.

On technical charts, since early September the S&P500 index has been confined within 3,209-3,591. The pattern of consolidation resembles that of June 2020 – as the accompanying chart shows, the index then twice held support at the April high before embarking on the next leg higher. This time around too, the index has twice held support at the June high. Putting these together, both the outside view and price pattern raise the odds of a retest of the September high and an eventual break higher. The subsequent resistance is at 3,635. Immediate support is at 3,350.

Q What is the broader significance of China halting Ant Group’s plans to go public?

As widely reported, Ant Group’s IPO was suspended abruptly on 3 November by regulators in China and Hong Kong ahead of its dual listing originally scheduled on 5 November. Chinese authorities did not comment on the reasons for suspension beyond saying that there had been a “significant change” in the regulatory environment. It was reported in Bloomberg that Ant Group will have to make changes that include capital increases at its micro-lending units. It will also have to reapply for licences for the units to operate nationwide. In addition, there might be a requirement for small online lenders to provide at least 30% risk sharing for any loan they fund jointly with banks.

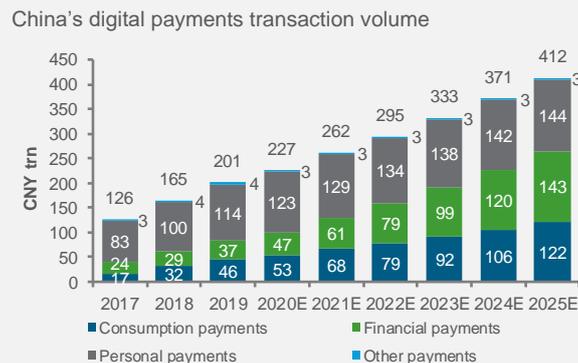
We believe the new regulations on Chinese fintech companies could increase the regulatory risk of online lending platforms and, hence, the risk premium for the fintech sector. A more stringent regulatory requirement that limits liquidity of fintech platforms could hinder the growth of small and medium enterprises (SME) and personal consumption as loan financing becomes harder to obtain. Tighter regulations for online micro-lending companies, however, is positive in the long term, as they help contain potential financial risks and rein in rising debt levels, in our view. The trend for increased regulation on fintech companies is not only a China-specific issue. In October 2020, the Federal District Court in New York reached a ruling that decided the US Office of the Comptroller of the Currency could not grant charters to fintech companies, something it had previously planned to do for non-deposit taking fintech companies. This suggests the sector could be supervised under banking regulations.

The S&P500 index has traded within a range recently; the odds of a retest of the September high has risen after the elections



Source: Bloomberg, Standard Chartered

China’s digital payments are expected to continue rising strongly in the coming years



Source: iResearch analysis, Standard Chartered

Top client questions (cont'd)

Q Are bond yields likely to rise after the elections?

This week, volatility rose in bond markets, with the 10-year US Treasury yield hitting a 5-month high of 0.94%, before falling to 0.75%. Legal challenges by the Trump camp against voting in several states, uncertainty over the likelihood of a reflationary fiscal stimulus and technical resistance were likely behind the Treasury move.

Nevertheless, as we lay out on page 4, our bond market expectations amid possible US election scenarios remain largely unchanged. We maintain our constructive view on DM HY bonds (in a divided Congress scenario) and EM bonds (USD, though local currency may also benefit to some extent under a Biden win), both of which are likely winners in a scenario of a divided Congress, in our assessment. Although higher volatility in the term-term cannot be ruled out, especially if the outcome is temporarily contested, we believe the drivers of credit (corporate and EM bonds) outperformance in the medium term, such as improved fundamental and attractive valuation, remain in place. In addition, the Fed's reiteration at its policy meeting yesterday on continued liquidity support to sustain a US economic recovery, reaffirms our assessment that monetary is likely to stay supportive of credit as well. Thus, any near-term volatility is likely to create an opportunity to average in our preferred bond asset classes.

On the other side, we continue to believe DM government bonds are likely to underperform credit over the next 6-12 months. US Treasury yields could temporarily fall if the election is contested and temporarily triggers risk aversion. However, any such rebound is likely to be temporary as election risks eventually fade and investors refocus on the longer term economic growth outlook.

Q Is this the start of a meaningful USD decline?

The muddied US political waters are not in themselves likely to drive a USD decline. However, there is little to say, thus far, that we should expect much more than a short-term USD bounce largely triggered by elevated short-USD market positioning. Whoever eventually wins the US presidential election will have some implications on how trade and foreign policy is conducted, but within both scenarios, we expect the USD to decline through 2021.

We would, therefore, regard any USD bounce as an opportunity for investors to sell, and we continue to favour the EUR, the AUD, the GBP and gold. We also expect that the Fed will want to remain very accommodative in its monetary policy stance and in the supply of the USD into the global financial system. In our assessment, this will prevent a more significant USD rally and encourage the USD downtrend to continue.

Additionally, history shows the USD tends to weaken in November and December regardless of whether or not it is an election year. Technicals are a good indicator of when the current USD range-trading is likely to turn into a trend. For EUR/USD, a break lower through 1.1600 suggests a test of strong support at 1.1420-1.1480. A deeper decline should see support at around 1.1350. A rally above 1.1880 would be a signal that a challenge of the 1.2010 high and likely a technical resistance around 1.2100 will be seen, with a medium-term target around 1.2500.

Barring a contested election (similar to what we saw in 2000), US Treasury yields typically rise following the election results due to reduced uncertainty

Change in 10y US Treasury yield around past US elections



Source: Bloomberg, Standard Chartered

EUR/USD has strong support around 1.148; the pair will need to break above 1.188 to challenge the 1.210 resistance

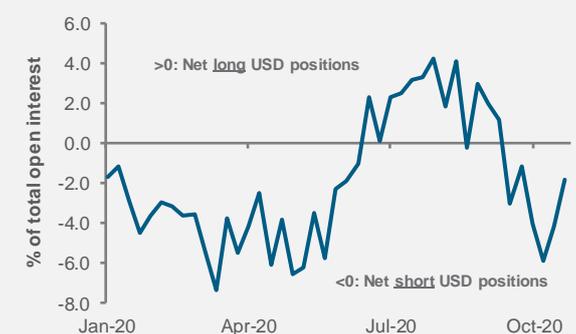
EUR/USD



Source: Bloomberg, Standard Chartered

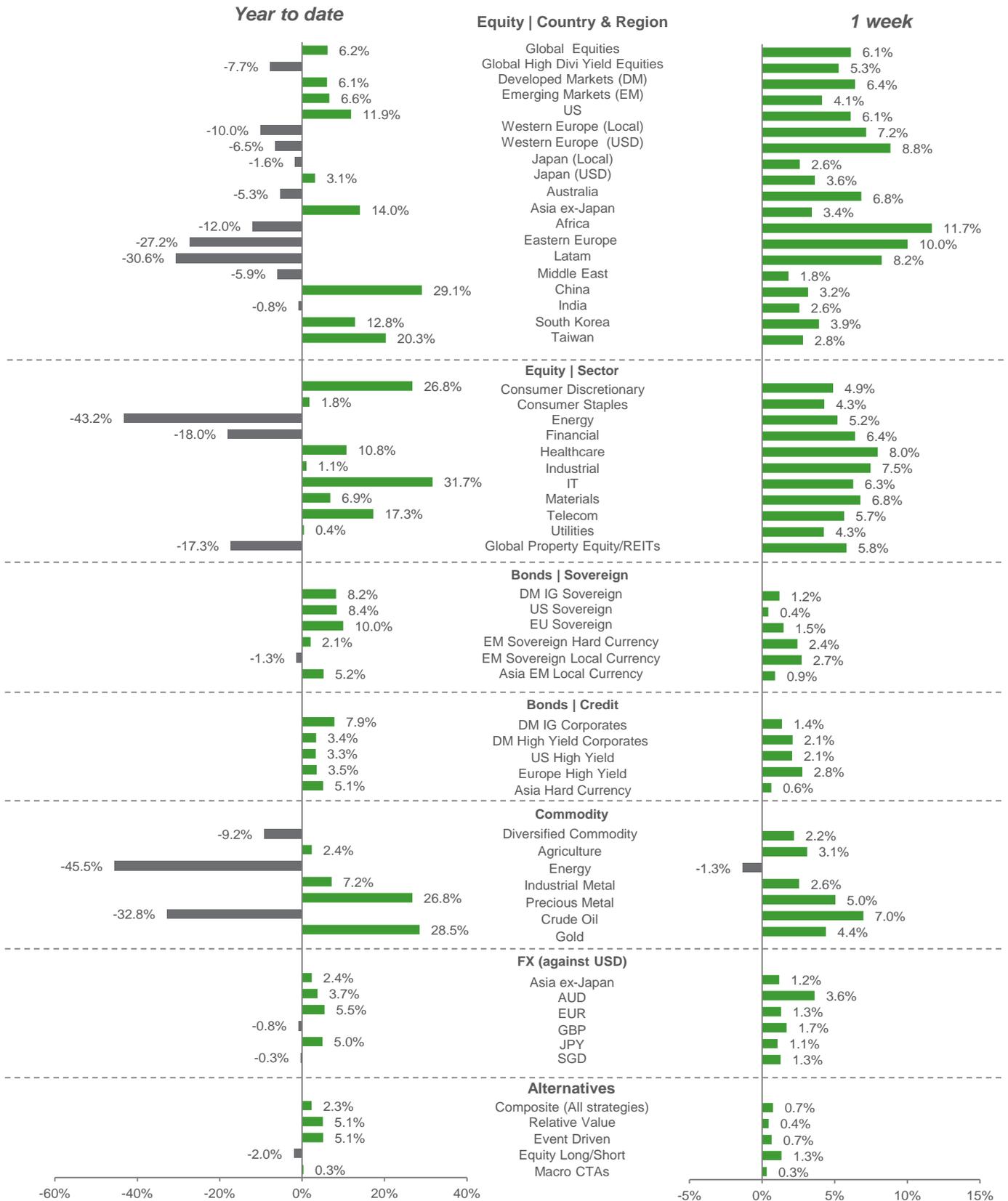
Investors are still short the USD, raising the likelihood of a near-term bounce if uncertainty over the election outcome persists; however, fundamentals suggest the USD is likely to weaken through 2021

CFTC USD index net total futures positioning (% of total open interest)



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 05 November 2020, 1 week period: 29 October 2020 to 05 November 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	US	ISM Manufacturing	Oct	59.3	GE	Current Account Balance	Sep	16.5b
					EC	Sentix Investor Confidence	Nov	-8.3
TUE					FR	Bank of France Ind. Sentiment	Oct	101.0
					JN	BoP Current Account Balance	Sep	¥2102.8b
WED	CH	Caixin China PMI Composite	Oct	55.7	CH	PPI y/y	Oct	-2.1%
	IT	Markit Italy Composite PMI	Oct	49.2	FR	Industrial Production y/y	Sep	-6.2%
	FR	Markit France Composite PMI	Oct F	47.5	IT	Industrial Production y/y	Sep	-0.3%
	GE	Markit/BME Germany Composite PMI	Oct F	55.0				
	EC	Markit Eurozone Composite PMI	Oct F	50.0				
	UK	Markit/CIPS UK Composite PMI	Oct F	52.1				
	EC	PPI m/m	Sep	0.3%				
	US	Markit US Composite PMI	Oct F	56.3				
THUR	JN	Jibun Bank Japan PMI Composite	Oct F	48.0	JN	PPI m/m	Oct	-0.2%
	UK	Bank of England Bank Rate	Nov-05	0.1%	UK	Trade Balance GBP/Mn	Sep	£1364m
	EC	EU Commission Economic Forecasts			UK	GDP q/q	3Q P	-19.8%
					EC	ECB Publishes Economic Bulletin		
FRI/SAT	US	FOMC Rate Decision (Upper Bound)	Nov-05	0.25%	US	CPI m/m	Oct	0.2%
	FR	Current Account Balance	Sep	-	EC	GDP SA q/q	3Q P	12.7%
	IT	Retail Sales m/m	Sep	-				

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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