

Weekly Market View

Preparing for US elections

Markets are warming up to a Biden presidency and Democrat control of the Senate and House. However, polls are still close, especially for the Senate race, and they have been wrong before. This report looks at the various scenarios and assesses the asset class implications under each outcome.

Equities: The best outcome for equities would be a Biden presidency and a divided Congress. In the following pages, we look at the equity markets and sectors that are likely to emerge as winners and losers.

Bonds: A clear Democrat or Republican win is likely to be supportive of riskier bonds. We assess the ones that are best placed to gain.

FX: The safe-havens such as USD, JPY and gold are likely short-term beneficiaries from a contested election. However, the medium-term outlook is likely to be quite different.

Also find out...

Which markets and asset classes are likely to win under a 'Blue Wave'?

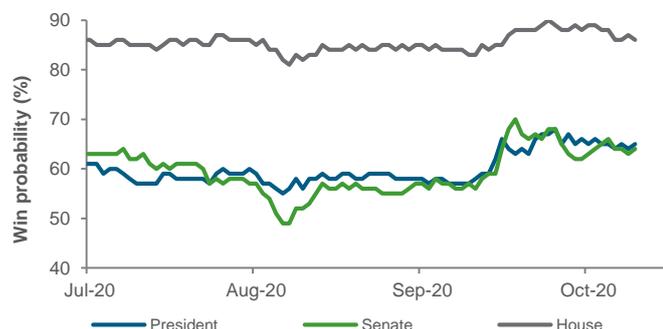
What happens if the elections are contested?

Which 'swing states' are likely to determine the outcome of the elections?

Charts of the week: Democrats maintain a solid lead

Prediction markets and polls continue to indicate a Democrat “clean sweep” and financial markets are starting to factor that in

Probability of Democrat win in Presidential, Senate and House elections



Source: Predictit, Bloomberg, Standard Chartered

Asset performance show higher chance of a Biden win, month-to-date



Editorial

Preparing for the US elections

Markets appear to be warming up to a Joe Biden presidency and Democrat control of the Senate and House of Representatives after the 3 November US elections. This can be seen in the polls and through the renewed decline in the USD, rise in US Treasury yields and outperformance of Emerging Market (EM) vs Developed Market (DM) equities this month. However, polls are still close (see page 6), especially for the Senate race, and they have been wrong before. Hence, we take a post-election scenario-based approach in this report and assess the likely winners and losers under the various scenarios (see pages 4-9).

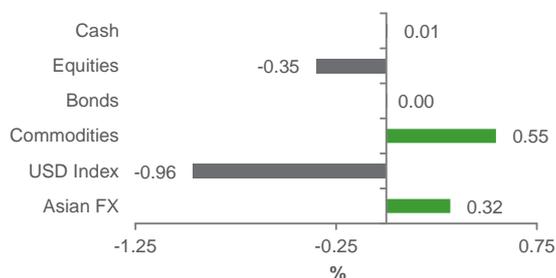
A review of the likely policy outcomes (see page 4) indicates that a Democrat “clean sweep” (Blue Wave) would raise the chances of higher taxes and tighter regulations, especially for the energy, financial and technology sectors. Nevertheless, the Democrats’ ambitious fiscal spending plan, focussed on building “green” infrastructure, should offset those concerns as it is likely to boost the US’ long-term growth potential, which would be positive for cyclical and Value equities (page 7). A Blue Wave would also make it easier for the Democrats to double minimum wages and implement a USD 2-3trn fiscal stimulus package to support jobs, small businesses and hard-hit states and municipalities. This should support consumer discretionary sector equities.

A strong Blue Wave could also put upward pressure on Treasury yields, testing the Fed’s willingness to contain yields (page 8). In that sense, a narrow Democrat Senate majority would be the most positive scenario for risk assets, in our view. A narrow Senate majority would also limit tax hikes, soften Democrats’ regulatory impulses, moderately boost Treasury yields (which is good for financial sector equities), weaken the USD and lift Emerging Market assets and gold (pages 7-9).

A surge in postal ballots in this election raises the risk of a contested election (page 6). An emphatic Democrat win would reduce this risk, in our view. Also, the decision by some of the “swing states” like Florida to announce early outcome trends on election night should allay some concerns. US election rules make it very likely that a decision on the winner is reached by early January. Thus, we would view any rise in volatility in the next few weeks due to contested election concerns as an opportunity to average into relevant asset classes and sectors (page 4).

Commodities extended gains, while the USD fell in the past week as markets factored in a Biden victory

Benchmark market performance w/w*



Source: Bloomberg; *week of 15 Oct 2020 to 22 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 21-Sep-20	Fractal dimension
Level 1			
FTSE World Broad IG Bond ex-MBS Index	●	↑	1.51
MSCI All Country World Index	●	→	1.57
Gold Spot	●	↑	1.70
Equity			
MSCI USA Index	●	→	1.56
MSCI Europe Index	●	↓	1.58
MSCI AC Asia ex-Japan Index	○	→	1.42
Fixed Income			
FTSE DM IG Corporate Bond Index	●	↑	1.70
Bloomberg Barclays Global High Yield Index	●	↑	1.56
JPM EM Global Diversified Bond Index	●	↑	2.29
JPM EM Government Local Currency Bond Index	●	↑	2.21
JPM Asia Credit Index	●	↑	1.64
Currencies			
USD/CNH	○	→	1.27
EUR/USD	○	↑	1.47
USD/JPY	○	→	1.48
GBP/USD	○	→	1.47
AUD/USD	○	↑	2.02

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

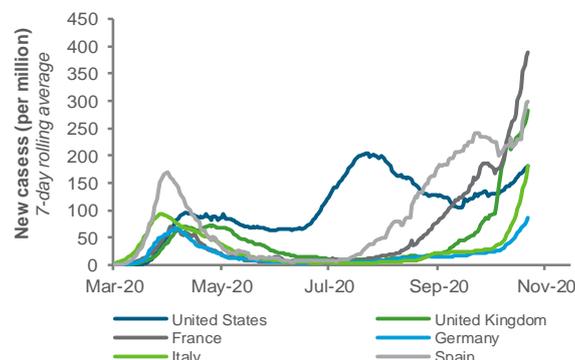
The weekly macro balance sheet

Our weekly net assessment: On balance, data and policy were neutral
(+) factor: Strong US and China retail sales, housing and industrial data
(-) factor: Europe's tighter restrictions; uncertainty over 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 A US official said the final phase trials by AstraZeneca and Johnson & Johnson are likely to resume this week after temporary halts 	<ul style="list-style-type: none"> Daily new cases continued to rise across Europe, forcing key cities such as Paris, Madrid and Manchester to impose tighter restrictions US cases continued to rise, raising the chances of tighter restrictions after the elections
	Our assessment: Neutral, on balance, as tighter restrictions by European cities are offset by renewed hopes of vaccine trials	
Macro data	<ul style="list-style-type: none"> US retail sales, building permits and existing home sales beat expectations in September US initial jobless claims unexpectedly fell last week China's retail sales and industrial production beat estimates in Sept. China said it expects to cut taxes and fees this year by CNY 2.5trn, boosting disposable income German producer price deflation eased in September, recording the smallest y/y drop since March 	<ul style="list-style-type: none"> Euro area consumer confidence fell below expectations in October IMF cut Asia Pacific region's 2020 growth forecast by 0.6ppt to -2.2% amid weaker-than-expected recovery in the region ex-China Japan's exports fell more than expected in September
	Our assessment: Positive, on balance, with stronger-than-expected retail sales in the US and China and US housing data beats	
Policy developments	<ul style="list-style-type: none"> US House Speaker Pelosi reported progress in talks with the Trump administration on agreeing on a stimulus bill "pretty soon" Several Fed policymakers and ECB President Lagarde urged more fiscal stimulus measures to protect their economies from the risk of a sharper slowdown Japan said it was planning another fiscal package this year The UK boosted support for businesses hit by new lockdowns 	<ul style="list-style-type: none"> Narrow window to pass stimulus bill through the current Congress raises concerns that a deal may not be approved before the 3 November elections
	Our assessment: Neutral, on balance, as calls by central bankers for more fiscal stimulus were offset by dimmed expectations of a US fiscal stimulus before the elections	
Other developments	<ul style="list-style-type: none"> UK and EU officials said post-Brexit trade talks will resume after both sides agreed to make compromises to reach a deal in the next few weeks 	<ul style="list-style-type: none"> US-China tensions rose amid further media restrictions The US said Iran and Russia were meddling in the elections
	Our assessment: Positive, on balance, with reduced concerns about a breakdown in Brexit trade talks	

COVID-19 new cases continue to surge across Europe, forcing tighter restrictions on social and business activity; the US is starting to see a third wave

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



Source: Our World in Data, Standard Chartered

US consumption and housing market continue to drive the recovery, though further fiscal stimulus will likely be needed soon to sustain the rebound as the country confronts a third pandemic wave

US retail sales and housing starts



Source: Bloomberg, Standard Chartered

China's consumption growth is catching up with the robust rebound in industrial output as the job market normalises

China retail sales and industrial output



Source: Bloomberg, Standard Chartered

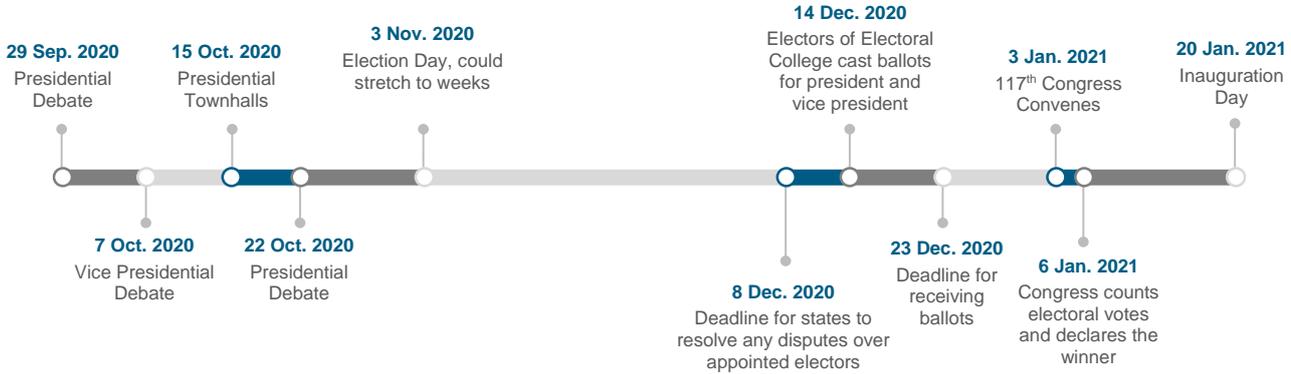
US elections: Policy and asset class implications

	Strong Democrat win [^]	Marginal Democrat win ^{^^}	Status Quo	Contested Election	
President	Joseph Biden	Joseph Biden	Donald Trump	?	
Probability	Biden win odds: 62-69% (RealClearPolitics)	Biden win odds: 62-69% (RealClearPolitics)	Trump win odds: 31-38% (RealClearPolitics)	25% odds of a contested result (Good Judgment project)	
House and Senate	Strong Democrat House & Democrat Senate (D&D*)	D&D* (with narrow Senate majority) or D&R*	D&D* or D&R*	?	
Policy implications	Corporate taxes	Reverse half of Trump's corporate tax cut and impose a minimum 15% corporate tax rate	Democrats to scale back corporate tax hike agenda	No reversal of corporate tax cuts	N/A
	Personal taxes	Wealth tax on high net worth individuals; raise capital gains tax on high earners; double minimum wages to USD 15/hour	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	Improve Obamacare with public insurance option; cut drug prices	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	Another USD 2-3trn in pandemic stimulus; trillions more in green infrastructure spending; ban drilling on Federal land; stricter fossil fuel standards; re-enter Paris climate pact	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	Tighter regulations against banks, energy and tech firms	Fewer regulatory changes; rely more on executive orders	Continued deregulation, anti-trust investigations on large tech	N/A
	Foreign policy	Collaborate with allies to challenge China; re-enter Trans-Pacific Partnership (TPP), etc.	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	Easy passage of most legislations	Delays in Senate legislations as Republicans use filibustering	Delays in House legislations as Democrats oppose bills	N/A
Asset class implications					
#Historical precedents	S&P500 + 10%	S&P500 + 13%	S&P500 +5%		
Likely asset class winners	Equities	Europe, Asia ex-Japan, Japan 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 technology to outperform US technology		
		Asia ex-Japan financials, industrials	Asia ex-Japan consumer staples, consumer discretionary	Asia ex-Japan consumer staples, consumer discretionary	
		US materials, consumer discretionary, industrials, alternative energy	US utilities, real estate	US real estate, consumer discretionary, energy, industrials, materials	
		Europe materials, financials, industrials		Europe healthcare, technology	
		Europe financials, industrials			
		Value style	Value style		
	FX and Commodity	Global cyclicals		US cyclicals	
	Bonds	EUR, AUD, GBP	EUR, AUD, GBP	EUR, AUD, GBP	Safe haven FX (JPY, CHF)
		EM FX	EM FX	EM FX	USD
Gold (larger move)		Gold (smaller move)	Gold (smaller move)	Gold	
EM USD govt bonds		EM USD govt bonds	EM USD govt bonds	US Treasuries	
Asia USD		EM local currency bonds	DM HY corporate bonds	US IG corporate bonds	
Likely asset class losers	Equities	US energy, healthcare, utilities, materials, financials, real estate	US energy	US healthcare, cyclicals	
		US technology sector dependent on regulatory stance	Low volatility style	Value style	
		Asia ex-Japan utilities, energy		Asia ex-Japan financials, industrials	
	FX and Commodity	Europe technology, healthcare			
	USD (larger move)	USD (smaller move)	USD (smaller move)		
	Bonds	US Treasuries	US Treasuries		EM USD govt bonds
		US HY corporate bonds			EM LCY
				DM HY corporate bonds	

Source: Standard Chartered; Note: [^]Strong Democrat win = Biden as President, Democrats win 60 or more seats in Senate and retain their strong majority in the House; ^{^^}Marginal Democrat win = Biden as President, Democrats win 51-60 Senate seats and retain majority of the House; *D = Democrat, R = Republican; #Historical precedents = Average annualised returns in the S&P500 index during presidential terms under similar scenarios following previous elections

Election timeline and electoral vote share of states

What happens next?



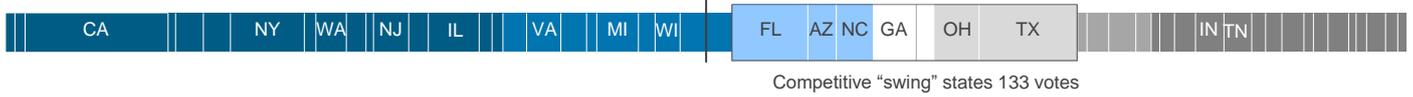
“Swing states” such as Florida, Arizona and North Carolina are expected to vote Democrat, which would seal a Biden presidency

Electoral votes by state, ordered by probability of a win; candidates need to win 270 out of total 538 electoral college votes to become President

Biden

270 to win

Trump



State	Votes	Legend	Party	State	Votes	Legend	Party	State	Votes	Legend	Party
Alaska	3	Very likely	R	Iowa	6	Uncertain	Blank	Arizona (AZ)	11	Likely	D
D.C.	3	Safe	D	Kansas	6	Safe	R	Indiana (IN)	11	Safe	R
Delaware	3	Safe	D	Mississippi	6	Very likely	R	Massachusetts	11	Safe	D
Montana	3	Very likely	R	Nevada	6	Very likely	D	Tennessee (TN)	11	Safe	R
North Dakota	3	Safe	R	Utah	6	Safe	R	Washington (WA)	12	Safe	D
South Dakota	3	Safe	R	Connecticut	7	Safe	D	Virginia (VA)	13	Very likely	D
Vermont	3	Safe	D	Oklahoma	7	Safe	R	New Jersey (NJ)	14	Safe	D
Wyoming	3	Safe	R	Oregon	7	Safe	D	North Carolina (NC)	15	Likely	D
Hawaii	4	Safe	D	Kentucky	8	Safe	R	Georgia (GA)	16	Uncertain	Blank
Idaho	4	Safe	R	Louisiana	8	Safe	R	Michigan (MI)	16	Very likely	D
Maine	4	Safe	D	Alabama	9	Safe	R	Ohio (OH)	18	Likely	R
New Hampshire	4	Very likely	D	Colorado	9	Very likely	D	Illinois (IL)	20	Safe	D
Rhode Island	4	Safe	D	South Carolina	9	Very likely	R	Pennsylvania	20	Very likely	D
Nebraska	5	Safe	R	Maryland	10	Safe	D	Florida (FL)	29	Likely	D
New Mexico	5	Safe	D	Minnesota	10	Very likely	D	New York (NY)	29	Safe	D
West Virginia	5	Safe	R	Missouri	10	Very likely	R	Texas (TX)	38	Likely	R
Arkansas	6	Safe	R	Wisconsin (WI)	10	Very likely	D	California (CA)	55	Safe	D

Source: Standard Chartered

Legend: **Democrat** **Republican**
 Safe (99%) Very likely (85-99) Likely (65-85) Uncertain (50-65) Likely (65-85) Very likely (85-99) Safe (99)

Source: The Economist

Top client questions

Q What is the likelihood of a contested US Presidential election? What would this mean for financial markets?

While betting markets are assigning a fairly high chance to a Biden win, we note the range of uncertainty around the outcome is quite high. At the time of writing, RealClearPolitics shows that the odds of a Biden win range from 62-69% in betting markets and 46-53% in polls. The table alongside also shows Biden's lead in several key states is well within the historical 3-4% margin of error.

A contested election outcome – where the winner of the Presidency is unclear for more than 24 hours after election day – is also a possibility. The Good Judgment project assigns just over a 25% probability that a party campaign does not concede defeat by Thanksgiving. While we view this as a risk scenario, there are several ways this could happen:

- **Postal ballot delays:** This scenario creates the risk of delays as both candidates wait for postal votes to be fully counted before considering whether to concede or contest the election.
- **Allegations of vote fraud:** A candidate could challenge the votes based on vote fraud allegations. This could lead to 1) a legal challenge, similar to the 2000 election or 2) disputes about accepting votes, resulting in the formation of a Congressional Commission to resolve the dispute, similar to the 1876 election.
- **An inconclusive Electoral College vote:** The even number of Electoral College votes means a tied vote is possible, an outcome that has occurred twice in the US' history. In such a scenario, the president would be chosen by the newly elected House of Representatives, albeit with each state being allowed only one vote.
- **A failure to resolve challenges by inauguration day:** Regardless of which scenario unfolds, a failure to clearly elect a president by inauguration day would mean the vice president-elect (who, unlike the president, is selected by the Senate when the Electoral College is tied) acts as president till the election is resolved. Should the vice presidential election also be unresolved, the speaker of the House acts as president till the election is resolved.

For markets, the key focus is likely to be the magnitude of uncertainty involved. While a short delay caused by postal ballot counting is unlikely to elicit a significant market reaction, any of the other contested scenarios could lead to a more significant risk-off market reaction. In our assessment, equities, High Yield (HY) bonds and EM assets would be key losers while Treasuries, gold and the JPY would be key winners. The contested 2000 election resulted in just over 10% weakness in the S&P500 between election day and concession.

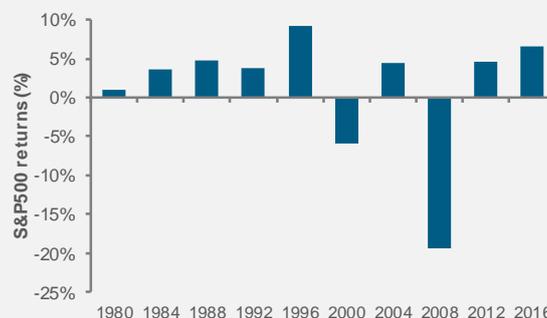
Having said that, all scenarios do result in a president eventually being selected. This suggests that any short-term risk-off move in markets is likely to be limited in length to the period of uncertainty, similar to 2000. Some of this could also occur as soon as next week, if markets begin to price in uncertainty ahead of the fact. For investors, this suggests that rather than considering to reduce long-term risk asset exposure, building holding power (through hedges, for example) may be a better way to prepare for the risk of any period of uncertainty.

Key winners in a contested election	Key losers in a contested election
USD	Equities
Safe havens (gold, JPY, CHF)	DM HY bonds
US Treasuries	EM bonds (USD and local currency)
IG Corporate bonds	

Source: Standard Chartered

US stocks have historically risen most of the time between presidential election and inauguration day

S&P500 index returns between presidential election and inauguration day



Source: Bloomberg, Standard Chartered

Biden is leading in the key battleground states that Trump surprisingly won in 2016, but the table below shows the tight race in many of these 'swing' states

Biden's polling lead over Trump in key states; 2016 Democrat win/loss margin

State	Electoral Votes	2016 D-R Margin	Biden – Trump lead
Arizona	11	-3.8	3.2
Florida	29	-1.2	2.1
Georgia	16	-5.3	1.2
Michigan	16	-0.2	7.8
Minnesota	10	1.7	6.3
North Carolina	15	-3.8	2.3
Ohio	18	-8.5	-0.6
Pennsylvania	20	-0.8	4.9
Texas	38	-9.4	-4.0
Virginia	13	5.7	11.4
Wisconsin	10	-0.8	4.6

Source: RealClearPolitics; Standard Chartered; as of 21 October

S&P500 faces resistance 1% above the current level

Technical indicators for key markets as on 22 Oct. 2020

Index	Spot	1st support	1st resistance
S&P500	3,453	3,426	3,483
STOXX 50	3,171	3,147	3,221
FTSE 100	5,786	5,735	5,878
Nikkei 225	23,474	23,366	23,627
Shanghai Comp	3,313	3,305	3,328
Hang Seng	24,786	24,520	24,919
MSCI Asia ex-Japan	748	743	751
MSCI EM	1,137	1,128	1,142
Brent (ICE)	42.5	41.7	43.2
Gold	1,906	1,895	1,920
UST 10Y Yield	0.86	0.78	0.89

Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Q What should investors focus on in equity markets?

As equity markets approach the US election, there is expectation that the US industrials and consumer discretionary sectors are likely to be winners regardless of who wins the race for the White House. As such, investors may consider increasing exposure to these sectors as the outlook is not dependent on the party affiliation of the US president.

There is considerable focus on the likely performance of equity markets under different presidency and Houses of Congress scenarios. In the post-war period, the best election outcome for US equity markets has been a Democrat president and split Houses of Congress. During such periods, the average annual return for the S&P500 was 14%. Under a Democrat President and unified Republican Congress, the average annual return is 13%. A scenario of a unified Democrat Congress under a Democrat president saw a 10% average annual return.

Outside the US, a Biden presidency and unified Democrat Congress may take a less confrontational (but not dovish) policy towards China, which is viewed as constructive for Asia ex-Japan equities. A Biden presidency is also viewed as positive for the technology sector in Asia ex-Japan as US-China tensions ease somewhat and investors switch focus to the more attractively valued non-US technology sector.

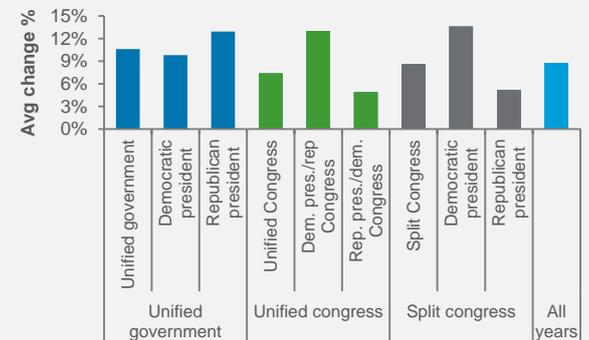
If President Trump is returned to office, sectors focusing on domestic consumption in Asia ex-Japan are likely to outperform.

In Europe, under a Biden presidency and unified Democrat Congress, the region's equities could benefit as trade tensions are likely to ease. Increased US fiscal spending is supportive of the European materials and industrials sectors. Higher US bond yields would benefit European financials. Conversely, the European healthcare sector, which derives 38% of its revenue from the US, would be a potential underperformer.

If President Trump is returned to office, the European technology and healthcare sectors are likely to outperform.

The best outcome for the S&P500 is a Democrat President and a split Congress

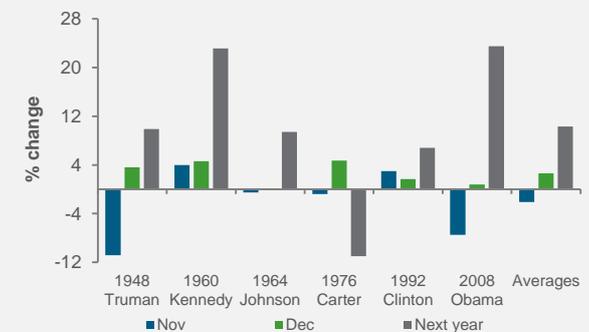
S&P500 returns under different election outcome scenarios



Source: Bloomberg, Standard Chartered

S&P500 performance under a newly elected Democrat President and unified Democrat Houses of Congress tends to be weak in November, stronger thereafter

S&P500 performance when a Democrat President was elected with unified Democrat Houses of Congress



Source: Bloomberg, Standard Chartered

	Strong Democrat win [^]	Marginal Democrat win ^{^^}	Status Quo	Contested Election
President	Joseph Biden	Joseph Biden	Donald Trump	?
House & Senate	Strong Democrat House & Democrat Senate (D&D*)	D&D* (with narrow Senate majority) or D&R*	D&D or D&R	?
Likely asset class winners	Europe, Asia ex-Japan, Japan 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 technology to outperform US technology		
	Asia ex-Japan financials, industrials	Asia ex-Japan consumer staples, consumer discretionary	Asia ex-Japan consumer staples, consumer discretionary	
	US materials, consumer discretionary, industrials, alternative energy	US utilities, real estate	US real estate, consumer discretionary, energy, industrials, materials	
	Europe materials, financials, industrials		Europe healthcare, technology	
	Europe financials, industrials			
Likely asset class losers	Value style	Value style		
	Global cyclicals		US cyclicals	
	US energy, healthcare, utilities, materials, financials, real estate	US energy	US healthcare, cyclicals	
	US technology sector dependent on regulatory stance	Low volatility style	Value style	
	Asia ex-Japan utilities, energy		Asia ex-Japan financials, industrials	
	Europe technology, healthcare			

Source: Standard Chartered; Note: [^]Strong Democrat win = Biden as President, Democrats win 60 or more seats in Senate and retain their strong majority in the House; ^{^^}Marginal Democrat win = Biden as President, Democrats win 51-60 Senate seats and retain majority of the House; *D = Democrat, R = Republican

Top client questions (cont'd)

Q What are the implications of the three core election scenarios for bond investors?

Barring a contested election outcome, a clear Democrat or a clear Republican win would likely be supportive of corporate and EM bonds as either outcome should reduce policy uncertainty and return the focus towards the ongoing economic recovery. However, the implications for various individual bond markets are likely to vary:

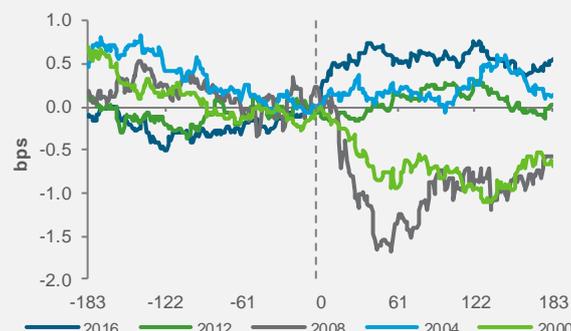
Strong Democrat win (Blue wave): This scenario would potentially result in a material reduction in geopolitical risk, leading Asian USD bonds (which have over 50% exposure to Chinese issuers) and EM USD government bonds to likely be the biggest beneficiaries. However, Biden's plans to promote green energy and impose higher taxes may lead to tighter regulations for shale oil producers and hurt US HY bonds. Large fiscal stimulus would also lead to increased supply of US Treasuries, nudging yields higher unless the Fed acts to cap yields.

Marginal Democrat win: In this scenario, EM USD government and Asian USD bonds are still likely to benefit. However, a weaker mandate would probably reinforce a bearish USD trend, supporting EM local currency bonds. Additionally, Biden may not be able to easily enact strict regulations on shale oil producers, reducing risks for DM HY bonds.

Status quo or Republican Presidential win: Geopolitical risks, especially US-China tensions, are likely to remain elevated if President Trump gets re-elected. In this scenario, EM local currency bonds and Asian USD bonds are likely to remain range-bound. However, reduced uncertainty, cheap valuations and potentially lower effort to move towards green energy are likely to benefit EM USD government bonds and DM HY bonds.

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

Change in 10y US Treasury yield around past US elections



Source: Bloomberg, Standard Chartered

While EM USD and Asian bonds have historically weakened in knee-jerk reaction immediately after an election, they usually recover in a month following the Presidential elections

Average Performance of various bond asset classes 1-week and 1-month after US election results



Source: Bloomberg, Standard Chartered

* Average returns are calculated for 5 election cycle starting in 2000. For EM LCY and Asia USD, data is available from 2008 elections

	Strong Democrat win [^]	Marginal Democrat win ^{^^}	Status Quo	Contested Election
President	Joseph Biden	Joseph Biden	Donald Trump	?
House and Senate	Strong Democrat House & Democrat Senate (D&D*)	D&D* (with narrow Senate majority) or D&R*	D&D* or D&R*	?
Likely asset class winners	EM USD govt bonds	EM LCY	EM USD govt bonds	US Treasuries
	Asia USD	EM USD govt bonds	DM HY corporate bonds	US IG corporate bonds
Likely asset class losers	US Treasuries	US Treasuries		EM USD govt bonds
	US HY corporate bonds			EM LCY
				DM HY corporate bonds

Source: Standard Chartered; Note: [^]Strong Democrat win = Biden as President, Democrats win 60 or more seats in Senate and retain their strong majority in the House; ^{^^}Marginal Democrat win = Biden as President, Democrats win 51-60 Senate seats and retain majority of the House; *D = Democrat, R = Republican

Top client questions (cont'd)

Q What is the outlook for FX and commodity markets under the various post-election scenarios?

We have highlighted previously that Senate control is key to determining the likelihood and efficacy of proposed policies.

Under a scenario of a **Strong Democrat** outcome, a Biden-led presidency will likely have more policy headroom. Over the past few weeks, we have seen a gradual reduction in market participants' fears of a Democrat "clean sweep" as the focus has shifted towards the Democrat's ambitious spending plans, which could offset concerns of growth-negative factors (ie, higher taxes and stricter regulation). Large fiscal stimulus, in turn, should boost domestic growth and help prop up global risk sentiment.

With the Fed committing to keep front-end policy rates flat, the USD will likely weaken in a reflationary scenario against other currencies like the EUR, the AUD and the GBP, as well as EM FX. With a weaker USD, we believe gold can still eke out gains even if real (net of inflation) yields remain move sideways.

Should Democrats fail to achieve a solid majority or win the Senate back, this could leave us with the prospect of a divided Congress. Under a scenario of a **Marginal Democrat** win, if Republicans adopt a strategy of blocking and de-legitimising Democrat-led initiatives, Biden's proposed policies will likely be watered down.

However, Biden is perceived to be more risk-friendly given his track record on multilateralism and predictability. In our view, the USD will have scope to weaken, but potentially by less than in the first scenario.

In **Status Quo** scenario where Trump returns, we would likely see a continuation of the pre-election environment. This means the USD could return to focus on long-term bearish drivers relatively quickly, albeit possibly after a positioning-led bounce.

In this case, the USD would likely take its cue from the pace of the global growth recovery and COVID-19 trajectories/vaccine-related headlines. Currencies like the EUR, the GBP and the AUD, as well as EM FX, will likely benefit amid improving global growth.

We expect Asia USD bonds to be relatively immune from idiosyncratic risks faced by some high yielding property issuers due to tightening leverage requirements

US Fed trade-weighted dollar*, Global industrial production (RHS, inverted)



Source: Bloomberg, Standard Chartered

*Nominal, broad

A contested election would be viewed as a risk-off event which should support the USD and gold in the near-term

Performance of DXY, Gold during the 2000 US election



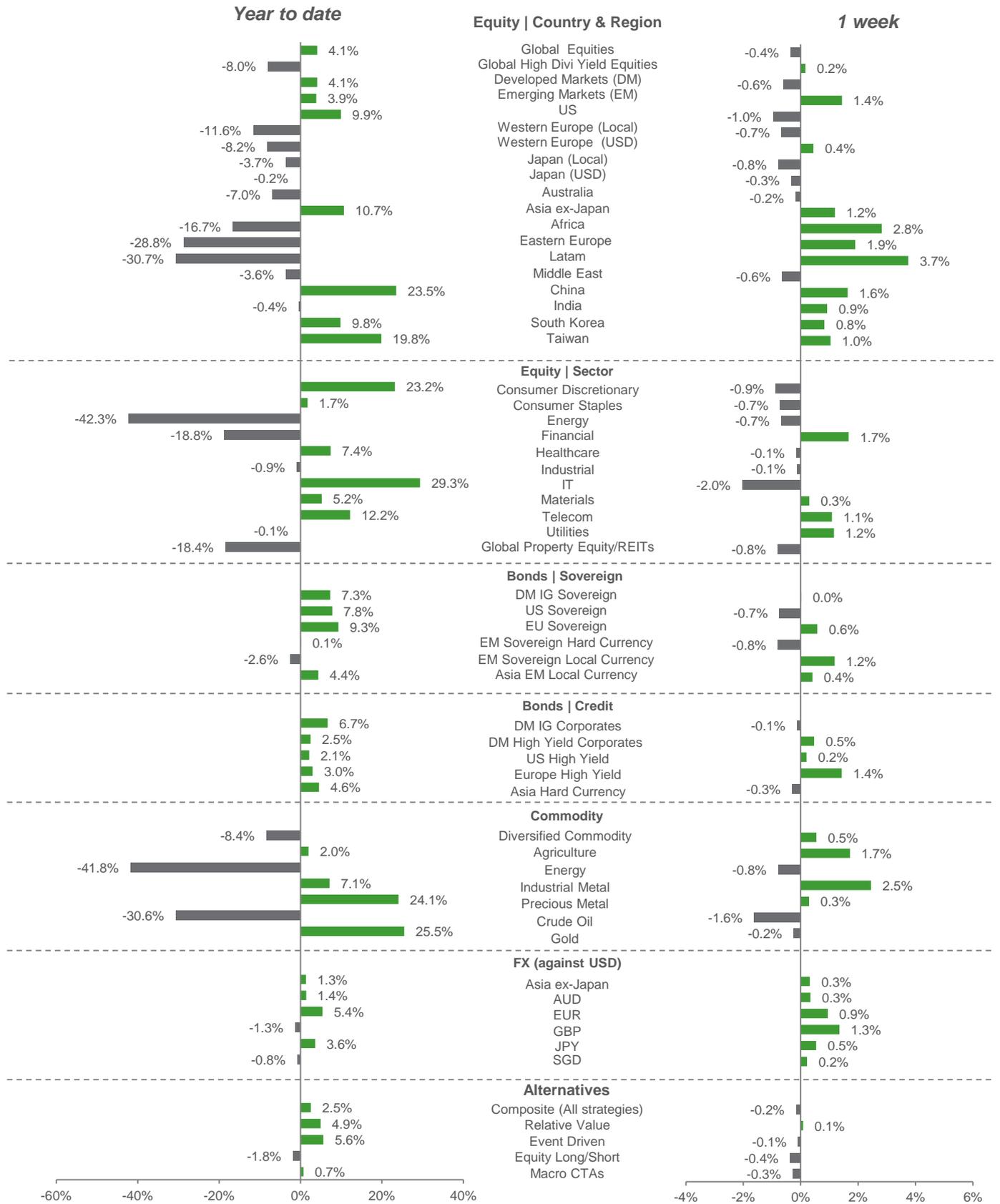
Source: Bloomberg, Standard Chartered

*Dotted lines depict key events

	Strong Democrat win [^]	Marginal Democrat win ^{^^}	Status Quo	Contested Election
President	Joseph Biden	Joseph Biden	Donald Trump	?
House and Senate	Strong Democrat House & Democrat Senate (D&D*)	D&D* (with narrow Senate majority) or D&R*	D&D* or D&R*	?
Likely asset class winners	EUR, AUD, GBP	EUR, AUD, GBP	EUR, AUD, GBP	Safe-haven FX (JPY, CHF)
	EM FX	EM FX	EM FX	USD
Likely asset class losers	Gold (larger move)	Gold (smaller move)	Gold (smaller move)	Gold
	USD (larger move)	USD (smaller move)	USD (smaller move)	

Source: Standard Chartered; Note: [^]Strong Democrat win = Biden as President, Democrats win 60 or more seats in Senate and retain their strong majority in the House; ^{^^}Marginal Democrat win = Biden as President, Democrats win 51-60 Senate seats and retain majority of the House; *D = Democrat, R = Republican

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 22 October 2020, 1 week period: 15 October 2020 to 22 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	JN	Exports y/y	Sep	-4.9%	JN	PPI Services y/y	Sep	1.0%
	CH	GDP y/y	3Q	4.9%	US	New Home Sales	Sep	1011k
	CH	Industrial Production y/y	Sep	6.9%				
	CH	Retail Sales y/y	Sep	3.3%				
	CH	Fixed Assets Ex Rural YTD y/y	Sep	0.8%				
TUE	US	Building Permits	Sep	1553k	CH	Industrial Profits y/y	Sep	19.1%
WED					GE	Retail Sales m/m	Sep	3.1%
					FR	Consumer Confidence	Oct	95.0
					US	Retail Inventories m/m	Sep	0.8%
THUR	EC	Consumer Confidence	Oct A	-15.5	JN	Retail Sales y/y	Sep	-1.9%
	US	Last Presidential debate	22 Oct		JN	Consumer Confidence Index	Oct	32.7
	US	Federal Reserve Releases Beige Book			EC	Economic Confidence	Oct	91.1
	US	Existing Home Sales	Sep	6.54m	US	GDP Annualized q/q	3Q A	-31.4%
					EC	ECB Deposit Facility Rate	Oct-29	-0.5%
FRI/SAT	JN	Jibun Bank Japan PMI Composite	Oct P		JN	BOJ 10-Yr Yield Target	Oct-29	0.0%
	FR	Markit France Composite PMI	Oct P		UK	Lloyds Business Barometer	Oct	-11.0
	GE	Markit/BME Germany Composite PMI	Oct P		FR	GDP y/y	3Q P	-18.9%
	EC	Markit Eurozone Composite PMI	Oct P		EC	CPI Core y/y	Oct P	0.2%
	US	Markit US Composite PMI	Oct P		US	Real Personal Spending	Sep	0.7%

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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