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CITYWIRE SWITZERLAND TOP 50 INDEPENDENT ASSET MANAGERS 2020

Pulse Rate – Tuesday, 10 November 2020

Tight U.S. Elections and No Blue Wave

The United States has voted and decided on a new president and thus a fundamental change of direction and style in politics. The presidential race was surprisingly close and, as feared, dragged on for a long time due to the time-consuming counting of the many votes in the letter. When finally, on November 7th the leading American media houses proclaimed Biden's victory in Pennsylvania, it was clear that Joseph Biden would become the 46th President of the United States. In addition to a solid majority in Electoral College (probably 306 of 538 electors), Biden also clearly won the popular vote with over 80 million votes. Trump received about 76 million votes, more than any Republican candidate before him.

According to the current count, the **Republicans have 50 seats** in the **Senate**, while the **Democrats**, including the two independent senators voting with them, **hold 48 seats**. The remaining two Senate seats will be awarded in a second round of voting in Georgia on January 5, 2021.

However, Trump's election campaign team filed in several Federal states lawsuits against the voting procedure and hence, suspected fraud. Trump has also announced to request a recount in some states. In contrast to a count stop, its right is within the bounds of what is legal. In Wisconsin, for example, a recount is possible with a vote difference of less than one percentage point in a close election. However, so far there are no concrete indications of extensive irregularities. With the current clear election results, Trump's **chances of success are extremely slim** that he will be able to influence the election decisively through legal actions. The Supreme Court will in turn intervene only based on a legal dispute that would really make a difference to the entire presidential election. Even if President Trump's action will not be crowned with success in the end, it might cause trouble for weeks after all. The uncertainty will probably not be over until all the votes have been counted. The **deadline** for this is **December 8, when the electors must be appointed at the latest**.

The base scenario is most likely that Republicans will control the Senate with a one or two-vote majority, and we believe this is what markets are pricing in today. If the Democrats were to win both Georgia seats, the result will almost certainly be a fifty-fifty split in the Senate. While the vice president has the authority to cast the tie-breaking vote in situations when that arises, it is unlikely that the Democrats would try to pass significant legislation in such a manner. Doing so would be politically unpopular and would risk costing the Democrats House and Senate seats in the 2022 midterm elections. Consequently, analysts think the markets will continue to price for a divided government, with an upside scenario of potentially more fiscal spending if the Senate outcome is split control.

Biden's next political direction

Significant differences are to be expected under President Biden, particularly in **fiscal policy**, the **handling of the corona pandemic**, **environmental protection**, and the **foreign policy stance** of the United States. Since the Democrats are unlikely to succeed in winning a majority in the Senate, even in the Georgia by-election in early January, many of the political goals of the new democratic administration are likely to be significantly watered down, if not stopped, in the small chamber at the latest. Far-reaching structural changes will therefore be difficult in the next two years.

For the financial markets, the absence of a blue wave in the US elections is certainly positive news. The shared power relations prevent a Party and require compromise in economic policy as well as in other key policy areas, which is not necessarily a bad thing, as history has shown.

Tactical Asset Allocation

Liquidity	Neutral
Bonds	Neutral
Equities	Neutral
Alternative Investments	Neutral

In general, the unchanged Republican Senate should be able to soothe the losers somewhat, which can be an advantage that should not be underestimated in the currently highly polarized environment. The lower level of the expected fiscal stimulus will have an immediate impact. Thus, it appears that some uncertainties remain not only on the political side but on the development of the Covid-19 as well. At least from the U.S. political perspective we should have a clearer view by Mid-December but **remain neutral in Equities** until then.

In the medium term, however, monetary policy is more important than White House policy. As is well known, the FED promises not to raise key interest rates until at least the end of 2023. In order to overcome the pandemic shock, it is likely to keep real interest rates in negative territory for some time to come, which continues to argue in favour of a good stock market performance.

With the current balance of power in Washington, it may even be possible to maintain loose monetary policy for longer than if the Democrats were to win a comprehensive victory. Finally, the split power relations in Congress will set limits to the reflationary policies of a Biden government.

What does it mean for Investors?

If the majority in Congress turns out as we expect, the attractiveness of the US market should increase again compared to the other regions. With a split Congress, a smaller fiscal package than originally hoped for can be expected on the one hand but reduces the risk of tax increase on the other. Hence, we expect US companies to maintain their lead over other regions in terms of profit growth and return on equity.

Which sectors do we prefer?

Overall, we remain constructive on US equities and believe the recovery from the pandemic will continue to be the dominant market driver for months to come – beside the timing of the next fiscal stimulus.

Consumer staples & - discretionary: The consumer will still benefit from fiscal stimulus, albeit a smaller package than in a Blue Wave scenario. Lower interest rates should help housing and home improvement stocks. Less threat of higher corporate taxes is also a positive for US-names. Affluent consumers should benefit from much lower likelihood tax increases. Overall, the outcome likely leans positive for the consumer.

IT and communication: The situation for technology has brightened up again. Large companies feared that one-sided power relations could have led to more regulation. These regulatory interventions have become less likely as a result of the split Congress we expect. Consequently, the profits of technology companies should continue to outperform, and their share prices should resume the trend of relative strength.

Healthcare: A Biden presidency with a split Congress is the best near-term outcome for healthcare, in our view. More aggressive Democratic policies on drug pricing and a public option for health insurance are unlikely to pass a GOP Senate. Moderate drug pricing legislation remains possible and would enhance clarity, but the probability of a bipartisan compromise on any health policy legislation low in our view.

Renewables: These stocks have been huge standout performers in the run up to the election and were clearly discounting a Blue Wave scenario and more aggressive tilt to green policies. With this outcome off the table, stocks will continue to correct to more reasonable valuations. However, it is important to keep in mind that improving economics are driving much of the transition to renewables, and this trend will support the stocks over medium and long term.

What's in for the USD?

The positive mood on the financial markets manifested the FX markets as well. Here, there has been a broad-based weakening of the USD over the last few days, while procyclical currencies in particular have gained ground. The markets have responded positively to the fact that with Biden as president in future with less geopolitical interference is to be calculated.

However, after the presumably divided Congress under Biden as President, to reckon with less lavish fiscal stimulus than was the case in the scenario of a clear democratic victory would be. This means that the FED will adopt a wait-and-see stance for the time being and thus represent a less severe burden on the Greenback in the short term.

The focus on the FX market is now likely to shift more strongly towards the course of the pandemic and global economic development, although the thrust of our medium-term USD scenario remains unchanged even after the election results. Despite the loss of the interest rate advantage, the USD is still highly valued. At the latest when the FED increases the pace of bond purchases again and the recovery of the global economy continues, the trend towards a fairer USD valuation will continue.

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