



VIEW FROM THE SQUARE

October 2020

US Elections and Markets: Vaccine Boost

The US election took place last week and the outcome was a clear victory for Joe Biden. President-elect Biden flipped the key states of Michigan, Wisconsin and Pennsylvania, giving him more than the 270 electoral votes needed to win the White House. Additionally, while it may take time to roll out, the recent positive US vaccine trial news looks to be very promising, with Pfizer finding a 90% efficacy rate in its latest trial.

The added complication, if the Democrats fail to take control of the Senate, has significant implications for US government policy going forward. Two Senate seats in Georgia are headed for a January run off election, giving Democrats a narrow path to winning both and yielding a 50-50 Senate, with the vice president as the tie breaker. A divided government (with Republicans retaining their control of the Senate) could see greater regulation for many sectors (such as the big technology companies), but big-ticket legislative action (including large-scale fiscal stimulus and public investment, tax, healthcare and climate related legislation), would likely face significant hurdles.

Some additional fiscal relief in the near term looks possible, but we see the size and scope of fiscal stimulus and public investment as more modest than a united Democratic government (i.e. control of both the House and the Senate) would likely deliver. Fiscal stimulus will be present in some shape or form however to aid the recovery from the Coronavirus pandemic, so we still expect government yields to slowly move up over the next few years, along with inflation expectations.

A Biden win likely signifies a return to more predictable trade and foreign policy. We believe emerging market assets should perform well on improved trade sentiment, especially in Asia. While we don't believe this to be the end of the US-China rivalry, we do expect a softer tone to be used by the US government going forward, which will likely benefit these markets. In addition, many Asian countries have managed to contain the virus and are ahead in the economic restart.

As long-term investors, we shall take time to consider the Biden presidency and shape our portfolios to reflect the evolving world. This is likely to mean a blend of those progressive, innovative businesses that are part of the new world, balanced with this companies that will restructure, evolve and continue to be good businesses, but where the market has already thrown in the towel.



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