

Sarasin Six Minute Strategy

What are the markets telling us about the US Election?

6 November 2020



No blue wave, no blue sweep, at best a blue ripple



Biden on route to White House...

President >

253

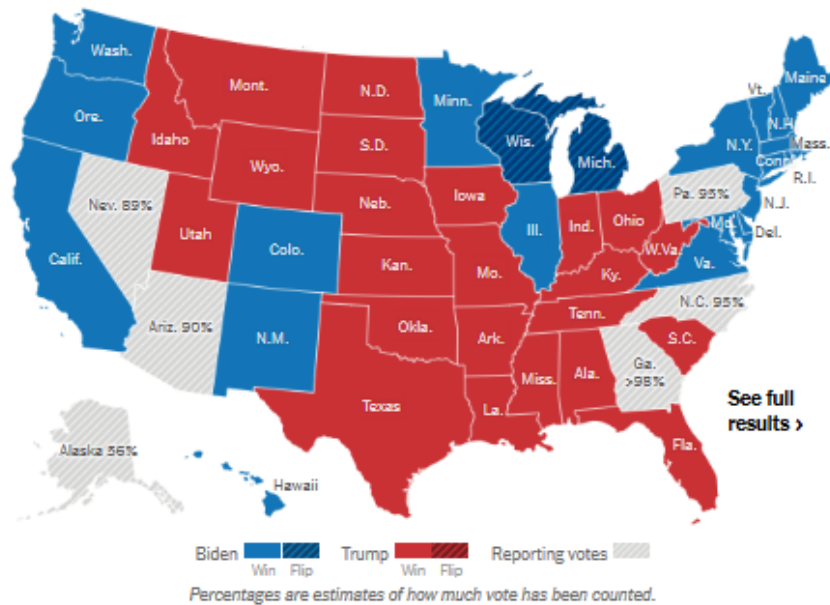
Joseph R. Biden Jr.
73,736,051 votes (50.5%)

270
TO WIN

214

Donald J. Trump
69,655,186 votes (47.7%)

President Senate House Photos



Source: Vote totals from N.E.P./Edison Research

Source: NY Times 5/11/2020

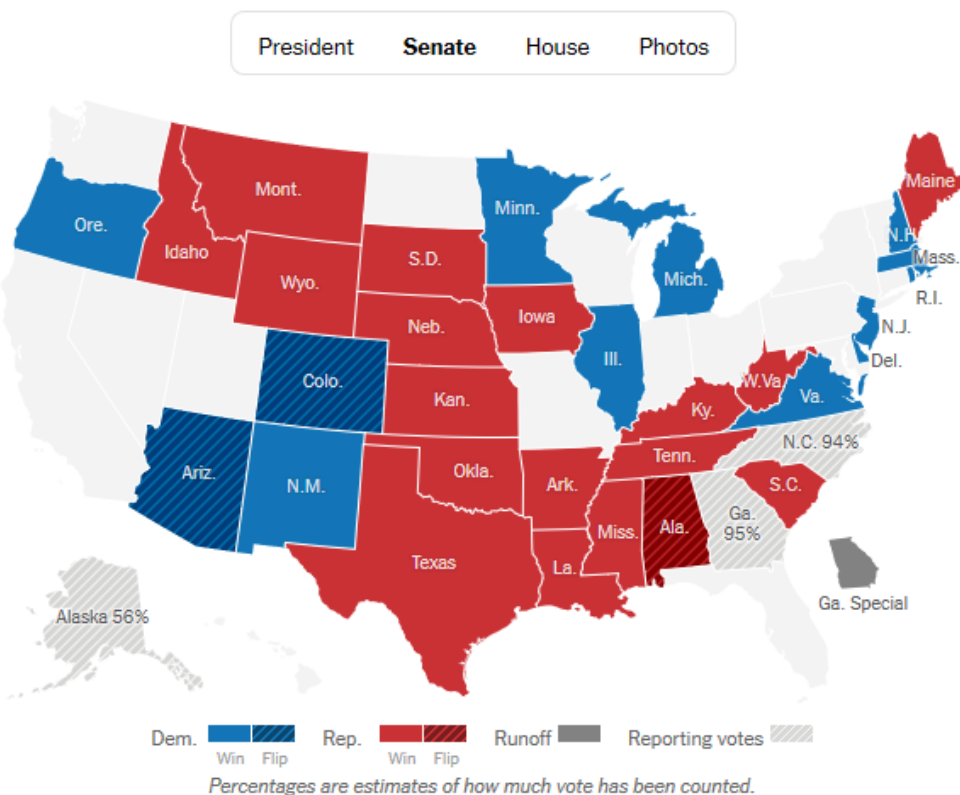
- If Trump accepts a Biden win - we end up with a centrist Democratic President hamstrung by a marginally red Senate
- So, less fiscal activism and the focus will immediately shift to 2022 Senate races - legislative checkmate till then
- The big if is a peaceful transition
- Pollsters and pundits have been disastrous
- Polls used 2010 census data
- Polls skewed to democrats/Polls still use landlines
- Trump gained surprising support from minorities
- Pollsters did predict 'Blue Shift'

Senate will remain Republican

Mitch McConnell will keep a blocking vote to undermine any meaningful shift in policy



Senate: Democrats 48, Republicans 48



Source: Vote totals from N.E.P./Edison Research

Source: NYT 5.11.2020

Democrats lost by a large margin, despite big spending

A likely **Republican senate** (Georgia has 2 Senate races in run-off) will hamper Democrat progressive agenda on:

- Stimulus
- Taxes
- Healthcare
- Regulation of big Tech
- Appointments
- Senate Majority Mitch McConnell (R) holds seat - under his leadership very effective at blocking policy
- Political gridlock being seen as good for risk assets (current equity gains largest ever on election day)

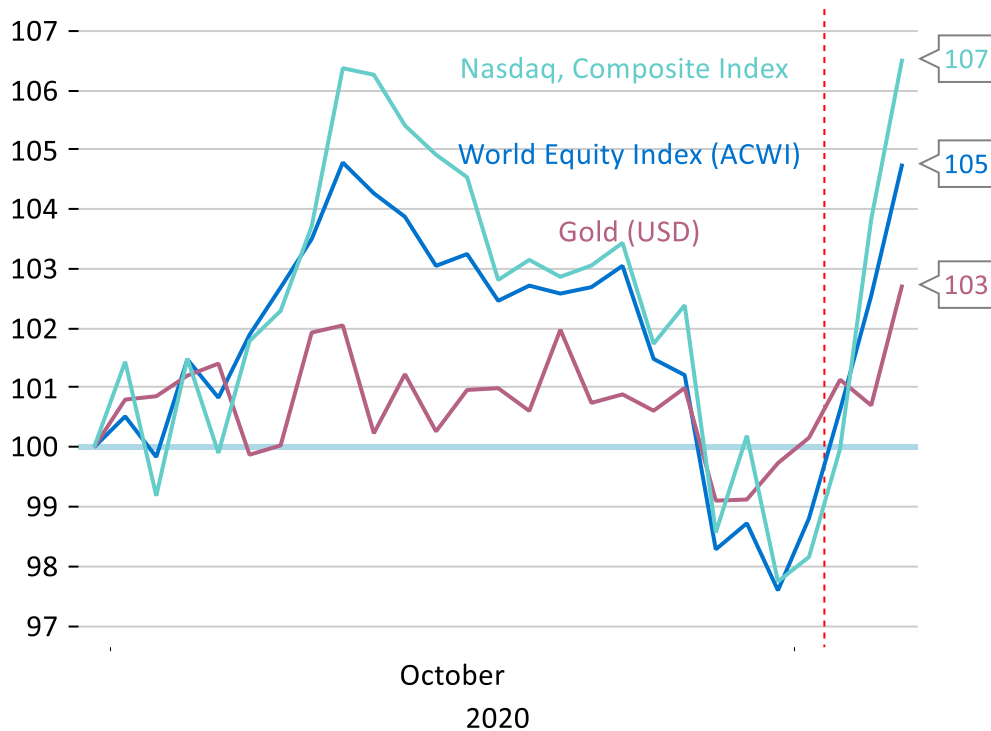
Markets & the US Election

So are we now being complacent?



Global markets rally sharply led by Nasdaq

Global Asset Class Returns Q4 2020
(30/09/2020=100)



Source: Macrobond, 06.11.20



Equity volatility falls

US Equity Volatility Index (VIX)



Source: Macrobond, 06.11.20

Inflation expectations fall on divided Government

Bonds rally

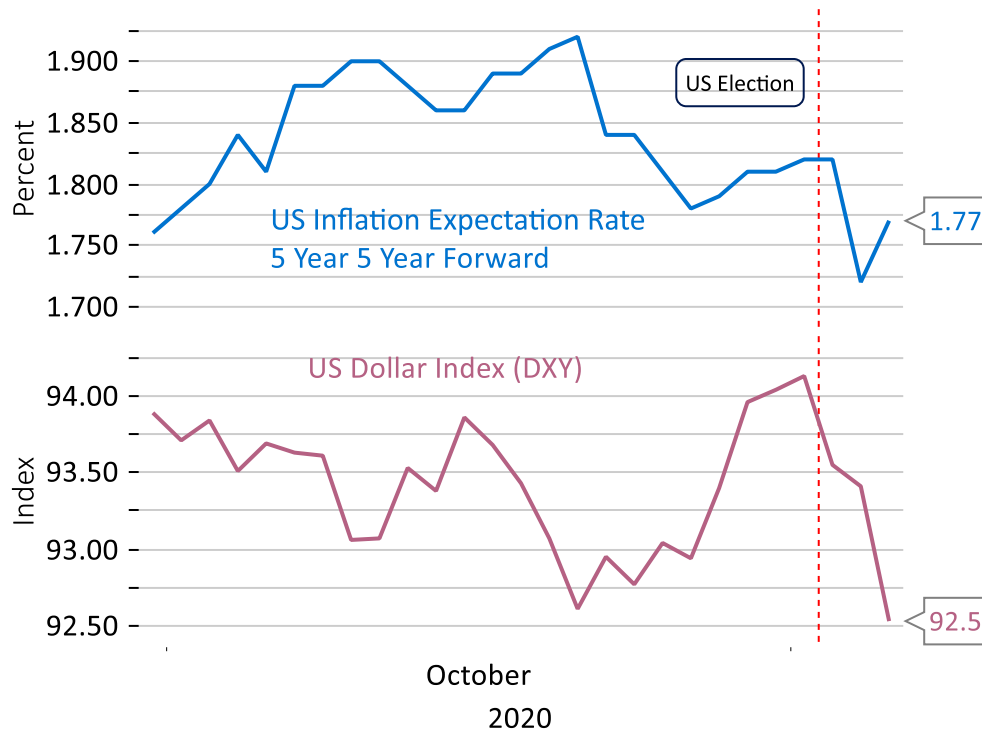


US inflation expectation falter – dollar at 2 year low



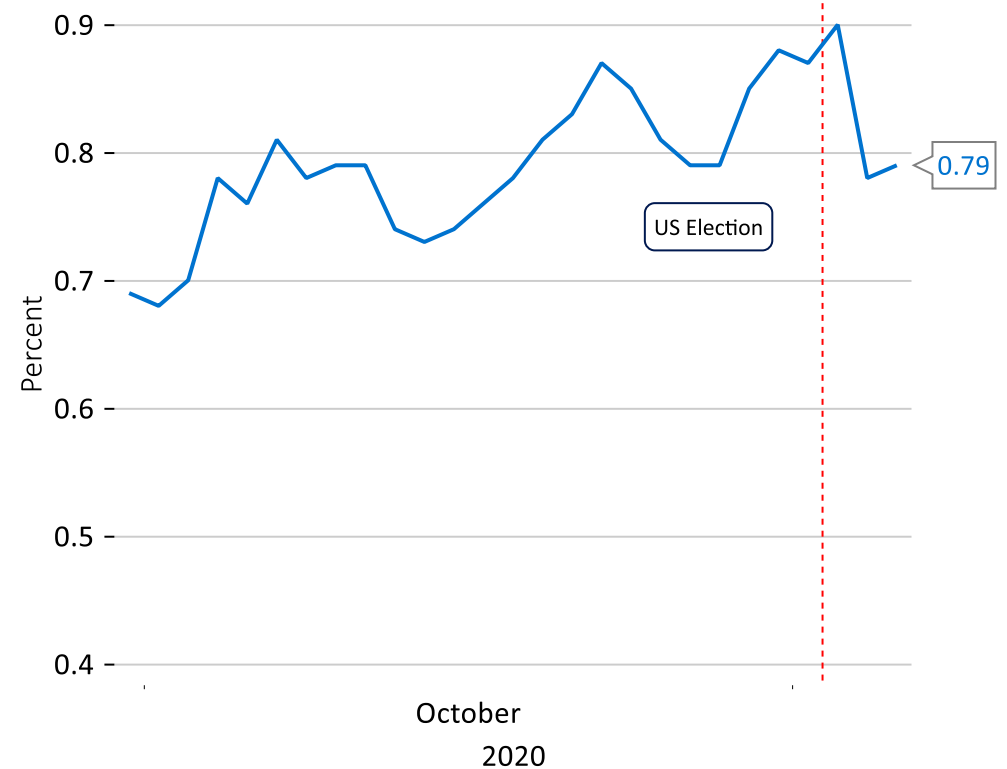
US equity valuations inflated by low bond yields

US Inflation Expectations and the Dollar
Q4 2020



Source: Macrobond, 06.11.20

US 10 Year Bond Yield



Source: Macrobond, 06.11.20

What happens next?



- **Vote recounts** (can request in pretty much every swing state)
- **Legal challenges** across Pennsylvania, Georgia, Arizona and Nevada
 - Trump supporters are protesting *against* the continuation of vote counting in Pennsylvania and *for* the continuation of vote counting in Arizona's Maricopa district
- **Biden secures a narrow victory *but*:**
 - Mitch McConnell will keep his caucus unified and oppose much of Biden's "Build Back Better" agenda.
 - Presidency of two halves.
 - First two years: more status quo on the domestic policy front with constructive engagement internationally.
 - Focus will turn to virus management – providing a more coherent health strategy
 - Focus will turn to 2022 Senate election, to secure a platform for a bolder plan
 - Democrats lost the argument on a number of domestic issues: the US is more conservative, more right of centre than the Party. Trump's support from minorities increased. Lack of gain in Texas was ominous
 - State Legislatures have turned even more red in a vital year as districts will be redrawn after 2020 census. This will make it even more challenging for Democrats to win despite extremely favourable demographics

US Electoral College

Timeline of events



- **November 3, 2020** - Election Day. The States use the general election results (also known as the popular vote) to appoint their electors
- **By December 8, 2020** - States resolve controversies. States must make final decisions in any controversies over the appointment of their electors
- **December 14, 2020** - electors vote in their States
- **January 6, 2021** - Congress counts the electoral votes
 - Congress meets in joint session to count the electoral votes. The Vice President, as President of the Senate, presides over the count
 - If no Presidential candidate wins at least 270 electoral votes (a majority of the 538 available votes), under the 12th Amendment to the Constitution the House of Representatives decides the Presidential election
 - The vote would be taken by State, with each State having one vote
 - If no Vice Presidential candidate wins at least 270 electoral votes, under the 12th Amendment the Senate elects the Vice President
- **January 20, 2021 at Noon** - Inauguration Day. The President-elect and Vice President-elect take the Oath of Office

Source: US National Archives, November 2020

Political risks clear but central bank action still supports equities

Fiscal and monetary policy the most expansionary in post-war history



Global strategy update October 2020

Bonds	Neutral <ul style="list-style-type: none">• UW Government– repression of yields offers little value• OW investment grade credit – yield premium still meaningful plus central bank support• Caution High Yield and EM debt
Equities	Modest Overweight <ul style="list-style-type: none">• OW Global equities – equity risk premium attractive, thematic earnings recovery expected 2021• Neutral UK equities – valuations attractive, flow of funds back to UK likely on any Brexit deal• Neutral EM equities – China economic recovery strong, COVID scarring in rest of EM but valuations attractive
Alternatives	Overweight <ul style="list-style-type: none">• Neutral Other Alternatives– infrastructure and renewables returns attractive but liquidity issues remain• OW Uncorrelated Alternatives - Gold as hedge against unprecedented policy stimulus & debt build-up
Cash	Strongly Underweight <ul style="list-style-type: none">• Central Bank commitment to zero or negative yields for multi-year period• No currency preference
Risks	Current: Resurgence in virus in Q4 2020 accelerates, contested US election, no-deal Brexit Longer-term: Economic and social scarring from lockdowns, volatile retail investment flows, surge in global defence budgets & rising conflict risk

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SARASIN & PARTNERS

Juxon House
100 St Paul's Churchyard
London
EC4M 8BU

T: +44 (0) 20 7038 7000
www.sarasinandpartners.com

