Sanctum View

November 9, 2020

What a Relief

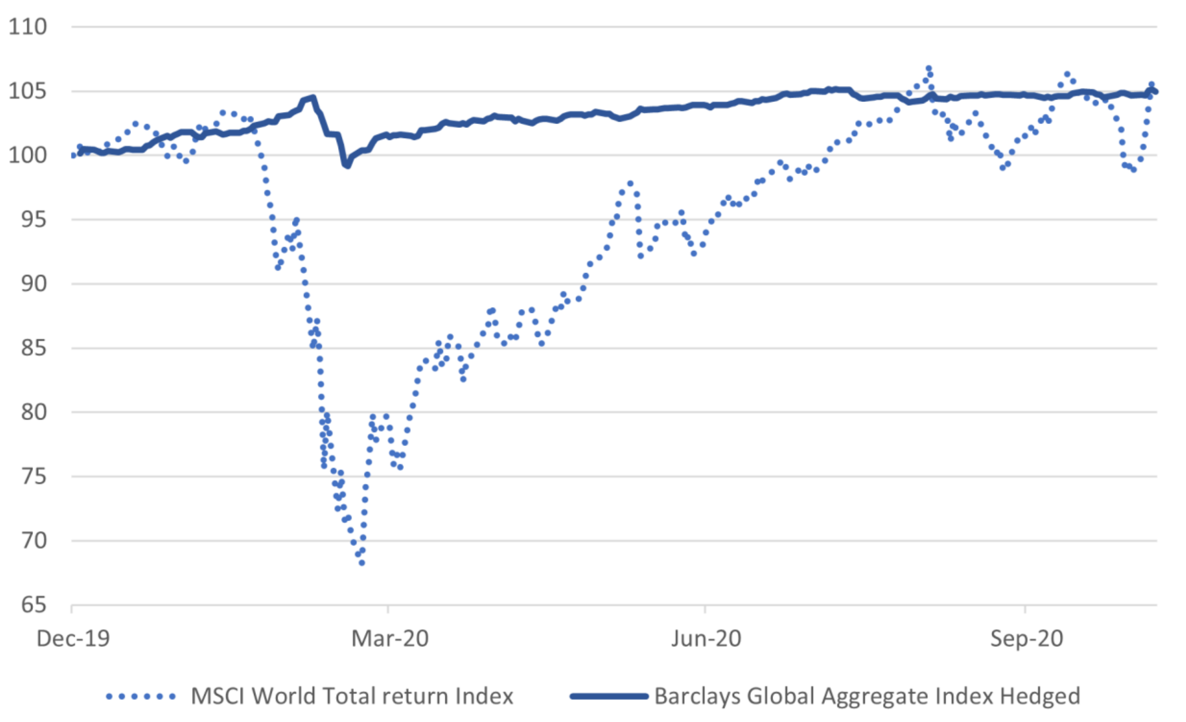
- **The US Presidential election saga seems to be drawing to a close.**
- **The Fed is back in play with monetary policy likely to take up the slack from tame fiscal easing.**
- **A lighter shade of green policies and less of a tax burden on the corporate sector than previously envisaged are the likely compromises for Biden's Presidency.**
- **We expect asset markets to be risk on with the caveat that COVID19 is compromising near-term growth momentum**
- **Asian assets, credit, local currency debt and infrastructure all potential winners.**
- **Gold back in investors' minds - up close to 4% on the week**

Whatever your politics, there must be a collective sigh of relief that the US Presidential saga appears to be coming to an end. President Trump may still want to pursue some legal avenues, but there seems to be a general acceptance that Vice President Biden has prevailed. In the aftermath, below we list out conviction thoughts.

The Fed is back in play. A future President Biden without the likely wholesale support of Congress is unlikely to deliver a significant fiscal package in the early months of 2021. The market is probably right to discount that the Federal Reserve will therefore be called upon to provide further significant monetary policy support to take up the slack from a more modest fiscal package. A greater reliance on monetary policy is likely to keep short term interest rates emphatically and zero and probably biases long term interest rates lower but the levels that the market had drifted to in recent weeks. Last week the US 10 year peaked at 92bps, saw a yield low of 72bps and ended the week at 82bps.

1. **A lighter shade of green.** Some of the aspirational policies of the Democrat party are likely to be far less extreme that would have been the case had the Democrats emphatically carried the Senate. The market is probably right to have discounted the possible scaling of green policies and redistribution of wealth. Biden's climate plans were previously to spend $2trillion in four years. However, President Biden should be able to carry out some degree of repositioning of the US with a likely cancelling of the withdrawal from the Paris accord.
2. **US Corporate tax higher, but not so high.** Joe Biden committed to taking the corporate tax rate back up to 28% from 21% but not to the 35% that prevailed before. However, even an increase to 28% looks challenging, given that Biden has to negotiate with a likely Republican-led Senate. However, over the medium term, something is going to have to give. Someone is going to have to pay for the stimulus programme unless it is 'wished away' with the Fed buying all the US Treasury issuance.
3. **More infrastructure spending.** Whichever way you look at it, the US needs to spend on infrastructure urgently. Whether it is to boost GDP, to support green issues or to repair the creaking infrastructure of the US, this will be spending that should be easier for all to support.
4. **Logical, not emotional pressure on China.** The Chinese may be relieved that Trump noise will abate. However, as a maid-in-waiting largest economy in the world, they will be hoping for a more logical path of competition in the future. We expect some of the less rational tariffs that hurt US consumers to wane. Still, Biden has the benefit of starting his negotiation with China from a position where leaving things where they are as a sufficient threat to bring some compromise from China.
5. **Asia –** less stress and more engagement. A less antagonistic stance towards China and more sensitive handling of the Taiwan situation would bring a positive to the region and encourage.

Chart 1: Equities only just outpace bonds year-to-date



Source: Bloomberg

Post-Trump portfolio strategy

Short-term care needed. With all the focus on the election, the market may have lost sight of the impact of the pandemic. It is closing-down parts of Europe, and we must expect that it will lead to some restrictions on US activity. Economists are busy cutting back their growth forecasts with the eurozone now expected to suffer a 9% annualised fall in GDP in the fourth quarter.

As we discussed above, we expect central banks to have to take up their burden of providing a stimulus to their respective economies. Also forgotten is the at the UK is still at loggerheads with the EU over its exit… which is just weeks away. That said an announcement of vaccine for COVID19 could be imminent. **Astra Zeneca CEO said that subject to regulatory approval, they could roll out their vaccine by the end of December.**

Medium-term - Risk on. Policymakers will, in our opinion, remain heavily engaged in the markets. Post Trump's Presidency, there will be a sense of calm. Markets will no longer be on tenterhooks from possible tweet-led policymaking. Even if Biden gets an idea in his head, he will have still have to get his concept past a Republican Senate. We also expect zero/negative interest rates to wear investors down, forcing them into ever-higher exposure to risk assets such as equities.

Our preference in risk markets remains focused on Asia. A less antagonistic US President should calm trade worries even if Biden decides to play hardball in negotiations. We expect Asia's growth to attract an increasing market share of global capital flows. Only last week President Xi announced that China plans to double GDP and income per capita by 2035.

Tactically even Japan's economy, is showing relative strength. Last week's industrial survey releases were strong with the survey of future output growth relatively upbeat.

Emerging markets a clear winner. With the developed market emphasis on monetary policy rather than fiscal policy emerging market debt, particularly local currency debt, should be a winner. The dollar should be biased to weakness, and with dollar rates so lower, the pickup from emerging market debt will remain particularly attractive.

Gold's resurgence. Gold had taken something of a backseat in global asset markets in recent weeks. However, last week there was a sharp rebound to $1951 up 3.9%. The prospect of a weaker dollar and further monetary easing are positive factors for precious metals. Silver was also back in focus, rising 11% rise to a high of $25.8 before settling to a net gain of 8.3% for the week.

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