

# Monthly Commentary 2<sup>nd</sup> November 2020

Following September’s declines, developed equity markets had another bad month in October, led by Euroland (-7.3%), the UK (-4.9%) and the US (-2.8%). Emerging market equities bucked the trend and rose marginally. The safe havens of gold and US Treasuries proved not to be that “safe” and both dropped, albeit modestly. Oil took a big hit of more than 10% and US dollar was largely flat.

## US Elections

The most frequent question (and concern) we received from clients has been about the US election and how the various outcomes will affect the markets. Just about every financial publication has addressed this issue so adding our opinion will not change anything. Below is a relatively straightforward illustration of the possible effects on equity markets by Merrill Lynch.

US equity market implications of election scenarios

Scenarios	Knee-jerk	Longer term	Investment beneficiaries/laggards
Republican Sweep	Positive (+0-5%)	Neutral	Beneficiaries: Real Estate, dividend yield, restaurants / services Laggards: Multinationals
Trump + Divided Gov't	Neutral under split Congress (-5% to +5%) Positive under Dem Congress (+0-5%)	Positive	Beneficiaries: Cyclical, consumer, small caps Laggards: Multinationals
Biden + Divided Gov't	Negative (-0-5%)	Positive	Beneficiaries: Low beta, high quality Laggards: Cyclical
Democrat Sweep	Neutral (-5% to +5%)	Positive	Beneficiaries: Cyclical, capex beneficiaries, small caps Laggards: Energy, luxury goods
Contested Election	-5% under 'painful' -20% under 'crisis'	-	Beneficiaries: Low beta, high quality Laggards: Small caps, high beta

Source: BofA US Equity & US Quant Strategy

We tend to agree that the short term (knee-jerk) reactions are anyone’s guess, so instead we focus on the longer-term implications, which are in most scenarios positive, and neutral in the most unlikely case of a Republican sweep. Of course, the one scenario that will have more severe short-term implications for the markets is the possibility of a contested election.

The chief economist of Capital Economics – a respected company that does economic analysis, forecasting and consultancy – posited that despite who wins, the Federal Reserve’s role is more likely to have an impact on markets. He goes on to write that he believes that current supportive monetary policy will continue, and this will have a positive effect on US equity markets for years to come independent of who wins.



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We tend to share this belief, especially with interest rates being so low that they are not viable alternatives. So, while we should all prepare for a shock, with markets reacting very negatively, this should prove to be short term.

### **Do we have a preference for president?**

Not being American, we do not get to vote. Still, as the US president's policies have a profound impact on the rest of the world, we do have a preference. We are happy to quote from the leader in this week's Economist, which is not a US publication. Titled "*Why it has to be Biden*", the editors of the Economist argue eloquently about all the reasons. To quote just one paragraph:

*"However, our biggest dispute with Mr. Trump is over something more fundamental. In the past four years he has repeatedly desecrated the values, principles and practices that made America a haven for its own people and a beacon to the world. Those who accuse Mr. Biden of the same or worse should stop and think. Those who breezily dismiss Mr. Trump's bullying and lies as so much tweeting are ignoring the harm he has wrought."*

It is no coincidence that serious, diligent and universally respected publications have endorsed Joe Biden. Yes, we are an investment firm without political biases. Nevertheless, politics does affect investment and we can take a stance on these elections. After all, the likes of Scientific American, that has been around for 175 years and has never endorsed a candidate, has come out in favour of Biden as the pandemic looms over the elections. Even the world's leading medical publications, The New England Journal of Medicine (US) and the Lancet (UK) have effectively endorsed Biden as they have been horrified by the Trump administration's dismissal of science.

Science is very much in favor of Biden. If for no other reason, the fact that Trump is supported by QAnon - the far right conspiracy theory that alleges that a cabal of Satan-worshipping pedophiles is running a global sex-trafficking ring and plotting against Trump – should be enough to vote for Biden.

Hopefully there will be a clear result this week...

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