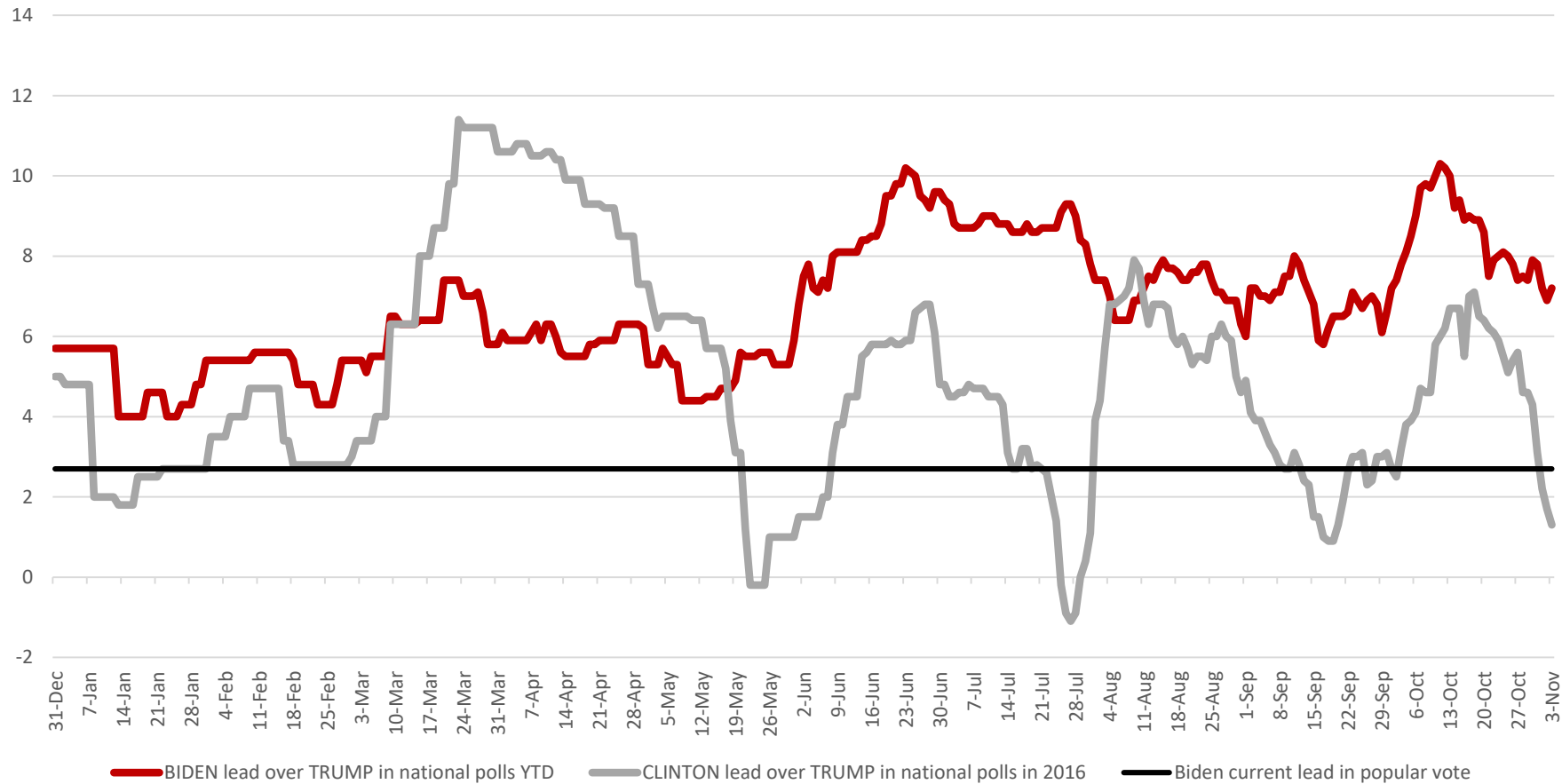




US ELECTIONS
A BLUE WAVE ? NO, A PURPLE ONE !

US ELECTIONS

THE TRUMP VOTE ONCE AGAIN UNDERESTIMATED IN POLLS



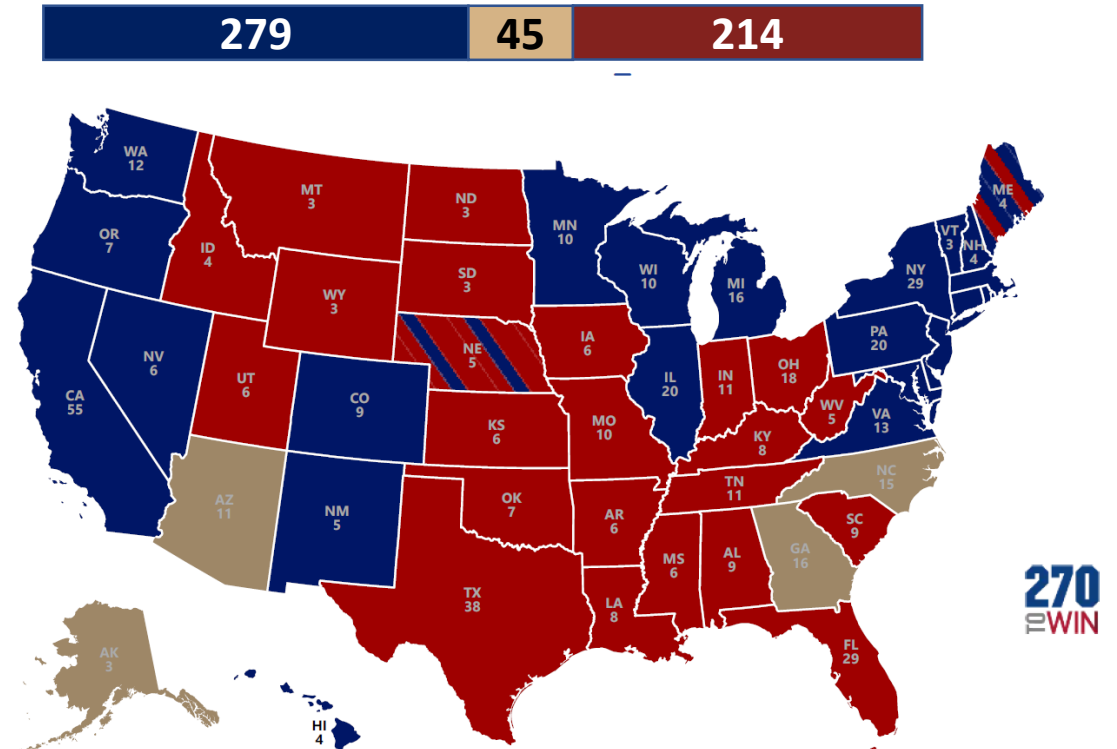
Source Banque Eric Sturdza, Real Clear Politics

PRESIDENTIAL ELECTIONS

A SMALL WIN FOR BIDEN

- As of Nov 7th , Biden won in the electoral college with **279** votes vs. **214** for Trump – 270 needed to win.
- **45** Votes still unallocated. States not yet officially pronounced : **North Carolina** (15), **Georgia** (16), **Arizona** (11) and to a lesser degree **Alaska** (3).
- After a wild end of the week, Biden finally took over **Pennsylvania** (20), crossing with this state the 270 threshold.
- **Election results** are already **contested** by Trump, who is vowing to go to the Supreme Court. Before that to happen, recounts will and are taking place and election results are firstly contested in local jurisdictions.

Electoral college

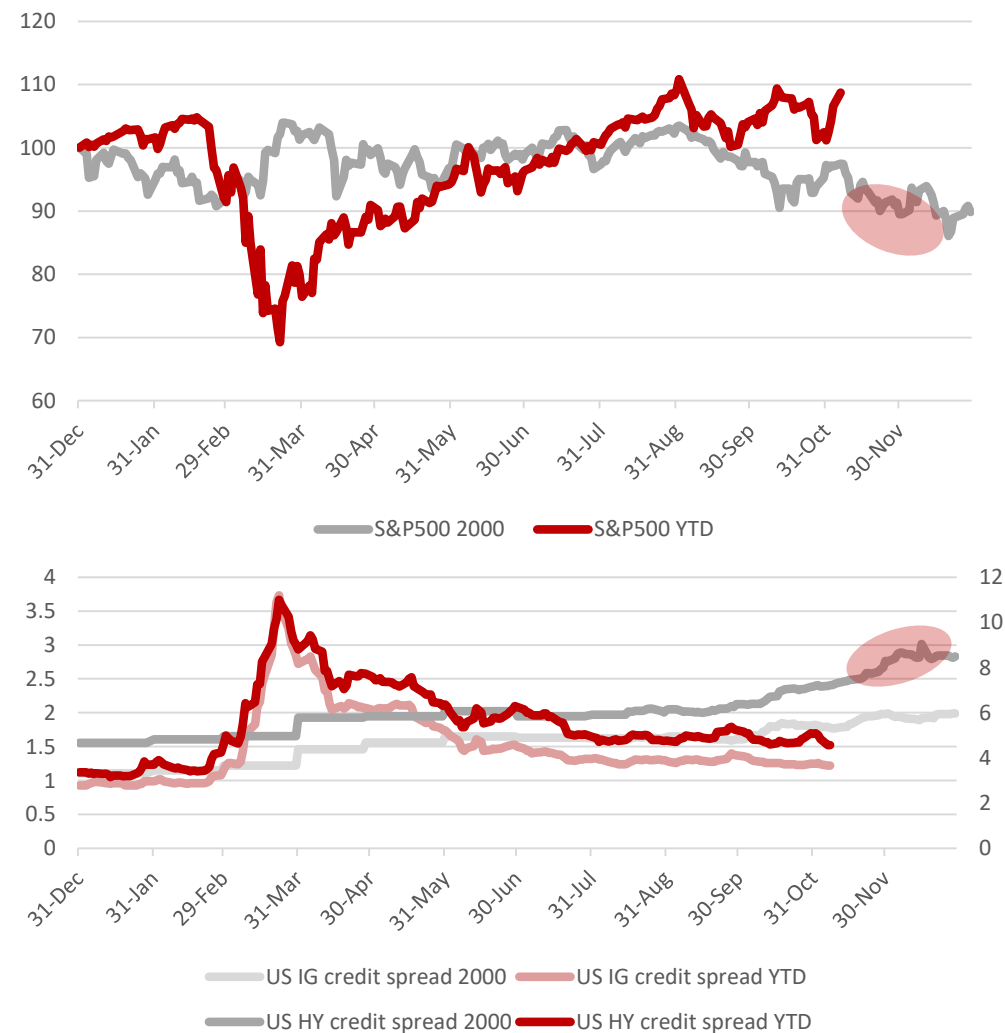


Source Banque Eric Sturdza, 270towin

A TIGHT AND CONTESTED ELECTION THE GORE / BUSH SCENARIO...

- Legal issues and recounts to be evaluated firstly at the state level, before being escalated to the federal court system. Practically, it would mean that the official winner could not be known before mid-December.
- Even if such a situation happening again is mindboggling, the US Electoral Code has set up legal safeguards and deadlines to keep in mind :
 - ✓ 08/12/20 : Safe Harbour Day.
 - ✓ 14/12/20: The Electoral college votes
 - ✓ 06/01/21: Results officialised by the Congress
 - ✓ 20/01/21: Inauguration date
- The situation looks similar to the undecided Bush / Gore election in 2000. Over 40d, the S&P500 max drawdown was 8% and credit spreads widened by 20bp/50bp, but markets were already struggling with the sequels of the Tech bubble.

S&P500 & Corporate credit spreads 2000 vs 2020



Source Banque Eric Sturdza, Bloomberg

SENATE RACE MORE STRETCHED THAN ANTICIPATED

- No signs of a Blue wave in the Senate, contrary to the latest forecasts.
- Despite a more important number of seats up for election, the **Republicans** were successful in keeping the vast majority of them. New elections for two seats in Georgia should take place in January.
- The **Vice-President seat** would be **key to decide** which party gets the majority in the Senate, but the filibuster rule could limit the ability to pass major bills in the Senate.
- As far as the **House of Representative** is concerned, the Democrats should kept the majority, but should not increase it.

Senate

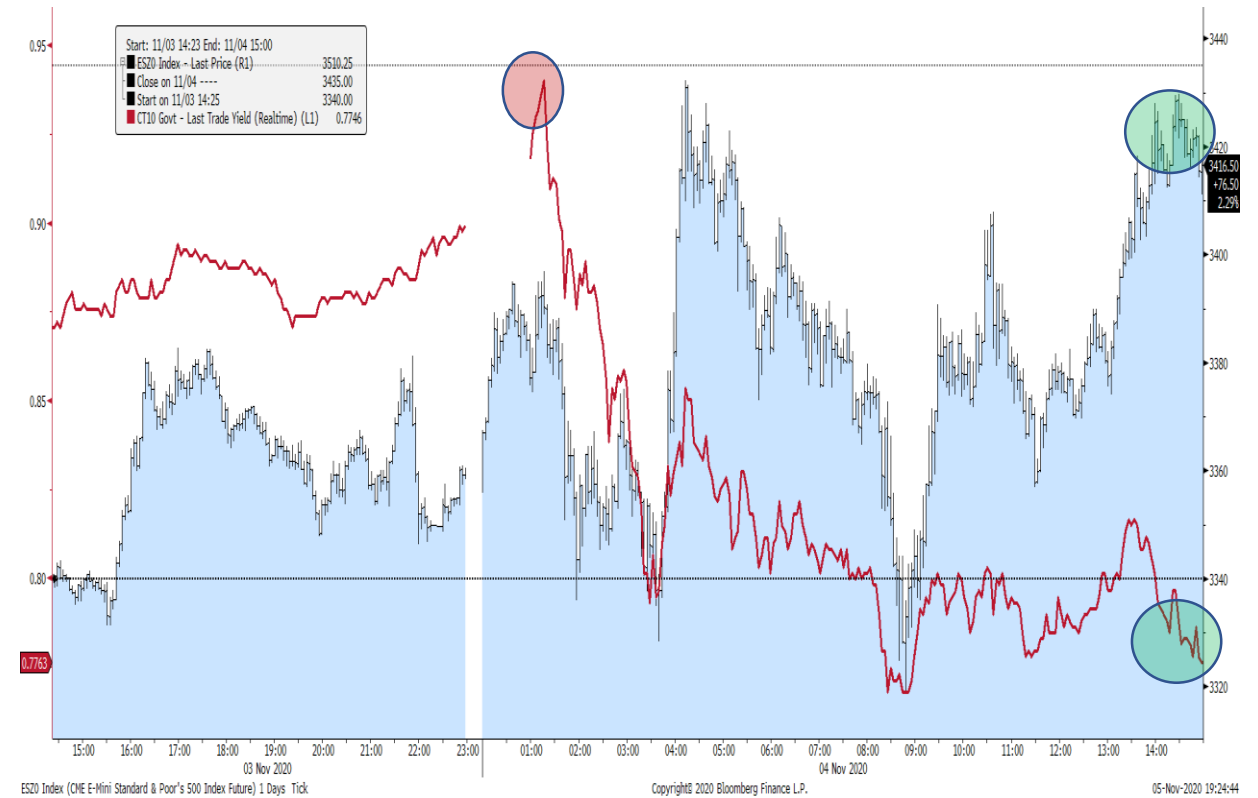
	Democrats	Republicans
Current	47	53
No Election	35	30
Decided	13	18
Total	48	48
Leaning	1	1
Forecast	49	49
Runoff	2	
Vice Pres.	1	

Source Banque Eric Sturdza, 270twin, 06/11/2020

US ELECTIONS INITIAL MARKET REACTIONS

- After an initial spike, long term yields pulled back meaningfully.
- Similarly after an initial drop overnight, US futures closed the day significantly up.
- This shift coincide with increased evidence that Democrats would struggle to grab a proper majority in the Senate, triggering an unwinding of the “Blue wave” trades.
- Even victorious, Biden will have to compose with no majority or a slight one in the Senate, limiting his action and his ability to deploy his electoral platform.

S&P500 future (rhs) & US 10 yr yield (lhs) - Intraday



Source Banque Eric Sturdza, Bloomberg

BIDEN WITH A SPLIT CONGRESS

THE BEST OF BOTH WORLDS ?

	Blue Sweep - Biden President & Democrat Congress	Statu quo - Trump President & Split Congress (R Senate / D House)	Biden President, Republican Senate, Democrat House
Corporate Taxes	Increase Corp Tax Rate from 21 to 28% Increase the GILTI Tax Rate from 10.5% to 21%	Potential "Made in America" tax credits New tax cuts ?	No additional tax cuts to expect but Trump tax cuts harder to challenge in this scenario
Personal taxes	Increase top individual tax rate to 39.6% for high income earners Tax capital gains and dividends at tax income rate for income earners above 1mln Impose payroll tax on wages above 400k Cap deduction limited for high earners	Reduce Payroll Taxes Reduce capital gain taxes Extend income tax provision	Difficult to imagine a major rewrite of household taxation with a split Congress : No increase nor decrease in taxes for high income earners.
Fiscal Stimulus	Expanded COVID-19 Stimulus package 2.2 Trillion package proposed by the Dem House	Expanded COVID-19 stimulus package White House proposal : USD 1.8 Trillion Senate proposal : USD 500 bln	Some stimulus, but package size to be limited in size – 500 to 1000bln range and postponed in 2021
Infra spending	USD 2 trillion infrastructure spending with a focus on a new "Green Deal".	Trump's plan to boost infrastructure spending with a less clear focus.	Infrastructure spending to remain a focus, but with scaled down ambitions, public private partnerships as an alternative
Trade	Tough stance on China, but with a potential and partial rollback of existing tariffs. Appeased relations with traditional allies	Tough stance on China with potential additional tariffs. Potential tariffs on EU.	Tough stance on China, but with a potential and partial rollback of existing tariffs. Appeased relations with traditional allies : Europe, Canada, Japan
Healthcare	Public Insurance option like Medicare Expand Affordable Care Act Allow for direct Medicare negotiation of drug prices	Reduce Prescription drug Prices Lower Healthcare premiums Cover all pre-existing conditions	Pressure on drug pricing to remain The pandemic can make the case for a potential increased medical coverage.
Energy	Achieve Carbon Neutrality by 2050 Stop subsidies to fossil fuel industries & ban fracking Rejoin Paris Climate Agreement	Further deregulation	Achieve Carbon Neutrality by 2050 and rejoin the Paris Climate Protocole.

ASSET CLASS IMPLICATIONS LOOKING BEYOND THE ELECTION

The early reactions seem at odds with the uncertainty prevailing and seem to be driven by investors correcting an exacerbated “blue wave” positioning.

FIXED INCOME & CURRENCY

With an immediate political gridlock, fixed income markets rely on the FED that is committed to keep rates low. Less fiscal spending expected over the medium term is less negative, but long term rates have already moved down substantially post election. Investors looking for yield pick up would continue to look at selective credit opportunities and other fixed income segments.

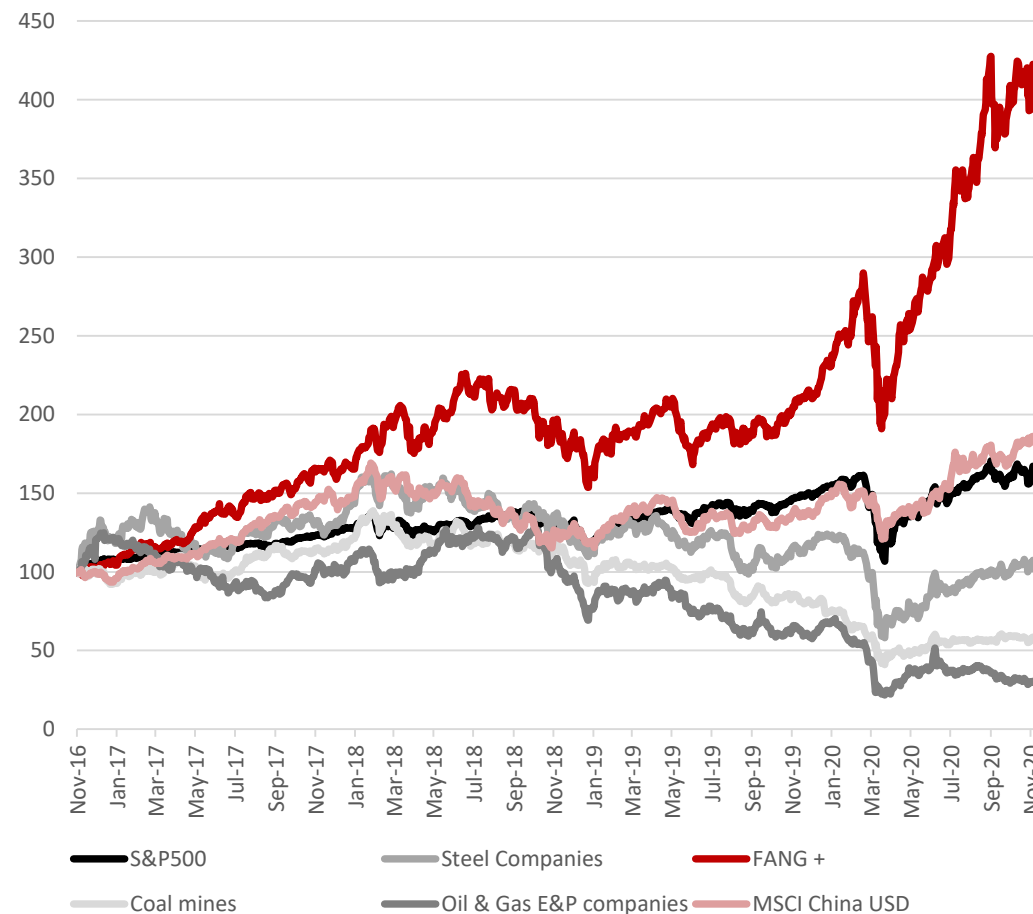
If the USD may benefit temporarily from increased risk aversion, caution is warranted, even with a bit more fiscal discipline.

EQUITIES :

Markets are up substantially post election, as investors are repositioning and unwinding the “Blue Wave” trades. Volatility may pick up later as uncertainty remains and considering that given the political gridlock, the fiscal package should be lowered and delayed in 2021. It is worth remembering that elections may slow or accelerate economic and market cycles, but are rarely a trigger for change.

As a reminder of that, investors should look at the past 4 year performance of the fossil-fuel, steel and coal mining industries, favoured by Trump in 2016, whereas he was bashing China and the FANGs...

Equity markets & sectors since Trump’s election



Source Banque Eric Sturdza, Bloomberg, base 100 as of 02/11/2016

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