FLASH

US ELECTIONS: MANAGING SHORT-TERM VOLATILITY

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This was an unthinkable scenario for many, yet here we are: while the result of the election remains far from certain, the initial results credit Donald Trump with a lead in several key states, providing a margin for the incumbent president to claim victory.

As widely discussed before the election, the mail-in votes yet to be counted may eventually flip the lead to give Joe Biden the presidency. But of course we can expect Mr Trump to challenge those postal votes at a state and even federal level through the Supreme Court. This could prove pivotal since Mr Trump has appointed three of the nine justices over the course of his 4-year term.

The US is now entering a period of political uncertainty, and possibly social instability that could last weeks or longer.

States now have until 8 December to fix any controversies over registered voters or the validity of mailed-in ballots, and the Electoral College then has to ratify its allocation of seats to each party on 14 December, handing the presidency to Mr Trump or Mr Biden. This majority should then, ordinarily, be rubber-stamped by Congress at its first session on 6 January, ahead of the inauguration on 20 January.
The period of uncertainty ahead of us has the potential to unsettle financial markets, especially just as the Covid pandemic is again forcing many countries to resume social distancing and disrupt economies.

If Mr Trump were eventually confirmed for another four-year term and re-elected with a split Congress, we may see equity markets resume their positive trend, but we think this is unlikely as long as uncertainties and the possibility of social unrest remains. Since we have already reduced our market exposure in client portfolios over the past two months, we are not in a rush to cut exposure further.

Although the USD could strengthen during the period of political uncertainty, we expect to see range-bound long-term dollar interest rates as the structural trends of slow growth and inflation remain in place, along with very accommodative monetary policy from the Federal Reserve. We have a number of positions in place to contain the impact of any significant short-term equity market volatility, as well as defensive assets such as high quality bonds and gold, all of which should play a defensive role. Such volatility will also provide opportunities to add exposure as this low interest rate environment is here to stay and will ultimately supporting yielding assets.

POSITIONING PORTFOLIOS - AN OVERVIEW OF KEY ASSET CLASSES

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