SYZ

US ELECTIONS: HOLDING OUR BREATH

At this stage, incomplete counting in the US election means that it would be premature to call the final result. However, given the trends and results so far, Joe Biden looks likely to be the next President. Mail-in votes, which are still being counted, are expected to be favorable for the Democrat candidate in the days ahead.

This may not be the "Blue Wave" that some had expected, and the Republicans may retain control of the Senate while Democrats hold onto the House of Representative. In what is likely to be a "split congress" result, Mr Biden and his new administration would struggle to pass their full agenda as the Senate would likely block many of their most significant reforms, even if the economy can look forward to some additional fiscal support.

In the meantime, markets may react with some heightened volatility as legal challenges to the various results play out.

In the short run, we expect this situation to have the following impact on assets:

- A neutral-to-negative impact on the dollar, as some expansionary fiscal and monetary policies could be implemented, but without going beyond the programs seen in other large developed economies.
- A positive outcome for equity markets
  - with a still-favorable environment for US Big Tech names,
  - Some outperformance in Asian markets as the unpredictability of trade tensions between the US and China diminish
  - Infrastructure and renewable energy may outperform if the Democrats manage to push their agenda
  - Lower probability for a rotation in favor of value sectors
- 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
- Support for credit and emerging market debt, given the ample liquidity and very low yields available in government rates
- Range-bound gold prices as real interest rates have little potential to fall further.

As we wait for the outcome to be confirmed, we believe that our clients' portfolios remain well positioned to ride out any short-term volatility.

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POSITIONING PORTFOLIOS - AN OVERVIEW OF KEY ASSET CLASSES

ELECTION OUTCOME	BIDEN PRESIDENT & SPLIT CONGRESS
PORTFOLIO ASSET ALLOCATION	Overweight equity allocation, supported by low rate environment Neutral duration Positive for IG credit excluding Energy sector Neutral USD
EQUITIES	**FAVOR:** Asia markets (easing in global trade tensions) Infrastructure (Dem. program) Renewable energy (Dem. program) Big Tech (no change in current favorable environement) **AVOID:** Big Pharma (regulation in drug prices)
RATES	Range-bound USD long term rates and yield curve slope given combination of accommodative monetary policy and structural lower growth and inflation Favor nominal bonds over inflation-linked as inflation expectations set to remain low
CREDIT	Positive for USD credit (excluding conventional Energy sector) given low-rate environment
FX	Neutral USD due to stable real rate differentials and public deficit trends vs other main currencies
COMMODITIES	Range-bound Gold prices as real rates still depressed but inflation expectations remain low Stable-to-higher oil prices supported by geopolitical tensions and global supply constraints

In the coming weeks, we continue to look at increasing our equity exposure as the uncertainty around the election dissipates. This would reconfirm our preference for quality US growth stocks and Chinese markets. We may also selectively add to our emerging debt exposure, especially in hard currency bonds, given the risk that the Covid pandemic poses to some economies. We may also use any rise in long-term rates to increase our duration exposure as the potential for a significant increase in yields looks rather limited.

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