

NOVEMBER 2nd, 2020A Recap of November 2nd – December 4th, 2020

Economy / Big Picture

- Along with rising caseloads of Covid-19, uncertainty surrounding the outcome of Tuesday's presidential election between incumbent Donald Trump and his Democratic rival Joe Biden lies behind these jitters.
- The market turbulence reflects real fears that the election result will prove inconclusive, leading investors to panic that a volatile political climate could trigger violence and derail the economy.
- However, if that scenario is avoided there are reasons to be upbeat about how US markets could perform post-election.
- No matter who wins on Tuesday, the market is likely to get the fiscal stimulus that investors have been asking for.
- If Mr Trump manages to pull off a surprise win, then he has pledged to unleash a "very big" package.
- However, analysts think the real boom for equities would be a "blue wave", where Democrats take not only the White House but both houses of Congress too.

Markets

Equities

- After a summer lull, equity market turbulence is back.
- Last week marked the worst week for global stock indices since March, with the MSCI All Country World Index falling by 5.3% over the five sessions.
- In the US, the S&P 500 lost 5.6%, while the more tech-heavy Nasdaq Composite fell 5.5%.
- Those falls came despite a series of impressive results for US tech groups and a strong rebound in the economy's growth in the third quarter.
- European stocks and oil suffered too with Brent crude dropped as much as 4.6% to \$35.74 a barrel on Monday, hitting its lowest level since May as economists downgraded their European growth forecasts in response to the roll out of stricter virus restrictions throughout the eurozone.

Moving Forward

Trump vs Biden: 4 policy plans US stock investors are watching:

1. Taxes

- Cutting the corporate tax rate from 35% to 21% was one of Mr Trump's hallmark policy achievements.
- It provided a boost to American companies' profits and spurred a rise in share buybacks that helped support the equities market.
- Democratic hopeful Mr Biden wants to increase the corporate tax rate to 28%, still lower than the 35% rate from when Mr Trump took office. Mr Biden has also proposed other changes to US tax policy.
- According to Goldman Sachs, taxes would be the "most direct consequence of a Democratic sweep" for profits of companies listed on America's benchmark S&P 500 Index.

2. Infrastructure

- If Biden is victorious, investors expect a large boost to infrastructure spending as Democrats look to fund their own Hoover Dam-esque projects.
- It could lift stock prices and help to offset increased corporate taxes that Democrats plan to pursue, analysts say. "A large increase in fiscal spending, funded in part by increase tax revenue, would boost economic growth and help offset the earnings headwind from high tax rates" Goldman strategist, David Kostin said.

- Mr Biden’s infrastructure spending plans would provide a large boost to the economy that would “have a much bigger fiscal multiplier than anything Trump has put on the table to date”.

3. Tech Regulation

- Big technology groups including Google, Alphabet and Facebook have come to dominate the US stock market; along with Apple and Microsoft they account for more than a fifth of the S&P 500.
- It is why calls to more closely regulate or even to split some of the groups in two have been followed so closely by investors.
- Tech companies have already increased their spending on lobbying efforts, knowing sweeping changes could soon arrive, regardless of whether a Democratic or Republican president is in the White House.

4. Energy

- Stark differences in each candidates’ energy policy are also expected to have a significant effect on America’s stock market.
- The election comes as energy groups are in the throes of a painful period caused by the fall in oil prices, the coronavirus crisis and the global transition towards cleaner forms of energy.
- The S&P 500 integrated oil & gas index, which includes oil majors ExxonMobil and Chevron, has tumbled 50% since the start of 2020.
- Strategas, a boutique research and advisory group, said a Trump victory next week would be a boon to the sector. In addition to supporting energy tax subsidies and rolling back clean air emission standards, Mr Trump has also backed the use of federal lands and waters for drilling.
- In contrast, Mr Biden has pledged to “transition away from the oil industry” and has also outlined a plan to spend \$2tn within his first four years in office to cut carbon emissions and electrify the transportation sector, among other initiatives.



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