US Presidential Election Scenario Analysis

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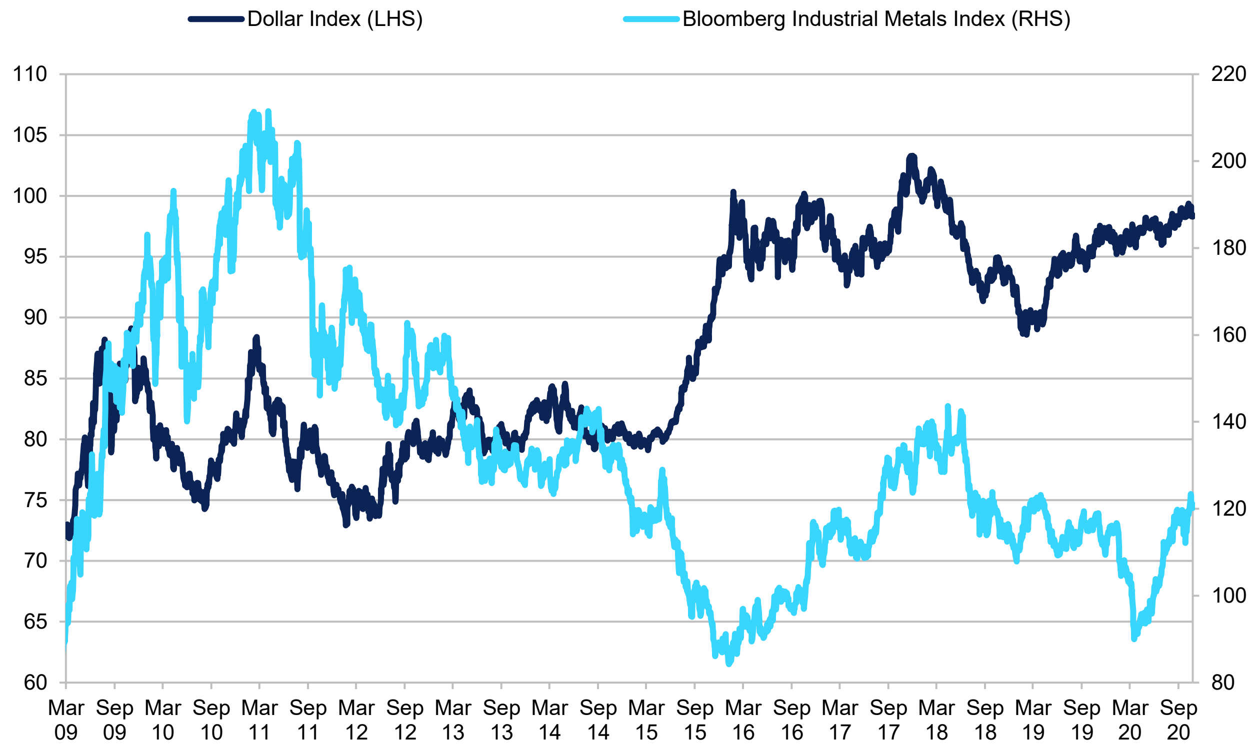
Although coronavirus's impact on the U.S. economy has been profound, the result of the upcoming presidential election in November is likely to have a significant effect on the global economy in the next four years. The current pandemic and an uncertain economy have added new importance to an already volatile U.S. election cycle. However, the critical outcome is mostly straightforward: the overall government election outcome will matter more than any candidate's success. A divided/unified government will be a better predictor of future policies than the winning party. The Senate race is as important as the Presidential election. A unified government will mean that either candidate will be able to follow through on their main campaign pledges or see at least two more years of deadlock. In some respects, there is a benefit to some assets from a divided government.

Dollar Index vs Bloomberg Industrial Metals Index

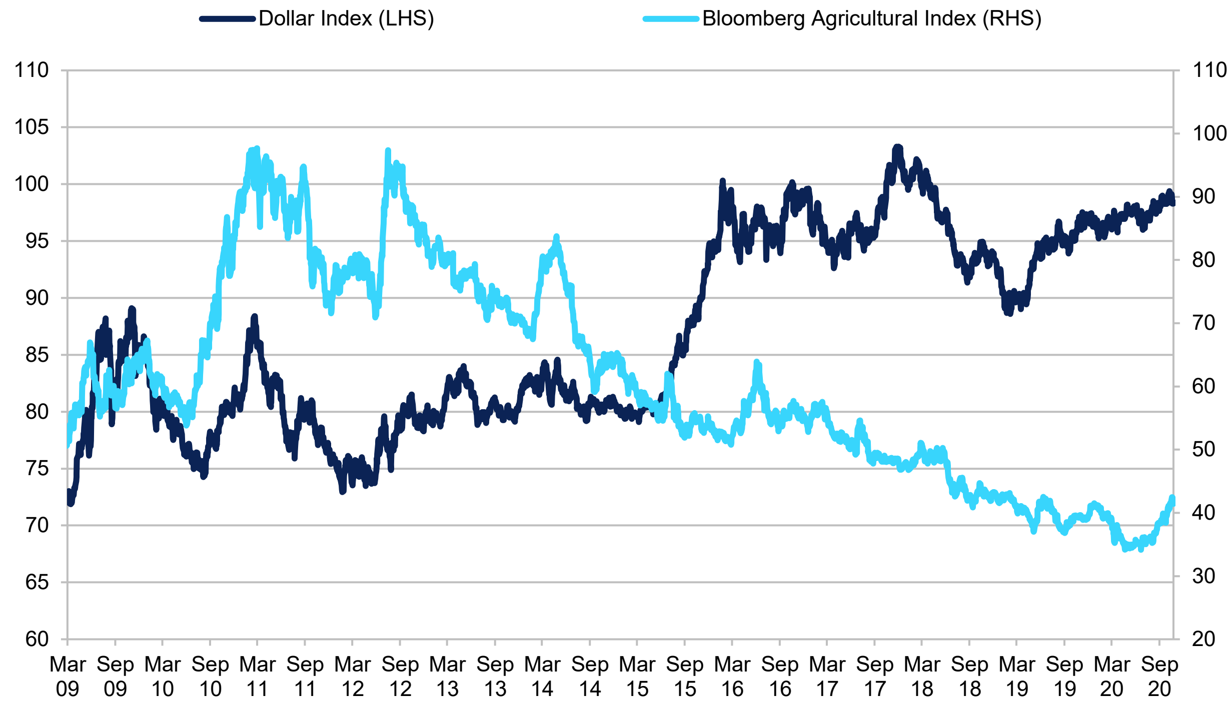
The inverse relationship between the dollar and industrial metals has been particularly strong.



Source: Bloomberg

Dollar Index vs Bloomberg Agricultural Index

The trend of the stronger dollar has not been kind to agricultural commodities, but there is light at the end of the tunnel.



Source: Bloomberg

We concede that the global economy has strong headwinds to it. Indeed, the ever-increasing cases of COVID-19 mean that either President needs to contain the virus to make sure the economy can recover fully, promptly. Indeed, this is task number one; however, our scenarios are for the 4-year term. We believe a vaccine will become available in 2021, but the time lag for rolling this out will mean a disjointed recovery with developed nations emerging first. Both Presidents need to contain the virus with progressive measures for human health and the economy.

Policy comparison

Trump's Previous and Future Policy Pledges

Trump's 4-year long term has restricted trade and immigration, enhanced domestic agenda, and departed from major alliances and treaties. However, many of these made headlines; however, many other pledges made in his election campaign in 2016, like eliminating national debt, went a little under the radar. Indeed, Trump delivered some of his promises, such as tax cuts, increased military spending, and correction of the trade deficit with China. Others, however, were left unmet. Replacement of Obamacare, border wall with Mexico, and eradication of national debt were unfulfilled. In 2020, Trump had planned on campaigning with the slogan "Promises Kept" (later changed to "Promises"). However, according to PolitiFact's Trump-O-Meter, 24% of promises made in the 2016 election campaign were kept, but 50% were broken.

In his re-election campaign, Trump promised to terminate the payroll tax, a new Iran nuclear deal, and plans to eradicate COVID-19 by introducing a vaccine by the end of 2020 and making sure to create 10m new jobs in 10 months. He has taken credit for the booming U.S. economy before the pandemic hit and has also promoted "law and order" in his policy proposals during the violence that occurred over the summer. He has also promised to build on the tax cuts he introduced in the first term, including credit to companies to keep jobs in the U.S. rather than overseas. However, his campaign's remainder will be determined by the publics' view on his previous leadership and his handling of COVID-19, not new campaign pledges.

As for his future pledges concerning trade relations, Trump has campaigned to end reliance on China entirely and, in turn, protect U.S. manufacturing from foreign competition – and these will remain critical aspects of his re-election campaign. Indeed, his trade war has raised border taxes, and this year's 'phase one' deal saw most of the tariffs remain in place. In Q3, he offered tax credits to the U.S. firms to entice their move out of China, saying that they will end their reliance on China this way.

Biden's Future Policy Pledges

On the other hand, vice president Joe Biden has differing opinions, looking to be more open in trade, immigration, and cross-border investment. Given Biden's Democratic sweep, we would expect significant changes to economic policy. Indeed, tax increases and fiscal stimulus are both on his agenda. Targeting taxes on the top 2 percentile, increased marginal propensity to consume for lower/middle classes, and prevention of ballooning debt levels seem to be the key objectives in his election strategy. Additionally, Biden has criticized tech giants during his campaign and proposed a minimum federal tax aimed at a big corporation, like Amazon and Facebook. Biden has also said that the U.S. should set privacy standards in line with the Europeans, referring to the E.U.'s stringent General Data Protection Regulation. The infrastructure package remains a crucial goal for 2021 implementation. Nevertheless, we do not foresee an increase in corporate tax while the U.S. economy is still in recovery mode.

Biden's long career in politics is being used by his campaign to portray him as a "steady hand able to calm a country in chaos." Indeed, Biden has promised to reverse many of Trump's legislative decisions, including tax cuts and withdrawal from the Paris Climate Accord. In terms of energy and the environment, Biden is a firm supporter of the need for urgent environmental action. A "Clean Energy Revolution" will aim at harnessing energy to innovate the way renewable energy is sourced. He has also promised to achieve a 100% clean energy economy and reach net-zero emissions by 2050. He is yet to back the Green New Deal advocated by some of the people in his party. He has also outlined the coronavirus crisis and promised, if elected, to provide free vaccine for all. He says he wants to build at least ten testing centres in every state and mandate wearing masks. His broader economic policy will raise the minimum wage, add $200 in social security payments, and introduce a student loan forgiveness programme. He aims to strengthen ties with Central America, improve racial, economic equality, and "secure our values as a nation of immigrants" on immigration.

In terms of trade relations and foreign policy, Vice President Biden's stance is similar in principle to Trump's; however, different practice measures are likely to be implemented. There is an agreement that China did overstep the bounds and posed itself as a 'market abuser,' Therefore, a cautious outlook on the countries' relationship prevails. Indeed, while Biden has criticized the trade war, his campaign has refused to pledge to remove the tariffs, saying the tariffs would be re-evaluated. Given a Democratic sweep, Biden's office will have a greater chance of passing the more fiscal stimulus, therefore, relying less on monetary policy easing. On the other hand, additional spending in the first couple of years of Biden's term could lead to a significantly higher budget deficit. This, coupled with a more open trade agenda, could pose risks for twin deficits, considerably reducing the dollar's power in the long-term. Given Trump's criticism of the Fed policy, the possibility of Chairman replacement could be likely when his term expires in 2022. Under Joe Biden, the Fed is expected to remain unchanged, leaving the current forward guidance for low rates at least until 2023 in place.

Trump vs Biden Policy Pledges

Topics	Trump	Biden
Jobs	10m jobs in 10 months	Raise minimum wage
	“Made in America” tax credits	Extend loans to small businesses
	Create 1m new small businesses	
China	Bring back 1m manufacturing jobs from China	Hold China accountable
	Tax credits for companies that bring back jobs	International coalition with democracies that China “can’t afford to ignore”
	Hold China accountable for virus spread	
Technology	Federal consumer privacy legislation	Minimum federal tax for tech giants
		Revoking Section 230 of the Communication Decency Act
COVID-19	Create a vaccine by the end of 2020	Provide free testing for all
	Return to normal by 2021	Hire 100,000 people to set up a national contact tracing programme
	Refill stockpiles and prepare for future pandemics	At least 19 testing centres in every centres
Foreign Policy	Bring troops home	Repairing relations with allies
	Expand the military	Re-joining the NATO
Green Policy	Supports unobstructed growth of the fossil fuel industry	Re-joining the Paris Climate Accord
	Rolled back Obama-era rules to halt methane leaks	Invest $1.7bn in green technology research

Source: Donald J. Trump for President, BFPCC, Inc.

Impact on the U.S. Economy

While policies of Biden vs. Trump will differ significantly, both are likely to be big spenders. Indeed, we believe that both candidates can enact policy that will have a positive economic impact to revive the economy from the COVID-19 crisis, which could support the dollar, at least in the short-term. Indeed, despite the candidates' different long-term ambitions for the U.S.'s global role, the election outcome should not significantly change the country's medium-term outlook. Both candidates are likely to focus on recovering the economy from the deepest recession since the start of the record-keeping. Record unemployment and fiscal spending to lessen the pandemic's impacts are likely to remain the key objectives for the U.S. economy. For Biden's win, this would imply that his administration would be more focused on safeguarding the recovery rather than delivering on his campaign pledges, at least at the beginning of his term. If Trump wins, we expect his second term to be less disruptive and polarising than the first one. The potential for surprises should be much lower, mostly if Congress remains divided.

Fulfilling campaign pledges depends mostly on the outcome in the Senate. Should the Congress remain divided, this could significantly dampen the outlook for the U.S. economy. As for the dollar's impact, either result would leave the currency weakening trend in place, and a Biden victory could accelerate this depreciation. Given his term poses less geopolitical risks, the dollar volatility could fall and could be based more on the fundamentals rather than presidential statements.

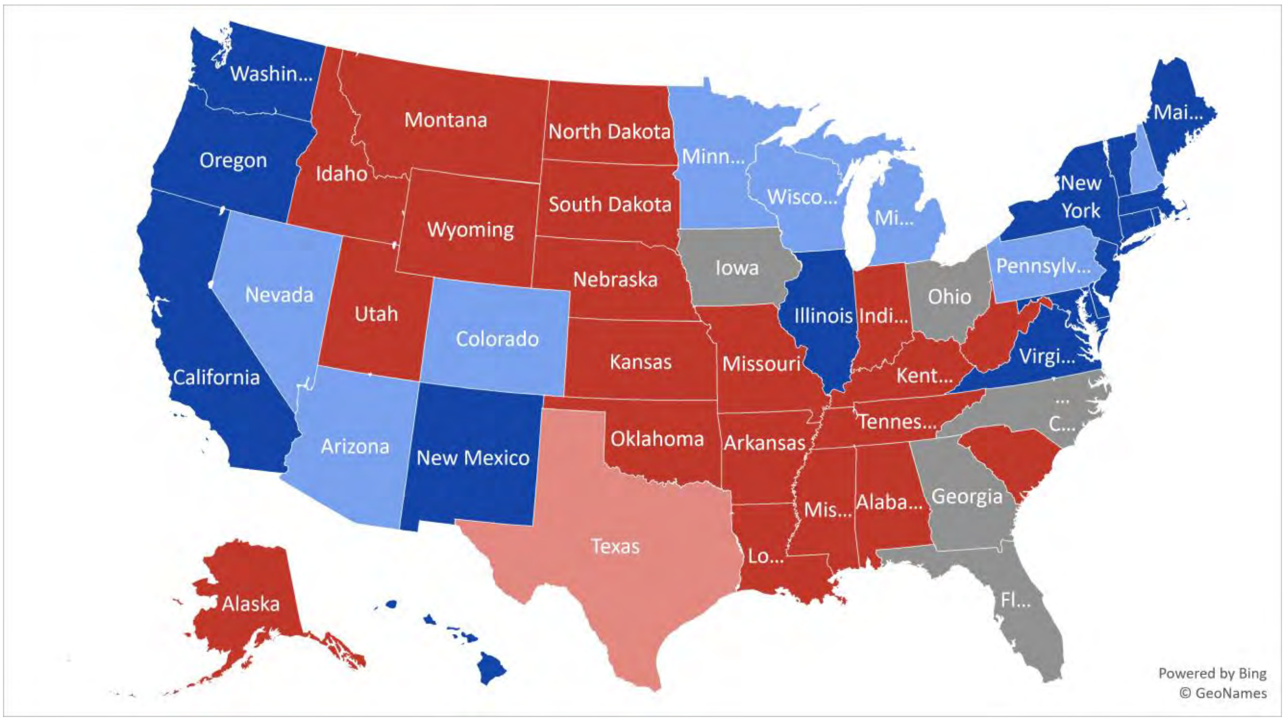
Electoral College and Polls

The pandemic has shifted Trump's campaign plans. At the start of this year, Trump's re-election strategy focused on the strengths of the U.S. economy, intensifying immigration fears, and further heightening tensions with China. However, since the start of the pandemic in March, Trump has downplayed the crisis scale and shifted blame for its handling. As a result, the U.S. was still faced with worldwide records of coronavirus infection, the largest in cumulative deaths, and one of the most prolonged lockdown measures in developed economies. Indeed, this has significantly damaged his ratings. According to FiveThirtyEight, the share of Americans who disapprove of the President's handling of the coronavirus outbreak increased from 46.7% on April 6th, the day when the U.S. crosses 100,00 deaths, to 57.5% as of October 22nd.

While this has impacted his rating, the strategy proved successful in maintaining his heartland support (i.e., Texas, Utah, Kansas) and an approval rating slightly above 40%. The farmer states, especially, will be key to Trump's election results. Many have so far been forgiving of Trump's policies in Iowa and farm states, but it is not clear to what degree this lenience will last. Trump won the state in 2016 by 10pps, and he was expected to win it again this year. However, recent polls show a close tie between him and Joe Biden, adding uncertainty to the election results.

Current Race Ratings by State

Most of the swing states have started to lean towards Democrats.



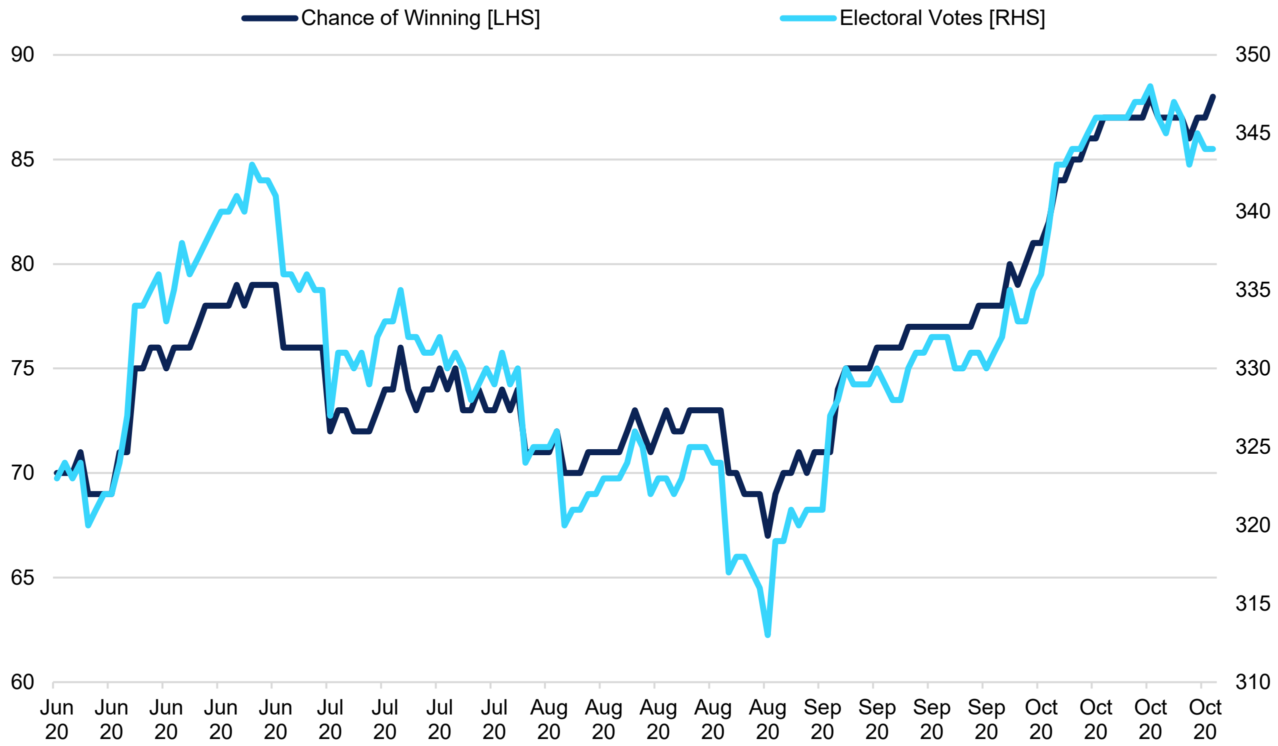
Source: CNN

Similarly to the 2016 election, because of the presidential voting system structure, where each state assigns a number of electoral college votes which go to the state's victor regardless of the margin of victory, several swing states will decide the election results, which include several states Trump won in 2016: Arizona, Michigan, North Carolina, and Wisconsin. According to the Guardian, six out of eight swing states lean marginally towards Biden at this time. Still, Trump can win Electoral College if he takes Pennsylvania and holds much of the states he won in 2016.

Two of the last elections were won without gaining the most votes. Indeed, under the winner-take-all system, the margin of victory in a state becomes irrelevant. For example, in 2016, Trump gained a quarter of his electoral votes from 191,000 votes in the closest four states. The majority of his votes came from races with margins of 10% or less. Currently, the electoral college favours Republicans because of how the party votes are distributed across the country. Therefore, the unlikely results are more likely to occur in states closely divided between the parties. Democrats also win with more significant margins in the electoral college but have never succeeded without the popular vote.

Biden Chance of Winning vs Electoral Votes

As we approach the Election day, the chances of Biden Senate and popular win are at record highs.



Source: FiveThirtyEight

At the time of writing, Democrats are slightly favoured to win the Senate and favoured to win the U.S. House of Representatives, according to FiveThirtyEight. Indeed, polls and betting odds all steadily point to Mr. Biden winning enough Electoral College votes to take the Presidency. At the time of writing, the Economist forecasts that, in 92% chance, Joe Biden will win the electoral college, and, in a 99% chance, he will win most votes. According to the FiveThirtyEight forecast, Democrats have a 72% chance of winning a federal government trifecta: control of the Presidency, Senate, and House.

Indeed, a candidate must achieve the most electoral college votes to repeat the 2016 election outcome, where Clinton received more votes than Trump did; however, Trump received the majority in the electoral college. With the BBC forecast more moderate, the national polls still favour Biden at 52% win. At the time of writing, Florida, a critical state for Trump's victory, is leaning towards Biden.

The real risk to a clear election outcome is institutional. Trump's latest statement claiming that he will not accept the election results sows doubt around the electoral system's robustness. His strategy to defund the postal service to reduce the mail-in ballots cast doubts on prompt election results. A possibility of result uncertainty on election day is highly likely and could fuel market volatility in the short-term. With states reporting record-breaking numbers of voters requesting mail-in ballots, investors remain cautious about election outcomes. For example, in Wisconsin, over 50% of votes by mail have already been returned, and in Florida and North Carolina, two swing states, 33% and 38% of ballots have already been returned, respectively. If this trend continues in swing states, it could reduce the chances of the delayed election results. And if Democrats win both those states, including the Senate race in North Carolina, it becomes likely they will have won both the Presidency and the Senate.

Scenario analysis

Scenario 1: Biden and a Divided Government

Table 1 Shows how we think a divided government would benefit the certain assets. We still expect stimulus but to a lesser extent.

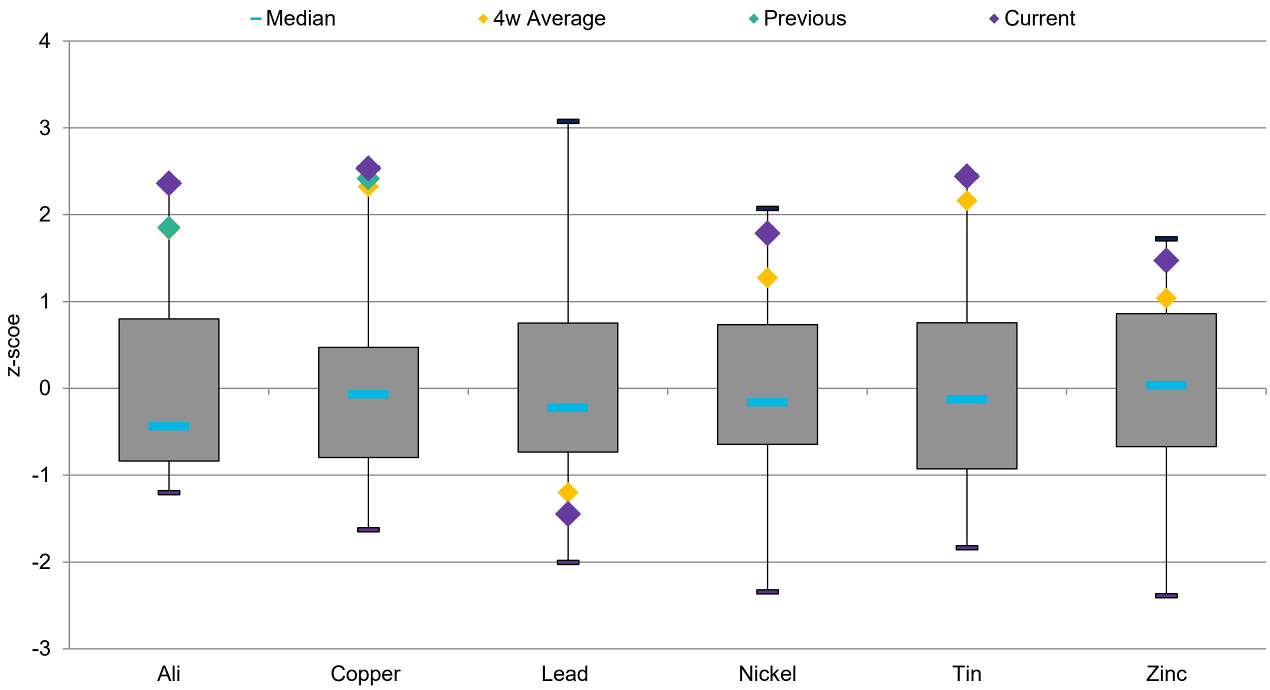
Scenario 1								
Dollar vs G4	Dollar vs EM	Commodities	Copper	Nickel	Aluminium	Grains	Stocks	US Yields
Moderately Bearish	Bullish	Moderately Bullish	Moderately Bullish	Moderately Bullish	Moderately Bullish	Moderately Bullish	Moderately Bullish	Neutral

*Brexit will likely cloud cable
Source: Sucden Finanical

Despite Biden's consistent lead, headwinds to his win remain, including the Republicans' advantage in the electoral college and the significant lag in the mail-in ballots' processing. Despite the continued uncertainty, we believe that the most likely scenario is the U.S. ends up with a divided government, which could imply a Biden administration with a Democratic House and Republican Senate. This scenario would lead to a continuation of political gridlock that would prevent major legislative programmes. With the Senate leader in place and Nancy Pelosi in control of the House, legislative outcomes would rely on compromise. Barack Obama's last six years in the administration would closely resemble this outcome, in which he presided over a divided government. There are benefits to this, such as the reduced likelihood of a twin deficit, which boosts the economy in the medium and long run, and therefore the dollar.

LME Investment Funds Normalised Commitment of Traders'

Normalised COT data shows that copper, aluminium, nickel, and tin are at the top of their range.

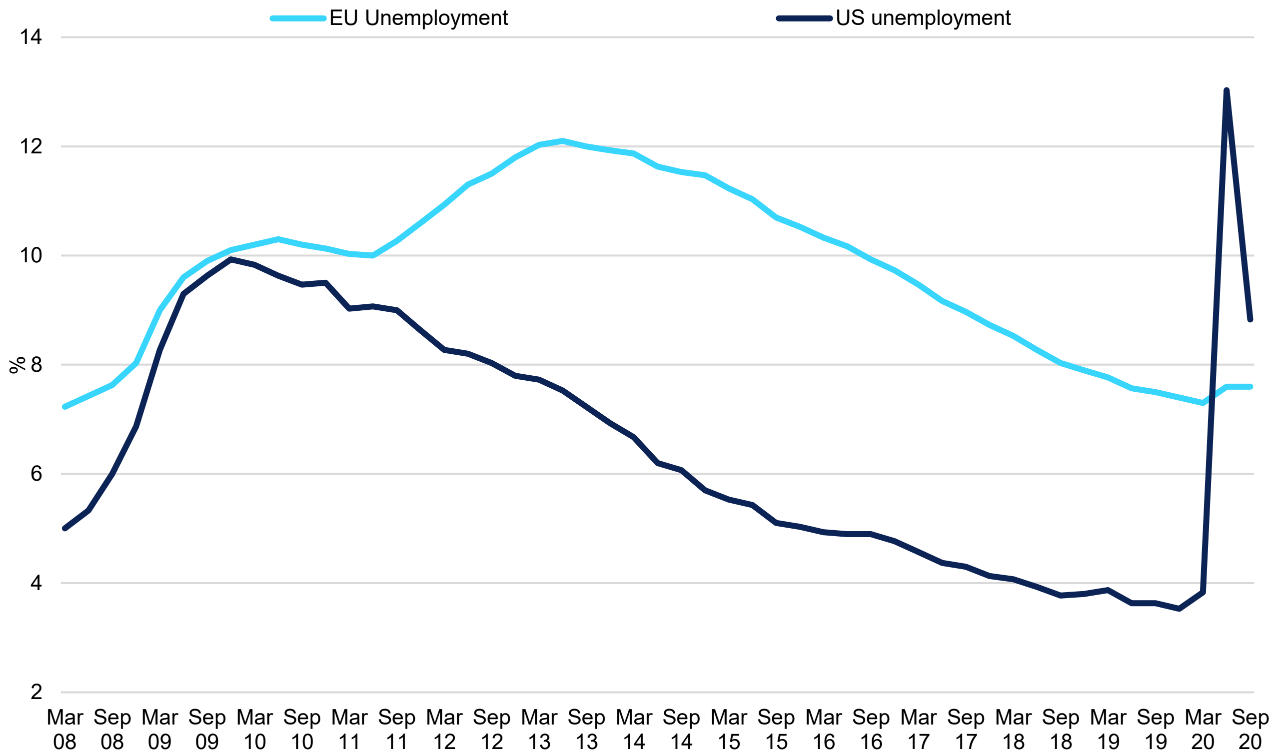


Source: LME, Sucden Financial

In this situation, we expect less progressive stimulus regarding the green economy, which would take some wind out of the bullish commodity sentiment. The U.S. China's 14th 5-year plan is expected to have a green bias; this is positive for industrial materials. The LME commitment of traders positioning for investment funds shows a high Z-score now, which could trigger a swift correction to the downside as investors. The divided government would limit Biden's $6trn spending plan over his 4-year Presidency; this would benefit the economy in the long run. It reduces debt levels and the chances of a twin deficit. With the current state of the economy, both candidates are likely to use fiscal stimulus to boost the economy. In this outcome, Vice President Biden's 60% tax plan over $400,000 is unlikely to pass Congress, leaving a hole in Biden's government finances. The lack of higher corporation and consumer taxes would give rise to the stock markets, which are already supported by low-interest rates and Fed asset purchasing schemes. The resumption of positive economic growth will be another boon for earnings. However, companies need higher employment as COVID support schemes cannot go on forever; history suggests that this scenario has been favourable for economic growth.

US Unemployment vs EU Unemployment

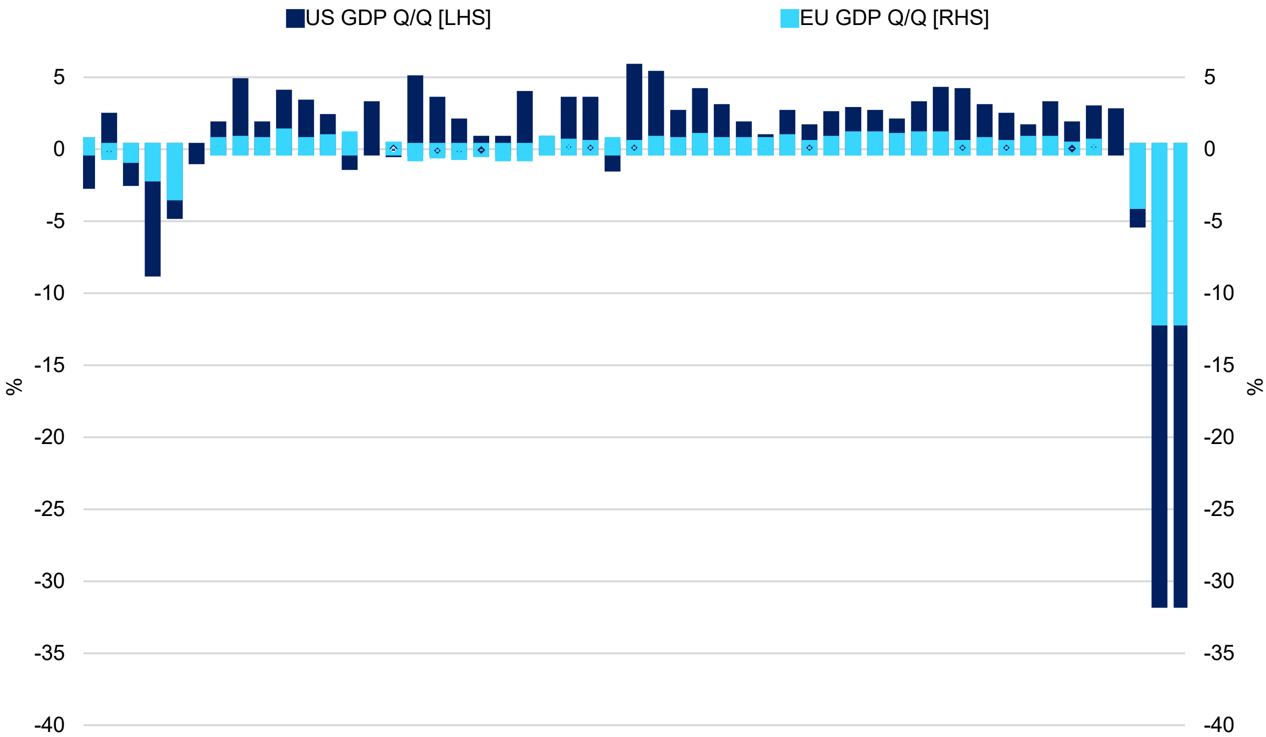
It took the US economy 16 quarters to regain 30% of the unemployed jobs vs 20 quarters for the US.



Source: Bloomberg

US GDP Q/Q vs EU GDP Q/Q

The US recovered from a deeper recession in 2009 more quickly than Europe.

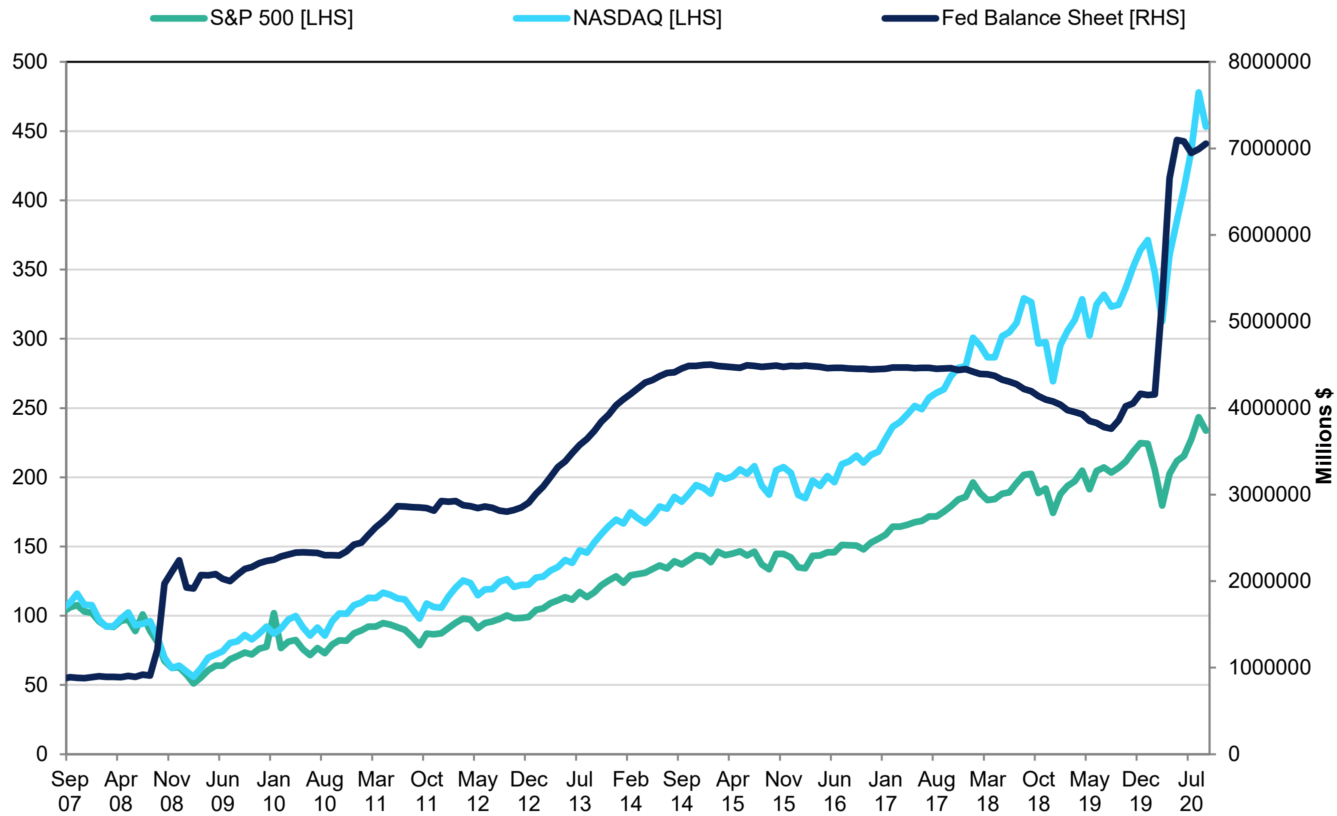


Source: Bloomberg

Vice President Biden's foreign policy is expected to be softer; this could provide optimism that some of Trump's protectionist stance will be unwound, boosting sentiment in the commodities, especially metals and grains market. Base metals and grains could benefit from a more positive relationship with China. We do not expect tariffs to be used, which would increase investor sentiment in these assets. However, one area that is likely to remain under scrutiny is the Tech sector and some of China's companies accessing U.S. data. We expect Tech companies to face more scrutiny and regulation with Biden in the White House; this will likely act as a headwind to U.S. equity indices, which have been increasingly supported by a strong performing Tech sector this year. However, any sell-off is likely to be limited by stimulus measures from the Fed. The U.S. economy can turn around faster than Europe, exemplified by the GFC recession. While the economies are not entirely comparable, during this period, both economies suffered from 4 months of negative economic growth; however, the U.S. decline was a lot sharper with a contraction of -8.4% Q/Q in Q4 2008 vs. -3.10% Q/Q Q1 2009 in Europe. The recession was more profound in the U.S., but by Q3 2009, growth was more substantial at 1.5% Q/Q vs. 0.4% Q/Q in Europe; this pattern of higher U.S. growth continued in the following years. From an employment perspective, it increased to 10% in 2009 in the U.S., with Europe rising to 12% but not until 2012. The recovery stage for the U.S. was shorter than the E.U.; it took the U.S. 16 quarters to regain 30% of those unemployed jobs vs. 20 months or the E.U.; this suggests we could see the U.S. emerge from the COVID-19 recession sooner than the bloc. Inflation in this scenario will be more subdued than a clean sweep for the Democrats, and this will contain bond yields and keep the curve flatter for longer until we see an increase in rates.

S&P 500 vs NASDAQ Indexed (September 2007 = 100) vs Fed Balance Sheet

Current Stimulus measure suggest that stock markets will remains supported despite the global pandemic and presidential result.



Source: Bloomberg, Federal Reserve

We anticipate this scenario to be negative dollar in the medium to long term in terms of currency. The split government will support the dollar in the short term, but we still believe the dollar would weaken throughout Biden's Presidency as it loses some of its current 'safe haven' status. We expect the dollar to weaken most against the EUR, AUD, CHF, and CAD, with the greenback remaining firm against E.M. currencies. The Euro would be a strong beneficiary of a Biden Presidency in some respects. At the same time, we anticipate him to put America first, do not expect him to use tariffs, on the belief that he will invest more in transatlantic relationships. Defence spending is likely to remain a battleground, but the European auto sector may be able to breathe a sigh of relief. This would be a boon for the Euro, but Brexit will still cloud sterling in the near term.

Inflation will be less of a worry in the near term as stimulus measures will be contained. However, we expect stimulus to be passed in 2021; this would mean that inflation is likely to be more of a threat towards the end of the term as it takes time to filter into the economy. We highlight that this is not monetary stimulus, subduing near term inflation expectations and keeping rates lower for longer. Also, we expect inflation to be in the form of asset inflation, not CPI in the near term. This is due to high unemployment levels, and the increase in the money supply is unlikely to find its way into the consumer's hand. Once inflation has started to increase, there is evidence to suggest it is very hard to keep a lid on, a point we think has been highlighted by the Fed, who recently changed their inflation target. In this respect, gold as an inflation hedge may not catch such a bid as people are expecting. That said, the global money supply has increased substantially, and further stimulus is expected, giving gold a strong bull case. We do not expect CPI inflation in the medium term; under this scenario, real rates will remain low, and the bond curve flat. The back end of the curve could steepen moderately.

Scenario 2: A Democratic Sweep

Table 2 – With a Blue Wall we expect strong stimulus boosting commodities and equities, but the twin deficits are more negative long-term growth.

Scenario 2								
Dollar vs G4	Dollar vs EM	Commodities	Copper	Nickel	Aluminium	Grains	Stocks	US Yields
Bearish	Neutral	Bullish	Bullish	Bullish	Bullish	Bullish	Bullish	Neutral
	Manufacturing	Mining	Industrials	Renewable Stocks	Materials	Technology/IT	Financials	Energy
	Bullish	Bullish	Bullish	Bullish	Bullish	Bearish	Bearish	Bearish

*Brexit will likely cloud cable
Source: Sucden Finanical

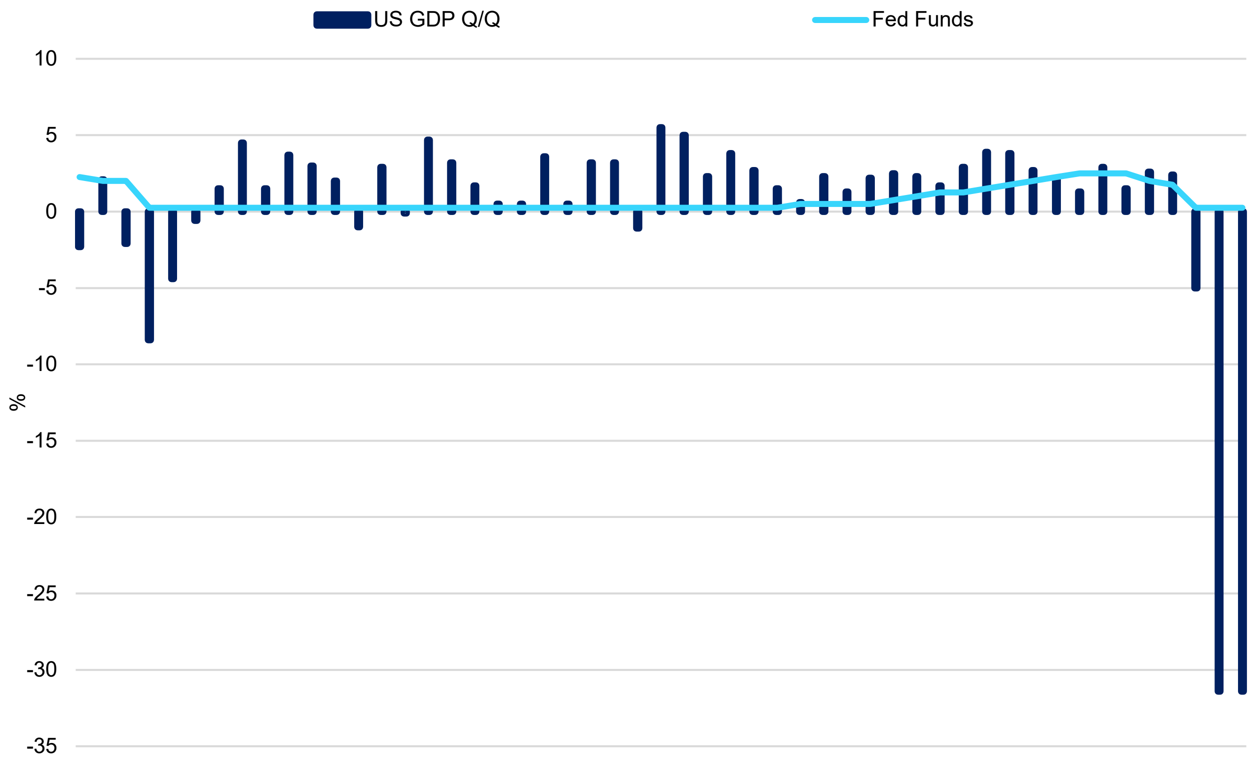
Another scenario would be that the Democratic sweep of the House and the Senate. This will significantly push Biden's infrastructure and green policy packages on top of additional stimulus measures towards the pandemic. While markets may initially be alarmed due to beliefs with higher taxes, we think investor sentiment would eventually level out to price in the effect of increased fiscal expansion, boosting consumer confidence as a result. The Fed's monetary policy stimulus will support any sell-off in cash equities and asset buyback purchasing schemes. Buybacks have been delayed due to COVID-19 loans, but once they are allowed again, this will also support the market. One headwind to equity indices is the increase in regulation for technology and finance sectors; we expect a Blue Wall to bring regulation more in line with European regulations, which will dampen market sentiment. After 3 months, we expect the market to be between 0-3% up due to stimulus measures, and after 6 months, we expect the market to be >3% when Biden manages to pass his stimulus plan. We believe industrial, materials, manufacturing, mining, and renewable energy sectors will benefit from the green stimulus plans. Technology and financial firms would suffer due to the increased regulations, which would drag on the indices, especially the NASDAQ.

In our opinion, Chinese firms will remain under investigation and we don't expect a change in foreign policy stance, but we anticipate different measures to be employed. Tariffs are unlikely to be Biden's tool of choice, but we expect a continuation of the America First rhetoric. If foreign relations with China and Europe improve, we expect FDI into America, particularly from China, to improve. China's FDI into the U.S. fell to $5bn in 2019, down from $5.4bn in 2018, U.S. investment to China increased to $14bn from $13bn in 2018. Firms like Huawei will continue to struggle in Western economies even after they have pivoted their business model towards cloud computing. Healthcare and energy firms are likely to face headwinds, as well. Higher corporation taxes are unlikely until the economy recovers, which could be after the mid-terms, preventing the tax increases if the government becomes divided. The higher taxes for those earning over $400,000 may impact some goods' consumption, but we do not expect significant changes to consumer spending.

Sucden Financial

GDP vs Fed Chart

Interest rates are strong gauge for the GDP in the US, and we expect a return to growth next year but CPI inflation will remain muted.

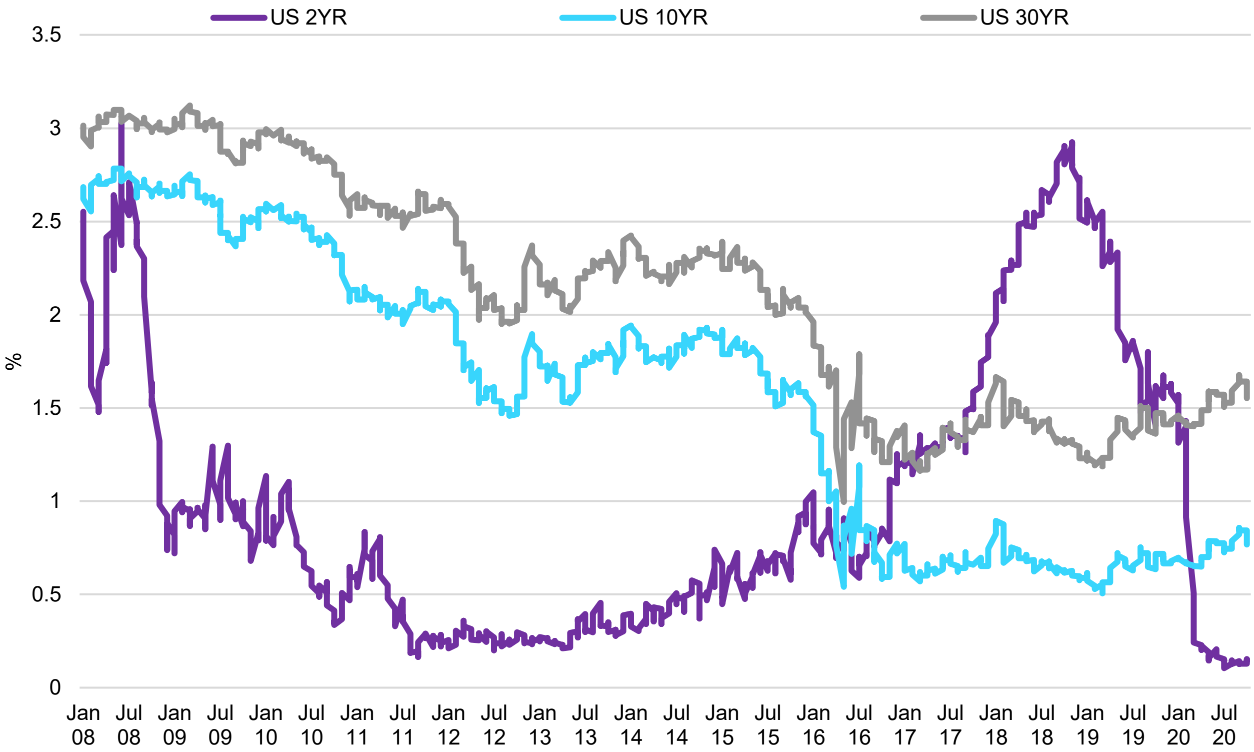


Source: Bloomberg

We expect the $6trn stimulus plan to be passed in 2021 in this scenario, the $4trn revenue from tax increases will help offset some of this spending, but we still expect a twin deficit, which is negative long-term growth due to higher debt levels. GDP for 2021 is going to be healthy, and this will boost economic sentiment. The higher fiscal stimulus will mean less monetary stimulus is needed from the Fed. We expect inflation expectations to remain subdued in the near term despite low-interest rates. Real rates will remain low, but we expect longer-term rates to rise as supply-side economic policies filter into the economy; however, higher taxes in the second half of the term will reduce expenditure and investment from firms. The yield curve will start to steepen, but we do not expect much movement from the 10yr within 6-months of the election, up between 30-40bpts. The improvement in consumer sentiment for low-income families will help support CPI, but as we know, the Fed is willing to run inflation above 2%. Gold will benefit from this scenario due to an increased balance of government and central bank balance sheets.

US Yield Curve

The flattening of the yield curve, and the narrow range in the 2yr yield for 6 months ominous.

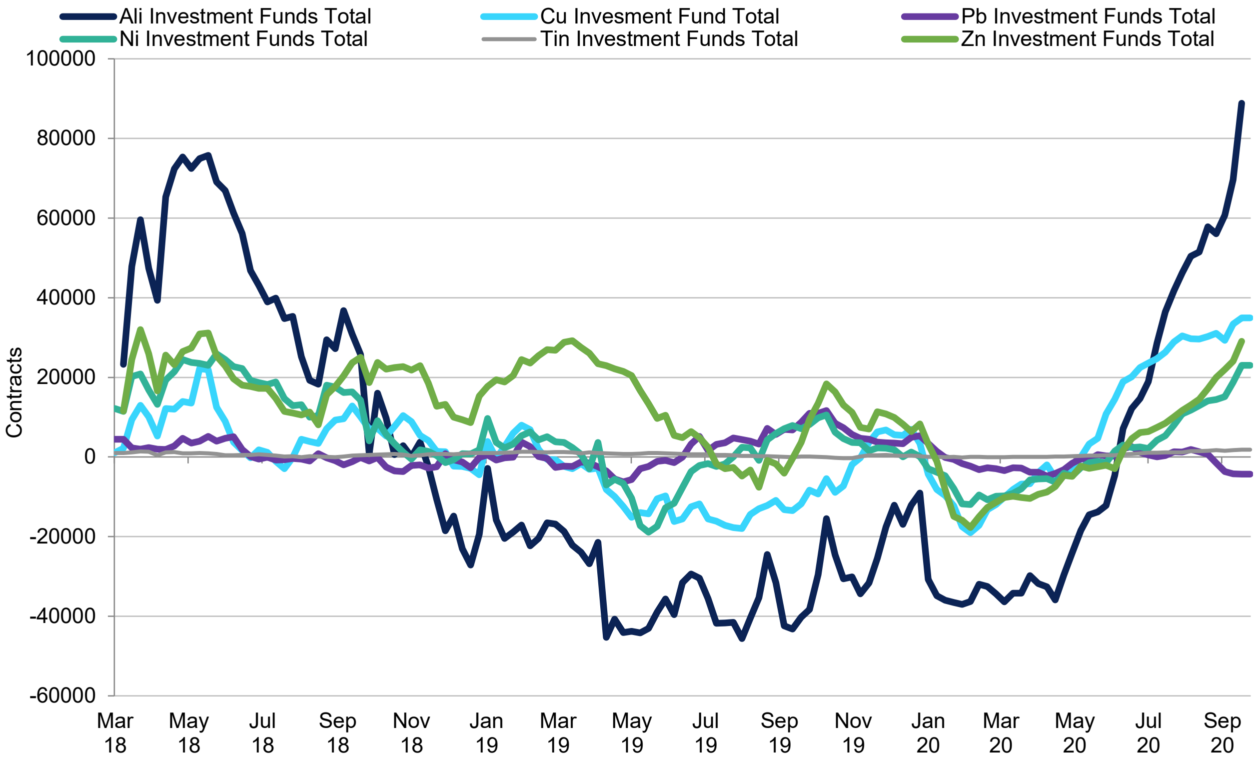


Source: Bloomberg

We anticipate the USD to strengthen against Emerging Market economies, but weaker against G7 except for GBP in the near term due to Brexit. Under a blue wall scenario, we expect the dollar to weaken against major economies; this will give rise to assets denominated in dollars such as commodities and foreign countries who hold a large amount of dollar-denominated debt. In conjunction with a weaker dollar, the lower interest rate environment will ease payments of those countries. We expect the JPY to weaken against the dollar in this scenario; we could see further tailwinds for the Euro and Renminbi.

Investment Funds LME Commitment of Traders' Position

The net length of investment funds has been rising since April, a shock risk event could trigger a sharp correction on the downside.

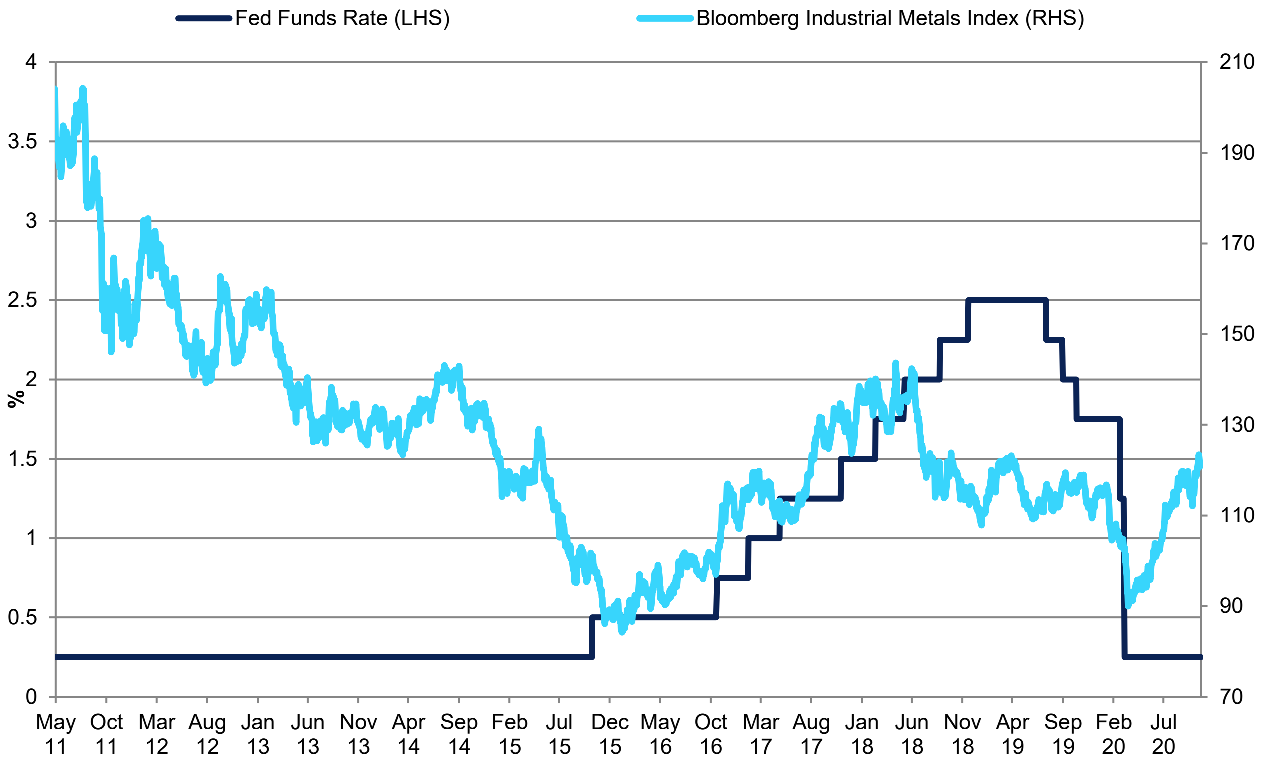


Source: LME

From a commodities perspective, the green economy will boost demand for copper, nickel, and aluminium, particularly in the long run. However, we do not expect this demand to materialise until Q4 2021 and H1 2022, but we expect markets to price this in well before that. The softer dollar would support commodities as well as the stronger Renminbi may give aid a rally further. One thing that cannot be ignored is the size of the net long position for investment funds and other firms on LME traders' reports' commitment. Both have a high z-score and are near record highs, suggesting a limited capacity for further longs. From an agriculture perspective, a stronger relationship with China and a promise of more purchases of U.S. grains will likely buoy sentiment in these markets. Indeed, a Biden Presidency who has greater environmental rhetoric could push for more significant ethanol usage; the former Vice President recently indicated he would promote biofuels to help U.S. farmers, boosting corn demand. This was a strong commitment to the Renewable Fuel Standard.

Industrial Commodities vs Fed Funds Rate

Industrial commodities could benefit from low interest rates due to increased construction and manufacturing projects.



Source: Bloomberg

Scenario 3: Trump and a Divided Government

Table 3 – Markets are pricing in a Biden victory and this scenario could present a strong initial shock. Superseding this, the divided government and 4 more years of tariffs and uncertainty will prevail.

Scenario 3								
Dollar vs G4	Dollar vs EM	Commodities	Copper	Nickel	Aluminium	Grains	Stocks	US Yields
Neutral to Bearish	Bullish	Bearish	Bearish	Bearish	Bearish	Moderately Bearish	Bullish	Moderately Bullish

*Brexit will likely cloud cable
Source: Sucden Finanical

The third most likely scenario is where Trump is re-elected, and he is left with a divided government. Given the congressional gridlock, economic policy would be similar to the first scenario. However, headwinds prevail as growing civil unrest, political instability, and rising coronavirus cases could pose risks to recovery in the U.S. Even with a divided government, we expect stimulus measures to be passed, aiding American citizens and boosting economic growth. The total amount will be considerably less than Joe Biden, which would be more bullish for long-term growth as deficit levels would be lower. We would expect the dollar to rally in this scenario in the first few weeks, but in our opinion, further weakness against all major economies in the longer term.

The market is pricing in a Biden win, and the shock could prompt a sell-off in the commodities markets. The bullish rhetoric from a green economy would be wiped out. The considerable net lengths for some base metals such as nickel, aluminium, and copper could trigger significant long liquidation, prompting a correction in prices. This would also be hit by a continuation of the trade war with China. Agriculture products may remain under threat, although we expect some farmer districts to favour President Trump.

Stock markets are likely to remain supported in the near term but the uncertainty regarding trade, gridlock, civil unrest, and battles with the Fed. Tax reductions would boost investment, buybacks, and inflation. Income tax reductions would aid inflation and prompt the Fed to start increased rates sooner, which would see the yield curve steepen. The boost from consumers would boost earnings giving rise to stock markets. The lack of regulation would be a boon for indices. Robust economic data and an increased probability of higher interest rates soon due to consumer inflation may buoy the dollar in the medium term. This would present weakness for E.M. currencies with higher rates and a strong dollar like what we saw in his first term.

RISK WARNING