

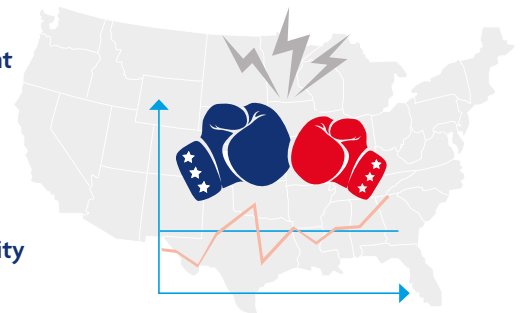
# UOB Investment Insights

## Market PowerBar

28 OCTOBER 2020






### The US presidential election 2020: Possible outcomes and implications

- The upcoming US presidential election, which will be held on 3 November 2020, is the most anticipated political event this year – former Vice President Joe Biden (Democrat) will be up against incumbent President Donald Trump (Republican).
- The latest election polls show Joe Biden leading President Trump, and expectations of a Biden win have risen.
- Market volatility could increase as a result of uncertainties over the possibility of contested results and delayed outcomes.



In this issue of Market PowerBar, we discuss the policy priorities of both presidential candidates, possible outcomes and what these mean for investors.

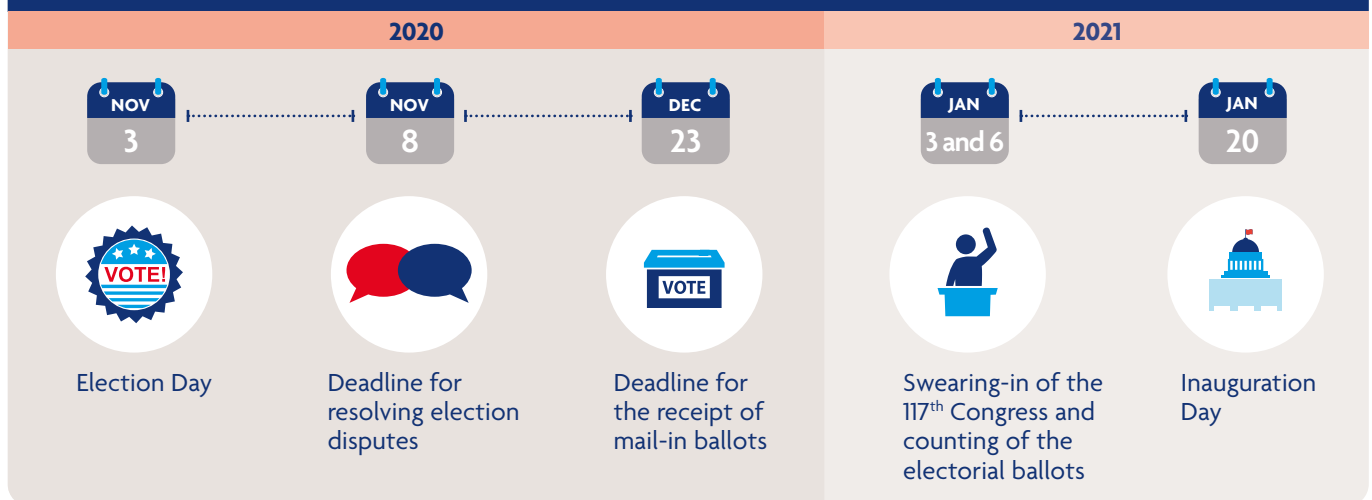
#### Policy priorities of both presidential candidates and the possible impact on markets

	BIDEN	VS	TRUMP
<b>ECONOMY</b>			
 <b>TRADE</b>	Likely to: <ul style="list-style-type: none"> <li>• Enforce existing trade laws while pushing for new rules to protect labour standards and environment</li> <li>• Improve trade relations with allies</li> <li>• Pursue a more diplomatic approach in curbing the rise of China</li> </ul>		<ul style="list-style-type: none"> <li>• America First policy – protectionist stance</li> <li>• Likely to seek deals that are favourable for US with trading partners like China and Europe</li> <li>• Likely to remain tough on China</li> </ul>
 <b>TAXES</b>	<ul style="list-style-type: none"> <li>– <b>Equities</b> <ul style="list-style-type: none"> <li>• Likely to hike taxes once COVID-19's impact on businesses lessen</li> </ul> </li> <li>~ <b>Fixed Income</b> <ul style="list-style-type: none"> <li>• Rate Projections               <ul style="list-style-type: none"> <li>- Corporate tax rate: increase from 21% to 28%</li> <li>- Top personal tax rate: increase from 37% to 39.6%</li> <li>- Capital gains tax expected to rise</li> </ul> </li> </ul> </li> </ul>		<ul style="list-style-type: none"> <li>+ <b>Equities</b> <ul style="list-style-type: none"> <li>• Possibility of further corporate and income tax cuts</li> </ul> </li> <li>– <b>Fixed Income</b></li> </ul>
<b>SECTORS</b>			
 <b>HEALTHCARE</b>	<ul style="list-style-type: none"> <li>– Looking to expand the Affordable Care Act (ACA) by adding public insurance option</li> <li>• Medicare to negotiate for lower drug prices, which will impact pharmaceutical companies</li> </ul>		<ul style="list-style-type: none"> <li>~ May repeal Affordable Care Act (ACA). This will benefit pharmaceutical companies but affect managed healthcare providers</li> </ul>
 <b>INFRASTRUCTURE</b>	<ul style="list-style-type: none"> <li>+ Proposing a USD 2 trillion plan which will include environmentally-friendly proposals</li> <li>• Will likely pursue the building of roads, bridges, electricity grids and universal broadband</li> </ul>		<ul style="list-style-type: none"> <li>+ Possible increase of infrastructure spending, although lack of progress in the past four years has raised questions</li> </ul>
 <b>FINANCE</b>	<ul style="list-style-type: none"> <li>– Financial transactions tax likely to be implemented</li> </ul>		<ul style="list-style-type: none"> <li>+ Likely to prefer less regulations. This could open up more opportunities for the banking sector</li> </ul>

## Possible outcomes of the election and what these could mean for investors

	Biden Win	Biden Win Split Congress	Trump Win Split Congress	Trump Win
POSSIBLE COMBINATIONS OF THE US CONGRESS				
	Democratic Senate	Republican Senate	Republican Senate	Republican Senate
	Democratic House	Democratic House	Democratic House	Republican House
INVESTMENT STRATEGY	<ul style="list-style-type: none"> <li>Consider shorter-duration bonds while holding on to some equities. Be cautious of longer-duration bonds</li> </ul>	<ul style="list-style-type: none"> <li>Invest equally between global equities with high quality factors and shorter-duration bonds to offset possible drawdowns in equities</li> </ul>		<ul style="list-style-type: none"> <li>Preference for equities over bonds as tax cuts will drive equity markets</li> </ul>
LIKELY WINNERS	<ul style="list-style-type: none"> <li>Industrials and renewable energy companies (wind and solar) as well as utilities</li> <li>US Industrials and Materials sectors</li> <li>Asian and European equities</li> </ul>	<ul style="list-style-type: none"> <li>Companies that sport superior growth rates could see their share prices outperform companies that have low valuations and out-of-favour</li> </ul>		<ul style="list-style-type: none"> <li>Cyclical sectors such as consumer discretionary and industrials may outperform</li> <li>Consider rotating to cheaper-valued segments</li> </ul>
LIKELY LOSERS	<ul style="list-style-type: none"> <li>Some healthcare companies may underperform given the regulatory agenda</li> </ul>	<ul style="list-style-type: none"> <li>Industrials and Materials equities</li> <li>Chinese markets could come under pressure</li> </ul>		<ul style="list-style-type: none"> <li>Renewable energy industries</li> <li>Healthcare sector could come under pressure</li> </ul>

## Timeline of post-election events



### Implications for investors:

- Due to the large number of mail-in votes expected, the election outcome may not be announced on 3 November 2020.
- We may see a rise in financial market volatility in November, particularly in the week of the election as a result of a possibility of a delayed outcome.
- If the election results are close and contested, this could lead to high levels of uncertainty all the way into December 2020. This is likely to weigh on US equities, but safe haven assets like Gold may perform well.
- Avoid speculating on the exact outcome given the range of possibilities highlighted in this publication.
- Ensure that your portfolio is adequately diversified across asset classes to weather the potential rise in market volatility. Consider an equal balance of equities and short-duration bonds to mitigate the uncertainty.



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