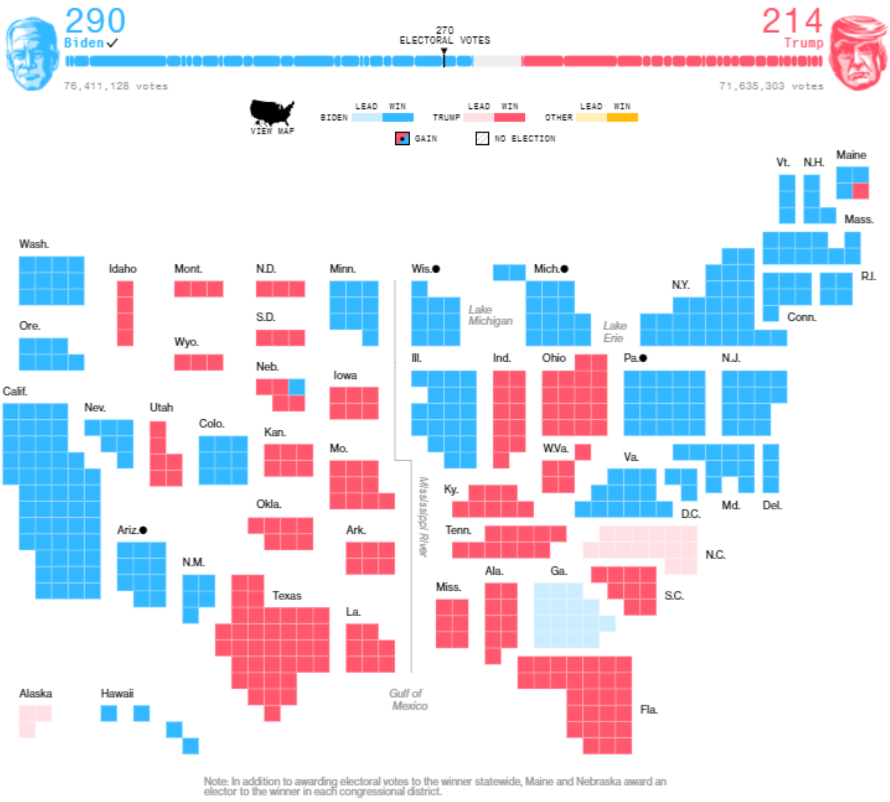
US ELECTION RESULTS GET THE NOD FROM THE MARKETS

10 November 2020

In the build-up to the US elections, it became clear that the incumbent president, Donald Trump, would not accept defeat lying down, thus setting the stage for a fiercely contested election. While the odds were overwhelmingly in favour of Biden ahead of the vote, it ended up being a close race in major swing states. With millions of ballots tallied and the counting in a few remaining states nearly complete, Biden has emerged as the winner, with the necessary number of Electoral College votes. This now paves the way for a new administration and a series of policy shifts in the coming years.



Source: Bloomberg

The financial markets have breathed a sigh of relief that this important risk event is now in the rear-view mirror, and appear optimistic that Biden's more measured approach to policy-making is likely to invite less volatility and more predictability. This, together with optimism surrounding a COVID-19 vaccine, has bolstered demand for risk assets, benefitting EM currencies and equity markets and giving SA assets a boost.

Although the markets have been emboldened by the election outcome, it is instructive to note that we are not yet out of the woods where the US election is concerned – we still await the results of the January Senate run-off, which will determine (officially) whether or not the Democrats will take control of the Senate and the House of Representatives. This is expected to have significant policy implications, with a split Senate likely to limit both the extent to which tax cuts can be rolled back and the size of the mooted fiscal stimulus package. Trump has also refused to concede defeat against Biden and plans to pursue legal challenges in the coming weeks and months. This means that headlines will no doubt continue to be dominated by the US election for some time. Investors should brace themselves for a little more election-related volatility as we head towards year-end.

While the longer-term implications of the election outcome for economic and trade policy will become clearer in the fullness of time, early indications are that the Biden administration will prioritise, among other things, the COVID-19 pandemic and the reversal of many of the Trump administration's foreign policy decisions. The latter move is expected to advance (and in many cases repair) international trade relations and reduce some of the present geopolitical risks, such as US-China trade tensions. Tackling COVID-19 head on, it is hoped, will reduce the downside risks to growth associated with a surge in coronavirus cases. Ultimately, a more moderate and predictable approach to policy-making is expected to characterise Biden's presidency, which should be good for the financial markets in the longer term and help to reduce some of the market volatility that has largely characterised Trump's presidency.

We believe there is room for cautious optimism. The strength in the markets at present is encouraging and suggests that the outcome of the US elections has been net positive for risk appetite – and, by extension, for local assets. However, we could still witness further short-term volatility as the transfer of power plays out and the markets await the results of the January Senate run-off. In the longer term, though, the US election outcome is likely to usher in a period of greater stability and a more predictable policy environment in the US, which in turn could defuse geo-political tensions and reduce global economic uncertainty.

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