

Weekly Market Summary

November 6th, 2020

Election Suspense Continues ... Markets in a Totally Different Mindset!

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Latest Update on Coronavirus: Confirmed cases last at 49.10 million, with the death toll from the pandemic at 1,240,750. The US became the first country to top 100,000 cases in one day, according to data compiled by Johns Hopkins University, bringing the total to 9.6 million. In Asia, Japan has recorded over 1,000 coronavirus infections yesterday, the highest the country has seen since August. France posted a record number of new virus cases, at 58,046, as the health minister warned of a “violent” second wave sweeping the country.

Democratic presidential candidate Joe Biden’s hold on the race for White House continued overnight as he steadily chipped away at Donald Trump’s early lead in a pair of crucial swing states, at a time the president’s campaign showered the courts with legal complaints (how convenient to get the US Senate confirming Trump’s Supreme Court nominee Amy Coney Barrett a week prior to Election Day! 😊). President Trump’s previous narrow lead in Georgia has now flipped in Biden’s favor at the time of this writing, whilst his lead in Pennsylvania is down to about 18,000, according to the Associated Press (AP). Both states had been counting a surge of mail-in ballots (those are ballots sent automatically to registered voters and later mailed back by the voter or deposited at a voting location or secure drop box by a certain time on Election Day), which skew Democratic. Biden, who had also expanded his lead in Nevada overnight, urged his supporters on Thursday to be patient as the votes are counted and expressed confidence during brief remarks on Thursday. “*We have no doubt, when the count is finished, Senator Harris and I will be declared the winners,*” (it surely takes guts to remember your running mate’s surname during times of heightened stress 😊).

Donald Trump, on the other hand, said the election is being stolen from him, despite no evidence of widespread voting irregularities (that assumes that the guy who sported a t-shirt that says “*BBQ, Beer, Freedom*” and stormed / interrupted a press conference by the Clark County in Nevada was insincere 😊). “*If you count the legal votes, I easily win. If you count the illegal votes, they can try to steal the election from us,*” a disappointed Trump said, as he went through a litany of issues with vote-counting in key states. The president campaign’s lawsuits to challenge the count, however, have so far gained little traction, with at least two being thrown out in Georgia and Michigan.

In many ways, the week has unfolded in the way many observers predicted, with Trump racking up leads in key states in votes counted on election night, whilst Biden has added to his totals with mail-in voted counted later (still being counted at this hour!) that continue eroding Trump’s advantage. While Trump has pointed to that change in his fortune as evidence of fraud, it is common for the vote totals to move in the days after the election as votes counts trickle in. Still, the president’s close allies have moved out to Pennsylvania, Georgia, Arizona and Nevada to hold press conferences and make accusations of a rigged system. Legal challenges were largely aimed at slowing or pausing the counting of votes but were generally unsuccessful.

And if the above isn’t enough to capture how confusing and uncertain the 2020 US elections are, take a look at what is happening in Arizona! In the past 48 hours, both the Associated Press and Fox News have called the state and its 11 electoral votes for Biden, but other prominent news outlets have said Arizona is too close to call, creating two different Electoral College estimates! For instance, AP has Biden leading the race for electoral votes at 264 to 214, while CNN has the tally at 253 to 213, with Arizona a toss-up. Overnight, a new batch of ballots from Maricopa County brought Trump 10,576 votes closer to Biden in that state. If Biden does win Arizona, any one of three states – Nevada, Pennsylvania or

Georgia – would put him over the threshold for victory (and Pennsylvania with 20 electoral votes, would do so regardless of Arizona!)

If the above analysis still appears perplexing to some of our readers, we refer them to the below image for the Latest Electoral Map 😊

Here is What We Know So Far!



On a more serious note, and as the US presidential race is still to yield a clear winner, the betting odd markets have already “cast their vote” for Joe Biden, irrespective of pending recounts and court battles. Also, the US Senate could remain Republican whilst the House should stay in the hands of the Democrats. Bond, Equity, Commodity and FX markets appear quite comfortable with this outcome so far, with risk-on trading supporting equity and commodity prices, a lack of a highly anticipated Democratic “blue wave” backing bond prices and expectations that a (likely) Democratic president could adopt a less aggressive protectionist stance - and thus help the global economy and trade recover - leading to a sharp sell-off in the US Dollar index. Volatility on the other hand, as measured by the VIX index, has pulled back sharply over the past few trading sessions (down 10 points or 26% since last Friday),

But surely this market euphoria can’t last much longer! At our end, we remain in the more reluctant/cautious camp and have little sympathy for this “best of both worlds” market view given pending market uncertainties and real threats of a contested vote for days/weeks to come. There is also some risk that Democrats could still take control of the Senate, although we will not know the final outcome until potentially as late as early-January when the Georgia run-off elections take place. The rebuilding of a “blue wave” risk would also temper equity markets’ enthusiasm (as it would result in new taxes) and lead to a re-steepening in the US Treasury curve (long-dated bonds selling sharply and rates rising on renewed expectations for greater additional stimulus). Additionally, the risks of a double-dip recession in Europe and a growth slowdown in the US on the back of the second, more deadly, Covid-19 wave are also lurking in the background. Last, the outcome of the Brexit talks could also start attracting greater market attention in view of the approaching “hard deadline”.

As noted multiple times before, one of the worst myths out there is that financial markets are always rational and makes sense; that is surely not true, as markets have on many previous occasions made seemingly random moves for reasons that made little sense! The other one is that many investors pretend to fully understand market moves; We surely don’t! If that is the case at your end and you have a really good theory about why stocks and bonds rallied in tandem over the

past few days, whilst oil surged from last week's lows despite worsening Covid-19 infections rates, then surely share those valuable views!

Last, for what it matters, the US Federal Reserve kept overnight policy rates unchanged near zero at its FOMC meeting yesterday, though left the door open for a shift in the composition, duration, size and life cycle of their bond purchase program (as a reminder, the US Federal Reserve still purchases a tiny \$120 billion of government and corporate bonds on a monthly basis to support markets! 😞). *"As this meeting, my colleagues and I discussed our asset purchases,"* Powell told reporters in his ensuing press conference, adding that more fiscal and monetary support are needed as rising Covid-19 infections cloud the outlook for the economic recovery. *"We understand the ways in which we can adjust the parameters of it to deliver more accommodation if it turns out to be appropriate,"* Powell added. The Fed's next meeting is December 15-16th, and one can only hope that US central bankers won't have to implement more monetary stimulus since that would only imply a further deterioration in the US and global economic picture as the year draws to a close.

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