U.S. election: too early to call

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The U.S. election result was too early to call on Nov. 4, raising the prospect of a period of uncertainty as vote counting of absentee and mail-in ballots continues in several battleground states. A conclusive result could take a few days or more, potentially spurring market volatility and leaving open the possibility of a contested election. We prefer to look through any volatility and stay with high-conviction positions amid any sell-offs in risk assets. Likely low trading volumes in this period could magnify market moves.

Both President Donald Trump and Democratic nominee Joe Biden had a potential path to victory as of 2 a.m. EST, with the outcome likely coming down to a few states such as Michigan, Pennsylvania and Wisconsin that may not announce results for several days. The race for control of the U.S. Senate was close, but the odds of a Democratic sweep – with Democrats winning both the White House and the Senate – looked low.

A win by former Vice President Joe Biden could bring a heightened focus on sustainability through regulatory actions and would likely signify a return to more predictable foreign policy. A re-elected Trump would likely double down on the "America First" approach to immigration and trade, and usher in more deregulation. A Democratic sweep could bring large-scale fiscal spending and higher taxes for companies and the wealthy.

We see fiscal policy as a critical area, as it is needed to prevent permanent economic damage from the virus shock. A Biden win with a divided Congress would constrain Democrats' ability to implement key policy priorities and launch large-scale fiscal stimulus. Stimulus in a second Trump term could be bit larger, in our view, with negotiations on a fiscal package to cushion the virus shock restarting. We expect little public investment in either case.

We see the election outcome's implications playing out in fixed income and leadership in equity markets. We expect long-term yields to be capped under a Biden divided government or Trump re-election – and could see U.S. Treasury yields falling further after a pre-election run-up on expectations of a Democratic sweep. Longer term, however, we see government bonds challenged amid a higher inflation regime. We expect tech companies, the quality factor and large caps to perform strongly under a divided government – as they have done in the past. We believe emerging market (EM) assets would likely outperform on improved trade sentiment in case of a Biden win, especially Asia ex-Japan assets. Many countries in that region have managed to contain the virus and are further ahead in the economic restart. We see challenges for EM assets and global cyclicals in a second Trump term due to a possible resurgence in trade tensions.

Key market views

A delayed result could bring uncertainty and volatility. We prefer to look past this and stay with high-conviction positions.

We see government bond yields capped in a Biden divided government or Trump win amid modest fiscal stimulus.

We see EM assets outperforming in a Biden win; cyclicals underperforming in a Trump re-election.

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