Macro Strategy | 30 October 2020

Standard Chartered
Private Bank

Global Market Outlook

US elections:
A tight finish

A Biden win and a modest Democrat Senate majority is our central scenario for the US Presidential election, an outcome favoured by polls and consensus. However, details show the race is closer than the headline suggests.

We believe most scenarios are positive for risk assets, but sector, region or country equity market impacts could differ. A contested outcome could lead to a pullback in risky assets, albeit a short-lived one. We would be prepared to add to our preferred assets on pullbacks.

Beyond the election, we are watching resurgent COVID-19 infections, rising Treasury yields and Brexit risks. Equities, credit and multi-asset income strategies remain preferred.

Also find out...

How should we position for the US election?

What could a contested poll mean for markets?

Is COVID-19's revival a risk to the outlook?

This commentary reflects the views of the Wealth Management Group of Standard Chartered Bank

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Investment strategy

IMPLICATIONS
FOR INVESTORS

- Global equities, credit and multi-asset income strategies are likely to outperform government bonds and cash over a 12-month horizon
- Within equities, we have a preference for Asia ex-Japan and the US. We would also sell equity volatility for income
- Within bonds, we believe DM HY, EM USD and Asia USD bonds are attractive
- Gold is likely to perform well amid capped bond yields and a gradual recovery in inflation
- USD weakness is likely to resume against the EUR, AUD, GBP and CNY

US elections: A tight finish

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Investing around a US presidential election

Equity and credit markets rose for most of the past month, but pulled back over the past few days amid uncertainty around the outcome of the US elections and rising COVID-19 cases.

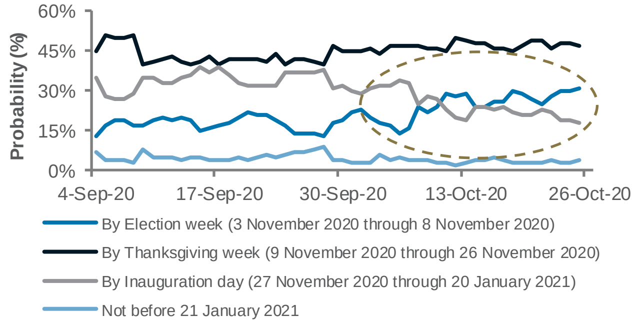
The key market focus in the near term, unsurprisingly, is likely to be the US election. Most mainstream polls and market behaviour suggest the consensus is pointing to a Biden win (RealClearPolitics: 62-69% [betting markets] and 48-54% [polls]). As we have argued before, we believe a clear win by either candidate is likely to be positive for risk assets (albeit with differing sector or regional impacts – see page 9). A Biden win, balanced by a narrow Democrat majority, is likely to be the most positive outcome for markets if it helps limit the Democrats' ability to push through tax hikes. However, a messy contested outcome that triggers a temporary risk asset pullback remains a risk as:

- Polls have a poor track record based on recent elections; in several swing states, polls are well within their 3-4% margin of error
- A likely higher-than-usual number of postal ballots this time raise the risk of legal challenges and allegations of vote fraud
- An inconclusive Electoral College vote remains a possibility

Hence, at least in the short term, we believe investors should be prepared for a range of scenarios, depending on how the election outcome unfolds. See pages 7-9 for a detailed analysis and potential short-term asset class winners and losers.

Fig. 1 Forecasters assign low probability that US election outcome is resolved within election week

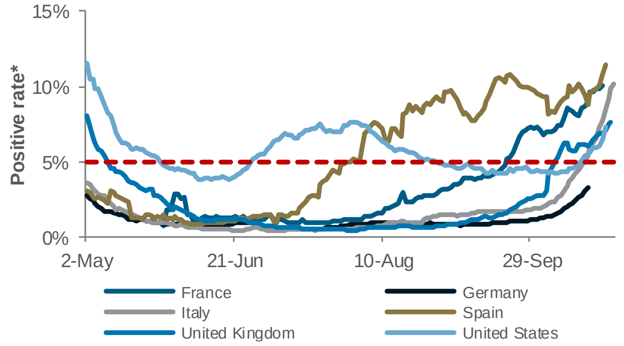
"When will a major party's presidential campaign concede defeat in the 2020 election?" – Forecaster responses



Source: The Good Judgment Project, Standard Chartered

Fig. 2 Rising positive COVID-19 test results in the US and Europe imply the virus is spreading at a faster pace

COVID-19 positive test rates* (%)



Source: Our World In Data, Standard Chartered
*Positive tests/total COVID-19 tests; As of 29 October 2020

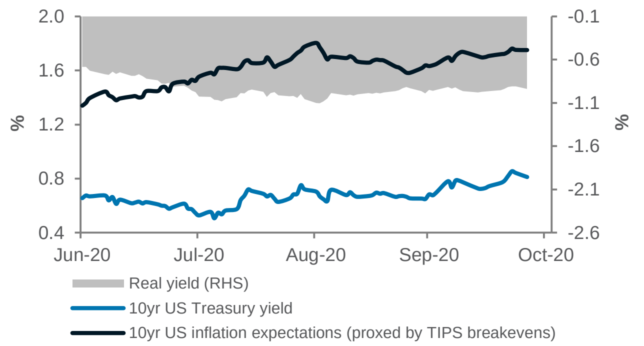
The short term vs. the long term

Regardless of which scenario unfolds after the Election Day, we believe much of the market risk is likely to be concentrated on a relatively short horizon. Recall that in the contested 2000 Bush-Al Gore election, the legal challenge was closed in 36 days, albeit accompanied by a c.10% pullback in the S&P 500 index from Election Day until Al Gore's concession. A longer history (to the early 1800s) shows that two US elections resulted in an inconclusive Electoral College vote, while a third was characterised by allegations of voter fraud. However, each of these elections resulted in a President being ultimately elected as the process ran its course.

For investors, this means focusing on two things, in our view. We believe there is value in having adequate holding power, should greater-than-expected volatility unfold. However, we would also be prepared to take advantage of any such volatility, either by adding to our preferred asset classes or by selling short-lived spikes in volatility to generate income.

Fig. 3 US Treasury yield gains have been led by rising inflation expectations, limiting the risk to equities

US 10-year Treasury yield, Real yield and inflation expectations



Source: Bloomberg, Standard Chartered

Avoiding election tunnel vision

While there is a significant near-term focus on US elections, we would not lose sight of three other key trends:

- The known risk of an autumn rise in COVID-19 infections in the northern hemisphere appears to be playing out in Europe and, increasingly, in the US. Europe's renewed containment efforts could raise downside risks to growth, risking a reversal of recent growth improvements in both Europe and the US, particularly since a pre-election US fiscal stimulus looks increasingly unlikely.
- A technical lens argues the 10-year government bond yield could rise further above 1% in the short term. However, we note that the rise has been largely driven by improving inflation expectations, leaving real yield (i.e. net-of-inflation yields) largely range-bound. This limits the potential negative impact on equities and gold, in our assessment.
- Finally, the UK and EU continue to blow hot and cold on Brexit. We continue to expect a no-deal outcome to be avoided, though bargaining strategies are pushing any agreement increasingly down to the wire, as expected.

Retain conviction on risk assets

We continue to believe that, sector-specific policies notwithstanding, all US presidential election outcomes are likely to be positive for risk assets in the medium term. A Trump outcome implies a quick return to status quo, while a Biden outcome is likely to involve significant 'green' stimulus – see page 9 for our assessment of sector-specific impacts.

On a 12-month horizon, thus, we remain comfortable with our preference for equities and corporate/EM bonds and expectations of a weaker USD. The sideways trend in real bond yields could leave gold range-bound for a little longer, though we believe it remains a matter of time before real yields resume their fall, underpinning the precious metal.

Fig. 4 Our tactical asset allocation views (12m) USD

Asset class	Sub-asset class	Relative outlook	Rationale (+ Positive factors II – Negative factors)
Multi-asset Strategies	Multi-asset income	▲	**+ Bond yield capped, still-wide credit spreads || - Equity volatility** 4-5% yield remains achievable by a diversified allocation, in our view
	Multi-asset balanced	◆	**+ Diversification benefits || - Equity volatility** Equity tilt risks near-term volatility, but long-term relative valuations a help
	Alternatives	◆	**+ Diversifier characteristics || - Equity, corporate bond volatility** Diversifier characteristics help amid volatility
Equities	Asia ex-Japan	▲	**+ Low bond yields, weak USD || - Geopolitics** China consumption, weak USD are positives, but US-China tensions a key risk
	US	▲	**+ Low bond yields, growth rebound || - Elections, COVID-19** Exceptional policy response bearing fruit, but COVID-19, election are risks
	Euro area	◆	**+ Low bond yields, policy support || - Geopolitics, COVID-19** Weak USD may support inflows, but outlook for the financial sector a risk
	Japan	◆	**+ Low bond yields, high cash levels || - Reduced buybacks** High corporate cash levels a positive, but few catalysts for sustained rally
	Other EM	◆	**+ Global growth recovery || - COVID-19** Growth recovery positive for commodities, but trade uncertainty a key risk
	UK	▼	**+ Attractive valuations || - Brexit, lagging earnings rebound** Valuations remain attractive, but Brexit a key event risk
Bonds	DM HY corporate	▲	**+ Attractive yield, attractive value || - Credit quality** Yields and valuations attractive, but higher-than-expected defaults a key risk
	EM government (USD)	▲	**+ Attractive yield, attractive value || - Sentiment to EMs a risk** Higher yields than local currency peers illustrate attractive value
	Asia USD	▲	**+ Moderate yield, low volatility || - Risk of slower China recovery** High credit quality, low volatility are attractive, but China exposure a risk
	EM government (local currency)	◆	**+ Moderate yield, weak USD view || - FX volatility** Supportive policy, weak USD positive, but falling yields have reduced value
	DM IG corporate	▼	**+ Policy support || - Deteriorating credit quality, value** Central banks very supportive, but better value available elsewhere
	DM IG government	▼	**+ High credit quality, policy support || - Low yields** Rebound in growth, inflation expectations a risk
Currencies	AUD	▲	**+ Growth rebound, exports || - Geopolitics** AUD remains good proxy for China growth rebound
	EUR	▲	**+ Policy stimulus, growth rebound || - Geopolitics** EU-wide stimulus, ECB policy support are key positives
	GBP	▲	**+ Undervaluation, eventual Brexit deal || - Brexit deal failure a risk** Currency remains undervalued, but Brexit a key source of uncertainty
	CNY	▲	**+ Attractive yields, growth rebound || - Geopolitics, debt risk** High real bond yields, recovery growth likely to drive inflows
	JPY	◆	**+ Safe-haven demand || - Japanese foreign asset demand** JPY caught between global safe-haven status and outflows seeking returns
	USD	▼	**+ Safe-haven demand || - Falling rate differentials, Fed liquidity** Rising confidence in global recovery likely to reduce demand for USD

Source: Standard Chartered Global Investment Committee

Legend: ▲ Preferred ◆ Core holding ▼ Less preferred

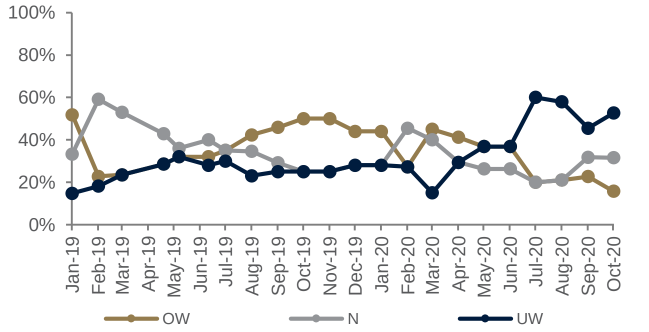
Major brokers' and investors' views

As part of our Investment Philosophy, we strive to achieve diversity of insights by constantly monitoring a wide array of investment views and analysis. This part of our process is what we call the Inside View, where we gather lots of research and analysis, consider the specifics of the situation, and combine them with our analysis of historical probabilities - the Outside View – to create scenarios for the future.

The below charts show the percentage of investment research (broker and independent) houses and asset management companies who are Overweight, Underweight and Neutral on different asset classes.

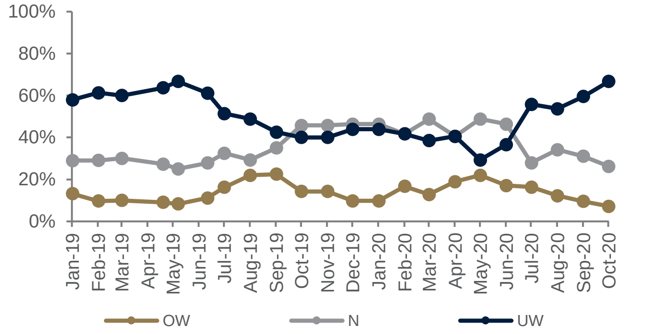
Cash

OUR VIEW
UW



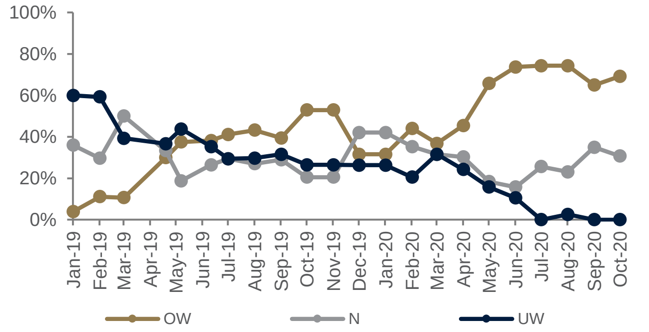
Rates

OUR VIEW
UW



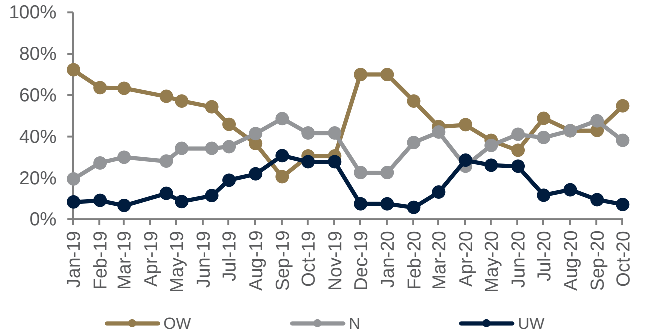
Credit

OUR VIEW
OW



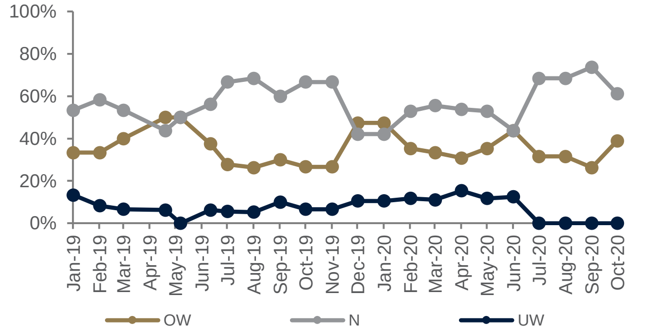
Equities

OUR VIEW
OW



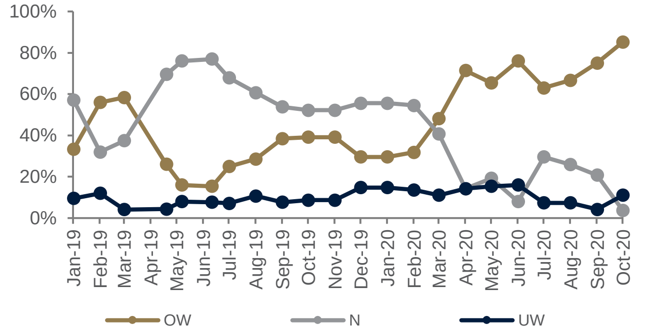
Alternatives*

OUR VIEW
N



Gold

OUR VIEW
OW



Source: Standard Chartered Global Investment Committee

*Alternatives represent a combination of views on liquid and private alternative strategies, as well as real estate

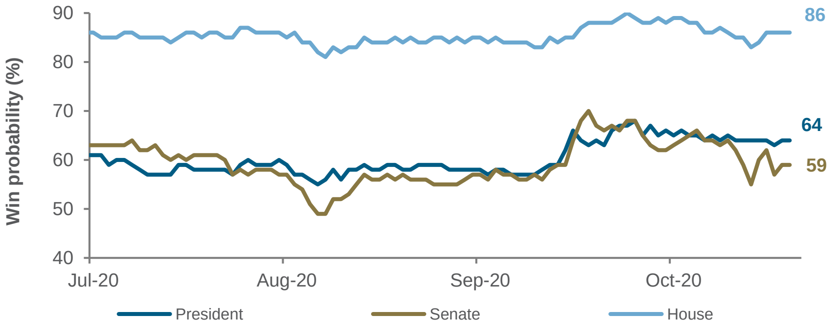
Perspectives on key client questions

How should investors position themselves for the upcoming US election?

Markets appear to be warming to a Joe Biden presidency and Democrat control of the Senate and House of Representatives after the 3 November US elections. This can be seen in the polls and through the renewed decline in the USD, rise in US Treasury yields and outperformance of EM vs DM equities in October. However, polls are still close (Fig. 5), especially for the Senate race, and they have been wrong before. Hence, we take a post-election scenario-based approach in this analysis and assess the likely winners and losers under the various scenarios.

Fig. 5 A Democratic sweep of Congress is still the most probable US election outcome according to betting markets

Betting market probabilities of victory of respective Democratic races



Source: PredictIt, Bloomberg, Standard Chartered
As of 29-Oct-2020

An overview of policy and market implications

A review of the likely policy outcomes (Fig 9, top) indicates that a strong Democrat "clean sweep" (Blue Wave) would raise the chances of higher taxes and tighter regulations, especially for the energy, financial and technology sectors.

Nevertheless, the immediate goal for Democrats will likely focus on implementing a USD 2-3trn fiscal stimulus package to support jobs, small businesses and hard-hit states and municipalities from the pandemic. Democrats will likely take cue from the path of the recovery and on the availability of a vaccine before moving forward with their more ambitious reforms mentioned above.

However, these measures would be offset by pro-cyclical fiscal spending policies, focussed on building "green" infrastructure, which are likely to boost the US' long-term growth potential and would be positive for cyclical and value equities (Fig. 9, bottom). A strong Blue Wave would also make it easier for the Democrats to double minimum wages, supporting consumer discretionary sector equities. Lastly, a strong Blue Wave could also put upward pressure on Treasury yields, testing the Fed's willingness to contain a subsequent rise in government rates.

In that sense, a narrow Democrat Senate majority ('Marginal win' scenario) would be the most positive scenario for risk assets, in our assessment. A narrow Senate majority would also limit tax hikes, soften Democrats' regulatory impulses, moderately boost Treasury yields (which is good for financial sector equities), weaken the USD and lift EM assets and gold. However, in this scenario, odds of a delay or a reduction in the size of the pandemic stimulus package increase somewhat.

A surge in postal ballots in this election raises the risk of a contested election, however. An emphatic Democrat win would reduce this risk, in our assessment. Also, the decision by some of the "swing states", such as Florida, to announce early outcome trends on the election night should allay some concerns. US election rules make it very likely that a decision on the winner is reached by early January. Thus, we would view any rise in volatility in the next few weeks due to contested election concerns as an opportunity to average into relevant asset classes and sectors (page 9).

What could a contested result mean for markets?

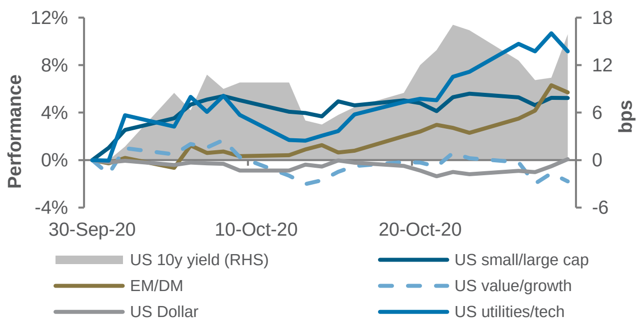
While betting markets are assigning a more than fair chance to a Biden win, we note the range of uncertainty around the outcome is quite high. At the time of writing, RealClearPolitics shows the odds of a Biden win range from 62-69% in betting markets and 48-54% in polls. Fig. 7 also shows Biden's lead in several key states is well within the historical 3-4% margin of error in poll surveys.

A contested election outcome – where the winner of the Presidency is unclear for more than 24 hours after Election Day – is also a possibility. The Good Judgment project assigns just over a 21% probability that a party campaign does not concede defeat by Thanksgiving Day. There are several ways this short-term risk scenario could happen:

- **Postal ballot delays:** As both candidates wait for postal votes to be fully counted, this scenario increases uncertainty on whether each candidate will consider conceding or contesting the election.
- **Allegations of vote fraud:** A candidate could challenge the votes based on vote fraud allegations. This could lead to 1) a legal challenge, or 2) disputes about accepting votes, possibly resulting in the formation of a Congressional Commission to resolve the dispute.
- **An inconclusive Electoral College vote:** Given the even number of Electoral College votes (538), a tie is possible. In such a scenario, the president would be chosen by the newly elected House of Representatives, albeit with each state being allowed only one vote.
- **A failure to resolve challenges by Inauguration Day:** A failure to clearly elect a president by Inauguration Day (20 January) would mean the vice president-elect acts as president until the election is resolved. Should the vice-presidential election also be unresolved, the speaker of the House acts as president in the interim.

Fig. 6 US assets which are more sensitive to a Democratic win have recently outperformed

Month-to-date performance of select assets



Source: Datastream, Standard Chartered as of 29 Oct 2020

Fig. 7 Biden is leading in the key battleground states that Trump surprisingly won in 2016, but the table below shows a tight race in many of these 'swing' states

Biden's polling lead over Trump in key states; 2016 Democrat win/loss margin

State	Electoral Votes	2016 D-R Margin	Biden – Trump lead
Arizona	11	-3.8	**2.2**
Florida	29	-1.2	**Tie**
Georgia	16	-5.3	**Tie**
Michigan	16	-0.2	**8.6**
Minnesota	10	1.7	**4.7**
North Carolina	15	-3.8	**0.7**
Ohio	18	-8.5	**-0.6**
Pennsylvania	20	-0.8	**3.8**
Texas	38	-9.4	**-2.6**
Virginia	13	5.7	**12.0**
Wisconsin	10	-0.8	**6.4**

Source: RealClearPolitics; Standard Chartered; as of 28 October

A contested result will only be temporary

For markets, the key focus is likely to be the magnitude of uncertainty involved. While a short delay caused by postal ballot counting is unlikely to elicit a significant market reaction, any of the other contested scenarios could lead to a more significant risk-off market reaction.

In our assessment, equities, HY bonds and EM assets would be key losers, while Treasuries, gold and the JPY would be key winners. The contested 2000 election resulted in c.10% weakness in the S&P 500 index between Election Day and concession.

Having said that, all scenarios do result in a President eventually being selected. This suggests that any short-term risk-off move in markets is likely to be limited in length to the period of uncertainty, similar to 2000. Some of this could also occur as soon as next week, if markets begin to price in uncertainty ahead of the fact. For investors, this suggests that rather than considering reducing long-term risk asset exposure, building holding power (through hedges, for example) may be a better way to prepare for the risk of any period of uncertainty.

Fig. 8 Summary of likely winners and losers in a contested election short-term risk scenario

Key winners in a contested election	Key losers in a contested election
USD	Equities
Safe havens (gold, JPY, CHF)	DM HY bonds
US Treasuries	EM bonds (USD and local currency)
IG Corporate bonds	

Source: Standard Chartered

Fig. 9 Potential US election scenarios, policy implications and likely short-term asset class responses

		Strong Democrat win[1]	Marginal Democrat win[2]	Status quo	Contested election
President		Joseph Biden	Joseph Biden	Donald Trump	?
Winning odds (RealClearPolitics)		Biden: 62-69% (betting markets); 48-54% (polls)	Biden: 62-69% (betting markets); 48-54% (polls)	Biden: 35-46% (betting markets); 40-47% (polls)	Contested[4] odds: 21% (Good Judgment project)
House and Senate		Strong Democrat House & Democrat Senate (D&D[3])	D&D[3] (with narrow Senate majority) or D&R[3]	D&D[3] or D&R[3]	?
Policy implications	**Corporate taxes**	Reverse half of Trump's corporate tax cut and impose a minimum 15% corporate tax rate	Democrats to scale back corporate tax hike agenda	No reversal of corporate tax cuts	N/A
	Personal taxes	Implement wealth tax on high net worth individuals; raise capital gains tax on high earners; double minimum wages to USD 15/hour	Odds of Trump tax cuts expiring in 2025 rise; minimum wages likely to rise by a lesser extent vs Strong Democrat scenario	Struggle to cut personal income tax further; leave minimum wages at USD 7.25/hour or agree to a marginal rise	N/A
	Healthcare	Improve Obamacare with a public insurance option; cut drug prices	Lower drug prices, given it has bipartisan support; expansion of Obamacare less likely	Lower drug prices; continue with efforts to repeal Obamacare; cuts to Medicaid and Medicare	N/A
	Fiscal policy	Another USD 2-3trn in pandemic stimulus; trillions more in green infrastructure spending; ban drilling on Federal land; stricter fossil fuel standards; re-enter the Paris climate pact	Less than USD 2trn in pandemic stimulus; toned down green infrastructure spending and cleaner tech regulations; re-enter the Paris climate pact; lower chance of policies against fossil fuels	Weaker pandemic stimulus; USD 1trn infrastructure spending in traditional sectors; less support for green policies; open more Federal land for drilling; keep tariffs on imported solar panels	N/A
	Regulatory policies	Tighter regulations against banks, energy and tech firms	Fewer regulatory changes; rely more on executive orders	Continued deregulation, anti-trust investigations on large tech	N/A
	Foreign policy	Collaborate with allies to challenge China; re-enter Trans-Pacific Partnership (TPP), etc.	Continuation of tough stance on China, with a more diplomatic approach; re-entering TPP unlikely	Continue with trade, technology, investment war against China and early stage trade war with the EU; re-entering TPP unlikely	N/A
	Legislation	Easy passage of most legislations	Delays in Senate legislations as Republicans use filibustering	Delays in House legislations as Democrats oppose bills	N/A
Asset class implications					
#Historical precedents		S&P500 + 10%	S&P500 + 14%	S&P500 +5%	
Likely asset class winners	**Equities**	Europe, Asia ex-Japan, Japan equities	Europe, Asia ex-Japan, Japan equities	US equities	Defensive, low volatility, income strategies
		Asia ex-Japan technology to outperform US technology	Asia ex-Japan technology to outperform US technology		
		Asia ex-Japan financials, industrials	Asia ex-Japan consumer staples, consumer discretionary	Asia ex-Japan consumer staples, consumer discretionary	
		US materials, consumer discretionary, industrials, alternative energy	US utilities, real estate	US real estate, consumer discretionary, energy, industrials, materials	
		Europe materials, financials, industrials		Europe healthcare, technology	
		Europe financials, industrials			
		Value style	Value style		
		Global cyclicals		US cyclicals	
	FX and Commodity	EUR, AUD, GBP	EUR, AUD, GBP	EUR, AUD, GBP	Safe haven FX (JPY, CHF)
		EM FX	EM FX	EM FX	USD
		Gold (larger move)	Gold (smaller move)	Gold (smaller move)	Gold
	Bonds	EM USD govt bonds	EM USD govt bonds	EM USD govt bonds	US Treasuries
		Asia USD	EM local currency bonds	DM HY corporate bonds	US IG corporate bonds
			Asia USD		
			DM HY corporate bonds		
Likely asset class losers	**Equities**	US energy, healthcare, utilities, materials, financials, real estate	US energy	US healthcare, cyclicals	
		US technology sector dependent on regulatory stance	Low volatility style	Value style	
		Asia ex-Japan utilities, energy		Asia ex-Japan financials, industrials	
		Europe technology, healthcare			
	FX and Commodity	USD (larger move)	USD (smaller move)	USD (smaller move)	
	Bonds	US Treasuries	US Treasuries		EM USD govt bonds
		US HY corporate bonds			EM LCY
					DM HY corporate bonds

Source: Standard Chartered; Note: 1. Strong Democrat win = Biden as President, Democrats win 60 or more seats in Senate & retain strong majority in the House; 2. Marginal Democrat win = Biden as President, Democrats win 51-60 Senate seats and retain majority in the House; 3. D = Democrat, R = Republican; #Historical precedents = Average S&P 500 index annualised returns during presidential terms under similar scenarios after past elections; 4. Contested by Thanksgiving Day

Is COVID-19's revival a risk to the outlook?

Europe and the US are seeing another pandemic wave and the death toll is rising from very low levels. This has compounded the near-term uncertainty arising from US elections, dragging risk assets lower. Our Global Investment Committee continues to view another global pandemic wave as a key risk to our constructive stance on risk assets. We would defer to scientists to map the virus's future course – the current consensus is that the pandemic is unlikely to be brought under control till a vaccine or cure is found. Nevertheless, we believe authorities are now better prepared and we maintain a relatively sanguine view for now:

i. **A return to H1's total economic lockdown is unlikely:** In Europe, with the exception of France, governments have imposed regional restrictions based on the severity of cases, and generally targeted towards entertainment establishments. Even in France, which has imposed a national lockdown, schools and factories have been kept open. In the US, authorities are reluctant to impose major restrictions because of widespread public opposition against lockdowns. However, some states are likely to re-impose some form of restrictions once the elections are over. The softer approach, compared with the total lockdowns previously, is because most developed economies are now better prepared to deal with another wave, having improved testing and tracking capabilities and hospital facilities. Also, fatality rates have turned out to be lower than anticipated and doctors have developed treatment protocols, especially for serious cases, which are likely to keep future fatality rates under control.

ii. **Rising chances of a vaccine:** There are eight major vaccine trials in the final phase of development. Some, developed in China and Russia, have been approved for limited use. While some scientists have raised doubts about their safety, their use in several countries has boosted confidence that a vaccine could be deployed on a mass scale relatively soon. Two US vaccines could seek US regulatory (FDA) approval in November-December if their trials are successful and could be rolled out across DMs as early as H1 2021.

Based on the above observations, we assign a low probability of a severe clampdown on economic activity leading to the kind of economic contractions seen in H1. There is a growing risk Europe and the US could see another economic slowdown in Q4. However, we believe that the unprecedented and coordinated fiscal and monetary response is likely to mitigate the impact of partial lockdowns. European governments have extended their job-support programmes into 2021 and the ECB is likely to extend its pandemic stimulus yet again. In the US, a Biden administration (most likely after the election) is likely to deploy another USD 2-3trn of stimulus to support jobs, small businesses, states and cities. A vaccine approval this year should boost confidence significantly, even if deployment takes longer. Cyclical sectors, such as financials, industrials and materials, and sectors worst hit by the pandemic (airlines, hotels, restaurants and entertainment) are likely to gain the most from such an outcome.

Fig. 10 Equities have taken a hit lately amid a revival in the pandemic and uncertainty around the US elections

S&P500 index and its volatility index (VIX, inverted)

Source: Bloomberg, Standard Chartered

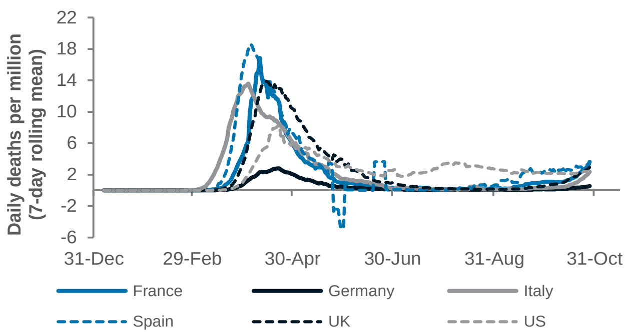
Fig. 11 Several vaccines are in the final stage of trials

Covid-19 Vaccine Company	Progress	Comments
Pfizer	Phase 3	Late-stage trial testing, planning to seek FDA approval in November
Moderna	Phase 3	Late-stage trial testing, awaiting interim results of its vaccine
Astra-Zeneca	Phase 3	Late-stage trial testing resumed after approval from the FDA, following a pause due to a volunteer's illness
Johnson & Johnson	Phase 3	Late-stage trial testing to resume after a pause because a volunteer became sick
CanSino	Phase 3	Authorised to be used by China's military. Approved for final stage trials in Russia.
Sinovac	Phase 3	Approved for use in China for doctors, customs staff and other frontline workers. Phase 3 trials in multiple countries.
Gamaleya	Phase 3	Approved for use in Russia
Sinopharm	Phase 3	Authorised for emergency use in China, final-stage trials in other countries

Source: Bloomberg, Standard Chartered

Fig. 12 COVID fatality rates have started to rise in the US and Europe, albeit from very low levels

Daily fatality rates per million people, 7-day rolling average



Source: Our World in Data, Standard Chartered

Macro overview – at a glance

Key themes

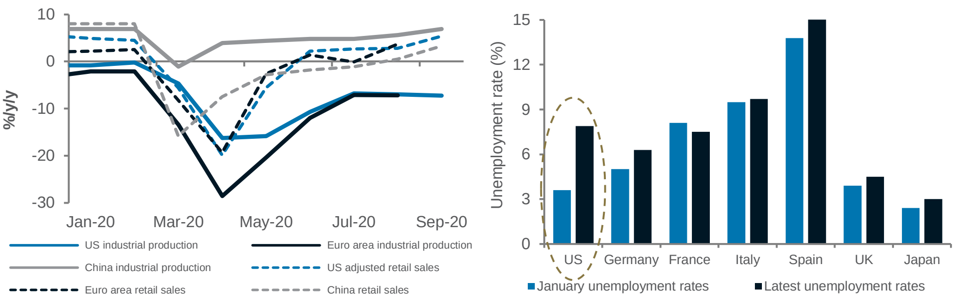
Our Global Investment Committee expects the world economy to continue recovering from H1's deep-but-short recession, with China leading the rebound. Another COVID-19 wave is a risk to near-term growth in Europe and the US, but restrictions on activity are unlikely to be as severe as in H1. Besides, policymakers' commitment to provide more stimulus is likely to support a gradual recovery. In the US, the two parties have failed to agree on another stimulus, but we believe a Biden presidency and Democrat-controlled Senate and House (the mostly likely election outcome) would raise the chances of a bigger fiscal package to revive jobs and small businesses and a USD 2trn "green" infrastructure spending programme. In Europe, governments have extended job support programmes into 2021 and the ECB is likely to expand its pandemic stimulus as activity slows again. China's policy shift towards boosting domestic consumption should lead to more balanced growth.

Key chart

Our Global Investment Committee expects China to continue leading the recovery in global growth in 2021. We also expect policymakers in the US and Europe to provide more stimulus in the next 12 months to offset the impact of yet another pandemic wave

Fig. 13 China has emerged the strongest from the H1 global recession; the US and Europe are bracing for another pandemic wave, with still-high jobless rates

US, Euro area and China retail sales and industrial output; unemployment rates in the US and Europe



Source: Bloomberg, Standard Chartered

US	The US economy is likely to sustain its recovery into 2021 on the back of supportive monetary and fiscal policies, regardless of the outcome of the elections. A Democrat "clean sweep" is an upside risk to the growth outlook, with plans for another pandemic stimulus and infrastructure spending. Another severe pandemic wave is a key risk. ● Growth ◐ Inflation ◐ Monetary policy ○ Fiscal policy
Euro area	The Euro area, among the hardest hit by this year's recession, is likely to see a gradual recovery as it confronts a 2nd pandemic wave. Nevertheless, agreement on a regional fiscal response to counter the pandemic, extension of this year's national job support programmes and the ECB's accommodative policies should support the recovery. ● Growth ◐ Inflation ○ Monetary policy ○ Fiscal policy
China	We expect China, the only major economy likely to report y/y expansion in 2020, to continue leading the global recovery in 2021. Its new "dual circulation" policy to promote domestic consumption and sustained infrastructure spending should help the economy rebalance, lowering systemic risks. US-China tensions are a risk ● Growth ◐ Inflation ◐ Monetary policy ○ Fiscal policy
Japan	New PM Suga's proposed stimulus package and a revival in global trade should support a gradual recovery ● Growth ◐ Inflation ◐ Monetary policy ○ Fiscal policy
UK	The UK faces near-term uncertainty as more regions impose localised lockdowns and post-Brexit trade deal talks approach the 31 Dec. deadline. However, sustained fiscal and monetary stimulus should support growth in 2021 ● Growth ◐ Inflation ○ Monetary policy ○ Fiscal policy

Source: Standard Chartered Global Investment Committee

Legend: ○ Weaker/easier in 2021 | ◐ Neutral | ● Stronger/tighter in 2021

Bonds – at a glance

Key themes

Heading into the US election, we retain our positive stance on Credit (corporate and EM bonds). While these bonds have historically weakened in the days following presidential elections, they have usually recovered strongly over the next three months on decline in yield premiums as uncertainty reduces. This year, Credit is likely to benefit from both cheap valuations and the potential for a fiscal stimulus early next year. However, a resurgent COVID-19 infection wave is a near-term risk.

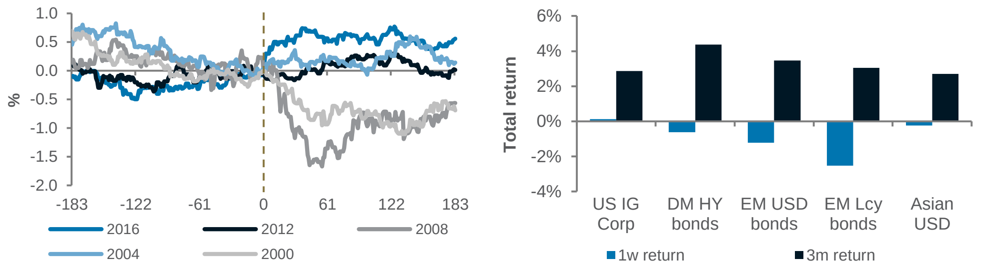
Attractive valuations and signs of peaking default rates should help DM HY bonds outperform over the next 12 months, barring a landslide Democrat win, which may lead to increased concerns around the energy sector. EM USD and Asian USD bonds also remain preferred areas as our expectation of continued economic recovery, weaker USD and relatively attractive valuations are supportive. Additionally, a potential Democratic win could lead to a reduction in geopolitical volatility, leading to further upside.

Key chart

Left chart: Change in 10-year US Treasury yield around previous US elections

Right chart: Average 1-week and 3-month returns after US elections

Fig. 14 Despite the initial bout of weakness, corporate bonds tend to outperform government bonds after US elections, potentially owing to reduced uncertainty



Source: Citigroup, J.P. Morgan, Barclays, Bloomberg, Standard Chartered. As of 26 October 2020. Note: Average returns are calculated for 5 election cycles starting in 2000. Shorter data history for EM LCY (2004 elections) and Asian USD (2008)

Preference order

Asset class	Rating	View	Key driver	Driver 2	Driver 3
DM HY corporate	▽ ◇ ▲	We view DM HY bonds as a ***preferred holding*** as their attractive yield and somewhat cheap valuations should help them outperform. Higher-than-expected defaults is the key risk, especially if virus cases rise.	● Attractive yield	● Valuation vs. govt bonds	○ Credit fundamentals
EM USD government	▽ ◇ ▲	EM USD government bonds are a ***preferred holding,*** owing to their attractive yield and valuations. Greater-than-expected growth slowdown due to the pandemic is a risk for EM bonds.	● Valuation vs. govt bonds	◐ Macro factors	◐ Rates policy
Asia USD	▽ ◇ ▲	We view Asia USD bonds as a ***preferred*** holding given their relatively attractive relative valuation, moderate yield and defensive characteristics. A slower-than-expected recovery in China is a risk.	● Credit fundamentals	◐ Macro factors	● Valuation vs. govt bonds
EM local currency	▽ ◆ △	EM local currency bonds are ***a core holding*** as their reasonable yield, supportive EM central bank policies and our expectation of EM FX strength are balanced by higher volatility and less attractive valuations.	● FX outlook	◐ Macro factors	◐ Rates policy
DM IG corporate	▼ ◇ △	We view the asset class as ***less preferred***. In our assessment, supportive central bank policies and reasonable valuations are offset by the deterioration in credit fundamentals and better value elsewhere.	◐ Valuation vs. govt bonds	○ Credit fundamentals	◐ Macro factors
DM IG government	▼ ◇ △	DM IG government bonds are ***less preferred***. Their high credit quality and supportive central bank policy are offset by the low yields they offer. A renewed growth slowdown is an upside risk for this asset class.	◐ Rates policy	◐ Macro factors	○ Valuation

Source: Standard Chartered

Legend: ▲ Most preferred | ▼ Less preferred | ◆ Core holding | ○ Not supportive | ◐ Neutral | ● Supportive | ▭ Key driver

Equity – at a glance

Key themes

Global equities remain a preferred asset class. Investors are focusing on the outcome of the US Presidential election and the likely performance of equity markets under different Presidency and Congress scenarios. In the post-war period, the best election outcome for US equity markets has been a Democrat president and split Houses of Congress. During such periods, the average annual return for the S&P 500 was 14%. Under a Democrat President and unified Democrat Congress, the annual return has averaged 10%. Rising COVID-19 infections are a near-term risk.

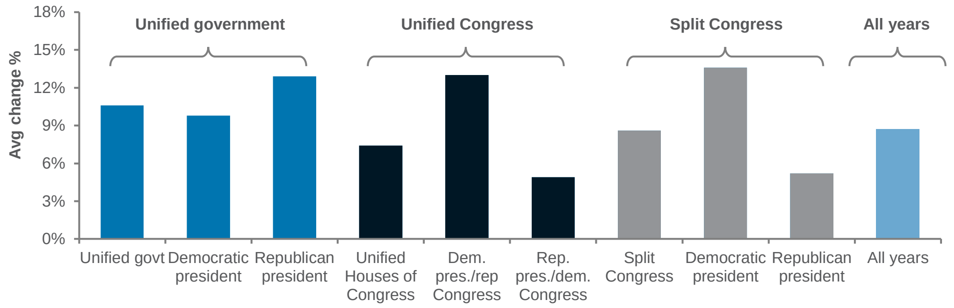
Outside the US, a Biden Presidency may take a less confrontational (but not dovish) policy towards China, which is viewed as constructive for Asia ex-Japan equities. A Biden presidency is viewed as positive for the technology sector in Asia ex-Japan. Asia ex-Japan and US equities are ranked as preferred. Within Asia ex-Japan, we prefer China and Korea equities.

Key chart

Our view is a Democrat President and unified Democrat Houses of Congress. Average S&P 500 return in this scenario historically has been 10%.
S&P 500 does best under a Democrat President and split Houses of Congress

Fig. 15 US equities do best under a Democrat President and split Houses of Congress. Average annual return has historically been 14% under this scenario

S&P 500 annual performance under different President and Houses of Congress control



Source: Bloomberg, Standard Chartered; as of 27 October 2020

Preference order

Equities	Less preferred	Core holding	Most preferred	View	Bond yields	Fund flows	Geopolitics
Asia ex-Japan equities	▽	◇	▲	Asia ex-Japan is a preferred holding. A weaker USD and increased China consumption should support the region in the coming quarters. Both China (onshore and offshore) and Korea are preferred in the region	◐ (key driver)	●	○
US equities	▽	◇	▲	The US is also a preferred holding. Low bond yields are supportive of growth and lead indicators are responding to monetary and fiscal stimulus. Earnings are expected to rebound 27% in 2021, in our view	● (key driver)	◐	○
Euro area equities	▽	◆	△	The Euro area is a core holding. Increased uncertainty over the outlook for financials has weighed on the outlook for the region. A weaker USD could support foreign inflows, COVID-19 spike a risk to earnings	◐ (key driver)	◐	◐
Japan equities	▽	◆	△	Japan is a core holding. Cash levels among corporates are the second highest across the five regions in our universe. The BoJ's plans to increase purchases of equity exchange-traded funds is supportive	◐ (key driver)	◐	◐
EM ex-Asia equities	▽	◆	△	EM ex-Asia is a core holding. A recovery in global growth in 2021 should help support the commodity-heavy EM-ex Asia index. We are monitoring the impact of COVID-19 infection rates on growth	◐ (key driver)	◐	◐
UK equities	▼	◇	△	The UK is less preferred. UK equities have underperformed global equities YTD. While the market is emerging from the downturn, Brexit negotiation uncertainty looms large on investors' radars	◐ (key driver)	○	○

Source: Standard Chartered Global Investment Committee

Legend: ▲ Most preferred | ▼ Less preferred | ◆ Core holding | ○ Not supportive | ◐ Neutral | ● Supportive | ▭ Key driver

FX – at a glance

Key themes

The long-term outlook for the USD remains bearish. We expect a broad USD decline of around 6% over the next 6-12 months, driven by a global growth recovery, narrowing real interest rate differentials, as well as a renewed focus on US twin budget and current account deficits. In our assessment, the EUR, GBP, AUD and CNY will likely do well against the USD.

The near-term focus, though, will principally be the US election. Although the USD could see a near-term bounce on a contested election, history shows any knee-jerk reactions to election outcomes are unlikely to derail the medium-term outlook. We expect ample opportunity for investors to buy currencies that should benefit from a weaker USD environment over the next 6-12 months.

Key chart

A contested election outcome is a risk, but any short-term risk-off move in markets is likely to be limited in length, as in 2000

Looking beyond that, the USD should resume its multi-year cyclical downtrend as global growth recovers

Fig. 16 The US election is a key event risk in the near term, but the USD still looks poised to resume its downward trend after the election

Performance of DXY during the 2000 US election; DXY, DXY-weighted interest rate differentials* (RHS)

Source: Bloomberg, Standard Chartered
*Derived using 10-year inflation-linked government bonds; As of 26 October 2020

Currency	View	Summary	Relative interest rates	Relative growth rates	Flows & sentiment
USD (DXY)	▼ ◇ △	USD downtrend still intact on real rate differentials, increased USD liquidity, improving global growth and renewed focus on US twin (budget and current account) deficits	○ Relative interest rates (key driver)	◐ Relative growth rates	○ Flows & sentiment
EUR/USD	▽ ◇ ▲	The ECB to focus on keeping sovereign spreads contained; tolerance for a stronger EUR likely	● Relative interest rates (key driver)	◐ Relative growth rates	● Flows & sentiment
GBP/USD	▽ ◇ ▲	Valuations will likely adjust higher provided a limited free-trade deal is agreed; UK unlikely to leave without a deal	◐ Relative interest rates (key driver)	◐ Relative growth rates	● Flows & sentiment
USD/CNY	▼ ◇ △	CNY supported by China's ongoing growth recovery, supportive portfolio flows and yield advantage	○ Relative interest rates (key driver)	○ Relative growth rates	○ Flows & sentiment
USD/JPY	▽ ◆ △	Tug-of-war between JPY safe-haven demand and portfolio flows from domestic investors persists	○ Relative interest rates (key driver)	◐ Relative growth rates	◐ Flows & sentiment
AUD/USD	▽ ◇ ▲	Structural terms of trade still supportive; well-positioned to benefit from a global growth recovery, but the RBA cautious of strong AUD as a growth headwind	◐ Relative interest rates (key driver)	● Relative growth rates	● Flows & sentiment

Source: Standard Chartered Global Investment Committee (GIC)

Legend: ▲ Bullish view | ▼ Bearish view | ◆ Range view | ○ Not supportive | ◐ Neutral | ● Supportive | ▭ Key driver

Technicals

S&P 500: A year-end rally on seasonality?

After a spectacular run since March, the S&P 500 index's rally has stalled in the last two months ahead of the US presidential election. However, if history is any guide, the index could resume its uptrend once the event risk has passed. Historically, on an average, Q4 tends to be positive, and a US election year is no exception. Since 1970, the median return in Q4 in an election year has been 4.8%, close to the historical return of 5.3% in Q4. Specifically, since 1970, the index has shown a tendency to post positive returns in November-December (median return of 2.8%). This trend is also maintained in a US election year, with a median return of 4.1%. The outliers, as the accompanying chart shows, are the years 2000 (dotcom-related downtrend) and 2008 (the Great Financial Crisis).

This suggests that the range since the start of the current quarter is in line with the historical norm in an election year and that the momentum tends to pick up once the election is over.

USD: Downtrend intact

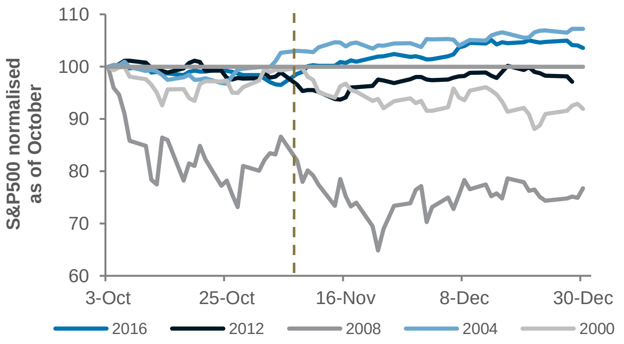
The recent pause in the USD index's slide does not alter the medium-term downtrend trajectory – a point reinforced by seasonality. Since 1970, the DXY index has weakened in November-December (median return -0.57%), regardless of whether it is a US election year or not (median return -0.37%). This ties in with the seasonality in the S&P 500 index that a post-election risk-on sentiment could hurt the perceived safe-haven USD.

US government 10-year yield: Minor rise

The sequence of higher-highs and higher-lows since August coupled with the US government 10-year bond yield's break above resistance at the August high of 0.789% has raised the odds of a rise towards the late-March high of 1.283%. However, there is interim resistance on the 200-day moving average (now at 0.83%), slightly below the June high of 0.959%; hence, the yield would need to surpass 0.83%-0.959% to solidify the minor uptrend. On the downside, a fall below the September low of 0.604% is needed to negate the short-term higher yield view.

Fig. 17 S&P 500: A year-end rally on seasonality?

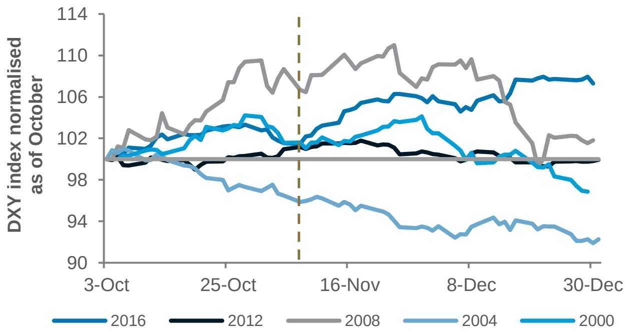
S&P 500 index re-indexed from October for US election years.



Source: Bloomberg, Standard Chartered

Fig. 18 USD: Downtrend intact

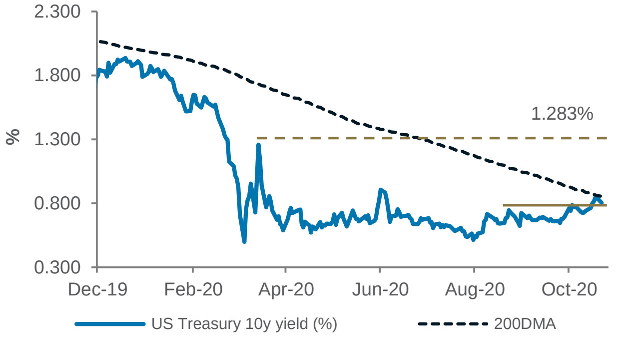
DXY index re-indexed from October for US election years.



Source: Refinitiv Eikon, Standard Chartered

Fig. 19 US Treasury 10-year yield: Minor rise

US Treasury 10y yield, daily chart with the 200-day moving average



Source: Refinitiv Eikon, Standard Chartered

Tracking market diversity

About our market diversity indicators

Our market diversity indicators help to identify areas where shorter-term market trends could break or reverse due to a reduction in the breadth of market participant types at any given time. Effectively, the indicator tries to quantify to what extent a tug-of-war is going on between different types of investors with different objectives and/or time horizons. When market diversity declines, it means that one type of investor is generally dominating price movements. This can create an environment whereby something happens to reduce the 'dominant' investors' ability or appetite to continue buying or selling, and this leads to a sharp reversal in the recent trend.

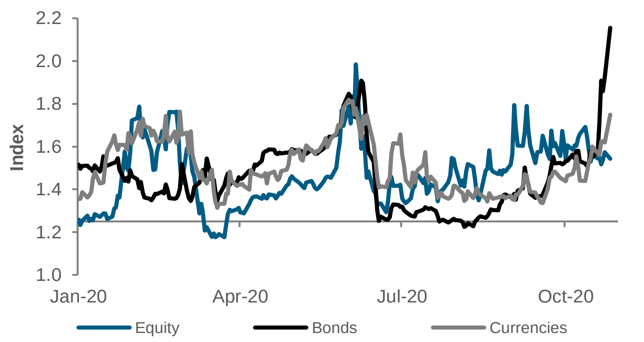
Where is diversity falling or rising this month?

Overall liquidity conditions across bond, equity and currency markets appear to remain at healthy levels. This is indicated by our market diversity indicator, which is sitting above the lower bound of 1.25 on average, for each of the asset class mentioned.

The rise in the diversity of the bond market is particularly noticeable as most of the bond indices we track have been moving in a range-bound manner since July.

Fig. 20 Average fractal dimension within each asset class on 26 October 2020

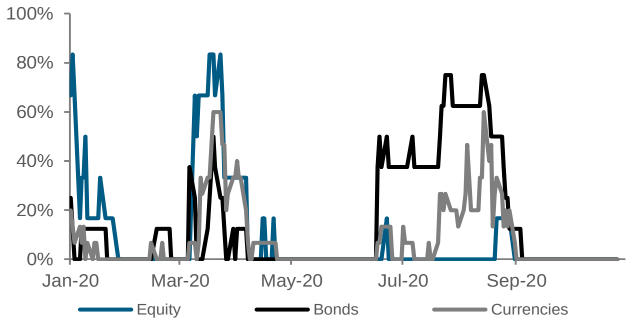
Market diversity across asset classes continues to improve



Source: Standard Chartered

Fig. 21 % of assets with fractal dimension <1.25 for each asset class on 26 October 2020

None of the assets tracked show very low market diversity



Source: Standard Chartered

Meanwhile, diversity in the equity markets is broadly lower than bonds (with Asia ex Japan and UK equities being the lowest), but none are below the lower bound of 1.25.

For currencies, market diversity has also broadly improved as the recent strength in the USD index proves to be short-lived. USD/CNH may be one to watch out for as its diversity is fairly close to the lower bound and it has been on a downward trend since May.

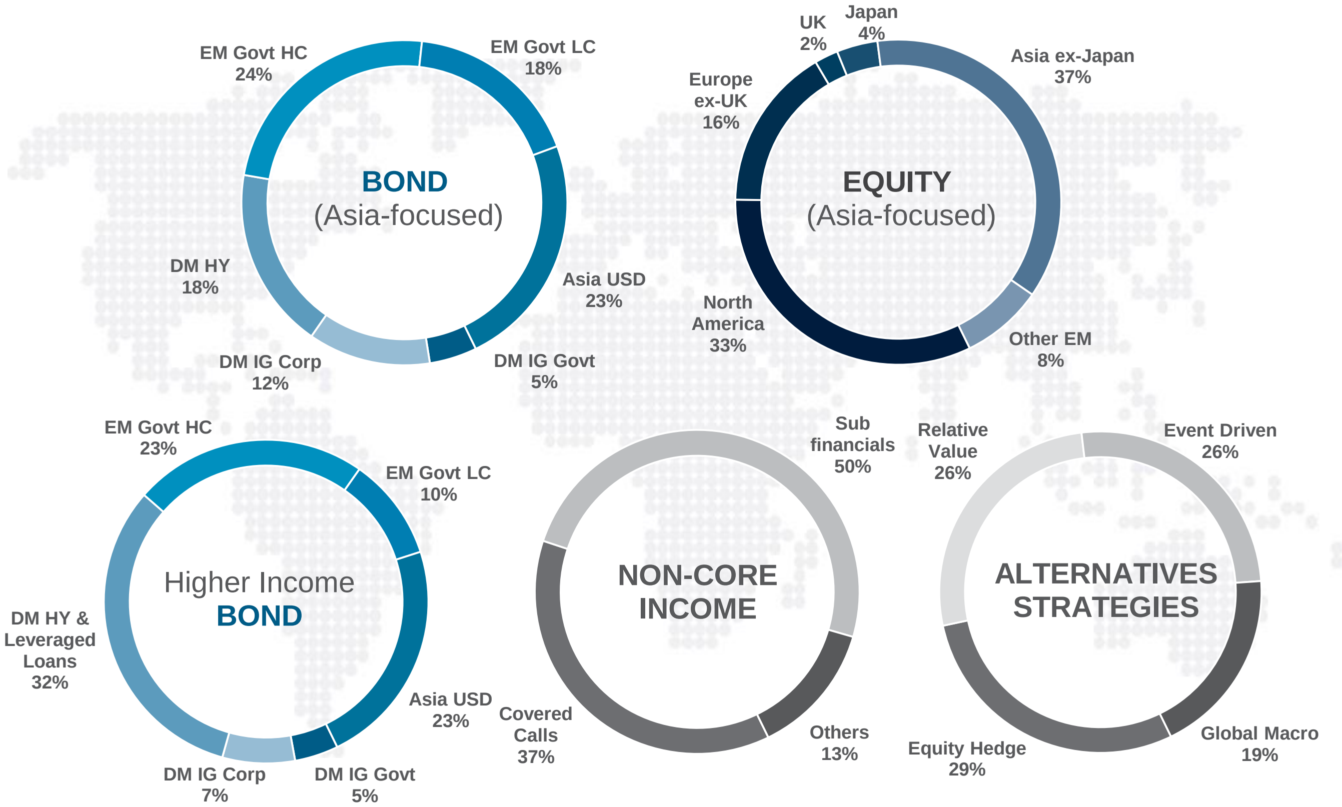
Fig. 22 Assets with lower market diversity

Level 1	Diversity	Direction since Sep
HFRX Global Hedge Fund Index	◐	→
Equity		
MSCI UK Index	◐	→
MSCI AC Asia ex-Japan Index	◐	↓
MSCI EM ex-Asia Index	◐	↓
Currency		
USD/CNH	◐	→
USD/MYR	◐	→
USD/JPY	●	↓
GBP/USD	◐	→
Yield		
US 10-year Treasury Yield	◐	↓

Source: Bloomberg, Standard Chartered; Data as on 26 October 2020

Legend: ○ Very low ◐ Low/moderate ● High

Our recommended allocations



Allocation figures may not add up to 100 due to rounding.

Tailoring a multi-asset allocation to suit an individual's return expectations and appetite for risk

- We have come up with several asset class "sleeves" across major asset classes, driven by our investment views
- Our modular allocations can be used as building blocks to put together a complete multi-asset allocation
- These multi-asset allocations can be tailored to fit an individual's unique return expectations and risk appetite
- We illustrate allocation examples for both Global and Asia-focused investors, across risk profiles

BOND Allocation (Asia-focused)	Higher Income BOND Allocation	EQUITY Allocation (Asia-focused)	NON-CORE INCOME Allocation	ALTERNATIVES STRATEGIES Allocation
For investors who want a diversified allocation across major fixed income sectors and regions Asia-focused allocation	For investors who prefer a higher income component to capital returns from their fixed income exposure Includes exposures to Senior Floating Rate bonds	For investors who want a diversified allocation across major equity markets and regions Asia-focused allocation	For investors who want to diversify exposure from traditional fixed income and equity into "hybrid" assets Hybrid assets have characteristics of both fixed income and equity Examples include Covered Calls, REITs, and sub-financials (Preferred Shares and CoCo bonds)	For investors who want to increase diversification within their allocation Include both "substitute" and "diversifying" strategies

Note: Allocation figures may not add up to 100% due to rounding.

Asset allocation summary

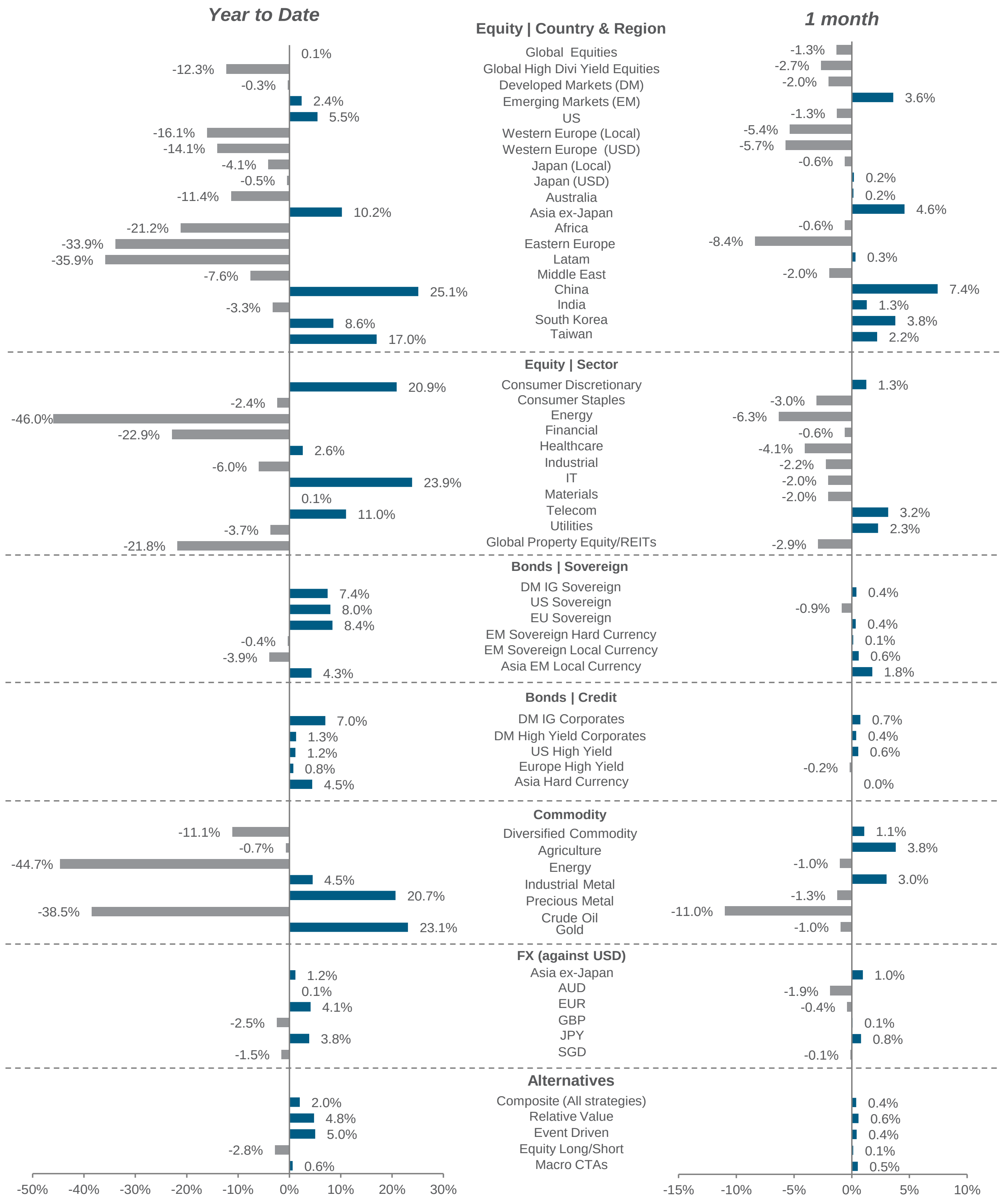
12-month view		ASIA FOCUSED				GLOBAL FOCUSED			
Summary	**View**	**Conservative**	**Moderate**	**Moderately Aggressive**	**Aggressive**	**Conservative**	**Moderate**	**Moderately Aggressive**	**Aggressive**
Cash	▼	10	3	1	0	10	3	1	0
Fixed Income	◆	66	39	30	8	66	39	30	8
Equity	▲	24	42	54	81	24	42	54	81
Gold	▲	0	7	7	6	0	7	7	6
Alternatives	◆	0	9	8	4	0	9	8	4
Asset class									
USD Cash	▼	10	3	1	0	10	3	1	0
DM Government Bonds	▼	3	2	1	0	4	3	2	1
DM IG Corporate Bonds	▼	8	5	4	1	11	7	5	1
DM HY Corporate Bonds	▲	9	7	5	1	16	10	8	2
EM USD Government Bonds	▲	17	9	7	2	12	7	5	2
EM Local Ccy Government Bonds	◆	12	7	5	1	9	5	4	1
Asia USD Bonds	▲	17	9	7	2	13	7	5	1
North America Equities	▲	15	14	18	26	16	23	29	43
Europe ex-UK Equities	◆	3	7	9	13	2	3	4	7
UK Equities	▼	1	1	1	2	1	1	1	2
Japan Equities	◆	1	2	2	3	1	2	2	3
Asia ex-Japan Equities	▲	6	16	20	30	5	10	13	20
Non-Asia EM Equities	◆	0	3	4	7	1	3	4	7
Gold	▲	0	7	7	6	0	7	7	6
Alternatives	◆	0	9	8	4	0	9	8	4

All figures in %. Source: Standard Chartered.

Note: (i) For small allocations we recommend investors to allocate through broader global equity/global bond solutions; (ii) Allocation figures may not sum to 100% due to rounding effects.

Legend: ▲ Most preferred | ▼ Least preferred | ◆ Core holding

Market performance summary*



Source: MSCI, JPMorgan, Barclays, Citigroup, Dow Jones, HFRX, FTSE, Bloomberg, Standard Chartered

*All performance shown in USD terms, unless otherwise stated

*YTD performance data from 31 December 2019 to 29 October 2020 and 1-month performance from 30 September 2020 to 29 October 2020

Events calendar

OCTOBER 2020

15	US presidential townhalls
15-16	G20 Finance Ministers and central bankers' meet
22	3rd US presidential election debate
29	BoJ policy decision
29	ECB policy decision

NOVEMBER 2020

03	US presidential and Congressional elections
05	FOMC policy decision
05	BoE policy decision
08-12	APEC Summit in Malaysia
21-22	G20 Summit in Saudi Arabia

DECEMBER 2020

10	ECB policy decision
16	FOMC policy decision
17	BoE policy decision
18	BoJ policy decision
31	End of Brexit transition period

JANUARY 2021

20	US presidential inauguration day
21	ECB policy decision
21	BoJ policy decision
27	FOMC policy decision

FEBRUARY 2021

04	BoE policy decision

MARCH 2021

11	ECB policy decision
17	FOMC policy decision
18	BoE policy decision
19	BoJ policy decision

APRIL 2021

22	ECB policy decision
27	BoJ policy decision
28	FOMC policy decision

MAY 2021

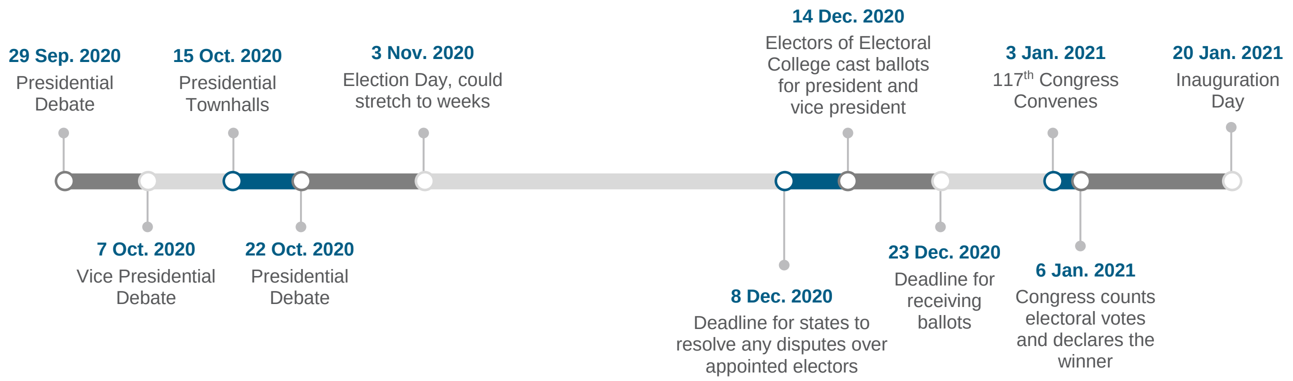
06	BoE policy decision

JUNE 2021

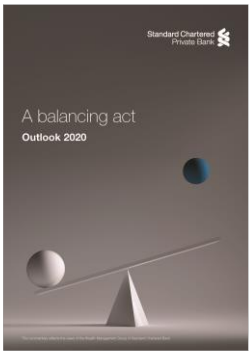
10	ECB policy decision
16	FOMC policy decision
18	BoJ policy decision
24	BoE policy decision

X – Date not confirmed | ECB – European Central Bank | FOMC – Federal Open Market Committee (US) | BoJ – Bank of Japan | BoE – Bank of England

US election timeline



Wealth management



ANNUAL OUTLOOK
annually

The Annual Outlook highlights our key investment themes for the year, the asset classes we expect to outperform and the likely scenarios as we move through the year.

GLOBAL MARKET OUTLOOK
monthly

Our monthly publication which presents the key investment themes and asset allocation views of the Global Investment Committee for the next 6-12 months.

WEEKLY MARKET VIEW
weekly

Our weekly publication which provides an update on recent developments in global financial markets and their implications for our investment views.

GLOBAL WEALTH DAILY
daily

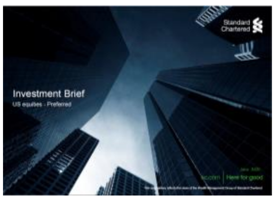
Global Wealth Daily is an early morning update of major economic and political events and their day-to-day impact on various assets classes the previous day.

MARKET WATCH
ad hoc

Market Watch focuses on major events or market developments and their likely impact on our investment views.

360 PERSPECTIVES
ad hoc

360 Perspectives provides a balanced assessment of the outlook for an asset class. It presents both the positives and negatives of the asset class, as well as the major drivers, instead of offering a specific view.



INVESTMENT BRIEF
ad hoc

Investment Brief explains the rationale behind our views on an asset class, incorporating the fundamental and technical drivers.

The team

Our experience and expertise help you navigate markets and provide actionable insights to reach your investment goals.

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Investment Strategist

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