

STILL WAITING FOR THE U.S. ELECTION RESULTS

Fiscal stimulus is likely to be more limited than under a Democratic landslide

IN A NUTSHELL

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- _ The tentative verdict of U.S. voters makes radical changes in terms of economic policy less likely, no matter who ends up in the White House.
- _ The flip side of this is that there may also be an increased risk of fiscal-policy paralysis.

ELECTIONS OUTCOME – WHAT WE KNOW SO FAR

So much for hopes for a quick, timely and decisive result in the U.S. elections. As counting continues in several key states, it appears that markets are in for another nail-biter. At the time of writing, it appears almost certain that the Democrats will retain control of the House of Representatives, while the Republicans have a fairly decent chance of retaining their Senate majority. As for the presidency, that is still anyone's guess, and it will probably take a few more days, at the very least, until there is clarity.

MARKET AND POLICY IMPLICATIONS

Markets generally do not appreciate uncertainty. On the plus side, voting has been orderly and with the exception of a few glitches for example in Georgia, so has the vote count so far. That is noteworthy, given the unusually high voter turnout even as the election took place during a once in a century pandemic.

Moreover, the tentative verdict of U.S. voters makes radical changes in terms of economic policy less likely, no matter who ends up in the White House. Given the narrow partisan split in the Senate, the next president will likely have to convince centrist Senators on either side to pass any meaningful legislation. That means, for example, that even if Joe Biden were to win, we believe the probability of meaningfully reversing Donald Trump's corporate-tax cuts would be quite low. And a re-elected President Trump would have to continue to work with House Democrats on any further fiscal stimulus.

More broadly, there is an increased likelihood of policy-paralysis risk, not just on fiscal issues. We believe that the prospect of fundamental reforms, from healthcare and other entitlements to climate change or big infrastructure packages, has also receded.

ASSET-CLASS IMPLICATIONS:

Fixed Income and Currencies: In light of the results so far, fiscal stimulus may be more limited, as well as perhaps better targeted, than under a Democratic-landslide scenario that markets had been increasingly anticipating. We expect yields on 10-year U.S. Treasuries to remain range bound below 1%. That supports our view that interest rates will remain low for longer.

Corporate-credit markets in both the United States and Europe have been resilient, but further political uncertainty could potentially create opportunities. We believe that emerging-markets bonds are likely to be the most volatile; we would consider widening spreads as attractive entry points, though selection is key.

The U.S. dollar has already recovered some of the ground lost in recent weeks and we remain constructive, with a 12-month target of 1.15 dollars per euro.

Equities: If overnight action in the futures markets is any guide, the immediate outlook for equities will strongly depend on the changing perceptions for the presidential race in coming days. In our view, a better approach than second guessing the results may be to focus on fundamentals. As noted above, the likelihood of higher corporate taxes has already decreased. Of course, a Biden administration might still rescind many de-regulatory steps, but overall, we feel a narrow win might encourage Joe Biden's centrist instincts, not least with regard to the energy sector. Meanwhile, a re-elected President Trump would still have to deal with the Covid-19 pandemic.

Alternatives: For both private infrastructure and non-listed real estate we believe the ability to find cross-party majority support of whoever wins the White House will be critical. In addition to broad infrastructure and fiscal-stimulus plans, the next administration will need to clarify many specific issues, from broadband internet connections in rural

areas to policies on mortgage taxes, immigration, and environmental regulation. Overall, in our opinion, the results so far look broadly neutral, but much will depend on not just who the next president will be, but also on key appointments. Even in the smoothest of electoral contests, that usually takes time.

GLOSSARY

The **Democratic Party (Democrats)** is one of the two political parties in the United States. It is generally to the left of its main rival, the Republican Party.

The **US Dollar** is the common currency of the United States of America and is the most held reserve currency in the world.

Emerging markets (EM) are economies not yet fully developed in terms of, amongst others, market efficiency and liquidity.

Fiscal policy describes government spending policies that influence macroeconomic conditions. Through fiscal policy, the government attempts to improve unemployment rates, control inflation, stabilize business cycles and influence interest rates in an effort to control the economy.

Fundamentals are data giving information about the general well-being of companies, securities or currencies and serving for the subsequent valuation of these as an investment opportunity.

A **futures contract** is a standardized, contractual agreement to trade a financial instrument or commodity at a pre-determined price in the future.

The United States **House of Representatives** is a legislative chamber consisting of 435 Representatives, as well as non-voting delegates from Washington, D.C. and U.S. territories. Representatives are elected for two-year terms and each state's representation is based on population as measured in the previous Census.

The **Republican Party (Republicans)**, also referred to as Grand Old Party (GOP), is one of the two major political parties in the United States. It is generally to the right of its main rival, the Democratic Party.

The **spread** is the difference between the quoted rates of return on two different investments, usually of different credit quality.

Treasuries are fixed-interest U.S. government debt securities with different maturities: Treasury bills (1 year maximum), Treasury notes (2 to 10 years), Treasury bonds (20 to 30 years) and Treasury Inflation Protected Securities (TIPS) (5, 10 and 30 years).

The **United States Senate** is a legislative chamber consisting of 100 Senators, with each state being represented by two Senators. Senators are elected for six year, overlapping terms in their respective state.

Volatility is the degree of variation of a trading-price series over time. It can be used as a measure of an asset's risk.

The **White House** is the official residence and principal workplace of the President of the United States.

Yield is the income return on an investment referring to the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.

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DWS Investment GmbH. As of: November 2020

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