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## Political uncertainty takes the stage as US election gets trickier

◆ With 36 days to go before US polls open, it is unclear which presidential candidate stands to win the election.

◆ The first of four presidential debates will happen this week and could shift the balance in the race.

◆ Aside from the presidency, Republicans run the risk of losing a slim majority in the Senate, which would give Democrats control of all of the US Congress.

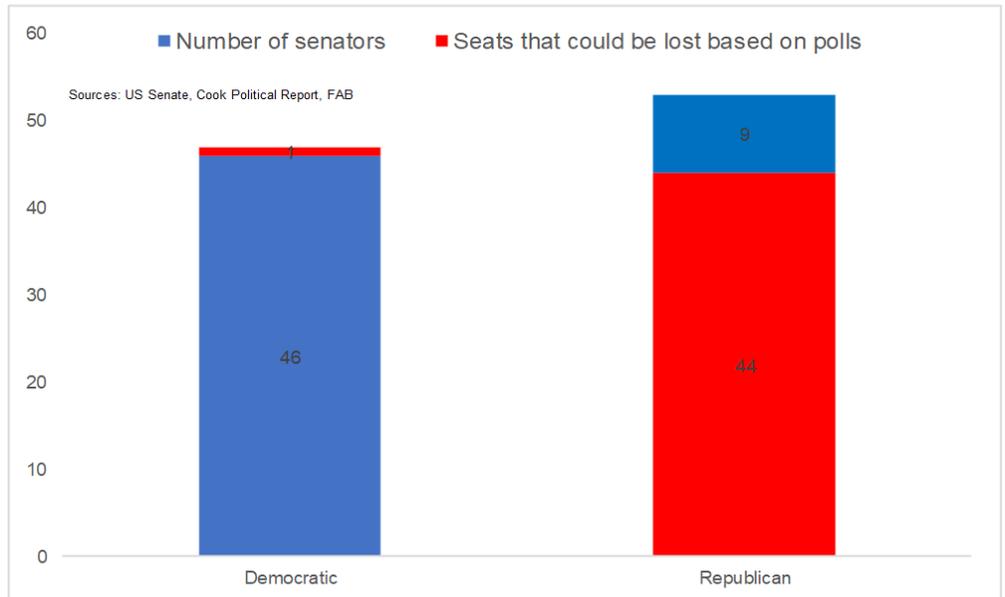
◆ Senator Joe Biden has led President Donald Trump in fundraising and his campaign suggested that more money has poured in after the death of Justice Ruth Bader Ginsburg.

◆ The FAB AAC remains slightly underweight in global equities, and overweight in IG bonds and gold.

There are few things that global investors dislike more than uncertainty. And political uncertainty is perhaps the hardest to protect portfolios against.

This may partly explain why markets have been unsettled in September. As the US presidential election nears, investors must figure out the likely consequences of each side winning. After all, this concerns how the world's largest economy is governed.

On Tuesday night (early morning in the UAE), the first of four debates between Senator Joe Biden, the Democratic candidate, and President Donald Trump will be hosted by Fox News' anchor Chris Wallace. The performances of the candidates could determine the election outcome, as has been the case in previous televised debates.



One of the most famous of such instances happened during the race between Ronald Reagan and Walter Mondale in 1984. At the time, Republican President Ronald Reagan was trailing in the polls, partly because former Vice-President Mondale was suggesting that Mr. Reagan's health and age could make it risky for him to serve a second term.

During their second televised debate, President Reagan famously responded to that issue by saying: "I will not make age an issue of this campaign. I am not going to exploit, for political purposes, my opponent's youth and inexperience." The quip rallied Reagan's support base and he went on to be reelected.

This time, even though Americans pay more attention to social media than to television, the debates could make it or break it for either candidate. In fact, the global obsession with sharing videos and pictures could make quips like President Reagan's even more important.

### The Republican party runs a non-negligible risk of losing its six-seat majority in the Senate

Senator Joe Biden has been seeking the limelight far less than his opponent. Meanwhile, President Trump has been focusing on Senator Biden's mental health, suggesting (with no factual substantiation) the former Vice-President may be suffering from early dementia. Hence, many Democrats are hoping for a Reagan-like quip from the Senator.

Such witty statements may not be in line with Senator Biden's style, though. Meanwhile, President Trump has modeled many of his policies and media statements on Presidents Reagan and Nixon, both of whom were masters of public relations. Despite being the incumbent, however, Trump is the underdog going into the initial debate, based on most polls.

However, the US election is not determined by how many votes one or the other candidate get, but by how many states they win, with the more populous ones carrying more weight. To become president, the candidate has to win a minimum of 270 electoral college votes out of the 538 available. Hence, winning certain states is particularly important.

In the last election, President Trump secured the presidency by flipping the vote in three states: Michigan, Pennsylvania and Wisconsin, which had voted Democratic in the previous decade. This time, state polls show that Pennsylvania, with 20 electoral votes, could be the tie-breaker. Website 270towin.com currently shows President Trump could win 273 electoral votes, and Senator Biden 265, if Americans went to the polls today. The elections have seldom been this close and this unnerves investors.

However, US politics now offer another layer of concern. After flipping the House of Representatives in their favour two years ago, Democrats now have the possibility of flipping the Senate, too.

While this may have gotten less attention, it perhaps matters just as much as the presidential outcome. If, for instance, President Trump secures a second term

but the Senate flips, Democrats will have the ability to veto Trump's decisions. Depending on their control margin in the two chambers, they could also overrule the President's vetoes.

Finally, if they were to win the Senate, the Democrats would gain power over the nomination of justices, and Federal Reserve governors. Such ability has come to the fore in the past week following the death of Chief Justice Ruth Bader Ginsburg. President Trump has quickly nominated a conservative to replace her, who could be approved by the Senate before the 3 November election.

If confirmed, the new Chief Justice would tip the balance in the Supreme Court to being more conservative, according to commentators. The prospect of this has energized both Republicans and Democrats, particularly the latter.

ActBlue, a Democratic organization, said it received a record US\$91.4 million in donations in the 28 hours after Justice Ginsburg's death was announced.

### The death of Justice Ruth Bader Ginsburg has reportedly added fuel to Democratic fundraising

The Democrats were already ahead in terms of funds raised for both the presidential and most Senate races. Political commentators often look at donations as a measure of commitment to getting a candidate elected. This is important, because a key driver of the outcome at the polls is how many people actually go to the booth for each side. The more committed the voters are, the more likely they are to vote.

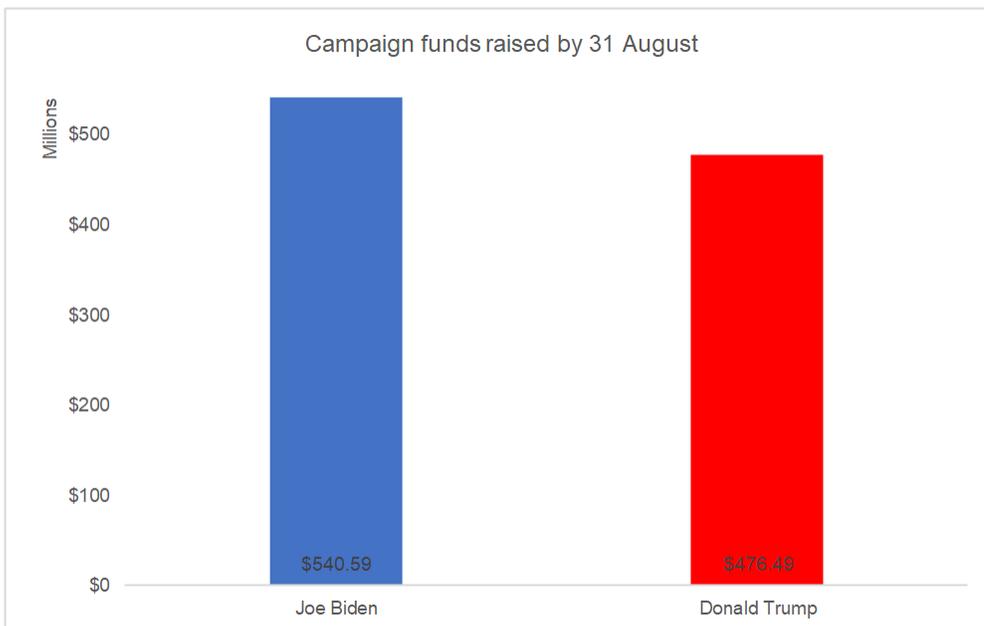
Such political uncertainty is likely to continue to leave investors on the back foot until November. In fact, some of the sell-off seen in September may have resulted from investors reducing their exposure to risk assets until they have clarity on the political future of the US.

Concern around the American political landscape was a key reason for the FAB Asset Allocation Committee (FAB AAC) to maintain its underweight position in global equities, and an overweight in gold at its meeting last Thursday. The consensus among members reflected some continued caution regarding risk assets, at least for the time being.

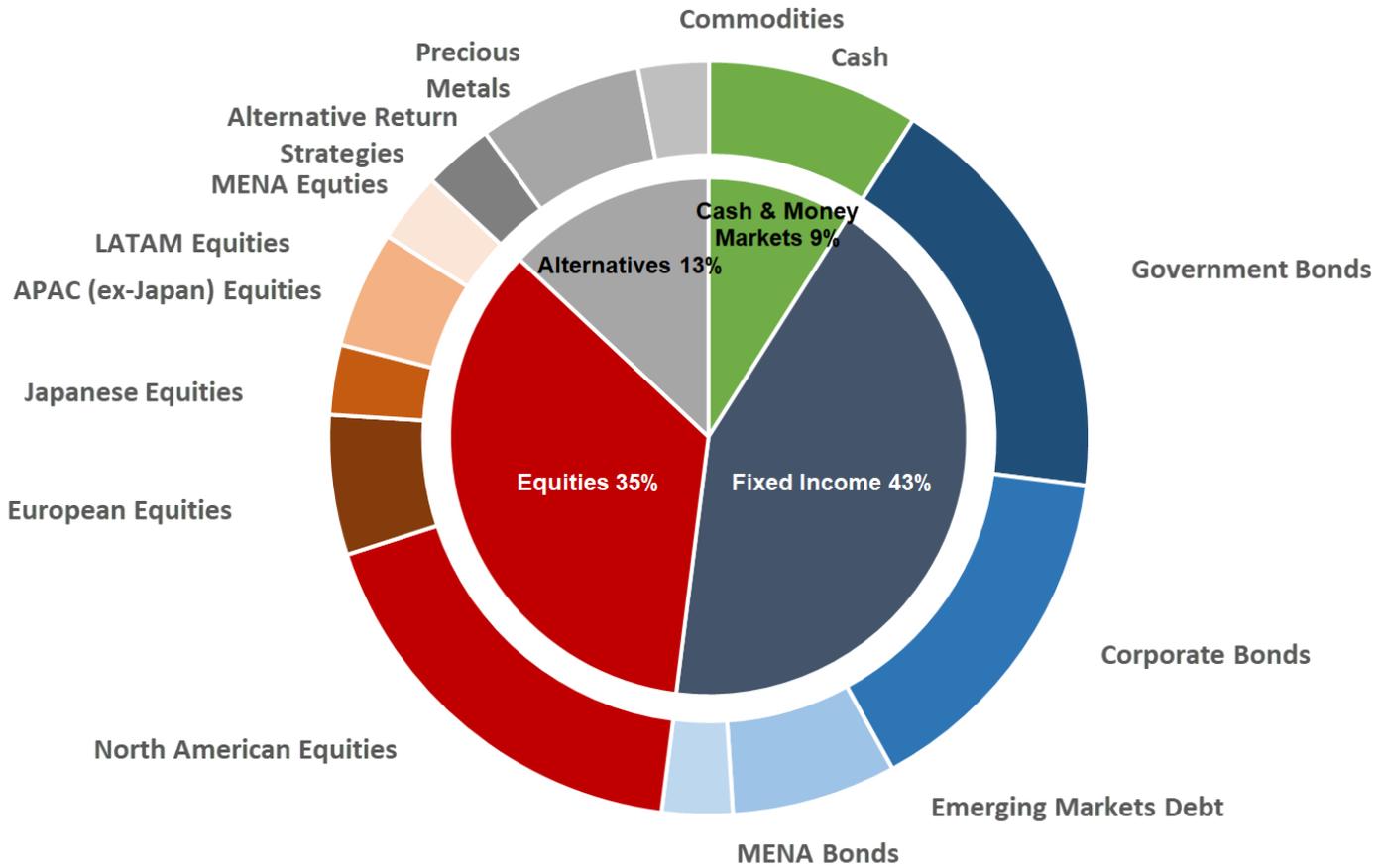
The AAC acknowledged, though, that the amount of liquidity injected by the world's central banks remains supportive of risk asset prices. The discussion was not so much about whether to more fully back the equity bull market, but rather when to do so. Members noted that recent market action looks more like a healthy market correction than a bearish reversal.

To be sure, some investors' patience is being tested. The potential second wave of the coronavirus in some countries, the likelihood that the US election outcome could be contentious, and the lack of additional fiscal stimulus have all weighed on sentiment lately. Other investors, however, are still focused on the second half of 2021.

For them, the recession is in the rear-view mirror and the virus might soon be, and the increased importance of technology is to be embraced, rather than feared.



## Current Tactical Asset Allocation



Asset Class	Positioning	Detail
Cash	Overweight	After taking profits on some equity positions.
Fixed Income	Overweight	Keeping slightly overweight focused on EM dollar debt and corporate investment grade bonds
Equities	Underweight	After taking profits on part of the US and European equity exposures
Alternatives	Underweight	However, overweight on precious metals specifically

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