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President Trump's Covid-19 infection adds uncertainty

◆ US President Donald Trump and the First Lady Melania Trump revealed on Friday that they had Covid-19.

◆ The President has been sent to a hospital where he is undergoing treatment using a drug cocktail.

◆ Vice-President Mike Pence has taken the lead in the White House and in the presidential campaign.

◆ The President's age and weight have generated concerns about what could happen to him and to the US elections.

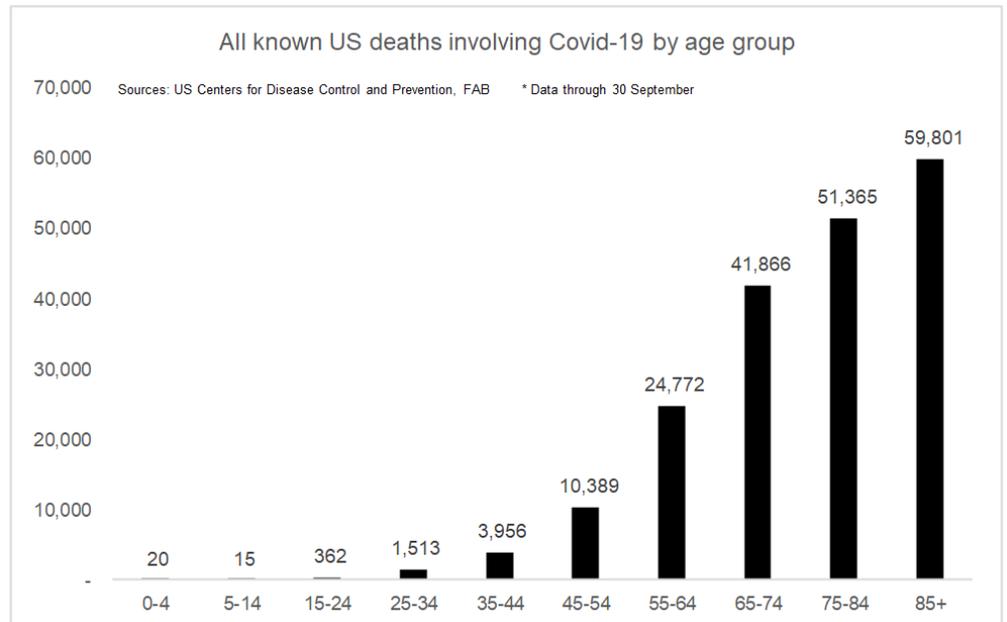
◆ US law, however, leaves hardly no scope for the polls to be postponed.

◆ Stocks reacted negatively to the news and there could be more volatility if there are doubts about his recovery.

◆ The FAB AAC is monitoring the events to establish whether it needs to take any action on portfolios.

The timing could not have been worse. President Donald Trump revealed on Friday early morning that he and the First Lady, Melania Trump, had both tested positive for Covid-19. While reports suggested the President was suffering only from mild symptoms, such as a congested nose and fever, he was taken to the Walter Reed Medical Center later that day by helicopter.

Yesterday, White House physician Sean Conley said the President was in good spirits, that his fever had abated and that he had not needed supplemental oxygen. Officials also said he was taking a cocktail of drugs, including one with antibodies of people who overcame the disease.



The President's team has also suggested that the decision to commit him to the Walter Reed Medical Center was made as an extra precaution, because, as Dr. Conley put it: "He's the President of the United States." While the reports from the White House and the President's tweets (one of the latest of which had him saying he was "feeling well" thanks to the "amazing" doctors and nurses) suggest little reason for concern, investors have become unsettled by the prospect that the worst could yet befall the President.

Part of the concern stems from the fact that eight out of 10 Covid-19 deaths reported in the US have been adults of 65-years old and older, according to the US Centers for Disease Control and Prevention (CDC). A person over 70 is seven times more likely to be hospitalized if they contract Covid-19 than someone between the ages of 18 and 29. Overweight males are also at a higher risk. President Trump happens to be both.

About 22% of reported Covid-19 deaths in the US were in President Trump's age group

These facts have prompted a raft of news stories analyzing what could happen if President Trump became so ill that his life would be in danger or, even worse, if he died. While the US Constitution and the statutes of the Republican Party do have some procedures to deal with extreme scenarios, nothing of the sort has ever happened in the US.

The closest such event was the death of defeated Democratic contender Horace Greeley in 1872, just about three weeks after the polls, and before the electoral college cast their ballots. Then, the electoral college votes destined to Mr. Greeley were split among other contenders according each state's will.

US Federal Law states that the presidential elections must be held on the first Tuesday following the first Monday in November, every four years.

However, in 2004, lawmakers asked a group of researchers to study the possibility of postponing elections if, for instance, a terrorist attack disrupted the polling. The conclusion was that Congress could give the President the power to change the date, but only according to the wills of lawmakers. With Democrats in control of the House of Representatives, that outcome seems unlikely.

Given the short time before the election, the Republican Party would probably have difficulty appointing another person to run in his place if the worst happened to President Trump. Besides, it may not even be allowed to, given that many of the mail-in votes have already been cast. Some state laws (which ultimately direct how the elections happen on a local basis) do not allow changes to be made after ballots have been cast.

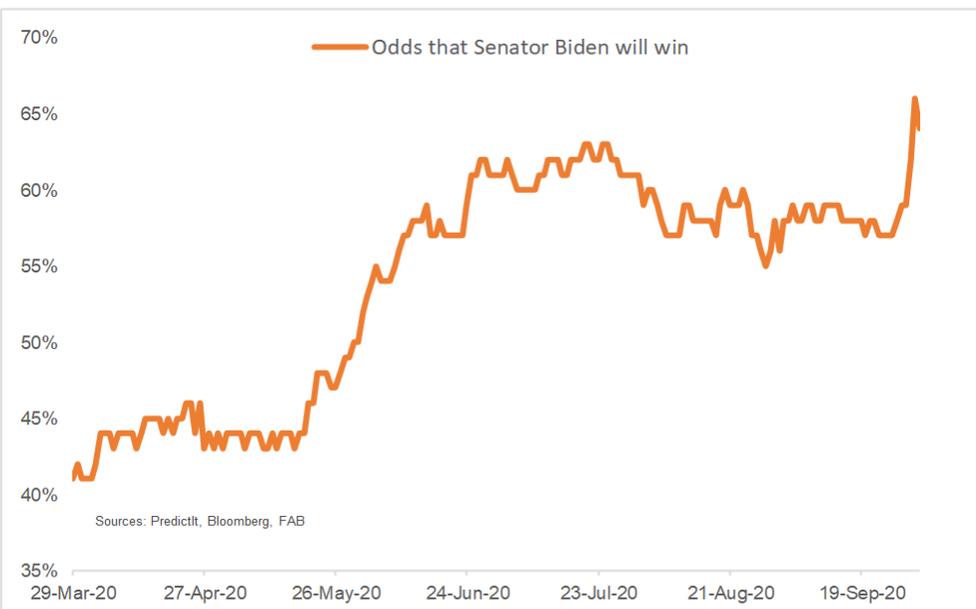
To be sure, in the US people vote and then the envoys to the electoral college cast their own votes to reflect the popular choice. In many states they could, legally, change the way they vote, though that could be challenged in courts.

The short story, therefore, is that if President Trump's health takes a turn for the worse, his running mate Mike Pence is likely to continue with the election. In fact, there are risks beyond just President Trump's own illness. Three Republican Senators, Hope Hicks, the President's top aide, as well as other key party members have also tested positive.

The spread of coronavirus infections within the Republican party has severely complicated the rollout of its pre-election strategy, and especially given that President Trump is renowned for leading much of the decision-making personally. All of this adds a layer of concern for investors related to the US elections. Not only is it now more uncertain than ever who will win, or whether the Senate will remain in Republican hands, but now people are even questioning whether the President can recover to reasonable health in time for election day.

Markets hate uncertainty, and that was reflected in the price action on Friday, when the S&P 500 fell 0.96% and the NASDAQ Composite dropped 2.22%.

Betting odds of a Democratic win spiked after the debate but lost some ground on Friday



There is little historical precedent for what might happen to markets if a US president becomes seriously ill. On 2 October 1919, US President Woodrow Wilson suffered a stroke. The next day, the Dow Jones Industrial Average fell 2.2%. He remained in office for another year and a half, with historians suggesting that his wife was mostly running the White House during that period. By 4 March, 1921, when he finally retired from public office, the Dow Jones Industrial Average had fallen 32.45% from its level on 1 October, 1919.

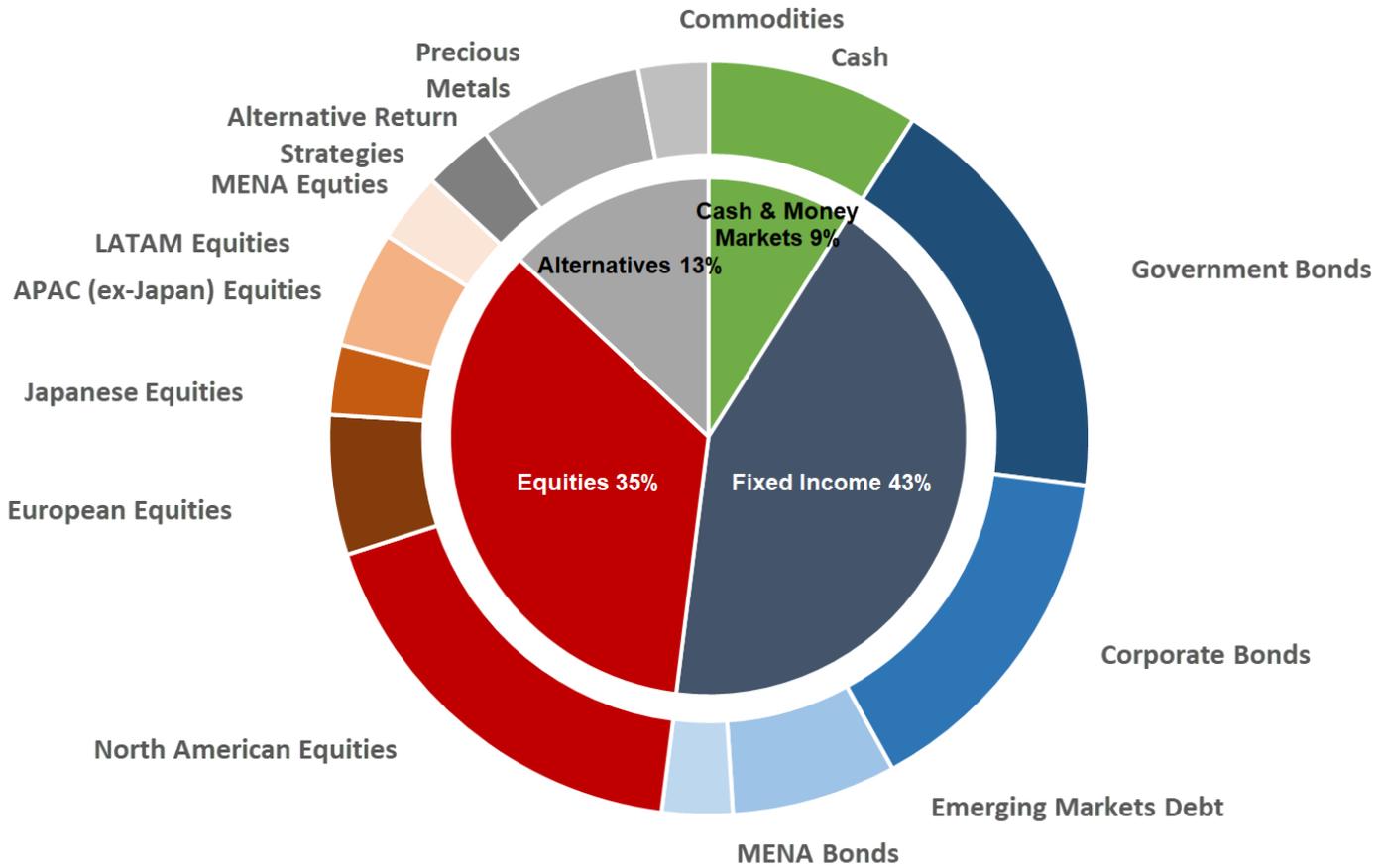
Similarly, on 30 March, 1981, newly elected President Ronald Reagan was shot in the chest and the bullet narrowly missed the heart of the 70-year old. The stock market first dropped and then rallied when it became clear he would survive. It took President Reagan 79 days before he called a press conference, a period during which the Dow Jones Industrial Average gained 1.45%, amid lots of volatility.

In the numerous times presidents of countries across the globe suffered life-threatening conditions before the election or shortly after they took office, a similar pattern has unfolded: whenever there is uncertainty about what will happen to the country, markets react negatively, and once there is clarity, they tend to gain.

People across the world, including at FAB, are praying for a speedy recovery for the President. However, there is a silver lining for his campaign. During the last month, President Trump was trailing Senator Biden by up to 16% in opinion polls. In the same way as UK Prime Minister Boris Johnson's approval rating rose after his Covid-19 diagnosis, President Trump's rating now puts him just 6% behind.

However, until it is clear that he is safe, markets could get choppy and caution is warranted. Ultimately, though, the Federal Reserve has injected some US\$2.8 trillion of liquidity into the US economy, and it is committed to maintaining financial stability in the country. The US also has strong institutions that will see it through even the worst nightmare.

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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