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## If there ever was a week to watch, it could be this one

◆ US elections hit the final stretch, with nearly 50 million ballots already cast by mail.

◆ China's annual meeting of the Communist Party's Central Committee starts tomorrow.

◆ China has been suggesting that it wants the yuan to be weaker, although markets are pushing it higher.

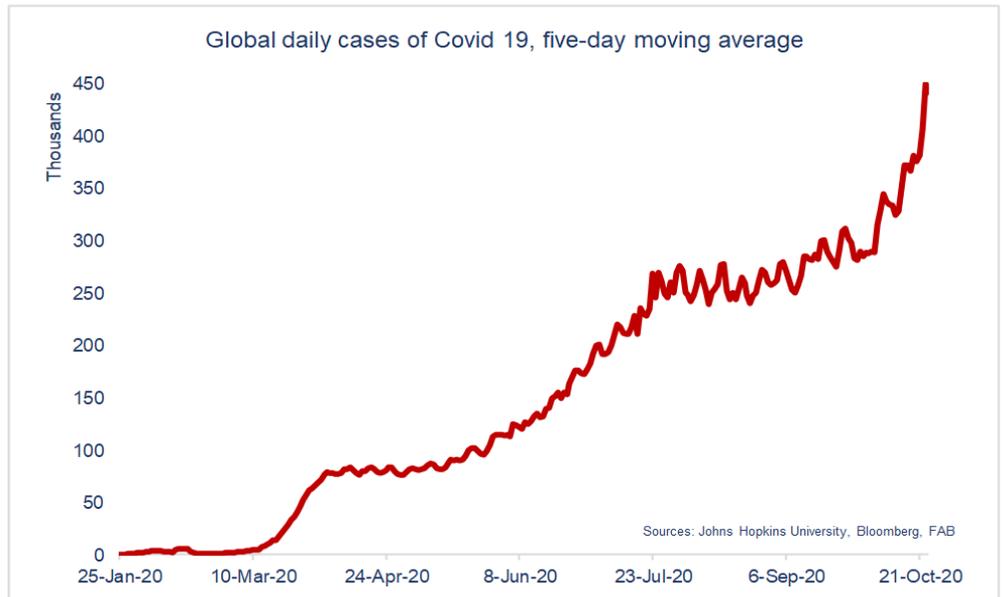
◆ In the US, while the two presidential candidates talked a lot about more fiscal stimulus during the debate, Washington is unlikely to reach a deal before the 3 November elections.

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

This week has all the signs of a historic political climax, which can keep investors glued to their seats, many without moving. For instance, while the US elections only happen on 3 November, in many ways the outcome is being determined this week.

The sheer number of mail-in ballots, already at 56 million, and likely to accelerate in the final stretch, suggests that. Many US states have allowed voters to cast their ballots by mail for the first time, partly as a result of state legislation changes in the past few years, and partly as a way to combat queues in pandemic times. This number would be equivalent to about 40% of the total number of people who voted in 2016, hence more than enough to sway the results either way.

The presidential campaigns have had their chances to swing voters, and the headline flow could become intense.



Some of this was already in the news over the weekend as senior staffers of Vice-President Mike Pence tested positive for the Covid-19 virus. The Vice-President himself tested negative and suggested he would continue on the campaign trail.

However, the news comes as the number of new cases accelerates in several key states for the election, so it could impact important stops in the campaign trail for President Donald Trump. And, despite national polls suggesting that former Vice-President Joe Biden is far ahead, the election is far from over.

To win, a candidate needs to get at least 270 electoral votes, which are determined state-by-state. In many states, the polls still suggest the winner could be anyone's guess, so President Trump could still stay in the White House. Other indicators also point at an uncertain outcome. Vice-President Biden has raised US\$285 million more than President Trump in the past two months.

### Cold weather in the Northern Hemisphere is bringing record numbers of Covid-19 cases

However, Republicans have reported a much higher number of new voter registrations in their grassroots effort, which also has been much more a focus than for the Democrats. This local approach led President Barack Obama to victory in 2008, so it matters.

The situation with the virus, however, is becoming a hot topic, particularly as the flu season picks up, and with it the number of cases. The Trump campaign had tried to avoid the virus issue given the negative perception about how the President initially handled it. Curiously, however, some of the Democratic-led states which had been touted as models in terms of controlling the pandemic are seeing a spike in cases.

Illinois, New Jersey and New York, all of which implemented tough lockdowns in April, last week recorded the highest number of new coronavirus cases since May, and are talking about rolling back some restrictions.

Public support for such measures has eroded, however, given their economic impact. Italy was dealing with just that last week. The country saw record numbers of cases, and two provinces began talking about lockdown measures as hospitalizations rose rapidly. This led to immediate protests in Rome and Naples.

As the cold weather advances in the Northern Hemisphere, so has the virus. The US reported its second highest day of new infections since the pandemic began, and Italy, Germany, Spain, the Netherlands, the Czech Republic and others are all seeing new records.

It also matters for economic growth. If governments and companies continue to have the tough approach to combatting the virus seen in March and April, the world economy could go back into a downward spiral. This could have an important effect on the nascent global equity bull market. These split dynamics of governments trying to control the virus, and people rejecting lockdowns will be in the forefront this week.

Markets are reflecting this. The S&P 500 had its first negative week in four, closing on Friday 0.53% lower than where it ended a week earlier. Losses were a bit worse for the NASDAQ Composite index, which closed down 1.06% for the week.

The technology index was also weighed down by news that the US Department of Justice opened an antitrust case against Google's parent, Alphabet Inc. The move presages similar suits against other giants such as Facebook and Amazon, which are dominant in their respective spaces. Such cases, however, take several years to resolve and are unlikely to impact the companies right away.

Curiously, however, despite stocks being on their back foot, long-dated US Treasuries also lost ground. The difference between the yield on 30-year US Treasuries and the five-year bond closed the week at 126 basis points, the largest spread since at least 2017. This signals that bond market participants see the potential for more inflation ahead, although exactly how much and when it will come are key questions.

### Dollar bond issuance from the GCC in the first 10 months of the year is already at a record

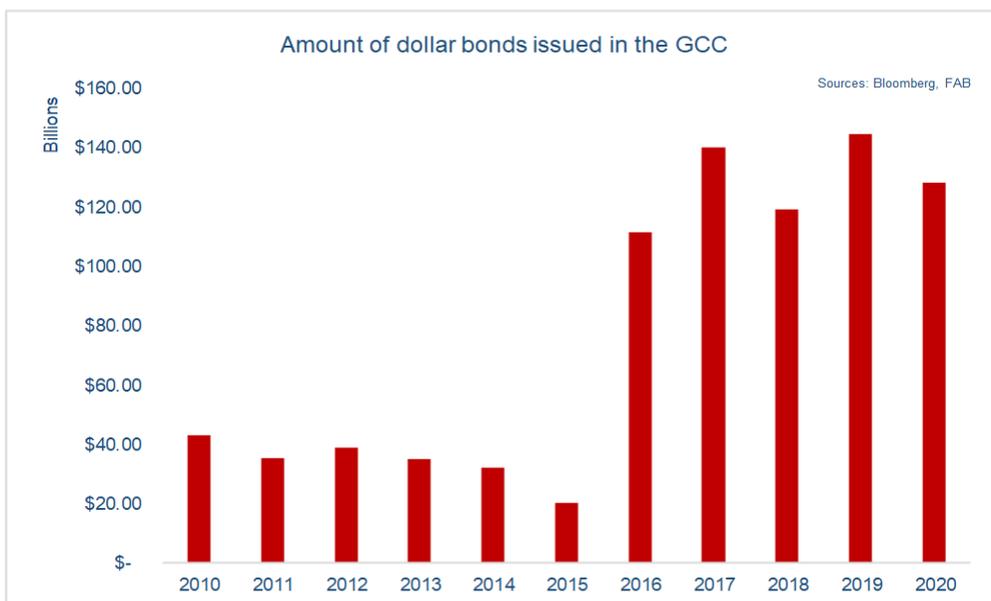
The prospect of higher yields seemed to sound the go-ahead for investment grade issuers in the region, with several deals announced last week. The GCC area has already seen a record in new bond issues in the first 10 months of the year, having surpassed the US\$133 billion mark, and is on track for a record year.

The reasons for the record regional issuance, however, may not be the most positive. Lower oil prices and more government spending suggest there could be even more issuance ahead. That was in evidence last week, with the downgrade - and subsequent bond deal - of Oman. Fitch Ratings calculates the country needs oil prices to be around US\$70 for its government accounts to break even, 55.5% higher than the US\$45 average recent trading price of Omani crude oil.

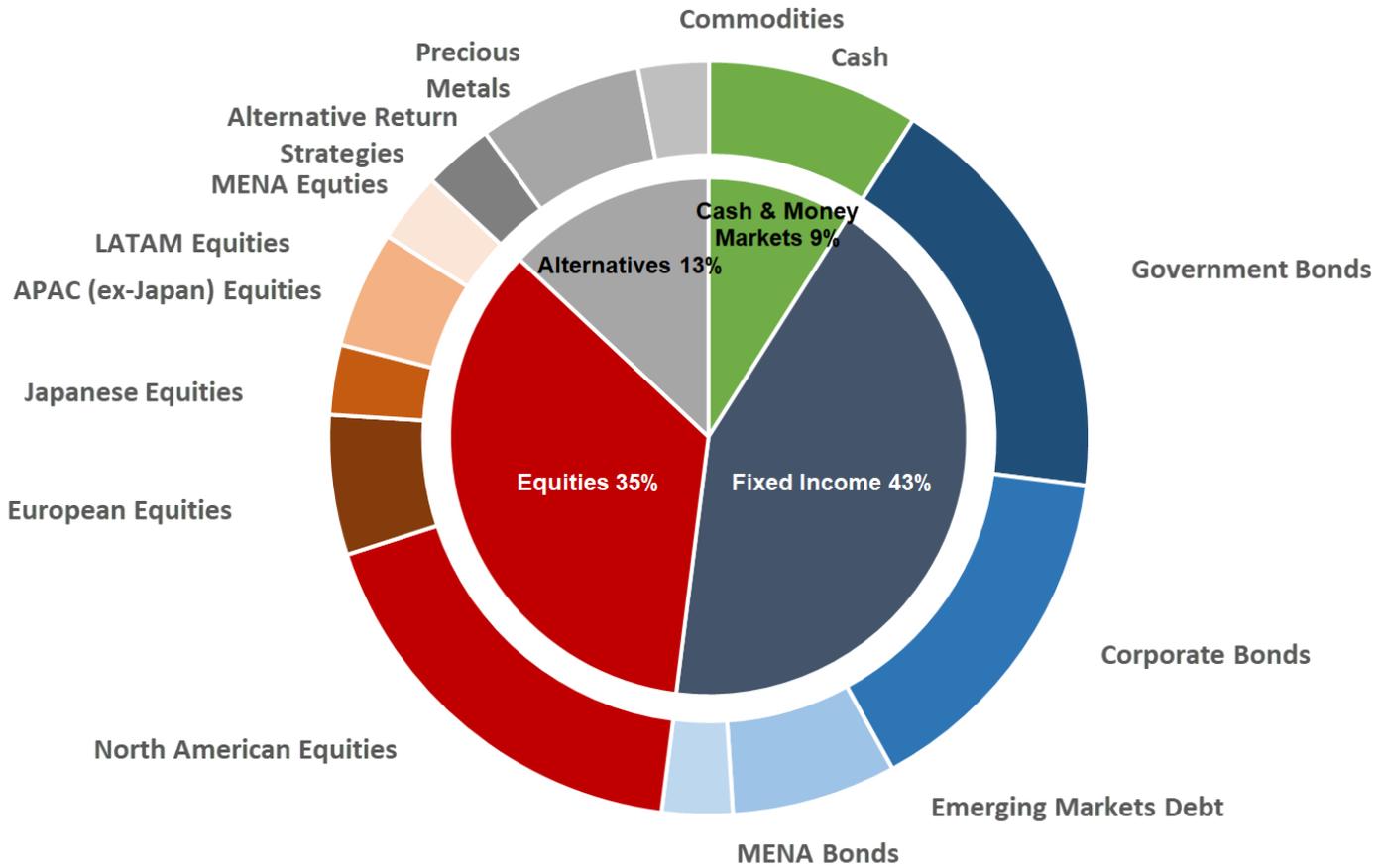
A similar pattern can be seen across the MENA region. Coupled with the need for higher government spending to counter the global recession caused by the pandemic, this means investors can expect a lot more local bond issuance. The prospect of higher supply is, perhaps, part of the reason why bonds in the region continue to pay a higher premium.

The Bloomberg Barclays GCC USD credit index is paying approximately 138 basis points over US Treasuries. The average rating on the index is A1, and its average duration is 12.32. Meanwhile, the average spread of A-rated US corporate bonds over the 10-year US Treasuries in the is 90 basis points. In simple terms, investors are getting a return of 48 basis points more for buying GCC bonds than for similarly-rated corporate debt.

Over time that difference should narrow, as central banks in the developed world continue to keep rates at zero and economic growth recovers, boosting demand for oil. Some of MENA's issues are structural and need a few years to address, although investors appear to be getting fairly compensated for any risks of owning GCC bonds.



## 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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