Investment Weekly

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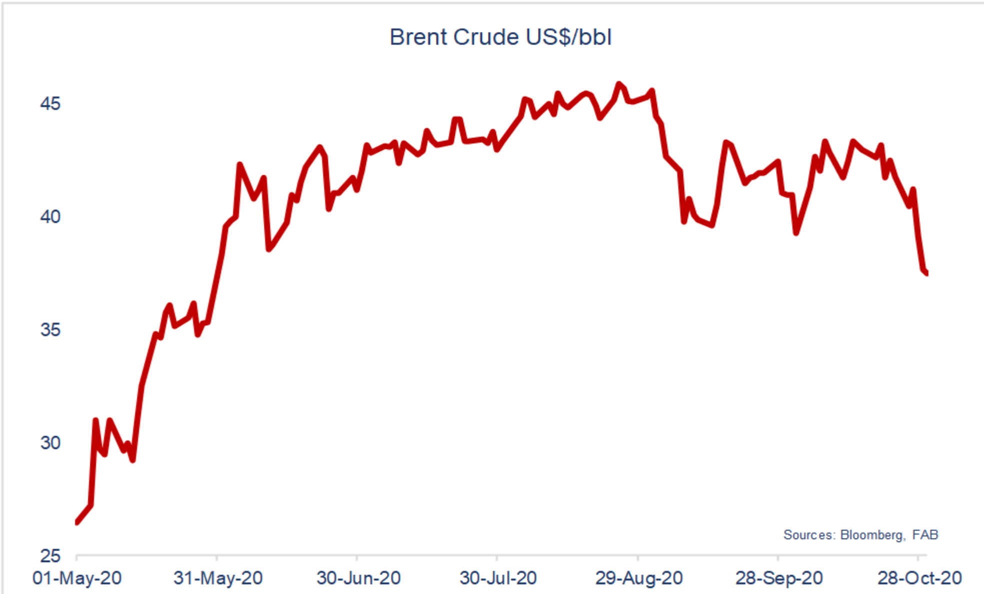
The US elections happen at last, but uncertainty is far from over

- **More than 91 million ballots, almost 59% of 2016's votes, have been cast.**
- **President Donald Trump has taken the lead in polls in Iowa and Florida, improving his odds of a victory.**
- **Several European countries have re-imposed virus-related lockdowns, threatening their economic recoveries.**
- **Oil has begun to reflect prospects of a renewed slowdown, and the S&P 500 had its worst week since March.**
- **The FAB AAC remains slightly underweight in equities, and overweight in IG bonds and gold**



The much-awaited US presidential election will finally take place this week, on Tuesday. However, in reality the outcome of the polls has already largely been determined. As of Saturday, more than 91 million people had already voted, either by mail, or in early voting booths. This is equivalent to about 58.5% of all the votes cast in the 2016 election.

Still, the last 40% or so of votes matter, and the latest polls have shown a sudden surge in support for President Donald Trump, suggesting the outcome of the election is far from certain. The latest opinion polls in Iowa, for instance, showed former Vice-President Joe Biden trailing President Trump by 7 percentage points. The same poll had shown both candidates tied for the past few months.

The Republican candidate has also taken a slight lead in Florida, a key battleground state, and Biden's lead has narrowed in Pennsylvania, another must-win jurisdiction in the path to the White House.

Even where President Trump seems to be trailing, some analysts are questioning whether the outcome will reflect polls - or if there will be a repeat of 2016, when surveys proved to be incorrect in many places. One of the factors they cite are the constraints of polling in times of coronavirus, which is done mostly by phone and email, which only some 6% of people approached actually respond to.

The initial Democratic lead in many senatorial races, including in Iowa, has been eroded, according to the latest polls. The Republicans have 23 Senate seats being contested, against only 12 for the Democrats, yet there seems to be a reasonable chance that the Republicans will be able to retain control of the Upper House.

Apart from determining the policies of the world's largest economy for the next four years, the election will also be crucial in determining how the country will react to the current Covid-19 surge.

Oil prices have started to reflect expectations of slower growth because of lockdowns

President Trump has taken a relatively relaxed approach to the virus, prioritizing jobs and the economy. His stance seems to have paid off, at least in terms of growth, with the US reporting a 33.1% annualized expansion in the third quarter, the fastest on record. That was not sufficient, however, to fully offset the impact of the 31.4% contraction in the second quarter, when the brunt of the lockdowns were in place.

With the US registering record new daily virus cases last week, some economic slowing seems inevitable. Senator Biden, however, has indicated he could adopt extra federal measures to fight the spread of the virus, which could have a broader economic impact.

Many European countries have started to do just that. France enacted a nationwide stay-at-home policy starting on Friday, as the number of daily deaths from the coronavirus reached its highest since April. Austria also initiated a lockdown, while UK Prime Minister Boris Johnson was forced to retreat from a promise of no more widespread lockdowns, and implemented a month-long stay-at-home order. Germany has also implemented new restrictions, leaving it just short of full closure.

In the case of France, the government tried to maintain some activity in the construction industry, unlike the second quarter measures. This, according to Finance Minister Bruno LeMaire, was done to reduce the economic slowdown to about 15% of GDP, instead of the nearly 30% of the second quarter.

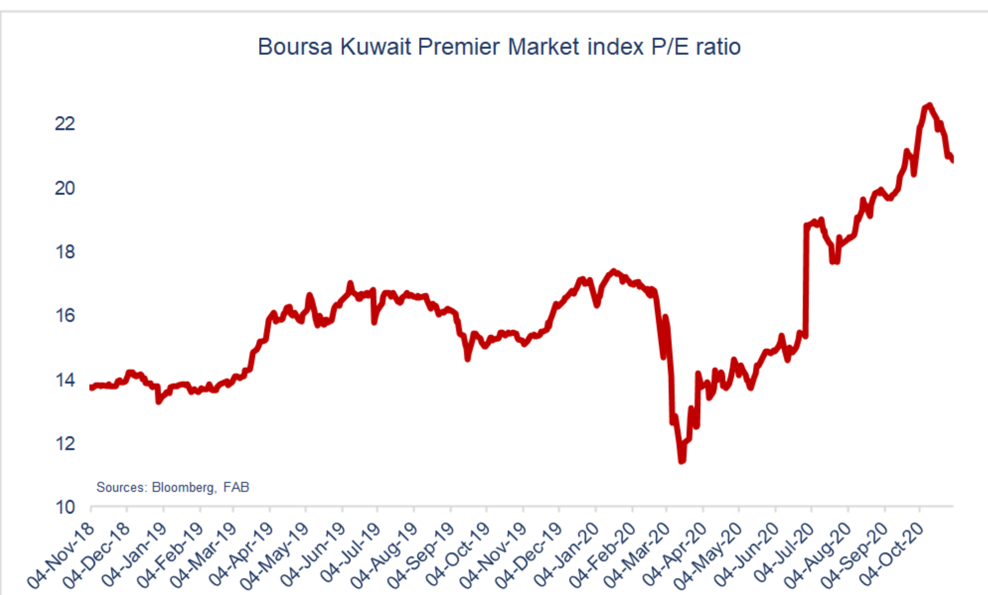
The impact has not been lost on investors, though, and comes just as these countries had all shown double-digit third quarter GDP expansion, though far short of that seen in the US. Most stock markets in the Northern Hemisphere were very weak last week, with Europe's STOXX 600 index losing 5.56%, its worst weekly performance since mid-June. The S&P 500 dropped 5.64% and the NASDAQ Composite fell 5.51%, their worst showings since the week ended March 20.

Perhaps the best proxy for the general expectation for the world economy amid renewed lockdowns was seen in oil. Brent crude prices dropped 10.32% to US$37.94/barrel, as investors grappled with the prospects of lower demand while inventories remain high.

The twin blow of stock markets in Europe and the US dropping, along with oil, took a toll on MENA indices, too. The Saudi Tadawul index lost 7.02% last week, its worst week since March. The Kuwait Premier index also dropped 3.64% last week, and was trading more than 2% lower early today.

The latter move was happening despite the inclusion of Kuwaiti stocks in the MSCI Emerging Markets index, now due in the first week of December. The move has been delayed from May, because of the coronavirus and other issues. Global investors, however, seem to have already priced-in much of the upgrade. Kuwaiti equities are trading at an average of more than 20.6 times their earnings in the last 12 months, far higher than the five-year average of 15.6 times.

After a two-year buildup, the Kuwait market is finally being included in the MSCI EM index



That measure, however, is admittedly backward-looking and therefore skewed. Earnings have dropped as a result of the global economic slowdown, which boosts the ratio. On an expected earnings basis there may still be room for gains in the country's stock market, though it is perhaps advisable to be highly selective given the lack of analyst coverage of Kuwaiti stocks. Still, investors are likely to be cautious of the country's stocks initially because of the uncertainty about oil prices.

That feeling has also permeated the MENA bond market, with the newly-issued dollar-denominated notes of Oman due in 2032 having dropped 4.4 cents per dollar since they were priced, indicated at 95.67 on Sunday, according to Bloomberg-derived prices, and compared to 100.00 at issue. This move has pushed the yield on these same notes up to about 8%, according to Bloomberg calculations, compared to 7.375% at issue.

Oman's previous 10-year bonds, those due in 2028 issued two years ago, saw their yield move as high as 12% in late March when the sell-off hit its climax. The sovereign, however, has been paying much higher yields than similarly-rated credits elsewhere, such as Jamaica and Senegal, mostly because of concerns about its heavy reliance on oil revenues.

This new, lower, perception about oil prices has kept asset prices in the Middle East cheap, relative to similarly-rated issues elsewhere. And in that sense, the outcome of the US elections could cast a long shadow.

Senator Biden has campaigned on a platform of reducing carbon emissions to zero in the next decade, whereas President Trump has committed to keeping the oil industry, which supports some 10 million US jobs, alive and well. Biden would also likely rejoin the Joint Comprehensive Plan of Action, allowing Iran to bring back up to 1 million barrels of oil onto the global market. In a nutshell, the outcome of Tuesday's polls has rarely meant more for the Middle East.

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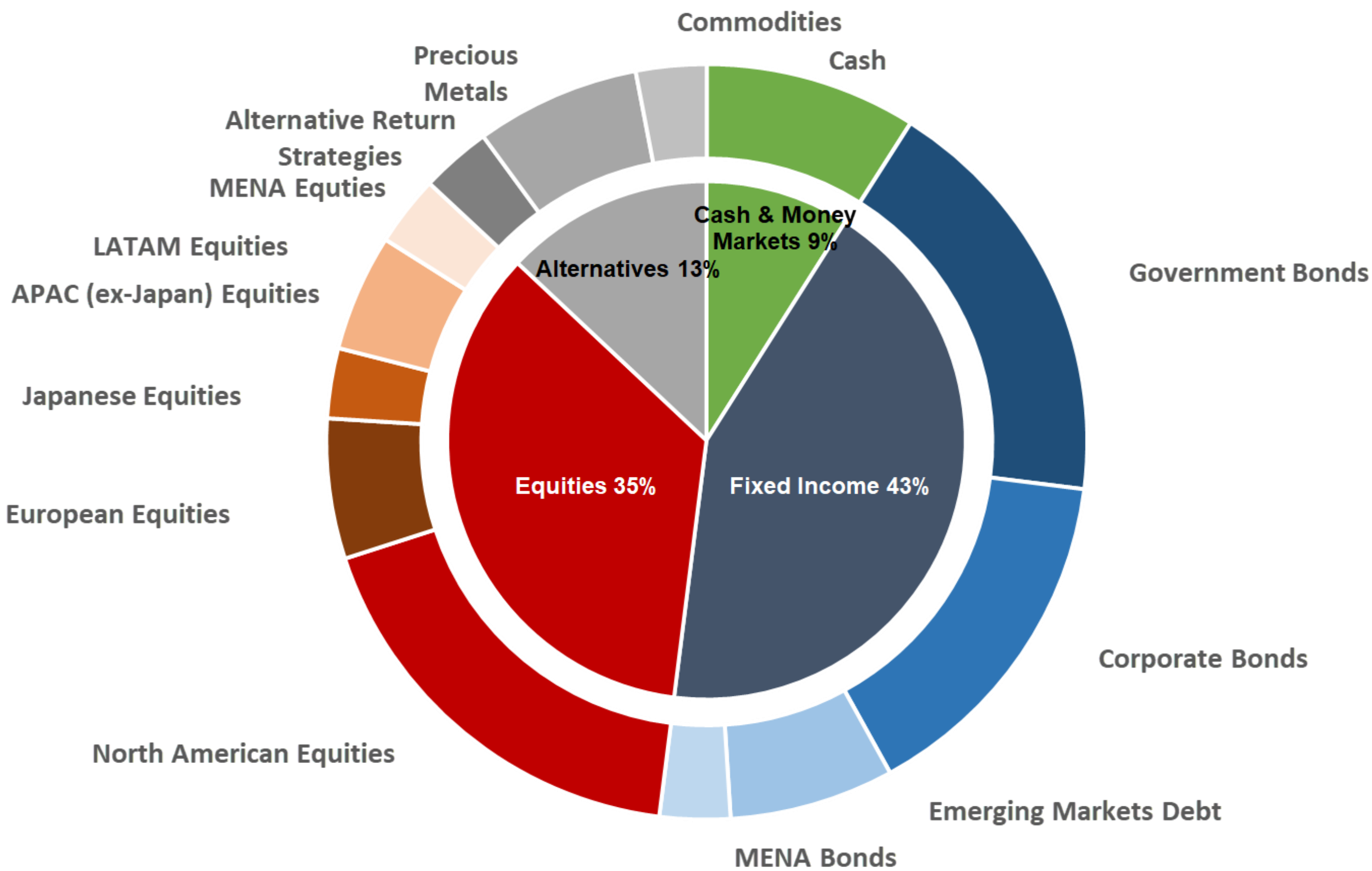
Current Tactical Asset Allocation



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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