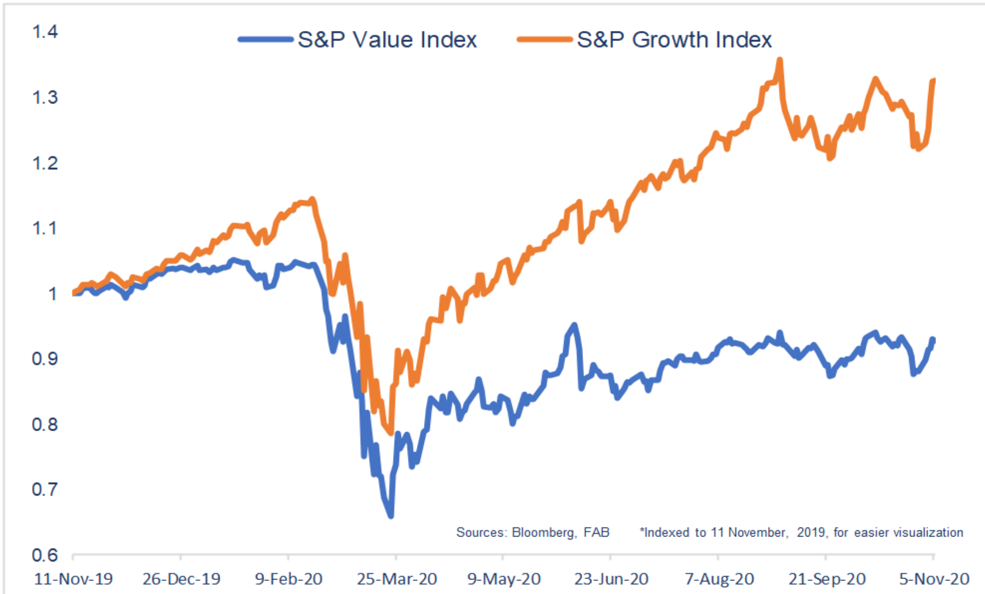
For inquiries related to this article, please contact:

Alain.Marckus@bankfab.com
Christofer.Langner@bankfab.com

8 November, 2020

Investors come to terms with new US political landscape

- **Long duration assets, such as growth stocks and 30-year US Treasuries, outperformed last week.**
- **Such assets tend to perform well when interest rates and perceived uncertainty are coming down.**
- **The prospects of a Democratic White House and House of Representatives in the US and a Republican Senate, suggest limited fiscal stimulus.**
- **This may force the Federal Reserve to further increase monetary easing to support the US economy.**
- **The FAB AAC has reduced its underweight in global equities, via a tactical overweight in Japanese stocks, funded by a reduction in cash.**



The lawsuits will continue for some time and there will be a lot of noise about the political landscape in the US until the US Electoral College meets on 14 December to crystallize the popular vote. The market, however, has already moved on and last week it seemed to be pricing in the new status quo in Washington D.C.

Assuming that a few run-off elections for the Senate confirm the forecasts of political analysts, the Republicans will retain their majority in the Senate, the upper chamber of Congress. This, despite the continuing (although reduced) Democratic control of the House of Representatives, suggests that a further large stimulus package may be difficult to come by. The Republicans have for some weeks been countering the large spending aspirations of the Democrats, and now have further political incentive to double-down on that stance.

At the same time, the number of daily new coronavirus cases in the US have been hitting records, and several states are moving towards partial lockdowns. The Democratic President-elect has repeatedly said he would have a national policy towards controlling the virus, and that could mean a second dip in US growth in the coming months.

Limited fiscal stimulus and potentially another quarter of negative growth would leave the burden on the Federal Reserve to help the US economy. And investors seem to be getting ready for additional monetary easing in coming months.

Falling interest rates and monetary stimulus tend to support long-duration assets, which require time to pay back the initial investment. These include long-term investment-grade bonds and growth stocks. These were the assets that performed the best last week, and investors seem to be signaling they see more gains for them ahead.

Growth stocks seem to be indicating hopes of more easing and have outperformed

The yield on the 30-year US Treasury fell 6 basis points last week, but on Thursday the rally in long duration Treasuries had the yield down as much as 15 basis points below where it was on 30 October. Meanwhile, the NASDAQ 100 index, comprised of large technology stocks, gained 9.39%.

Some of those moves were probably a result of short-covering and other position adjustments, as highlighted in some of FAB Investment Strategy’s reports last week. However, investors appear to be initiating positions that would take advantage of less fiscal stimulus and a lower likelihood of new taxes (which the Republican Senate would probably oppose), and more easing from the Fed.

Even oil prices rose last week, but that, again, may have been more because of some large short positions in the futures markets being covered. Unfortunately, in the short-run, President-elect Joe Biden may not be good news for the oil market.

The Democrats suggested they would re-engage with Iran, and potentially rejoin the Joint Comprehensive Plan of Action. That could entail removing some sanctions against Iran, allow it to start exporting oil again. Analysts believe initially the country could add up to 1 million barrels/day to the market (although Iran's exports were close to 2 million barrels when it was less constrained). In short, a significant amount of oil could be added to world markets.

Meanwhile, demand is falling as more developed nations adopt movement restrictions to reduce the spread of the coronavirus. The UK, Belgium, France, Germany are only a few of the countries which have adopted full stay-at-home orders or widespread curfews.

President Trump had been outspoken about avoiding such measures to safeguard jobs, President-elect Biden supports the opposite position, so the world's largest economy may be locked down in the next few months.

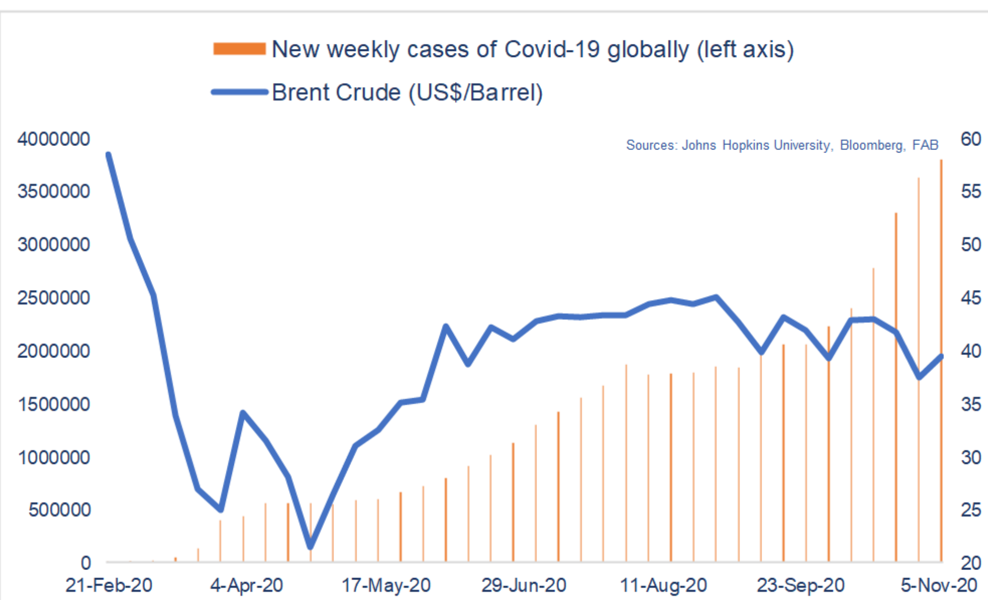
That combination of potentially more supply and less demand may lead to volatility and some downside for oil prices. Such a result would likely further accelerate moves to diversify the revenue bases and economies of oil-producers in the Middle East.

Indeed, last week, two countries in the region announced key decisions that could have a major impact on their economic future away from hydrocarbons.

On Monday, the Sultanate of Oman unveiled its Medium Term Fiscal Plan, indicating the country will take steps to reduce its fiscal deficit to 1.7% of GDP from the current 16%, according to local news outlets. The nation plans to reduce some subsidized service benefits and suggested it could implement an income tax for high earners by 2022.

Together with a recent decision to implement a value-added tax, this move could help the country get on the path to recovering its investment-grade rating.

Oil prices have been reflecting potentially lower growth from more Covid-related lockdowns



The decision could usher in similar moves by other nations in the region as they grapple with lower oil prices, which seem unlikely to return to anywhere close to their 2012 highs for some time.

While the possible levels of income tax and how they will applied remain unclear, they are unlikely to have any major impact on the inflow of expats into the region, given that local taxes would probably remain lower than in most other developed global jurisdictions.

Meanwhile, the UAE unveiled major legal changes designed to make the country even more attractive to expatriates. The nation will now allow foreigners to resort to the laws of their home country when it comes to settling most family affairs, including divorce and inheritance.

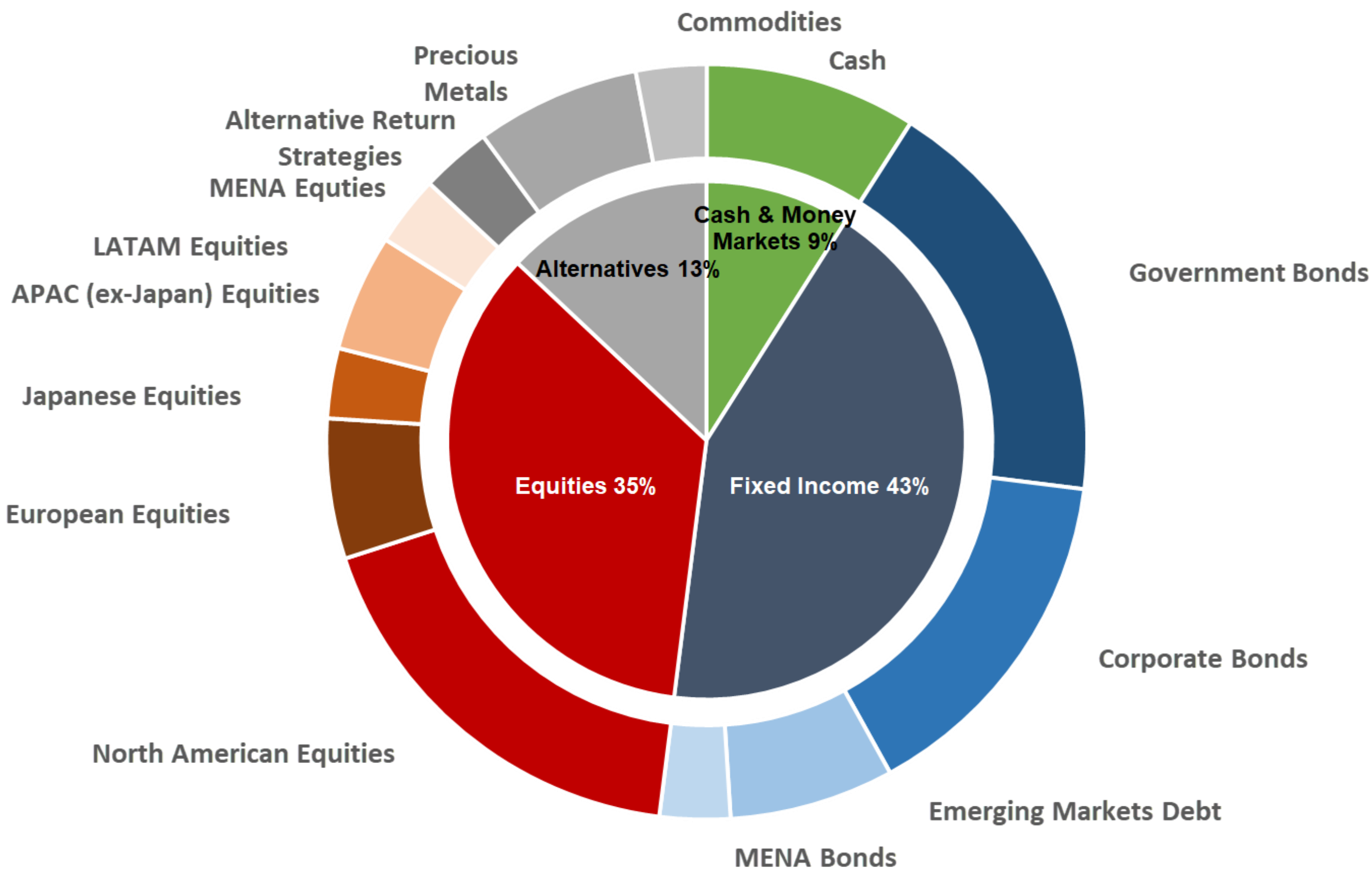
Coupled with recent changes that allow for easier, more transparent issuance of blockchain-based digital assets, these measures help pave the way to make the country a hub for the new financial markets which have started to develop.

Professionals involved in these sectors can have more certainty about the legal environment here than in most jurisdictions, and the new family laws add a layer of freedom available in few other places. Indeed, almost as if it were coordinated, Ripple, the enterprise and payment blockchain solutions company, today announced its intention to set up its regional headquarters in the Dubai International Financial Centre.

In summary, there is a constructive approach towards the further diversification away from hydrocarbons within the MENA region, and the boosting of its attractiveness to qualified expatriates. Such moves are likely to attract more foreign direct investment, and to help boost sustainable GDP growth, as well as local capital markets. Such enlightened policy trends indicate that the region should be increasingly well-prepared to face the changes associated with the new normal after Covid-19.

Investment Weekly

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

Investment Weekly

بنـك أبـوظبـي الأول
First Abu Dhabi Bank