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Washington seems ever more divided, but that is not that bad

◆ The choice for president in several key states remained unclear and it may take days to determine the outcome.

◆ However, Senate and House seats became more evenly split, suggesting the US Congress will not be able to easily approve major laws.

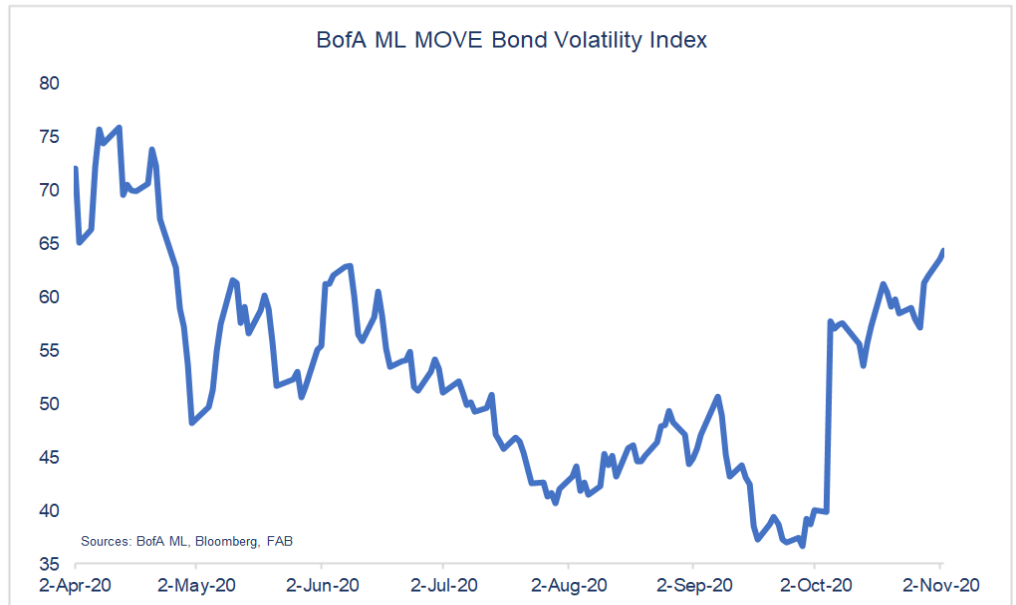
◆ This leaves the possibility that even if Democrats take the White House, they might not be able to approve tax increases.

◆ Meanwhile, there may be enough support across the spectrum for more stimulus ahead.

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

As expected, the day after the US election is quickly becoming only the first of a few before the world knows who will be in the White House in January. As it stood at the time of writing, President Donald Trump surprised pollsters and had a serious chance of winning the election. However, the sheer number of ballots remaining to be counted in states such as Pennsylvania, Nevada and Michigan meant that the outcome is still uncertain.

Still, the US political landscape at the end of today has become a lot clearer. Instead of becoming more entrenched in Congress, Democrats have lost several seats in the House of Representatives, narrowing their control there. They also failed to take the Senate. This means that whoever takes the White House will deal with a much more divided Congress, one that cannot easily pass sea-changing bills without a lot of political concessions.



This could have important implications for investors. For instance, assuming the Republicans hold the Senate (as it seems likely to happen), they would be able to reduce the bigger spending packages that Democrats have touted.

That would be good for the US dollar and for Treasuries, given that the size of the fiscal gap going forward may be smaller than it could have been if a Democratic sweep happened. This has been reflected in the volatility of bonds, with the 30-year US Treasury yield plunging 15 basis points today alone. It would be, however, less positive for stocks, given that a smaller fiscal package means less money in the pockets of average Americans.

On the flip side, Democrats would also have a difficult time passing new tax laws with a Republican majority in the Senate and a larger minority in the House. This would reduce the selling pressure on stocks from people trying to lock in gains before new levies are imposed.

Bond markets saw the biggest rise in volatility among asset classes amid the US elections

One important issue, however, that remains unresolved is what happens to the national response to the coronavirus in the US. Former Vice-President Joe Biden has promised to defer to scientists, which could mean he chooses to issue a general stay-at-home order in January, when he takes office and when the number of cases of Covid-19 in the US may have gone up further from the current records.

Such a measure would not require support from Congress, though lawmakers can try to curb the President's powers to take it. However, it would have major implications for the US and the global economy. Stock markets today were on relief rally mode, but if the White House does eventually turn Democratic, there could be some reckoning. It is not that bad, though.

Investment Strategy Update

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