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## Maybe investors are starting to realize that the US could be shut

◆ One week ahead of the presidential elections, there is a growing chance of a Democratic sweep.

◆ Investors seem to have priced in the potential for more stimulus if Democrats take over.

◆ However, Democrats have indicated that they are more likely to impose national lockdowns.

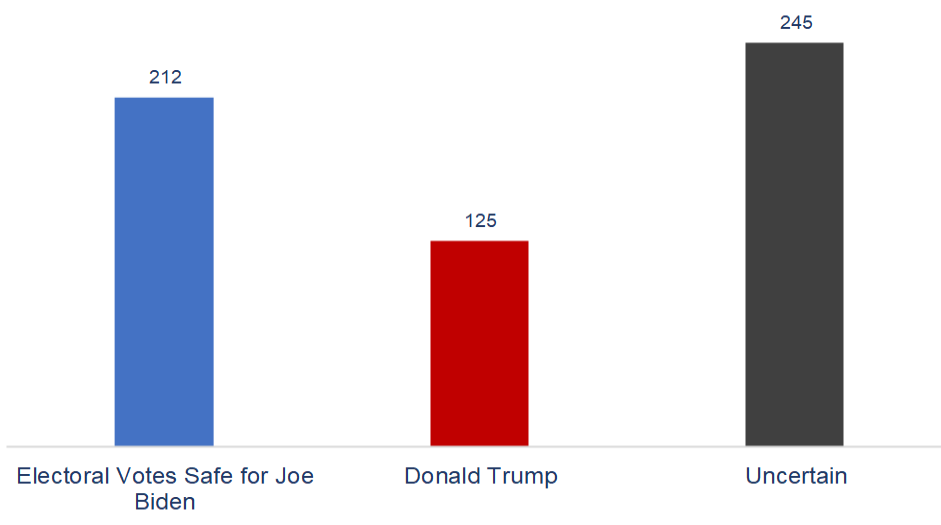
◆ This comes as the US sees new records in Covid-19 cases, as flu season and winter advance.

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

Markets have for weeks seemingly priced in the possibility of a Democratic sweep, a situation in which the party takes the Senate and the White House from the Republicans. The US Treasury curve has steepened and cyclical stocks have rallied, perhaps reflecting expectations of large stimulus bills in the coming months, something the campaign of former Vice-President Joe Biden has promised.

However, as new Covid-19 cases hit records in the US and across the Northern Hemisphere, investors may have started to be reminded of the Democratic stance on how to respond to the spread of the virus. States run by Democrats adopted much tougher lockdown measures in April and May, deferring to scientific models which at the time predicted continued exponential growth in infections. Many of those predictions have failed to materialize for various reasons, but Democrats have continued to advocate tougher social distancing measures to curb with the virus.

Sources: 270twin.com, FAB



This track record suggests that if the Democrats win the election, there is the possibility of a national lockdown, something that President Donald Trump deliberately avoided, despite criticism from some. It also could mean a slower timetable for rolling out a vaccine, as former Vice-President Joe Biden has indicated he would defer to the scientific opinion and focus on the safety of the treatment instead of speed.

It is, naturally, perilous to speculate on what the Democrats might do once in power. While it may have favoured their agenda to criticize President Trump's policies, they may find themselves compelled to follow a similar path, even if they paint it in different colours.

President Barack Obama offers a recent example. While he was very vocal against President George W. Bush's position on the Middle East, once in power, he continued with many of the policies of the previous administration.

### Polls suggest Joe Biden has a good chance of winning, but the outcome is still uncertain

Still, it makes sense to start pricing in a higher probability of more stringent national measures being imposed on Americans if President Joe Biden takes office. These would not be implemented at least until he comes into the White House in January, but even then, in the middle of winter, such policies could cause serious damage to the US's nascent recovery.

Using the impact of the April lockdowns as a yardstick, the US could go back into a deep recession. That would probably deal a blow to cyclical stocks and commodities, increase the value of some technology names and flatten the US Treasury curve, as investors consider the possibility of higher unemployment for longer. With a week to go before the election, it is time to start weighing the potential outcomes.

# Investment Strategy Update

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