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Investors take a break to watch the US presidential debate

◆ After what seemed like a short-covering rally, markets were marginally negative today.

◆ Investors are likely to avoid taking significant positions in either direction before there is some clarity on the outcome of the US elections.

◆ Investors will probably, therefore, be watching closely the first of four presidential debates tonight.

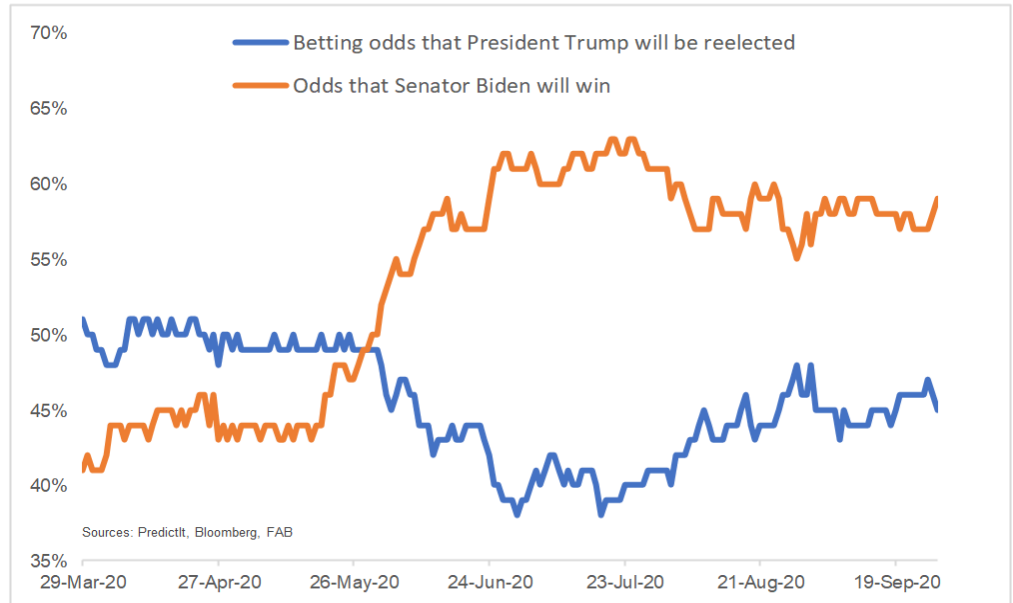
◆ However, the first debate is historically the least eventful.

◆ The FAB AAC remains underweight equities and overweight gold and investment grade bonds.

All eyes (at least those who are awake) are likely to be on the screen, watching the debate between President Donald Trump and Senator Joe Biden tonight. The first of four square-offs between the two US presidential contenders, however, could be more of an anti-climax.

Historically, the first debate is much more about each side understanding the other's tactics and responses and seldom leads to a significant change in the direction of the opinion polls. The second debate tends to be more lively and decisive. Many contemporary historians suggest that it was the second debate that consolidated the winning position of Presidents Ronald Reagan and George W. Bush.

The Democratic party has set the stage nicely. Last night, the House of Representatives proposed a bill for a new US\$2.2 trillion fiscal stimulus package. It is likely to stall in the Republican Senate, but it gives Senator Biden a key talking point.



The stimulus package the Democrats proposed would extend more loans and grants to some of the industries worst affected by the pandemic. It would also extend further the extraordinary welfare payments enacted in March, and give about US\$436 billion to states.

The Senate and the White House are likely to block the proposal particularly because of the extra welfare payments (which some lawmakers have argued could discourage people from going back to work) and because of the aid to states. Such help would probably be funneled particularly to more populous states, many of which have Democratic governments.

The divide is likely to take centre-stage today, as Senator Biden tries to tell voters that the Republicans are unwilling to help the millions of jobless Americans. For his part, President Trump is likely to focus on how the economic pain could have been reduced if some of the toughest measures were avoided by state governors.

Betting odds are showing President Trump losing ground against Senator Biden

Aside from the political theatre, investors will get a glimpse of what could happen on 3 November when Americans hit the polls.

Opinion polls and betting odds compiled by PredictIt have Senator Biden solidly ahead. Furthermore, the Democrats could also take the Senate.

If this happens, a Democratic president may turn out to be the best outcome. If President Trump remains in the White House but faces a fully Democratic Congress, he will probably be unable to do much for the next four years. Meanwhile, if Senator Biden has support of Congress, he is likely to pass not only the package proposed by the House, but also a US\$2 trillion infrastructure program. Politics aside, markets like certainty and stimulus.

Investment Strategy Update

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