# FUNDAMENTAL FLASH

## US Election 2020 | Biden Emerges as Winner

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### Biden Crosses Finish Line

Joe Biden has been declared as the 46th US president after winning Pennsylvania. Although there are votes left to be counted, they are minimal and unlikely to change the presidential election result.

Donald Trump has yet to concede and he has filed multiple lawsuits, accusing the Democrats of election fraud without providing any evidence. Election analysts believe that the lawsuit claims are weak and are unlikely to change the presidential election result.

However, the Senate election race has not ended. Both parties have not yet secure the majority seats as there are still two seats in Georgia that will be heading for runoff elections in January 2021.

Runoff elections are second elections held if no candidate in the first election received a majority of the votes. At the time of writing, it is likely that Republican will eventually gain Senate control.

### Flashpoints

- Following a bitter contest, Joe Biden has emerged as the winner of the US election.
- However, the Senate election race has not yet ended. Expectations are that the Republicans will gain back Senate control.
- If the Republicans wins the Senate, we will not see material changes to corporate taxes and minimum wage.
- Under a Biden administration, US-China trade war risk may temporarily recede.
- A weaker USD, coupled with reduction in geopolitical uncertainties would be supportive of emerging markets (EMs) and Asian stock markets.

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Under a Biden administration, US-China trade war risk may temporarily recede if Biden lowers tariff on China. The World Trade Organisation (WTO) has ruled Trump's tariff on China as illegal. However, it is important to note that US-China relationship is unlikely to revert to pre-Trump era. Both Democrats and Republicans remain untrusting towards China. Biden has also promised to be tough on China during his election campaign. The long-term conflict between the two nations are likely to persist. In short, Biden will be "less bad" for China but we should not expect an end to US-China conflict.

Unlike Trump, Biden is not erratic and he intends to cooperate with other democratic nations including Canada, Germany, UK and Australia. Trump's tariffs on these allies are likely to be reversed.

In the US, a Biden presidency opens an opportunity to reduce polarisation between Americans over the next few years. For US corporates, Biden has proposed to raise corporate taxes, raise minimum wages and increase regulation. But with a Republican Senate, most of these proposals will not be approved. That helps explain the US stock market rally in recent days.

With a Democratic president and a divided congress, another round of large fiscal stimulus could be delayed and reduced in size. This will imply weaker US economic activity in the coming months. US Treasury yield has declined to price-in this scenario.

To conclude, geopolitical uncertainties will be reduced in the absence of an erratic Trump once Biden is formally installed in January 2021. In the next few months, US economic activities could soften due to the likely delay and reduction in size of the next fiscal stimulus. Sectors that are highly sensitive to macroeconomic momentum will face headwinds. On the positive side, US corporates will not see material changes to taxes, minimum wage and regulation if the Republican wins the Senate.

## Investment Implications

We expect global bond yields, anchored by G3 rates, to stay low driven by the lack of stimulus, recent rise in Covid-19 pandemic cases and the Federal Reserve's commitment of lower-for-longer Fed Fund Rates. As global risk-free rates stay low, we believe investors will continue to search for yields by deploying cash into asset classes that provide higher carry. This bodes well for Asian credits and we continue to maintain our exposures into Asian credit space.

As a Biden administration reduces geopolitical uncertainties, the USD is likely to resume its weakening trend especially against Asia FX over the medium term. A smaller fiscal package may boost the USD in the near term, but over the long run, the interest rate differential between US and Asia is favourable to Asia FX.

A weaker USD, coupled with reduction in geopolitical uncertainties, should help drive the outperformance of emerging markets (EMs) and Asian stock markets. In the near term, US stocks should face a weaker growth environment due to the lack of stimulus. But they will benefit from the absence of higher taxes, minimum wage and regulation. Lower-for-longer Fed Fund Rates will also be supportive to stock markets. Growth stocks, particularly those in technology sector, tend to benefit from low Fed Fund Rates. Our regional equity funds have remained highly invested through the US election.

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