TPO Investment Market Update

After a challenging October its Good News Week!

12th November 2020

Jo Biden's (probable) victory in the US election and the hugely uplifting news of an effective vaccine have dominated not only the economic news, but news in general.

The US markets responded positively as soon as it became evident that the Democrats were going to win (despite claims to the contrary by Trump). Predictions, pre-election, had indicated that a Biden win would deliver a GDP increase of 3.5% compared to 3.2% (Trump) so the jump in markets was no surprise. However, the Democrats are struggling to gain control of the Senate so will probably have their hands tied behind their backs, especially when it comes to raising taxes.

From a UK perspective, Trump's demise will be troubled by the fact that Jo Biden is an open critic of Brexit (particularly in respect of his desire to protect the Good Friday Agreement). Historic spats between Biden and Johnson aren't exactly going to facilitate the "special relationship" either, although balm has been poured on this wound as Boris's broad grin revealed when he became the first European leader to receive a call from the President elect.

News of a probable breakthrough in the global quest for a vaccine was (almost literally) a shot in the arm for markets across the globe. Better than hoped for Stage 3 results announced by Pfizer and Biontech created euphoria but it is still very early days and there are many questions to be answered including its efficacy amongst the old and vulnerable. But, undoubtedly, no one had dared hope that these early results would be so promising, and, like buses, there will be more vaccines appearing shortly (based on a similar science) and this, surely, is a cause for celebration. We just need to hope that there is enough of our economy left to warrant the market increases!

The Odyssey of Biden

The outcome of the election remains to be decided but if we assume the most probable outcome then Jo Biden has become the new president of the US. This means that Donald Trump will become the 11th president in US history to fail to win re-election and the first incumbent president in nearly three decades to not win re-election.

Economy

Based on the Senate being gridlocked a Biden presidency is expected to deliver annualised GDP growth of 3.5% along with creating 11.6m jobs. This in contrast to the forecasted 3.2% annualised GDP growth and 9.8m increase in jobs that was forecast if Trump was re-elected.

A key manifesto pledge Biden ran under was increased spending. As such it is expected that $7.3tn will be spent over the next 10 years which will go towards offering tuition free community colleges and projects to improve the US's ailing infrastructure sector which includes bridges, highways and building a clean energy economy.

This increase in spending though will coincide with tax receipts increasing by $4tn over the next decade. This will be a targeted approach where those earning over $400,000 will be subject to the 12.4% social security payroll along with corporation tax increasing from 21% to 28%. This will come under heavy opposition from the Republicans and any change to the tax system will most likely wait until the economy is in a better position post pandemic.

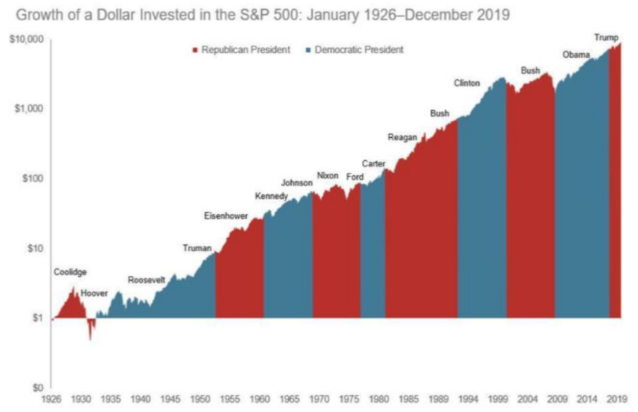
We urge you to stay safe and remember that your TPO advisers are here to guide you through this storm. If you have any questions or concerns, please do get in touch.

The value of investments can fall as well as rise. You may not get back what you invest.

Does it matter who is in charge?

A common assumption is that Republicans are more financial market friendly than the Democrats. However, if you look at the return of the S&P 500 since 1926 you will see (1) that there is a continued upward trend (which is unsurprising over 94 years) and (2) that the market under a Democratic president would have produced an annualised return of 9% whereas under a Republican presidency the annualised return was just 6%.

This conclusion though does neglect the impact of exogenous shock, be this the Financial Crisis of 2008 which George W Bush presided over or the Great Depression in the 1930s where Herbert Hoover was at the helm. It does highlight, however, that the political party in power may not be a significant determinant of market performance.



Source: MIRABAUD Securities market research note 09.11.20

US

Fed Chair Jerome Powell has committed to further stimulus and a willingness to deploy further monetary tools to support the US economy. At present the Federal Reserve is buying $80bn worth of Treasuries across the yield curve which has suppressed yields and placed a firm price support on Government debt.

The unemployment rate fell to 6.9% from 7.9% as the US economy added a better-than-expected 638,000 jobs in September.

Coronavirus cases continue to rise though, with over 10 million cases now reported and the alarming statistic that there have been more than 100,000 cases per day for the last five days.

EUROPE

The European Central Bank remained committed to supporting the Eurozone as it kept its interest rates at -0.5% and continued with its emergency bond-buying programme. Meanwhile consumer prices fell 0.3% year-on-year for a second consecutive month against a backdrop of slowing economic activity.
It was announced that the EU would place tariffs of $4 billion on the US. This is a long-standing issue over air subsidies going to back to 2006, however there was conciliatory rhetoric from Europe's trade chief Valdes Dombrovskis who wanted a speedy resolution and to overcome this dispute.

UK

Expected economic conditions are set to worsen as the Bank of England forecasted GDP to decline by 11% this year compared to the 9.5% decline forecasted previously. This is in response to further lockdown measures which the UK entered on the 5th November to last for at least four weeks.

In response to this the Chancellor has extended the furlough scheme until the end of March with the self-employed income support grant increasing from 55% to 80% of average profits up to £7,500.

CHINA

China's rapid recovery from the coronavirus pandemic continues with strong PMI data being reported along with industrial profits increasing by 10% in September which whilst lower than in recent months is a positive sign for the manufacturing sector.

MARKETS

Since election night equity markets have been on a resurgence (particularly the technology and healthcare sector) as investors shrugged off their fears of a 'blue wave' and instead focused on a split house meaning there is less chance of any extreme policy changes such as Jo Biden's desired increase in corporation taxes and potential anti-trust regulations on technology companies.

Moving forward the key beneficiaries are expected to be infrastructure sector which will receive a much-needed influx of capital spending – current spending amounts are in line with what we saw back in the early 1990s. In this scenario expect companies operating in the materials and construction industry to outperform, however in the short term we may also see a pullback in the shares prices of alternative energy companies given that any new energy polices will be harder to pass in a divided government.

With reduced spending forecasted (then what was previously proposed under a Democratic controlled government) then the prospect of inflation remains somewhat muted and in turn interest rates may remain lower for longer which will be positive for the price of bonds.

Finally, whilst US and China trade tensions are set to continue it is expected that Jo Biden will adopt a more collaborative approach to trade negotiations which will provide a boost to sectors most adversely affected by the tariffs currently in place – this being the automotive, technology and agriculture sectors.

TPO Portfolios

October was by and large a negative month for all portfolios and indexes alike but our ESG and Managed range performed either above or roughly in line with sector averages. The Passive range fared less well, as one would expect in a negative month, but we are all looking forward to November's figures which (unless some bad news crops up) show some very pleasing initial numbers.

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