Appian
Asset Management

Monthly Monitor

November 2020

The implications of the US Elections results?

It appears that the exhausting and interminable US Elections have come to a conclusion although with a caveat around the possibility of recounts and legal challenges. The results can provisionally be summarised as:

- Joe Biden becoming the next US President on January 20th
- The Republican Party holding a small majority in the Senate and
- The Democrats maintaining their majority in the House

Implications for Fiscal Spending:

The results of the election (particularly the Presidency and the Senate) will have important consequences for the US and global economy. Most importantly, economists and investors need to re-calibrate their forecasts of a massive US fiscal stimulus that would have occurred in the event of a "Blue Wave" for the Democrat party. In such a scenario, it was anticipated that a Biden administration would have initiated a c. $2 trillion fiscal package. Such a fiscal program had the support of the Federal Reserve (Fed) as it felt that monetary policy is reaching its limits in terms of effectiveness and fiscal policy is the most appropriate instrument presently for the existing economic environment.

Despite the election result we believe there will be another fiscal stimulus package agreed upon shortly and it will likely amount to circa $500bn to $1trn. It is possible that it could be approved during the "lame duck" session but it is more likely to occur after Biden's inauguration. In addition, the medium-term outlook for further fiscal stimulus does not have to be unduly pessimistic for two reasons. One, Joe Biden has a stellar reputation and many years of experience of working with Republicans. It was the relationship between Biden (as Vice President) and Mitch McConnell (as leader of the Senate Republicans) that assisted in the formulation of fiscal stimulus packages under the Obama administration. Secondly, no politician seeking re-election wishes to be held responsible for delaying fiscal stimulus in an pre-vaccine economy negatively impacted by Covid-19. This is especially pertinent for the Republican party which faces a genuine risk of losing six Senate seats at the mid-term elections of 2022.

Implication for Foreign Policy:

Relations with China under a Biden presidency will remain strained – a hard line approach has bipartisan support. Although Biden does exhibit some protectionist tendencies there is a possibility of a roll back of some of the Chinese tariffs imposed by the Trump administration – particularly those that negatively impacted US consumers and corporations. In addition, we expect a Biden government will repair relations with its traditional allies and that this will entail the lifting of recently placed tariffs. Future trade policy disagreements will be resolved via international organisations rather than twitter and the application of unilateral levies.

We anticipate that Biden will look more favourably upon immigration which will assist in increasing the size of the US labour force and provide an impetus to an improved trajectory for long-term economic growth.

Implications for the Pandemic Response:

A Biden Presidency will provide clearer leadership on the issue of the Pandemic. Medical and Scientific experts will be listened to intently rather than eviscerated on twitter and the general population will be, prior to the arrival of a vaccine, assisted with living with the virus. Valuable lessons can be learned from East Asian Countries via their experience with MERs and SARs. Taiwan with a population of 24m has had seven deaths from Covid-19 and as at the end of October no new cases for 200 days. In comparison the US, with a population of 328m, has recorded 230k+ fatalities and is experiencing its third wave of infections in 2020 with mask wearing remaining optional in some States. Improved advice and guidance from the White House will provide economic benefits.

Implications for Financial Markets:

From an equity market perspective, on an aggregated basis the election results are a slight positive. The sharing of power prevents the worst instincts of both parties manifesting themselves and the election of an experienced politician as President provides a return to normality for many investors. On a sectoral basis the consequences of the results are more mixed.

Sectors exposed to renewable energy and infrastructure spending may suffer in the short term as they fail to see the full benefits of a “Blue Wave”. While the Technology sector may experience a relief rally, escaping its worst case scenario of a democratic clean sweep. Big Tech remains in the crosshairs of US politicians for many reasons. Politicians concerns with regards Mega Tech also has bipartisan support: note the pre-election Anti-Trust case taken by the Department of Justice against Google.

The Blue Wave possibility also had an impact on the Fixed Income and the Currency markets. There was an expectation that Biden’s fiscal policies would be sufficiently expansionary that it would assist in the generation of inflation. Anticipation of such an event saw US Treasury yields increase and the USD weaken with a reversal of these moves once it became clear that power would be shared between the parties.

Implications for Appian Funds:

The Biden presidency is one of a few significant changes that are occurring at the moment, which together strongly support a more inflationary market environment through the next economic cycle. The combination of increased fiscal spending in the United States, a more constructive foreign policy and a more rational response to the pandemic are all supportive in the medium to long term of increased levels of global growth. Other factors such as continued monetary support from central banks and increased levels of fiscal spending across the globe are supportive of this more inflationary outlook. Our multi-asset funds are positioned for a more inflationary outlook with a zero percent allocation to fixed income and a strong preference for real assets that offer inflation protection. Our equity funds are value focused, therefore avoiding the growth part of the market which carries significant valuation risk if global growth starts accelerating thereby putting upward pressure on bond yields.

Appian AM NAV's Fund Prices 30-10-2020

NAV		MTD	QTD	YTD	SI
		%	%	%	%
AMAF	143.179	-1.34%	-1.34%	-10.04%	43.18%
AGDGF	160.4715	-2.75%	-2.75%	-25.15%	60.47%
AGSCOF	150.0804	-1.80%	-1.80%	-19.85%	50.08%
AIF	106.2492	-1.57%	-1.57%	-4.07%	6.25%
AELF	103.066	-	-	-0.63%	3.07%

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Warnings

- **If you invest in any of the funds you may lose some or all of the money you invest.**
- **Past performance is not a reliable guide to future performance.**
- **Appian Funds may be affected by changes in currency exchange rates**
- **The value of your investment may go down as well as up.**

42 Fitzwilliam Place, Dublin 2. T: +353 1 662 3001 F: +353 1 661 9871 appianasset.ie