2020 Global Investment Outlook

4th Quarter Insights

Will Bartleet
CIO & Portfolio Manager of Pacific Multi-Asset

The third quarter of 2020 began with hope, as economic growth continued to rebound from the devastation of the sudden-stop due to the coronavirus. Now economies face the risks of a second wave over the winter, whilst hopes are building for a vaccine for COVID-19.

Equity markets continued their upward path over the summer months, as the support provided by monetary and fiscal stimulus and the reduction of lockdown restrictions buoyed risk sentiment. Unemployment rates in the US have continued to fall (from 11.1% at the start of the quarter to 7.9% by the end of September). This is still elevated versus pre-Coronavirus levels and reflects industries such as retail and leisure which face structural problems in re-emerging whilst COVID-19 remains a threat.

In Europe, a second wave of cases meant that governments had to re-introduce local lockdown measures, reduce cross-border travel and limit social interactions in certain settings. The measures were not as stringent as the first lockdown, as governments are aware that they must strike a careful balance between economic and health concerns going forward. Further fiscal stimulus will have to be delivered in both Europe and the US to offset the impact of the Coronavirus on their economies. In both cases, there is substantial cross-border and cross-party cooperation required to get these programmes in place, and delays could cause further market volatility.

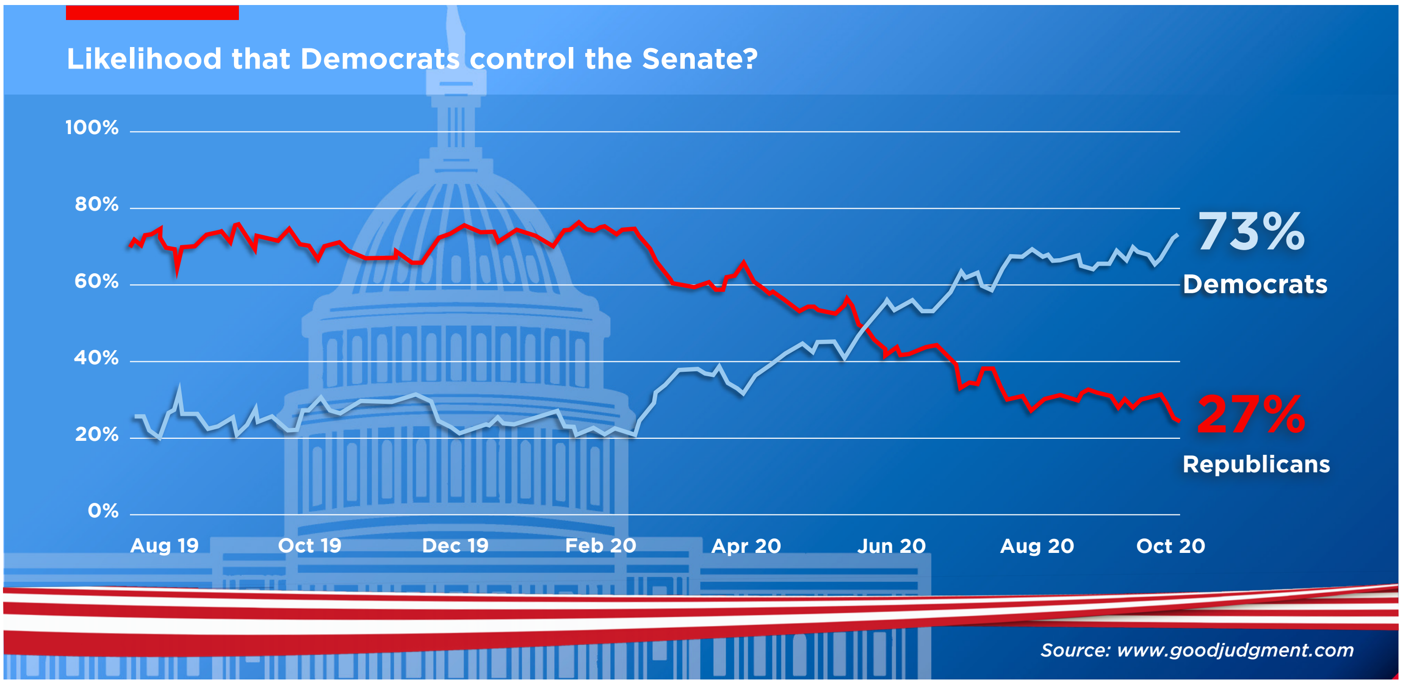
As we look forward to the final quarter of 2020, two things remain top of mind:

1. *The US Presidential Election, which takes place on November 3rd.*
2. *The development of the Coronavirus second wave and the progress of vaccine development.*

US Elections

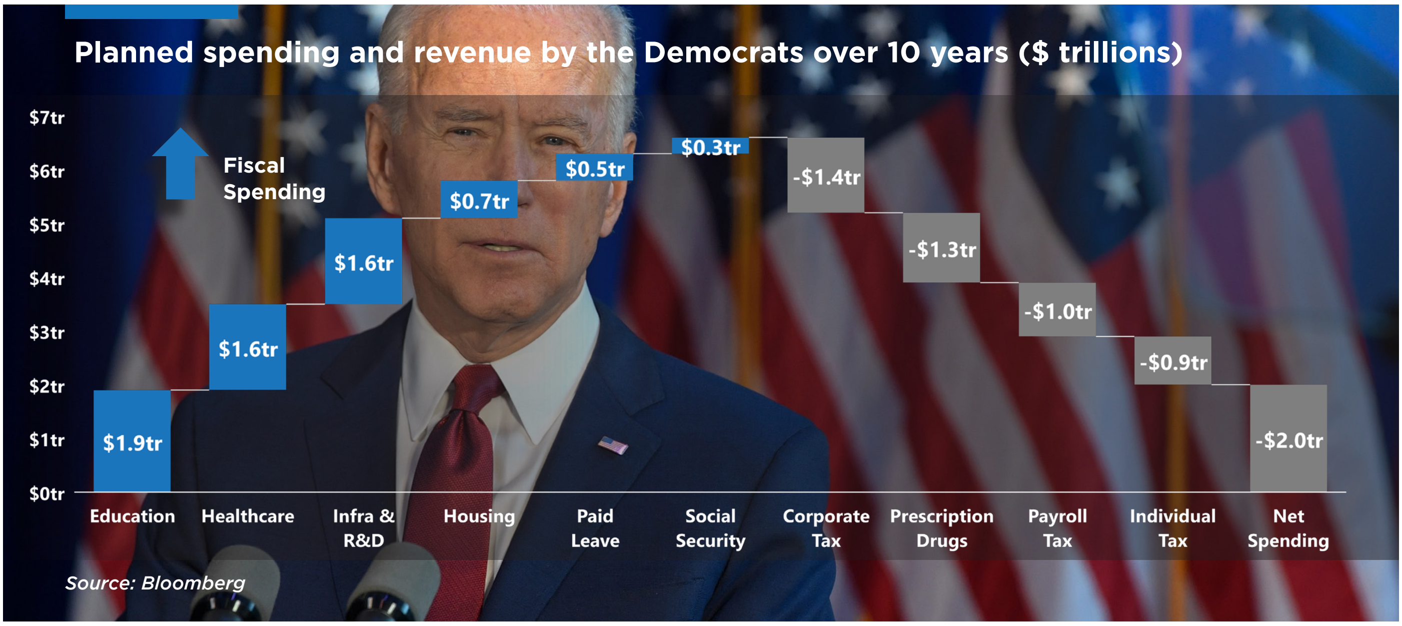
Whilst the Coronavirus brings huge uncertainty, if we believe the headlines, the US election is heavily skewed in favour of a win for Joe Biden. Poll of polls data from Five Thirty Eight currently has Biden leading by 8 percentage points, but we know that polling data, and the result of the popular vote does not decide US elections, it is the electoral college that ultimately determines who becomes president. The election is effectively a series of state elections; each state's number of votes is determined by its population, with the winner of each state receiving all of its electoral college votes. As a result, this election is likely to be determined by a few swing states.

It is also worth bearing in mind that it is not just the president that will be decided at the election, but also the party that controls the Senate. This is just as important, given the Senate's role in the US policy process. Forecasting political events is notoriously difficult and polls have proved to be poor predictors of elections over the last few years. The Good Judgement Project uses individuals or "Superforecasters" who have been shown to have the right attributes to assimilate information and assess the likelihood of events transpiring. Their forecasting track record has been very strong, and if they are right again, the Democrats are poised to take control of the Senate, which mean there is a chance they control the lower, upper and White House.



Blue Wave?

A change in both the presidency and the Senate would likely have an impact on US economic growth and debt levels. A Democrat clean sweep would allow support for spending packages for the economy affected by the coronavirus to be passed quickly as well as a bolder approach to fiscal spending to drive stronger economic growth once the effects of COVID-19 on the economy start to fade. Joe Biden has proposed spending $7tn on infrastructure, education, clean energy and healthcare over the next ten years, funded in part by increases in corporate and individual taxes on the wealthy and reductions in the costs of prescription drugs. Headline corporate tax rates would be lifted to 28%, reversing half of the tax cut that Trump introduced at the start of his presidency. This would be a drag on corporate earnings, although some of this may be offset by stronger economic growth in revenues.



One other significant impact of the election would be on US technology firms, which would face increased regulatory scrutiny, as the monopoly profits they currently enjoy come under threat from lawmakers, particularly in a Democratic Senate. The House of Representative's antitrust subcommittee recently released its 449-page Investigation of Competition in Digital Markets. The report alleges that Amazon, Apple, Alphabet (Google) and Facebook have abused their near monopoly power. It also noted that the four companies have purchased more than 500 companies since 1998 without a single takeover being blocked by antitrust agencies. A Democrat victory in the Senate could see a strengthening of laws against monopolies and the breaking up of "big tech" to restore digital competition.

COVID-19 Vaccine

Looking further out, there are over 300 projects attempting to find a vaccine or treatment for COVID-19. Several drugs have shown early promise in initial testing and have therefore progressed to subsequent rounds of trials. Interestingly the Superforecasters believe that an approved vaccine is increasingly likely, with a 59% chance of one being distributed to 10% of the US population by the end of May 2021. We would expect news about the success (or failure) of trials to impact markets, but of course meaningful production and distribution globally would likely take some time.

Conclusion

In the coming few weeks, there will likely be volatility around the date of the election, particularly given Donald Trump has spoken of his concerns of the validity of mail-in votes, which could delay a result. With this uncertainty, we seek to remain diversified and liquid. This gives us both the opportunity to add to risk assets if we feel volatility and negativity has priced too far, but equally means we are not too exposed to event risks such as the US election.

For more information please contact us

Pacific Asset Management
124 Sloane Street London
SW1X 9BW United Kingdom
www.pacificam.co.uk

Sales Support
T +44 20 7225 2250
E info@pacificam.co.uk

www.pacificam.co.uk
For daily updates on our fund range and more information please visit our website