strength of late-counted postal votes). Trump has already claimed that unprecedented numbers of mail-in ballots will lead to widespread fraud. He has also repeatedly refused to commit to a peaceful transition of power if the vote count indicates he has lost to Biden.

That could set-off one of many legal and/or political dramas in which the presidency could be decided by some combination of the courts, state politicians and Congress. This would likely see confusion rein politically, economically and socially in the short term and it would no doubt put equity markets into a tailspin for a period of time.

However, even with the involvement of the courts, the Constitution mandates that the new Congress is seated by 3 January and that on 6 January both houses meet to endorse the vote count. It also stipulates that the term of the current president ends on **20 January'20** at which point the new president must be inaugurated.

So, what does all this mean for equities? Well, markets detest uncertainty and a period of extended confusion (in the event of a contested result) would see markets move lower in the short term. Similarly, there is little doubt that the initial direction of markets in the event of a Democrat victory will be down. However, this could well be short-lived. Yes, Biden is advocating increased taxes (both corporate & personal) and increased regulation. But, on the flip side, he is also looking at higher levels of infrastructure investment, higher public spending (welfare & health), more stable foreign policy (less US centric) and more cohesive social policies.

In fact a recent Oxford Economics study (reported in the AFR 28 October'20) indicated that the fiscal uplift from Biden's policies would result in GDP growth of 4.9% in 2021 versus 3.7% under Trump. The reality is also likely to be that with the current impact of COVID, Biden's **proposed increases in taxes and business regulation will be postponed or materially watered-down**.

OUTLOOK

With the reporting season about to kick-off both here and in the US, we will get a better sense of the impact COVID is having on company earnings. In short, we remain constructive on equities, however, the key risks to this view include:

- COVID infection rates are increasing in the US & Europe (which is particularly concerning as we move into the Northern Hemisphere winter).
- The upcoming US election, together with the lack of agreement around further COVID stimulus in the US.
- The continued deterioration in the trade relationship between Australia and China.

On the flipside, as far as COVID is concerned, there are currently 10 candidate vaccines in Phase 3 trials and there is the prospect of an approved Vaccine by early next year (the share market is positioned on the assumption of a vaccine in mid'2021). Even in the absence of a vaccine, there has been positive progress on anti-virals. Additionally, lock down arrangements appear to have had a significant impact on the spread of the virus and social distancing, together with other COVID-safe practices plus tracing/isolation strategies, are helping us live with the virus.

On the economic front, the latest OECD Leading Indicator data shows the US progressed to the "expansion phase" in September. The Euro area has also progressed to expansion, following the lead from China where growth momentum continues to build.

And of course, the elephant in the room continues to be the unprecedented levels of monetary and fiscal policy support around the globe, which underwrites the value of world share prices. Whilst ever this remains the case, markets will pretty much be comfortable with whatever is thrown at them and this gives us confidence that, in the medium term (once we move beyond the US election), equity markets should move higher.

ASSET ALLOCATIONS

We are looking to position client portfolios as follows:

- **Australian Equities (Neutral):** We are now more comfortable to maintain a neutral position to Australian equities. Opportunities exist in medium and small cap companies at this point in the cycle.
- **Global Equities (Slightly Underweight):** The US market is looking a little stretched. Asian and European markets appear to have more headroom for growth.
- **Property (Underweight):** Listed Property has clearly benefited from the flight to yield (and reductions to interest rates), but these macro tailwinds have now abated.
- **Fixed Interest (Slightly Overweight):** Given the level of interest rates, it is preferable to hold a little more in fixed interest instruments relative to cash.
- **Cash (Slightly Overweight):** As a result of our positions in other asset classes, our net cash position is slightly overweight.

Regards

Andrew & Stephen
28 October 2020