

Key Highlights

- **Biden is the next US President** However race for the Senate remains uncertain and hinges on a run-off vote in Jan 2021.
- **A Divided Government?** Major shifts in policy remain unlikely. The likelihood of corporate tax hikes has already faded, and the stock market has reacted accordingly. It will also mean a smaller than expected Fiscal package – This may however suggest greater monetary policies from the Fed.
- **Covid-19 Vaccine.** We are in the early stages of seeing companies touting a vaccine for the virus. They still need to seek FDA clearance. These developments have given cheer to the markets as they anticipate a publicly available vaccine in 2021.
- **Opportunities.** For China, investors can consider **JP Morgan China A-Shares Opportunities Fund**. For Fixed Income, we reiterate **Fullerton Asian Bond Fund**. Investors can consider Tech and Healthcare sectors as well. We highlight some names such as **Blackrock World Technology Fund, United Global Healthcare Fund and Blackrock World Healthscience Fund**.

US Presidential Election.

US Presidential Election. We now have Joe Biden as the next US President with the prospect of a split Congress where the House of Representatives (Lower House) is controlled by Democrats while the Senate is likely to be won by Republicans.

Joe Biden has been declared president-elect after securing crucial swing states in the Midwest, including Pennsylvania. Meanwhile, the race for the

Senate remains uncertain. The Democrats' failure to win Maine makes it more difficult for the party to wrestle control of the chamber from the Republicans. The final outcome hinges on two run-off votes in Georgia on 5 January.

Recall in 2016, polls expected a "blue wave" that would shift the Senate to Democratic control and increase of the Democratic majority in the House did not occur. After the January 5th senate runoff elections in Georgia, Republicans are likely to retain their 52-48 seat advantage in the Senate.

Mr. Trump will remain in office until 20 Jan, as will the sitting Congress. They will need to reach an agreement on a temporary spending bill as the current one lapses on 11 Dec. With the rising burden from COVID-19 and the expiring benefits and no short-term political gain from obstruction, a new continuing resolution (CR) that would allow spending at current levels seems the most likely outcome.

Divided government will mean that major shifts in US spending and tax priorities will be far more constrained. The fading likelihood of corporate tax hikes has already rallied the stock market.

Divided government though, will also likely mean a smaller fourth fiscal package in the US, perhaps only US\$1 trillion rather than the US\$2 trillion that was being discussed last month, a difference of roughly 5% of GDP. With the US hitting new highs in COVID 19 cases and key unemployment benefits set to end in December, the near-term US economic outlook is more challenging. Hence we believe that there is still a need for fiscal stimulus ahead, albeit a smaller amount than initially expected.

More stimulus from the US Federal Reserve? Less fiscal spending now suggests that the US Federal Reserve may play a bigger role and potentially leading to more Quantitative Easing (QE). Markets view this

more favorably (risk assets reacted positively) as monetary policy tends to work its way to the financial markets faster. This may be supportive of Asian markets.

Lowered risks of aggressive regulation. With a Biden win and a likely gridlocked Congress, the threats of increased and more aggressive regulation - especially in the Technology and Healthcare sectors, appear to have been reduced. For the Tech sector, it is less likely to enact new laws to curb large tech abuses (although anti-trust laws may be used to investigate anti-competitive practices; over in Healthcare, significant drug price reform becomes more difficult to envision.

For the rest of the world, Mr. Biden's election will imply a more conventional US head of state. One committed to multilateral organizations, to maintaining commitments, to addressing global challenges like climate change and to building consensus rather than fanning divisions. The geo-strategic competition with China will persist, but couched in a less erratic, volatile set of policies. There may even be greater focus on relations with non-China Asia in an effort to maintain economic and geopolitical ties, opines CIMB Group Chief Economist.

Better response to Covid-19. Biden is committed to a better response to Covid-19 and has appointed a 12-member task force. We may thus see a better recovery path out of Covid-19 for the US.

Covid-19 Vaccine news

On 09 Nov, Pfizer and BioNTech announced that their Covid-19 vaccine has shown 90% effectiveness in prevention among those with no evidence of prior infection.

Although the results still need FDA review and widespread vaccination would not happen for many months, market sentiment has been boosted.

The vaccine announcement, nonetheless, is a positive development as many experts believe a 75% effectiveness would be good enough, while the FDA is willing to accept candidates that are 50-60% effective. Both Pfizer and BioNTech have said that they plan to submit an application for emergency use authorization soon after they have two months of data, which looks to be on track for the 3rd week of November - contingent on no major safety issues.

Based on early projections, Pfizer and BioNTech expect to produce up to ~50 mil vaccine doses in 2020 (or early Jan 2021) and up to 1.3 bn doses in 2021, with a wider distribution by 3Q2021.

Implications. Questions remain about production, distribution and more importantly, the performance and capability of the vaccine itself. We understand that the vaccine may need to be stored and transported at -70C, which may pose additional logistical challenges.

There are still some unknowns about the vaccine. With limited supplies available until next year, and the required two doses per treatment, it may not end a rampant pandemic overnight. However, the development does boost the chances of a quicker and easier resolution.

Market reactions. The immediate reaction saw significant rotations from prior beneficiaries of Covid-19 / WFH to beneficiaries of recovery as well as to value stocks. For instance, we noted rotations out of tech stocks (deemed beneficiaries of WFH) to travel-related, hospitality stocks. Traditional safe haven assets saw profit taking while those markets whom had been plagued by Covid-19 (for instance Europe) or deemed more cyclical saw strong inflows.

Investment Considerations.

Our preference is for Emerging Market Asia Pac excluding Japan (APxJ) on relative valuations, better policy buffers and longer term growth prospects. Within APxJ, we favor the China/ Hong

Kong markets. The Biden win probably helped reduced the risk premium on this markets due to more rules-based approach to foreign and trade policy with China and region.

We favour China for 1) faster recovery of its domestic economy; 2) higher revenue mix from local demand; 3) Government stepping up stimulus measures; 4) Prudent policy adjustment; 5) Access to China's new economy sectors; 6) ongoing transformation, rising domestic consumption, and pro-market reforms.

We continue to reiterate **JP Morgan China A-Shares Opportunities Fund** and **Fullerton Asian Bond Fund**.

Sector preference. In terms of sectors, we favor Technology and Healthcare as these sector have supportive structural trends. Even with the progress of Covid-19 vaccines, which saw rotations out of Tech into value stocks, we see these as opportunities to buy on dips. Tech stocks may have benefited from Covid-19 such as WFH themes and digitalization, however, these trends are unlikely to go away anytime soon. The Covid-19 had fast paced the digital transformation and perhaps helped captured a larger audience share, an audience that may not have been captured in normal times.

Routes to Market

For sectoral funds, we highlight **Tech: Blackrock World Technology Fund**. For **Healthcare Funds: United Global Healthcare Fund** and **Blackrock World Healthscience Fund**.

The key risk of sectoral funds like the above mentioned is concentration risk as the specialized focus on a single sector restricts diversification.

We believe such funds are more suited to investors who have the risk appetite for sectoral exposure and would like such sector exposure to be part of their overall diversified portfolio.

Please contact your Relationship Manager to find out more.

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