

COVID and the US elections: an opportunity? A research and cultural dividend emerges

The latest global infection rates are unfortunately alarming in character. It seems that a second wave of the COVID pandemic can no longer be kept at bay. It is apparent that the lockdown was opened up too early and too quickly. The great economic and psychological sacrifices made at that time could now be endangered if the attempt to keep the second wave under control is not successful.

To date, those bearing political responsibility still firmly believe that this can be achieved with testing, tracing, quarantine and isolation. The coming weeks will show whether this conviction holds up to reality. It is also clear that Western societies are no longer politically ready to accept a further complete lockdown. If the present strategy fails, extensive human costs in the form of hospital admissions and deaths would have to be reckoned with. But the economic costs could also – even without a renewed lockdown – rise rapidly, as consumers may significantly reduce their mobility and purchasing behaviour. A panic reaction can also not be ruled out here. These bleak prospects allow us, in this sense, to say with confidence that everything is being done on the political level to keep the pandemic under control. The stock markets also make this assumption, having to date not shown any sign of reacting to the increased infection rates. And not only this - the markets have already been able to incorporate in their rates and prices the dividends of the great efforts that have been made in the field of COVID-19 research. There is no doubt that a successful COVID treatment in combination with the current extremely expansive monetary and fiscal policy could trigger a boom in the next two years.

However, the second defining topic of the fourth quarter, the US elections, could also provide a few surprises. Here too though, there are also potential dividends to be gained. If Joe Biden wins the election, a change of policy approach is definitely on the cards and could have a value-generating effect in the medium term. This would result from the abandonment of a win/lose model for a win/win approach. Trump has always seen leadership as a battle. In every decision there are winners and losers.

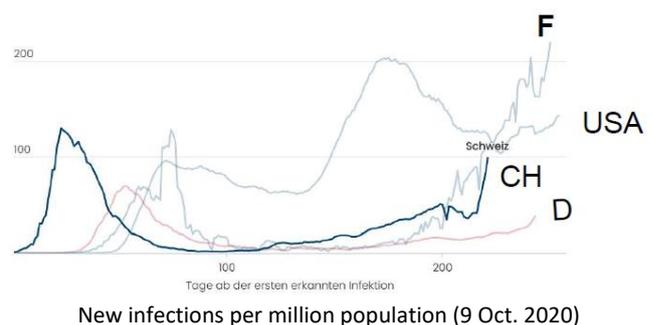
This is how he understood his business activities; this is how he also sees the political process. He has few friends and many enemies. The latter include the state, its institutions, the parties and his colleagues within them alongside large entities like the EU and China and, worst of all, supranational organisations such as NATO, the UN, the WHO, the climate conventions, the WTO and many more. He sees his task as showing them who is boss. He feels they need to be set up in order to benefit America first and foremost. If they do not accept this voluntarily, pressure is applied in the form of economic threats. In only four years, the arsenal of protectionist measures has grown to a point not seen since the Second World War. As the use of such methods always leads to retaliation, the global growth sacrificed to this approach should not be underestimated.

Many economies and market observers assume, justifiably, that Biden will return to the classical principles of the political economy, which leave two winners in every negotiated situation. That is, a win-win scenario will be created. If this change of values is successful, a veritable cultural shift after the Trump era, the protection costs racked up until now could be eliminated and new growth potential created by exploiting the benefits gained from the cooperative provision of public goods.

On the other hand, the Democrats' programme also contains elements that will place restrictions on certain sectors. These include strengthening anti-trust law with the goal of increasing taxation on monopolistic companies by skimming off monopoly incomes. This also applies to a range of pharma companies, who have made extensive use of the generous patent laws in recent years, exploiting their monopolies through excessive price increases. However, such measures will contribute in the end to a more efficient market economy and greater prosperity.



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In all, a change of power in the White House could lead to a shift in political approach offering significant gains in wealth. A good portion of this “cultural dividend” has already been incorporated by investors in prices over the preceding weeks.

What conclusions can we draw from this general situation? In the medium term, prospects are no doubt promising; in the short term, however, there is little cause for euphoria. Uncertainty over the future course of the pandemic and the real potential that President Trump will not quietly accept electoral defeat present further stumbling blocks that will need to be cleared if the unprecedented stock market rally of the last six months is to be continued.

Overall, we do not consider the risk/reward ratio in the real, monetary and political sectors to have achieved equilibrium. We will reflect these circumstances in a continued slight underweighting of stocks and bonds.

You can take the details of the asset allocation for the fourth quarter of the year from the following table.

Strategic and tactical Asset Allocation for the 4th Quarter 2020

	Referenzwährung CHF			Referenzwährung EUR		
	Anlagestrategie Ausgewogen			Anlagestrategie Ausgewogen		
	SA	IC	C	SA	IC	C
Investment categories						
Money market	5	14		5	14	
Bonds	40	35		40	38	
Home Country	24	23		23	23	
Rest of Europe	8	6		5	3	
USA	4	3		8	8	
Rest of World	4	3		4	4	
Stocks and shares	45	41		45	37	
Home Country	9	8		15	11	
Rest of Europe	11	10		6	3	
USA	12	11		15	11	
Rest of World	13	12		9	12	
Alternative investments	10	10		10	11	
Commodities	4	4		4	4	
Various	6	6		6	7	
Gesamt	100	100		100	100	

SA = Strategic Asset Allocation

IC= Investment Committee

C = Change

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