London
&Capital

US ELECTION
FIXED INCOME IMPACT

LIKELY POLITICAL MAKEUP OF WASHINGTON: ELECTION OUTCOME REMAINS TOO CLOSE TO CALL

President Elect:	Joe Biden – Democrat
Senate:	Republican Control – no change
House of Representatives:	Democratic control – no change

Presidential outcome may be challenged in court – continuing to monitor

KEY FEATURES:

- The failure of either party to get a clean sweep will hamper new policy initiatives
- If President Trump stays in power, basic policy agenda will remain as it has been
- Fiscal loosening will still be on the agenda but a large package is now unlikely and tax hikes are less likely
- A shift in trade talk with global partners – a less aggressive tone is likely with Biden
- Refocus on global partnership – no change under Trump

In the table below, summaries in Green highlight potential changes to policy/monetary stances and London & Capital's Fixed Income allocation response, respectively.

	PRE-ELECTION	POST-ELECTION
MONETARY POLICY	▪ Tilt to "lower for longer" ▪ Zero rates ▪ Quantitative Easing (QE) and wider liquidity support	No change in policy stance ▪ The Federal Reserve (the Fed) will keep an eye on fiscal policy, but this will complement monetary policy not substitute it
FISCAL POLICY	▪ Second fiscal boost failed	Targeted fiscal package likely ▪ Focus on supporting consumers and companies ▪ Potential $7tn public spending boost over 10 years. This requires tax hikes but may fail in the Senate
TREASURY MARKET	▪ The short-end of the yield curve is anchored by the Fed ▪ Longer-end yields are expected to rise, reflecting fiscal boost and inflation expectations	▪ The short-end of the yield curve will still be anchored by the Fed ▪ The longer-end yields will be under less pressure ▪ Significant yield curve steepening may be delayed

CREDIT SPREADS	▪ Continuing to narrow, reflecting improving credit dynamics, low Treasury volatility, QE and strong investor demand	Basic fundamentals remain intact ▪ Supporting further gradual spread narrowing to pre-COVID-19 lockdown levels

CREDIT SECTOR ALLOCATION

BANKS	▪ Improving balance sheets ▪ Positive earnings trends ▪ Supportive Fed and regulations ▪ Source of strength	Maintain allocation ▪ Yield curve steepening is good for banks ▪ We continue to watch for any regulatory changes that could impact earnings but will bolster the balance sheet
UTILITIES	▪ Key stable economic sector ▪ Resilient balance sheets ▪ Regulated ▪ Non-cyclical	Maintain allocation ▪ Key players in renewable energy
PHARMA/HEALTHCARE	▪ Strong balance sheets and key economic sector ▪ Regulated ▪ Benefitting from COVID-19 ▪ Demographics supportive	Maintain allocation ▪ Vaccine rollout is a positive for earnings ▪ We continue to watch for regulatory oversight and change in pricing mechanism
TECH/TELECOM	▪ Key economic sector ▪ Key beneficiary of new global work trends ▪ High operating cash flow sectors ▪ Barrier to entry	Maintain allocation ▪ Tax burden rise is a potential threat but is unlikely to change credit dynamics ▪ Regulatory oversight to be monitored
CYCLICAL SECTORS – MAJOR GLOBAL CORPORATES	▪ Key beneficiary of reflation trade ▪ Fiscal and monetary support ▪ Boosting cash flow ▪ Successful debt maturity profile lengthening ▪ Earnings improving	Increase allocation ▪ Reflation trade may give a further boost ▪ Infrastructure boost is a positive ▪ Energy sector will watch for new energy initiatives ▪ More encouraging trade outlook
YIELD ENHANCING STRATEGIES	▪ Zero/negative rates backdrop ▪ Diversified portfolio ▪ Focus on major banks, utilities, tech/telecom and pharma ▪ Focus on short-medium maturity bonds ▪ Maximising coupon flows ▪ Low credit risk	Maintain allocation ▪ Many of the sectors will benefit from reflation trade ▪ Low rate risk profile

INFLATION-HEDGING	▪ Major deflationary shock from a hit to potential economic growth rates ▪ Central Banks are willing to tolerate higher inflation ▪ Weak commodity prices keeping low inflation ▪ Wage pressures under control ▪ Inflation linked bonds provide negative yields and long duration ▪ Cyclical exposure good inflation hedge ▪ Banks a good play on inflation	Maintain cyclical and banking exposure to benefit from any uptick in inflation
EMERGING MARKET	▪ Selective exposure ▪ Focus on quasi-sovereign key sectors ▪ Benefit from low rates ▪ Benefit from weak USD	Maintain allocation ▪ Looking for wider opportunities from less strident trade policy out of the US