



HOUSE VIEW

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PRESIDENTIAL ELECTIONS AND THE DEMISE OF SITTING BULL

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The recount demanded by Donald Trump in Wisconsin, coupled with the suits filed in Pennsylvania and Michigan to stop counting mail-in ballots and the appeal lodged with the Supreme Court, have delayed the announcement of a winner - though the evidence suggests it will be Biden. It has also sparked memories of other post-electoral disputes, such as when Republican candidate Hayes beat the Democrat Tilden in 1876, despite being outpolled by 20 votes.

Trump's attitude is reminiscent of the Sun Dance ritual performed that same year by Sitting Bull in Little Bighorn, Montana. In the ritual, the last great Sioux leader, using his sacred shamanic gifts, saw a vision of his people being attacked by enemy soldiers "as thick as grasshoppers". In his vision, these enemy soldiers were arriving upside down, which he interpreted as a sign that his tribe would be able to withstand the attack and would not be forced from their tribal lands. A few days later, the notorious 7th Cavalry invaded the camp; we all know how that battle played out, and how General Custer (who was actually a Lieutenant Colonel) met his demise making his Last Stand.

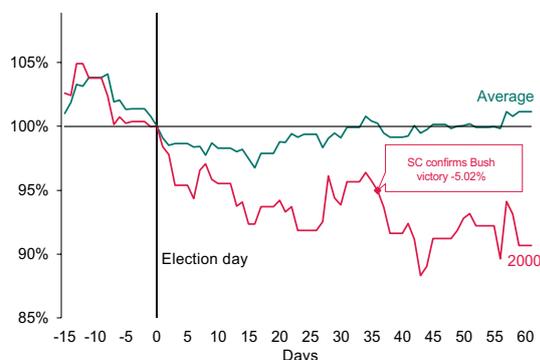
Racial considerations apart, and in no way bestowing upon him the sacred status of Sitting Bull, the battle-seasoned Donald Trump is refusing to give up the fight and leave the White House; like the Sioux leader, he has prophesied his own victory, despite the mail-in ballots that will benefit the Democrats, in hotly disputed states like Pennsylvania, Michigan, Arizona and Georgia. He is adamant that the recount he has demanded in Wisconsin will win him a second term as President. The question is, to what degree is he prepared to stress the system to get his own way?

With 4 million votes more than in the previous election and a level of popularity that he has managed to maintain against all odds, would Trump really be capable of triggering an institutional issue by impeding - if applicable - a smooth handover of powers? No, but a Supreme Court battle at least looks almost inevitable. A fierce will to win is one thing; extinguishing almost two and a half centuries of democratic history is quite another

Given the record number of early votes cast by mail - which stood at over 100 million as a result of the Covid-19 outbreaks - patience will be a virtue throughout the potential recounts that lie ahead. This is not, however, an unprecedented situation. As well as the aforementioned feud in 1876 and another pre-dating that in 1800, we also saw a recount dispute in the year 2000 between George W. Bush and Al Gore. The financial markets - which are no fan of uncertainty - responded to the 5-week impasse until the Supreme Court announced Bush's victory with a 5% downturn for the S&P 500. To put that in perspective, should a similar short-term downturn be registered at some point, the impact would be minimal, bearing in mind that since March lows, equities have gained 57%.

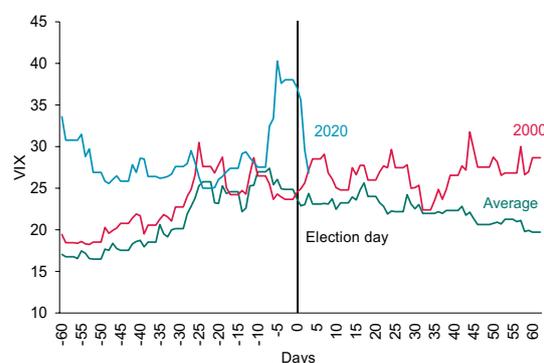
1. S&P 500 BEFORE PRESIDENTIAL ELECTIONS

Source: Bloomberg and Banca March



2. VIX: AFTER ELECTIONS, VOLATILITY DISSIPATES

Source: Bloomberg and Banca March



We remain convinced that the best way to approach the current uncertainty is to maintain equity exposure, focusing on the medium term and, as the tables below reflect, on harnessing the positive returns that the markets tend to enjoy after the isolated spikes in volatility triggered by the election process.

Will the economy and markets perform differently depending on whether there is a Democrat or a Republican in the White House?

Though speculation has been rife and constant, intuition has been of little use in identifying the best performing sectors: consumer discretionary, tech and health outperformed under both Obama-Biden and Trump's mandates.

3. S&P 500 SECTORS: ANNUALISED RETURN UNDER OBAMA-BIDEN VS TRUMP-PENCE

Source: Bloomberg and Banca March

Obama - Biden (Nov. 2008 - Nov. 2016)		Trump - Pence (Nov. 2016 - Nov. 2020)	
Sector	Sweetened return (%)	Sector	Sweetened return (%)
Consumer discretionary	20.19	Technology	27.40
Technology	17.97	Consumer discretionary	19.25
Health	15.13	S&P 500	14.26
Industrial	14.29	Health	13.56
S&P 500	13.73	Materials	11.26
Consumer Defensive	13.57	Utilities	10.92
Utilities	11.87	Industrial	9.92
Materials	11.80	Telecoms	9.53
Real estate	11.15	Consumer Defensive	8.22
Telecoms	10.95	Financial	7.81
Financial	9.33	Real estate	7.61
Energy	6.43	Energy	-15.77

In fact, under Trump, major tech companies have even outperformed consumer discretionary, which in no way reflects the attacks on these companies that many predicted back in 2016. Property companies - the cornerstone of Trump's family business - have not exactly benefited under his mandate either. Not even the "Make America Great Again" credo, driving up tariffs to support domestic employment rates, has buoyed the performance of industrials. Also, fossil fuel companies, which have traditionally benefited under Republican governments, have been worse off under Trump than they were under Obama; despite the US withdrawal from the Paris Climate Agreement in 2017, they have been hit hard in any case by the global shift towards decarbonisation.

It is safe to say then, that rather than the party that wins the White House, the next mandate will be conditioned by structural factors: : companies that can prosper in a cycle with lower potential growth, the Fed's ultra-expansionary monetary policy with negative real interest rates (we do not expect to see a rate hike for 3 years), new fiscal stimulus measures coming in as of January (with a consensus achieved in both cases, similarly to the Cares Act back in March), tough relations with China, which both candidates will maintain to protect the constant erosion of the US's global leadership position, and the shift towards tackling the climate emergency, a global reality which Biden will be fully on board with (although if the Republicans hold the Senate, which looks likely, his "Green New Deal" will suffer cutbacks).

Meanwhile, we must face the volatile days ahead with the patience of a true Sioux leader. It remains to be seen whether Biden can take Arizona and Nevada (the recount could take several days) and with the tensions running this high, we could well see appeals lodged with a view to further convoluting the situation. Let us hope that Trump's fate will not mirror that of Sitting Bull and Crazy Horse; the massacre they perpetrated to hold Little Bighorn so scandalised the US public that the government ended up sending in an army powerful enough to spell the end for the Sioux tribes. As investors, we must hold exposure steady, overlook short-term anecdotes and place our trust in the fiscal policies that will be implemented regardless of whether Biden or Trump ends up in the White House.

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