



COMMENTARY ON THE CURRENT SITUATION FACING FINANCIAL MARKETS - SPECIAL

Prague, 18 Nov. 2020

Equity Markets Riding on an Optimistic Wave, while U.S. Election Remains in the Background (at least for now)

Optimism has overcome the financial markets in the just passed days. This was because of the news released by Pfizer about its successful Covid-19 vaccine. The markets have also been pleased by the news about sufficient production of the inoculants exceeding one billion doses in the course of one single year. Investors have not allowed themselves to get nervous by the conditions of storage of the vaccine at a temperature of minus 70 degrees, which significantly makes it difficult for the distribution of the vaccine to the target destinations. Yet another piece of news about a vaccine was disclosed on Monday, this time by Moderna. Its inoculum shows even more effective results than the Pfizer vaccine, while it can be stored at a mere minus 20 degrees, which in fact eliminates difficulties relating to its transportation.

In the context of the favourable reports from pharmaceutical companies, the topic of the U.S. presidential election has receded into the background. We believe, though, that this topic has far from having said its last word, and it may re-enter the scene in the coming weeks. Let us recall that the elections have not been only about the President but also about seats in the Congress. The present elections will result in the complete reshuffle of the lower house of the Congress, the House of Representatives, and in an alteration of a third of the upper house, the Senate.

And it is the Senate that may play a key role in the future orientation of the policies of the United States. The presidential election has (so far) been marked by a sufficient lead by Joe Biden; he has probably won 306 electoral votes, against 232 electoral votes secured by Donald Trump. Recalculations of the votes pose some uncertainty, however, we do not expect the election results to be reversed. The President, though, needs control over both the upper and the lower houses of the Congress in order to be able to enforce smoothly his election program and new legislation. While the House of Representatives remains in the hands of the Democrats, thus in the hands of Joe Biden, the Senate ballot has not been decided by far. The catch lies in the State of Georgia where, according to the local legislation, the second round of the Senate elections will yet to take place as late as on 5 January 2021. The result will not be clear at least until then. Georgia is electing two chairs in the Senate. And they are really key seats because the Republicans currently lead the Senate with 50 seats, while the Democrats have 'only' taken 48 seats, so far. If the Democrats manage to win the remaining two seats, they will be on the par with the Republicans. Then, the vote of the Senate president will decide, that of the Democratic Vice-President Kamala Harris.



Michal Ondruška
Manager,
Asset Management



In this way, the Democrats would have gained control over the key positions, i.e., the President, the House of Representatives, and the Senate. This would make it much easier for Joe Biden to push through his election program. We consider this result to be the most risky from the point of view of financial markets. It would probably bring about higher corporate taxes, from the current 21 percent up to 28 percent, or new regulations in certain sectors, such as health services, energy and technologies. On the other hand, if the Republicans manage to keep their lead in the Senate, the path to fulfilling Joe Biden's program will not be easy. Thus, the key points on the agenda, such as higher taxes, a reform of the health services, and fiscal incentives, probably will not be enforced. This represents a neutral piece of news from the point of view of financial markets, since the markets have already been working with this scenario in view.

If the placing of the candidates from the first round is repeated, each party will gain one seat. Then, the final picture of the Senate would be 51 seats for the Republicans and 49 seats for the Democrats. However, it should be added that the degree of uncertainty is relatively high, and the result can be very tight, even as regards other possible variants.

Whatever the final election results, though, the most important role will be played by the fundamental indicators, in particular, the speed of economic recovery. We saw the global economy take a deep breath in the third quarter, before the second wave of the Pandemic occurred. We may point out, e.g., major quarter-on-quarter GDP growth in the U.S.A. in 3Q by +33.1 percent (Source: Bloomberg, annualized). Leading indicators of purchasing managers also indicate an expanding economy, not only in the U.S.A., but also, for example, in China. The corporate sphere, too, has been in a fairly good shape as the economic results achieved by companies in the third quarter exceeded estimates by analysts. We assume that the economy will start a relatively strong growth again after the Pandemic subsides.

We maintain a positive outlook for the near future. The expected economic recovery may have a positive impact especially on equity markets, but also on alternative instruments (commodities, real estate). **We continue to be overweight on stocks versus bonds.** As regards sector allocations, **we prefer cyclical sectors**, such as finance, technologies, industries, and consumer durables. As far as regions are concerned, **we are overweight on the U.S.A. and the emerging markets, especial those in Asia. We are slightly overweight on Europe and the developed Pacific region**, such as Japan. **We invest into bonds with shorter term to maturity.** Such shorter-term bonds are more resistant to rising interest rates. We are cautious in this area because it is interest rates and their possible rises that may play a significant role in the coming period.

Wishing you successful days,

For the Asset Management team
Michal Ondruška



NOTICE

All opinions, information, and any other facts and figures contained in the present document are solely for reference purposes, not binding, and they represent the opinions of Raiffeisenbank a.s. ("RB"). Information and figures related to movements recorded in capital markets and presented in connection with the provision of client asset management services and contained in the present document, have been based on publicly available sources and on information or data published by such rating agencies as Reuters, Bloomberg, FactSet, etc. The present document is not a solicitation of purchase or sale of any financial assets or any other financial instruments. Prior to adopting any investment decisions, it is the responsibility of each investor to perform a search of detailed information about the envisaged investment or trade. RB shall not be liable for any loss or damage or lost profit caused to any third parties by making use of any information and data contained in the present document. Raiffeisenbank a.s. wishes to point out that the provision of client asset management services contains a number of risk factors, which may affect either return on or loss of such investments. Investments do not represent bank deposits and they are not insured under the Deposit Insurance Fund. The higher the expected yields, the higher the potential risks. The duration of investments affects the level of risk. Yields also fluctuate due to exchange rate fluctuations. The value of invested amounts and related yields may rise or fall, while full return on the originally invested sum is not guaranteed. Past performance does not guarantee future performances. Due to unforeseen fluctuations and development on financial markets and risks inherent in investment instruments, the investment goals pre-determined by clients need not be achieved. Any yields from such investments shall be reduced by rewards and expenses of Raiffeisenbank a.s. as agreed in the contractual documentation, and/or rewards and fees listed in the Raiffeisenbank a.s. price-list. Taxation of the client's assets always depends on the client's personal circumstances and it may change. Raiffeisenbank a.s. does not offer tax advices and therefore any liabilities associated with the tax consequences of investing in bonds remain in full up to the client. Investment services shall not be offered to clients defined as U.S. persons.

Information about Raiffeisenbank a.s.

The document has been drafted by Raiffeisenbank a.s., with registered office at Hvězdova 1716/2b, Praha 4, Registration number (IČO): 49240901, incorporated in the Companies Register administered by the Municipal Court in Prague, Section B, File no. 2051. Raiffeisenbank a.s. has been supervised by the Czech National Bank.

The information has been valid as of 18 November 2020. This information may be modified in future and RB shall not be required to inform any recipients of the present document about such modifications.