THE US ELECTION

The US Election and the US market reaction to the outcome

Thank you to David, Martin, Simon and several others who have all commented on the recent reports. In answer to your questions regarding what would happen to the stock market and the US dollar if the outcome of the election was a Biden victory, firstly you must watch a lot of CNN but there is more to the election than a straight Trump or Biden victory. I could write several pages on this, but let's not, I have instead outlined a short summation below for all members.

The market reaction to a Trump marginal victory

Should Trump manage to pull a white rabbit out of the hat yet again, the Democrats would almost certainly challenge the result with zest. I believe that such a scenario we would see the opposition party demanding recounts in every swing state, they'd also be likely to blurt out accusations of voter suppression. This could easily be followed by a constitutional crisis, as Trump would only win with another large national popular vote deficit. As such the risk of a flaring up of considerable civil unrest would be quite high.

The US dollar would likely spike strongly higher by 3-5% percent or more as soon as the result is made clear. This is mostly due to the fact that a Blue Wave scenario has already been partly priced into the market on speculation prior to the election. But keep in mind that the Democratic opposition in the House is still there and would challenge Trump every step of the way on supply-side reform that he accomplished in his first two years. Net-net, the US dollar rally would likely quickly dissipate and would then fall broadly, particularly against commodity currencies; it would be likely to lose ground also against emerging markets. This is a positive for those invested or considering inward investment to the RIO Currency Concept Account.

Gold/commodities: A gold sell-off would be short and sharp, but it would recover quickly as Donald is certain to continue with his big spend. Donald is no ideologue and as for the US-China friction concerns it would move even higher in this scenario; again similar to the above it would be good news for those invested, or considering investment in the RIO ARC USD account.

Risk appetite/equities: This would initially be strong, but likely more neutral moving forward for a multitude of reasons.

A Biden win, with a very slim control of the Senate

If Biden were to win with a sizable popular mandate, but barely gets the majority needed in the Senate, 50-50 is enough as VP Harris would cast the deciding vote. The contested election scenario beyond a few days or a week may be avoided; this in turn would lessen the risk of aggravated market volatility.

In this scenario we would almost certainly see a US dollar sell-off but it would be slower to develop as the market is more tentative on whether Biden and his mandate is watered down as centrists would be worried about the slim majority and likely push back against the progressives.

Gold/commodities would witness a weaker response than that seen by the Blue Wave scenario, but in the end I would certainly see support for both gold and commodities. Again this scenario would favour those invested in the ARC Bullion Account USD but to a lesser degree.

A Blue Wave and the Blue landslide victory

The Blue Wave scenario is a 52-48 victory in the Senate coupled with say an 8 point or more win in the national popular vote. A Blue wave landslide would be a win by more than 10 points in the election with all of the close swing states going to the Democrats, with both Texas and Georgia becoming Democratic states. Should we see these two states go to the Democrats, we would be looking at the most tilted electoral outcome since Bush senior won with over 400 electoral votes in 1988.

The above would certainly result in far more stimulus, and more legislation aimed at addressing inequality, healthcare and maybe even monopolies, and a massive increase in green agenda spending.

As evidence of strong youth participation is clear, and with progressive voices clamoring for significant change, the US dollar would then weaken and could do so sharply from the get-go, especially in this scenario. Stimulus would be pushed through and passed before the end of this year. This action swiftly followed by Billions or even a Trillion more marked for 2021 under a Blue Wave, with heavy aid for income replacement, health care and the Green Agenda. The US negative real rate story would accelerate at breakneck speed, in turn causing inflation which would shoot upward. The net result of which very likely being that the USD would fall dogmatically (10-12%) by mid 2021- this scenario would be excellent for those invested in RIO Currency Concept.

This scenario is perhaps the ideal outcome for both gold and commodities, but it is silver with its dual use as industrial and precious metal that stands to benefit most, with RIO Silver Lining likely to soar higher. As the US produces so little of what it consumes, the heavy stimulus and weaker USD would have a knock on effect stimulating the world economy, this adding further to the upside potential for precious metals. RIO has vast experience in trading precious metals with a range of several investments, all of which could benefit from such a scenario.

Equities: a very different agenda from that which equity traders have become used to post-Covid19. The market would demand a higher return on higher risk/growth stocks with cash flows so far off in the future. Value stocks would get a reasonable boost on their stronger earnings yield. The biggest monopoly names would be certain to come under considerable pressure, the reason being that the Democrats are far more likely to agree to a multilateral global taxation arrangement, they frown on monopolies and would perhaps look to break up monopolistic behavior.

The nightmare scenario would be a Biden win but the Democrats fail to take the Senate

This would likely result in a very bitterly contested election, I would be very surprised if Trump and his administration didn't move to block counting of mail-in votes amid charges of fraud. This would lead to stock market turmoil, and increased volatility.

The US dollar would be certain then to move upward sharply, as the equity market enters a risk off position, followed by a rapid run to USD denominated safety assets. As the dust settles the USD would then weaken but at a lesser pace than that of a Blue Wave scenario, US inflation would still be seen as more likely to rise.

This is the worst possible scenario for gold in the short to medium term. It would, as a result, take longer to see a new bull gold market frustrated by a stronger USD until that factor fades and the stimulus is choked off.

This scenario is also bad for the stock market, we would almost certainly see increased market volatility and the downside risk would also be higher.

Shares tumbled today over increasing COVID-19 deaths and hospitalizations across Europe stoked investor's fears which led to sharp declines in most indices. In London the leading Blue-chip share index declined by 2.5% ushering in lows not seen since the height of the pandemic in March.

Before closing, I would like to take a moment to provide members with a quick update on the RIO regular stock selections as the month end draws near.

Boeing - As members know from recent reports I recently put Boeing back on our stock watch list. It is important to note that I had stopped trading this stock since the onslaught of the 747 max fiasco, but put it back on my radar in August and have traded it profitably three times since for RIO Regular USD. However, the company has announced that they will cut 7,000 more jobs as the firm reported its fourth straight quarter of losses. By the end of 2020 Boeing will have shed 30,000 jobs or 20% of its 160,000-strong workforce.

Lloyds has just released their forecast-beating profit for the third quarter after lowering its provisions for expected bad loans and cashing in on booming demand for mortgages. The bank reported a pre-tax profit of £1bn for the three months to September, well ahead of the average of £588m forecast by analysts. Lloyds set aside a further £30m pounds to cover expected loan defaults by customers, less than half the consensus forecast of £721m. Since the very inception of RIO Regular Sterling I have traded Lloyds stock and it is worth mentioning that to date doing so has been a very profitable and a positive for the account.

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