



US ELECTION – EARLY RESULT NO SURPRISE

As members will know from the Regular Investment Account report issued on 28 October I positioned both the RIO Regular accounts for an unexpected Trump early lead in the polls. As such I was able to close several trades in profit, banking early gains for those invested. Just as I had envisaged the pollsters got it wrong, Trump's support surprised many in the early voting, however, it didn't surprise me.

Donald has done far better than many had predicted, securing victory in Texas, Florida and Ohio. Current numbers show him with a strong lead in Pennsylvania, although we await the full count.

The Democrats boasted that the American people would show their disfavour with Donald Trump and so far that claim has been all but silenced, as the people of America thus far have shown that they are to a degree relatively happy with the current President. That said, we are awaiting the states of Pennsylvania, North Carolina, Nevada and Georgia to reveal their final results.

In Pennsylvania there's a staggering 2.2 million mail ballots yet to be counted, that is nearly 87% of the total. The contest is far closer than expected, which means it could all come down to Pennsylvania where local officials are reporting it could take until Friday for the result.

There are few reasons to be more confident in the polling across Pennsylvania including the fact that current statistics on betting odds now favour a Trump win in all 3 states.

The outcome in the Senate race now looks clear

It looks almost certain that the status quo will be maintained in the upper chamber of Congress, blue wave chances have simply failed to materialise. This means that a stimulus deal will have to clear a Republican Senate, where the current majority in the Senate has been the hold up. Why does this matter from an investment stand point? Well, it's the Senate race that holds the key to answering the question for risk assets. The reason being simply that a confirmed decisive positive position for either party in the Senate will be crucial in the determining of the likely timing and size of another round of aid money, which at present the US economy desperately needs, especially since the benefit cut offs are fast approaching.

A Trump win and Republican Senate majority would keep the status quo; this so far has been beneficial for risk assets which rallied on the prospect! Why? Well a big spending package would support the US economy and markets, whoever is President and fresh off the win, Trump (no stranger to spending big) could bully Senate Republicans into reaching a deal on stimulus and push a package through congress before the end of the year. Failing that there is always a fall back of executive orders etc. Trump is no fiscal conservative and would likely find a way to push something through.

What if there's a stalemate

A Biden win and Republican senate is a big hit to any trade based on reflation. If Biden wins the Presidential race but Republicans retain the Senate majority the WH will be hamstrung until at least the 2022 mid-term elections. Mitch McConnell and the GOP fiscal conservatives will be a huge obstacle for a big Biden spend, and it is very unlikely a sizable package would see the light. But the silver lining here would most likely be the unchanged tax policy and a more collaborative foreign

policy stance with the possibility of tariffs on Chinese imports being wound back which would be supportive for investor sentiment.

The risk has now increased due to the possibility of contested results.

The presidential election has emerged as being a tighter race, as such that leaves the outcome drawn down to the key states, for example Pennsylvania, a state where mail-in ballots had surged. I would predict that there will certainly be accusations of fraud surrounding the mail in ballots which could see the outcome contested.

In summary, given the above risks I would foresee this as being supportive of a volatile market in the short term, as Mr. Market will await further clarity on the true outcome of the presidential election, which includes the finalizing of any legal challenges. Any challenge will need to be put to bed before the market regains a firm footing.

This year's US election now looks like it will result in greater legal challenges which is definitely on the cards should we see the results come in as a close call, this in turn being a catalyst for more broad-based weakness in the market.

The precise positioning of our equity based/risk investments for a shock Trump early gain in the electoral count has already borne fruit, to the benefit of those invested in the Club's Regular Accounts. The RIO Regular Account USD version is up over 2% on the day (that gain equivalent to a good month's growth on average). The RIO Regular Sterling account fared well also with a return of 1.3% on the day. I was able to close several trades yesterday all of which were closed in profit, thus enabling me to bank gains and move proceeds back to cash for both accounts. Looking forward, given the current position there will certainly be opportunity to reposition as more electoral results are released.

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The RIO Club