



CIO Memo

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Election 2020 Update: the POTUS tests positive for COVID-19

Key take aways

- President Trump, along with the First Lady, have tested positive for Covid-19. Meanwhile, Vice President Pence tests negative.
- Equity Markets initially came under pressure but have since stabilized. Other risk-off measures remained mixed.
- Future dynamics should be entirely contingent on the President's health; as upcoming debates and campaign rallies may need to be cancelled and lines of succession should be reviewed.

1. What happened?

President Trump has announced that he, along with the First Lady, have tested positive for Covid-19. The medical staff at the White house has indicated that the two of them are "well at this time" and may only be experiencing mild symptoms. The couple is expected to remain quarantined in the White House for the time being.

Meanwhile, the Vice President, Mike Pence, has tested negative. The White House currently expects that everything should be "business as usual" with the President only having to cancel some personal meetings at this time.

2. How did markets react?

Risk-off price action rippled through capital markets following the news. S&P 500 futures fell almost 2% from yesterday's close and have since shown some stabilization in the early trading hours.

Meanwhile, 10-year Treasury yields initially fell but have since reversed course, rising slightly too almost 70bps.

Gold prices have yet to reflect any increases to market uncertainty with spot prices mostly flat from yesterday's close.

3. What does it mean for investors?

As we have stated in our recent U.S. elections report - "A common theme of 2020 has been that a lot can change over a short period of time", and this latest headline is no exception to that. This news clearly adds another dose of political uncertainty to the already precarious state of this election cycle.

Looking ahead, we do not anticipate that this should delay the upcoming election. The decision to postpone elections currently lies with a highly politicized congress, which would require both chambers (and parties) to agree on this decision. Furthermore, all of the possible outcomes stemming from this are going to be entirely contingent on if the President's health deteriorates. For example, the next debate scheduled for October 15th leaves a short-timeframe for full recovery, and planned campaign rallies are likely to be cancelled. Deeper implications of succession are likely to end with the Vice President, given Pence's negative test result. If this were to change, then the next line would have to end with the House Speaker, Nancy Pelosi, in a worst-case scenario.

Some markets were quick to bid up the increased probability of a Biden victory. The President's summer momentum began to reverse a few weeks back, and this has so far accelerated this trend. However, it is important to note that if the President weathers this quickly, then this should only be a temporary effect.

In the end, and as stated above, the latest dynamics will be centered on what happens next with the President's health. We should still anticipate heightened levels of market volatility going forward – especially in the event of a highly contested election that leads to a constitutional crisis. Investors are also likely to shift their focus to the ongoing discussions surrounding the next fiscal stimulus bill as the labour market recovery continues to show evidence of losing steam; with the latest jobs report surprising to the downside and additional announcements of increased layoffs. Clients should therefore remain strategic and focused on their longer-term goals for their portfolios.



Glossary

FOMC or the Federal Open Market Committee, a committee within the Federal Reserve System, is charged under United States law with overseeing the nation's open market operations. This Federal Reserve committee makes key decisions about interest rates and the growth of the United States money supply.

Dollar Index is an index of the value of the United States dollar relative to a basket of foreign currencies, often referred to as a basket of U.S. trade partners' currencies.

The **S&P 500** is a stock market index that measures the stock performance of 500 large companies listed on stock exchanges in the United States.

The **Fed** and **Federal Reserve System** is the central banking system of the United States of America.



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