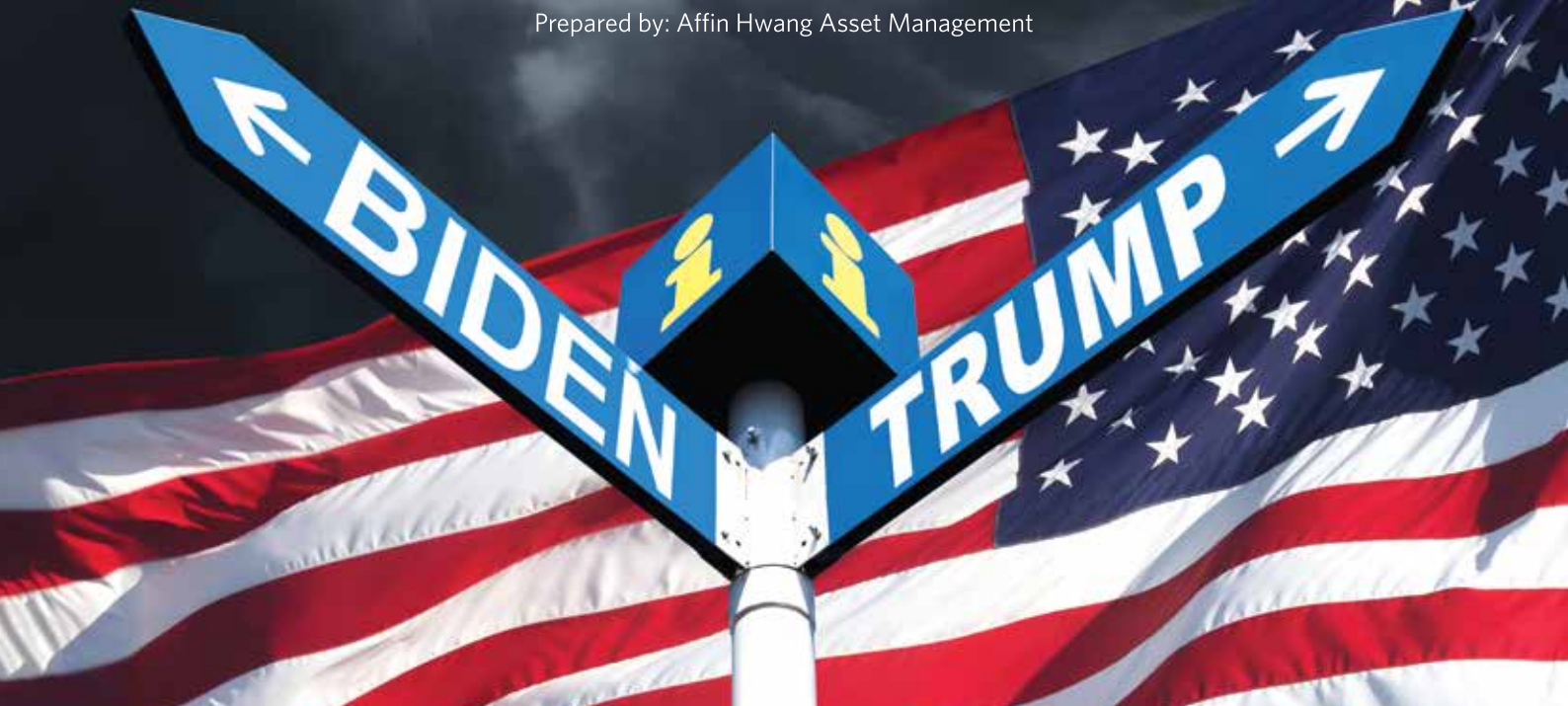


All Eyes on US Presidential Election

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★ Battleground in the Sun & Rust Belt ★

As the race to the White House heats up, all eyes will be on the upcoming US Presidential Election on the 3rd November 2020. Against a backdrop of a global pandemic, racial protests and a sputtering economy, the upcoming election is set to be one of the closest races in history and perhaps even one of the most important.

Whilst Democratic presidential candidate Joe Biden currently leads in national polling by 6 -7 points, the gap could very well narrow in the upcoming weeks. This is especially as incumbent US President Donald Trump tries to shore up political support by appealing to populist demands, taking a more aggressive foreign policy stance to boost his popularity, as well as stressing a 'law and order' image in response to riots and looting that he hopes will improve his standing in the suburbs.

As in any election year, it will be critical to monitor the swing states particularly within the Sun Belt and Rust Belt which are poised to be key battlegrounds of this year's election.

The Rust Belt or the former industrial heartland of America is largely based in the Great Lakes area in the north-east of the country. As its namesake suggest, the Rust Belt has experienced industrial and population decline over the years. Prior to the 2016 elections, the Rust Belt which includes states such as Wisconsin, Pennsylvania and Michigan have been reliably Democratic.

However, the Belt is much whiter than the rest of the country, and white working-class voters (especially those without a college degree) overwhelmingly voted for Trump in the 2016 elections leading to narrow Republican victories. Disaffection over industrial decline swayed working-class voters towards Trump, with many embracing his nationalist message and promise to bring back manufacturing to America.

Latest polls suggest that the Democrats have gained ground in key Rust Belt states as Biden continues to attack Trump's track record of the economy and his handling of the COVID-19 pandemic. In addition, Trump's mishandling of the racial protests sparked from the killing of George Floyd and Jacob Blake have given the Democrats further ground in Minnesota and Wisconsin.

In the south of the country, the **Sun Belt is mainly comprised of what are considered traditional Republican strongholds**. However, states like Arizona, Georgia, North Carolina and Texas have been increasingly under high amounts of pressure from the Democrats, who are mounting a challenge to capture these states. Biden's more centrist brand of politics has appealed to disaffected suburban middle-class voters, whilst Trump's image drifts further into the far-right and ethnonationalism.

In addition, there has been a shift in the demographics of the Sun Belt in the last 20 years. A growing population of young

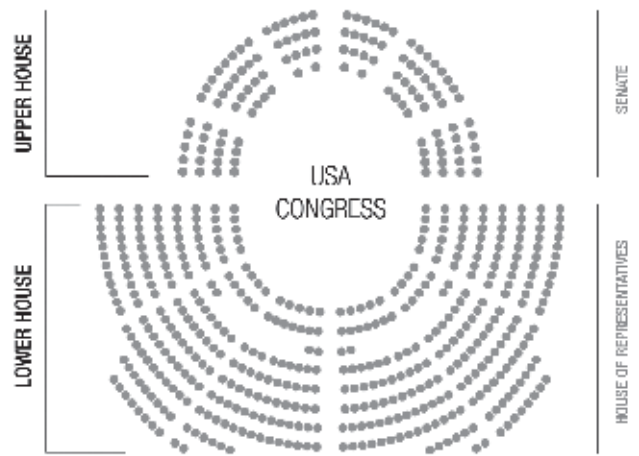
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non-white voters (including Hispanics, Asian-Americans and other groups) could tilt the ballot in favour of the Democrats. Young and non-white voters are disproportionately likely to vote Democrat and have steadily been increasing in numbers since the 2000s. Kamala Harris, a biracial candidate is proving popular in more diverse states within the Sun Belt.

Other factors that could play a significant role in this year's elections would of course be the state of the economy and COVID-19. Trump is banking on an economic recovery and the COVID-19 situation to improve in order to boost of his chances of re-election. History has shown that incumbent presidents have a better chance of being re-elected if the economy is strong.

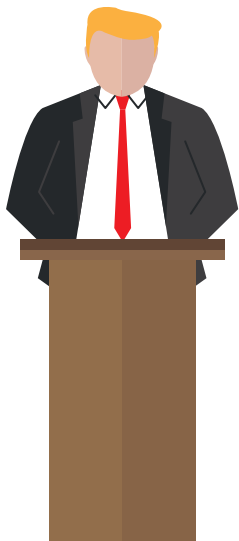
★ The US Congress ★

All 435 seats in the United States House of Representatives (lower house), 35 of the 100 seats in the United States Senate (upper house), and the office of President of the United States will be contested when elections are held on the 3rd November.



★ Market Impact ★

There are different permutations as to how markets could potentially react in the wake of US elections.



Scenario 1: Trump Wins

Assuming Trump takes back the White House, it will be important to also note which party gains control of the Senate that acts as a check-and-balance of the president's power. Currently, the Republicans control the Senate and the Democrats dominate the lower house of Congress.

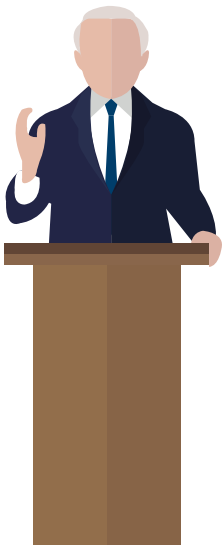
If the Democrats can wrestle control of the Senate from the Republicans, we could see Trump's power being curtailed which would help rein in the mercurial president. In terms of market implication, we could see a toning down of US-China geopolitical tensions, as Trump can no longer impose tariffs on a single whim.

The Democrats which favour a rise in corporate taxes has also less chances of doing so with Trump as president who can veto against the decision. This permutation effectively keeps both sides in check that would be positive for risk assets in US and Asia.

Under a scenario where Trump is re-elected and the Republicans retain control of the Senate, it would be status-quo in the political realm and that would be neutral for the US stock market.

Democratic Senate under Trump (Positive to US and Asian stock markets)	Republican Senate under Trump (Neutral to positive for US stock market)
Removal of Trump's power to dictate tariff ▪ Less tariff risks on China and Europe	In the short-term, tensions between US and China can move both ways. But it will remain hostile in the long-term
Trump will veto against higher corporate taxes	No change in corporate taxes

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Scenario 2: Biden Wins

In a scenario where Joe Biden becomes president and the Democrats take control of the Senate, the US stock market could see some weakness in the short term. By adopting a more progressive tax policy, the Democrats could impose higher corporate taxes that could dilute earnings. The Democrats have also proposed to double the federal minimum wage which will impact certain key sectors.

However, any downside would be offset by a temporary moderation in the US-China trade war. With ample experience in politics, Joe Biden would likely exercise more caution and pragmatism in making policy decisions. While the Democrats would still maintain a tougher stance towards China, there is more room for consensus building and negotiation with Biden at the helm.

In another situation where Joe Biden becomes president but the Republicans retain control of the Senate, it would be a relatively better outcome for US equities. With the Republicans dominating the upper house of Congress, we could see strong pushback against any proposed increase in corporate taxes or the minimum wage. Whilst, Biden does hold some executive powers to override some decisions, there are limitations as well.

Democratic Senate under Biden (Negative to US stock market)	Republican Senate under Biden (Positive to US stock markets)
Higher corporate taxes • 8% earnings impact	Tough to raise corporate taxes
New green deal • Negative to oil & gas demand	Moderate changes to climate policies
Doubling of minimum wage • Negative to some businesses	Tough to raise minimum wage

★ US-China Strategic Distrust Remains ★

Irrespective of who wins this year's elections, a return to 'normalcy' in US-China ties is unlikely and will continue to be driven by long-term structural trends. China's growing influence and trade dominance in the global stage have drawn suspicions of both the Democrats and Republicans who have found common ground in terms of their distrust of China.

We could see further ongoing economic decoupling between US and China especially on the technology front. Recently, we have seen sanctions imposed by the Trump administration that restricts any foreign company from exporting chips made using US technology to Huawei. Such moves would curb China's technological ascension.

Manufacturing reshoring will also be ramped-up as production is brought back to the US. COVID-19 has accelerated this trend as the pandemic has revealed weaknesses in its manufacturing capacity. This is especially concerning crucial production of personal protective equipment (PPE) and active ingredients used in drug production.

Post-election, we also expect more pump-priming and higher infrastructure spending in the US that will help stimulate growth in its economy.

Given the intense coverage of this year's elections in a highly polarised environment, we can expect stock markets to surge in volatility as election looms closer. Any possible dispute in the US election results may also prolong volatility.

Investors would do well to stay focused on their goals, remain diversified and not make extreme bets in their portfolio. Geopolitics are not the only factor that can drive stock markets.

Stock markets have survived and thrived throughout countless elections in history. For example when Trump won the 2016 election, many market strategists expected a decline in stock markets. Instead, stock markets rallied after the election.

It is far more important to stay disciplined and avoid timing the market around the muddled realm of politics.

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