



# Flash Report

## November 2020

### US Election and Vaccine News

As expected, the outcome of the elections in the US were close and the final result was not known on 3. November. There is still a lot of **political noise and unrest**. Even though the preliminary and unconfirmed results see Biden in a rather comfortable leading position, **Donald Trump has still not accepted his defeat** and continues to doubt the legitimacy of the election. Donald Trump's lawyers have filed a flood of lawsuits in a number of states. The main aim is to force a recount or to challenge the mail-in-ballots. We expect Biden to be finally confirmed as the new president. This will allow international trust, especially between Europe and the US, to be restored. The relationship between China and the US, however, is likely to remain tense. The next important deadlines in the election process are:

- **December 8:** The "safe harbor" deadline, where states must finally resolve any controversies over the selection of their electors of the Electoral College.
- **December 14:** The electors formally vote for the president and vice president.

In addition to the election of the US President, members of the two houses of parliament were also newly elected. In the run-up to the elections, the Democrats expressed optimism that they would win not only the House of Representatives but also the race for the Senate ("blue wave"). While the House of Representatives will clearly remain in Democratic hands as in recent years, the Republicans appear to be able to keep the majority in the Senate, so the "blue wave" scenario will not materialize and a split government will result in political gridlock.

**Pfizer and Moderna announced that their developed COVID-19 vaccines show a very high effectiveness.** This is clearly good news and should help on the road to recovery. However, there are huge logistical issues that need to be tackled such as the sheer volume of doses, the need for two doses per person, transport and storage at low to very low temperatures, but also the acceptance by the people. So, we expect that it will take some time until it is widely available and accepted.

### Financial and Capital Markets

The above mentioned gridlock situation is **not unattractive for the stock markets** as risks such as higher taxes or more onerous regulation are less apparent than in a "blue wave" scenario. We are not nervous regarding the ongoing discussion about a new fiscal rescue package. As the COVID-19 cases also spike in the USA and the vaccine will take time, the decision on a new package was only postponed. Stock markets and gold reacted positively on the election results while the USD was weakening. USD-interest rates saw a light uptick. The vaccine news started a relieve rally especially in the previously hard hit sectors and regions like travel and leisure, financials, European stocks. This came to the detriment of the previously favored technology sector. We have seen signs of sector rotation from growth stock to value stocks already before the elections but the latest news clearly accelerated this trend. **Whether this is the long expected trend reversal remains to be seen.** Gold reacted slightly negative to the vaccine news but remained overall in a short-term sideways market.



#### Key Takeaways

- Gridlock situation with a Biden-presidency in US-politics.
- Covid-19 Vaccine findings are a clear positive even though there are tremendous logistical problems.
- Recovery remains bumpy and is likely to be long. 2019 level of economic output cannot be expected until 2022.



#### Did you know?

- In politics, gridlock or deadlock refers to a political situation in which it is difficult to reach agreement or pass laws.
- Such a deadlock can occur when two legislative houses or the executive and legislative branches are controlled by different political parties.



#### Market Impact

- The political gridlock in the USA is not unattractive for the stock market.
- Stocks and especially value stocks were in demand after the vaccine news.
- Weakening USD and short-term sideways market in Gold.

# Investment Strategy

As a result of the latest developments, we have increased our equity exposure slightly and are currently positioned neutrally. In contrast to other regions of the world, we see a high opportunity for structural growth in Asia. Furthermore, valuations are at a significantly more attractive level than in Europe or the US. We have therefore **included China as a strategic component in our equity allocation** which we will likely complement with broader Asian exposure. Fundamentally, there is still a strong case for higher gold prices, which is why we **continue to maintain our overweight in gold** with conviction. Due to the monetary policy situation, bonds offer hardly any earnings prospects, which is why we remain strategically underweight in this asset class. We also think that an acceleration of the economies as a result of a widely available vaccine over a medium-term horizon could be pushing inflation numbers accordingly. We are leaving foreign currencies at a relatively low level.

Our current investment focus:

- Liquid and transparent quality investments, especially in equities
- Gold and gold mining stocks to maintain long-term purchasing power
- Preference for inflation-linked bonds over nominal bonds

Balanced CHF											
Asset Class											
<b>Liquidity</b>		11%									
<b>Bonds</b>				31%							
Corporate Bonds BBB		16%									
Inflation-Protected Government Bonds		15%									
High Yield Bonds		0%									
<b>Equities</b>					43%						
Switzerland		13%									
Europe		10%									
USA		10%									
Emerging Markets		3%									
Gold Mines		7%									
<b>Precious Metals</b>		15%									
<b>Currencies</b>									82%		
CHF											
EUR		10%									
USD		5%									
Other Currencies		3%									
	in percent %	10	20	30	40	50	60	70	80	90	100



## Portfolio Actions

- We increased our equity exposure slightly by adding China as a strategic component to our Portfolio.
- Asia offers a high opportunity for structural growth and valuations are more attractive compared to Europe and the US.
- After this transaction we are positioned neutrally in the asset class „equity“.



## Contact

Bank von Roll Ltd.  
Bleicherweg 37  
CH-8027 Zurich

Tel. +41 44 233 32 00  
Fax +41 44 233 32 90

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