MACROECONOMIC UPDATE

President Donald Trump announced on Twitter that he and First Lady Melania Trump tested positive for Covid-19. The test was carried out after their close aide Hope Hicks had fallen ill with the virus. The disease has been especially risky for men, the elderly and those who are overweight.

Any hopes of a stimulus deal before the election have been all but extinguished by the lack of a breakthrough. The Senate left Washington at the end of the month after voting on the confirmation of Supreme Court nominee Amy Coney Barrett. While Congress could be recalled on an exceptional basis, it is unlikely during the last week of the election campaigning. Equity markets dropped significantly as investors priced in a delayed fiscal stimulus.

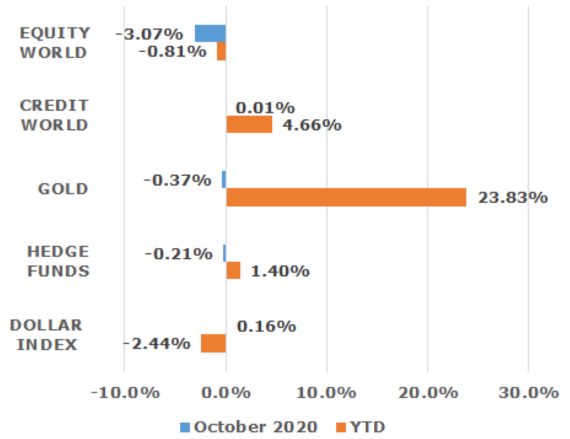
At the beginning of October, Biden held the lead in national polls. The former VP's national polling lead over President Trump rose to 9.8% from 7.4%, according to RealClearPolitics. However, President Trump's approval ratings remain relatively steady. Markets priced in the possibility of a Biden presidency and Democratic Congress, thus leading to higher government bond yields, a lower dollar and overperforming cyclical sectors, which would all be supported by a larger budget deficit.

Talks between the EU and the UK over a post-Brexit trade agreement are running out of time, with only a couple of months before a new trading arrangement must be agreed on. The EU did not really buy into PM Boris Johnson's threats to quit negotiations. These were political tactics aimed at his home turf. Formal discussions are expected to resume soon, with EU officials expecting a deal to be struck by mid-November.

With Covid infections surging across Europe, governments are implementing new lockdowns as the softer measures in place proved to be unsuccessful. This time around, popular support for tighter controls is much lower than when the first lockdowns were implemented. The tightening of restrictions, especially regarding social distancing, mostly impact the service sector. The Purchasing Managers Index for France pointed to an economy back in recession while in Germany rebounding manufacturing activity helped offset a service sector that had slipped back into contraction.

GMG'S POSITIONING AND MARKET PERFORMANCES

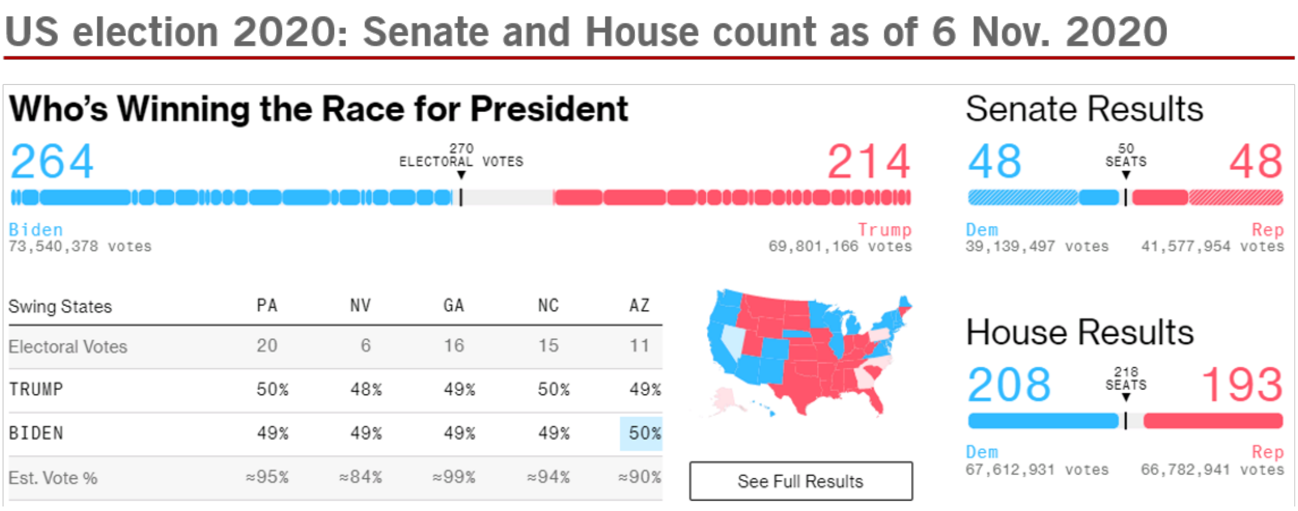
Equities	US	↑
	Europe	→
	Emerging Markets	↑
Fixed Income	Sovereign	↓
	Investment Grade Corporate	→
	High Yield Corporate Bond	↑
	Emerging Market Hard Currency	↑
Real Assets	Precious Metals	↑
	Real Estate commercial	↓
	Real Estate residential	↑
Currency	US Dollar	↓



FOCUS: October, US Presidential Election

At the time of writing (6th November), there is still no clear winner in the US presidential election race. We will be looking into the main causes of such a delay in announcing the next US President.

At this point in time, Biden appears to be leading the race but a "Blue Wave" seems unlikely. We are going to detail our views about the impact of such events on the markets as well as the US economy.



Source: Bloomberg Finance L.P, Pictet Trading Strategy as of 5.11.20

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Due to the Coronavirus pandemic, there was a huge surge of mail-in votes, approximately 39% in this election versus 20% in 2016, representing a total of 80 million votes. *(source Source: Pew Research Center, October 9, 2020).* This voting procedure is fairly new to the US and especially in some states which had to create processes from scratch. Indeed, each state is independent in determining its voting processes. Authorized submission deadlines differ as do the exact timing when counting votes is allowed to begin. The signature verification process required by mail-in votes is a significant driver of the delay we are seeing. As a result, an official winner could only be declared days or weeks after the election date.

Nevertheless, on November 6th, a Biden victory seems the most likely, although a divided Congress seems to be a reality that will endure beyond the last four years. Markets are already taking into account a lower than expected fiscal stimulus, as the Blue Sweep did not take place as previously forecasted. Should he become the next president, it will be difficult for him to implement his fiscal policies by increasing corporate tax. Also, regulations on both the healthcare and technology sectors will not be as harsh as he would want. Government spending is nevertheless expected to be higher than under a second Trump term, with the US Dollar moving downward to reflect this. We also expect a less confrontational President in regard to foreign policy. A lower dollar and multilateral foreign policy are positive for emerging markets, China in particular.

Less fiscal stimulus is however a drag on the country's economic growth. We expect growth to remain scarce and low inflation together with a continued low yield environment. These factors keep on favoring growth stocks versus cyclical/value sectors. As we already mentioned in our previous monthly updates, only a vaccine or efficient treatment announcement would be a strong catalyst toward more cyclical exposure. It would also signal a stronger economic recovery.

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