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Equities | Markets and Economy

US elections and vaccine prospects bode well for international equities


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London - A Biden presidency and split Congress bode well for international stocks, as we expect an improvement in US-China relations and global trade, in addition to a focus on infrastructure that could benefit overseas firms. Despite a surge in COVID-19 hospitalizations worldwide, recent approval of the Pfizer vaccine in the UK and pending vaccine approvals in the US have lifted financial markets globally as investors see hope for containment of the pandemic.

While not yet certified, a Biden presidency looks like a near certainty as the General Services Administration (GSA) recently affirmed the victory and has allowed for the Presidential transition to get underway. This, in our view, has positive implications for global trade. We expect President-elect Biden will pursue a more constructive relationship with China, particularly benefiting export economies like Europe and Japan that have been negatively impacted by the US-China trade war over the past couple years.

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Stimulus and sector perspectives

A divided US Congress appears a much stronger probability at this point than was expected going into the elections. While a Democratic sweep would likely have led to a high level of fiscal stimulus, we expect a split Congress will still pass a significant amount on spending initiatives, including infrastructure. In our view, the ongoing pandemic requires this type of economic stimulus on the part of the US. European cyclicals with exposure to the US, like building-materials companies, are likely to benefit from any infrastructure initiatives.

From the perspective of international equities, the sector likely to benefit most from a Biden presidency and a Republican Senate is health care. In our view, US health care reform will be less likely under this scenario, and several leading, Europe-based global pharmaceutical companies would benefit from limited or no reform in the US. Regardless, we expect the US dollar will be weaker going forward due to US fiscal and trade deficits. A weaker USD benefits US-based investors in unhedged international equity portfolios like ours.

Lockdown and vaccine implications

Many people are asking about the potential economic impacts of the second round of European lockdowns. Some countries like the UK are easing restrictions, while other countries such as Germany have plans to extend their lockdowns well into December. In either scenario, we agree with estimates saying they will be far less significant than the lockdowns of March and April.

With vaccine distribution on the horizon in December and into 2021, investors are encouraged at glimmering signs of a "return to normal." Travel, leisure and catering shares across the globe moved higher in response to the Pfizer and Moderna announcements and the prospect of a return to normal activity.

Bottom line: We believe international equities are positioned to perform well in the evolving political and economic global landscape, and are poised to outperform US stocks over a multiyear period.

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