

Investors face firming chance of Biden win

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Markets are being forced to grapple with the firming prospect of a Joe Biden victory after the US election was thrown into doubt following President Donald Trump's COVID-19 diagnosis.

Global markets were rattled on Friday as betting markets dramatically elevated the likelihood of a Biden presidency to more than 60 per cent, sending oil prices and equity markets diving as traders fretted over what this might mean for energy and tax policy. Following the S&P/ASX 200 Index's 1.4 per cent drop on Friday, futures were up 67 points, or 1.2 per cent, ahead of the market open on Monday.

But trade on that contract closed before reports that Mr Trump's vital signs during the 24 hours that triggered his hospitalisation "were very concerning" and the next two days would be "critical". That leaves Monday's market direction highly uncertain.

"The market's negative reaction can be interpreted as a sign that Biden's odds to win the election have increased," Schroders' global strategist Sean Markowicz said.

"Overall it seems that investors still feel uncertain about which political party is most likely to win."

The Nasdaq Composite was the hardest hit on Friday, diving 2.2 per cent as tech stocks plummeted, with the increased uncertainty weighing most on the stocks that have rallied the hardest this year.

"Markets just don't like uncertainty," Swell Asset Management chief investment officer Lachlan Hughes said.

"Some of the froth in the tech space is just coming under pressure because of the valuations."

The S&P 500 dropped 1 per cent while the Dow Jones Industrial Average fell 134.1 points, rallying from a 300-point loss earlier in the session.

The fall on the local equity market was heavier, showing just how exposed Australian shares are to the uncertainty stemming from the US election. Oil prices were also hit hard, as investors priced in the increasing likelihood of a Biden-Harris presidency.

Brent crude tumbled 4.1 per cent to \$US39.27 a barrel, its lowest since June 12, while West Texas Intermediate dropped 4.3 per cent to \$US37.05 a barrel, its lowest since September 8.

A Biden win could mark the start of a push towards more renewable forms of energy, threatening to derail the US's status as the world's largest oil and gas producer. The oil market was already under pressure from oversupply concerns as a rising number of COVID-19 cases across Europe and the implementation of new restrictions curbed demand for oil across the continent.

Investors suggested the market disruption from Mr Trump's diagnosis would only be short-term unless his condition worsened or Mr Biden contracted the virus too. But it could also lead people to rethink their vote. "Trump appears to be in good health and will likely recover, but debates and rallies will be postponed in the short term. Voters could possibly rethink their support for Biden as he is older than Trump and questions swirl about his health," THB Asset Management principal Christopher Cuesta said. "Due to their elevated ages, voters may pay more attention to the vice-presidents. This upcoming election will likely be decided by a low number of voters in a handful of locations and the diagnosis could sway some of those swing voters in ways which are difficult to predict."

Mr Cuesta added polling over the next two weeks would show whether Mr Trump's diagnosis had any impact on voting preferences.

It also throws the future of the debates into doubt, with Mr Trump due to finish quarantine just over two weeks before the election.

"Barring a serious deterioration in Trump's health, or Biden's, this is unlikely to have a significant impact on the US election outcome. Presidential debates seldom change voter preferences and this time should be no different," Mr Markowicz said.

"Nevertheless, investors should not assume that a Biden win would be unequivocally bad for markets. After all, presidents do not operate inside a vacuum and there are many other factors that can influence markets such as valuations, interest rates, inflation and oil prices, among other things."

Mr Trump's quarantine will also mean he misses three key swing state rallies, with the critical state of Florida among them. However, in the absence of a deterioration, investors are set to return focus to market fundamentals.

"US stimulus talks will continue, the Supreme Court nominee will move forward and the US economic recovery will remain in place," Mr Cuesta said.

"Trump has been consistently trailing Biden in the polls so markets have already digested a post-Trump economy and market."

Australian investors will be awaiting the release of the federal budget tomorrow, with additional stimulus measures set to target unemployment likely to be complemented by a rate cut from the Reserve Bank of Australia before the end of the year.

In the US, the future of a stimulus package looks less certain.

Congress is still gridlocked on a bill although House Speaker Nancy Pelosi said over the weekend a \$US25 billion (\$35 billion) deal to help the struggling airline industry was "imminent".

On Thursday, the Democrat-controlled House of Representatives approved a \$US2.2 trillion plan to provide more economic relief although its passage through the Republican-controlled Senate is likely doomed, with Majority Leader Mitch McConnell calling the price tag "outlandish".

Friday's job report underlined just how much additional stimulus is needed amid signs the economic recovery in the US is stalling.

"US non-farm payrolls rose 661,000 in September versus the 859,000 consensus and, while there has been a net upward revision of 145,000 to the previous two months of data, it doesn't change the narrative of stalling momentum in the jobs market," ING chief international economist James Knightley said in a note on Friday.

The future of the fiscal stimulus package could hinge heavily on the US election.

A clean sweep at the elections by the Democrats would pave the way for a large stimulus bill to be passed.