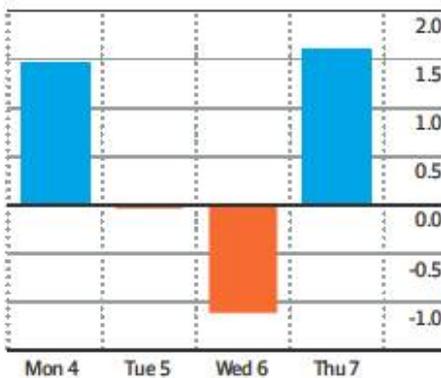


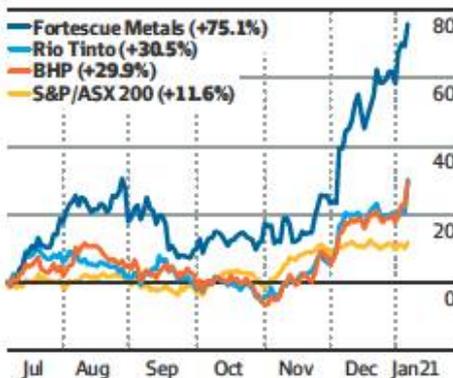
# Shares soar on hopes of Democrat spending

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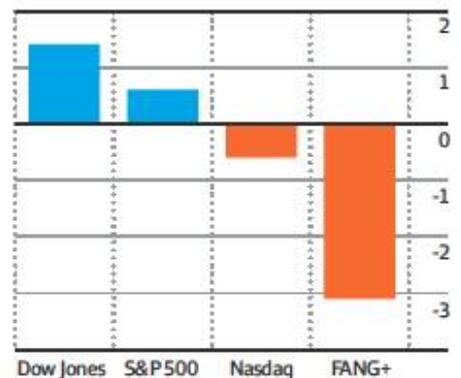
ASX 200 daily performance, YTD (%)



Comparative performance (%)



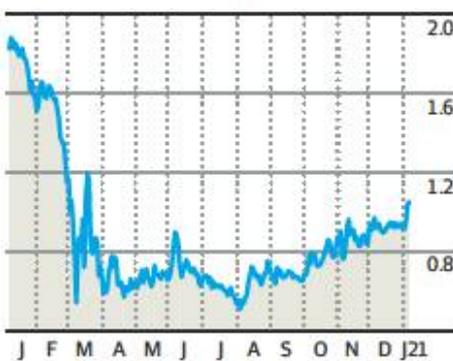
Performance of US indices, Wed (%)



Gold price (\$US/ounce)



US 10-year Treasury yield (%)



Bitcoin (\$US '000)



SOURCE: BLOOMBERG

Expectations a big-spending Democratic Congress will be able to deliver the stimulus required to accelerate the US economic recovery have lit a rocket under equity markets, driving investors from technology into more cyclical stocks.

The local sharemarket surged yesterday as markets looked past scenes of chaos in the US capital to the improved recovery prospects in the world's largest economy.

The S&P/ASX 200 Index recorded its best session since November 11, adding 1.6 per cent to close at 6712 points, driven by BHP Group and Rio Tinto, as both stocks hit records. BHP rocketed 6.1 per cent higher to \$46.90 while Rio shares jumped 8.6 per cent to \$125.66.

The run-off votes for the two Senate seats in the southern US state of Georgia were called in favour of the Democratic candidates, handing control of the country's upper legislature and giving President-elect Joe Biden control of Congress.

With a thin majority in both houses of the country's Congress prosecuting the policy agenda of the incoming administration, investors expect the Democrats to deliver increased stimulus to support

*households and businesses in the US.*

*"You're more likely to get more fiscal spending, so you're more likely to get better growth or a better recovery out of COVID," said Munro Partners chief investment officer Nick Griffin.*

*Following the \$US900 billion (\$1.3 trillion) in US government support approved in the days before Christmas, Mr Griffin said he expected another spending package in the order of \$US600 billion (\$770 billion) in March.*

*The expected lift in inflation from a stronger recovery pushed yields on 10-year US government bonds above 1 per cent for the first time since March, supporting banks shares but weighing on growth stocks.*

*Shares in technology were pummelled yesterday as expectations of the value placed on future earnings were lowered based on the improved nearterm outlook for growth and yields.*

*"The big tech companies have been sold off in order to fund investment into some of those companies that have lagged behind," said Tribeca Investment Partners portfolio manager Jun Bei Liu, naming the miners and banks a key beneficiaries.*

*Yesterday shares in Afterpay fell 4.2 per cent to \$108.85 and Xero lost 5.1 per cent to close at \$140.53, while ANZ shares climbed 3.8 per cent to \$23.64 and Westpac rose 3.2 per cent to reach \$19.99.*

*While regulatory intervention against the US technology giants by a Democratic-led administration has also previously been raised as a concern, Swell Asset Management chief investment officer Lachlan Hughes said fundamentals remained intact.*

*"A Republican majority in the Senate would have been preferable. However, it does not undermine the investment thesis for Facebook and Alphabet," Mr Hughes said.*

*ASX-listed oil and gas producers also jumped, with the oil price boosted by the improved US demand outlook, as well as expectations that the US supply may fall with the incoming administration expected to take a tough line on the sector.*

*Among the best performing shares in the local energy names was Santos, which jumped 7.4 per cent to \$6.95, and Oil Search, which added 6.9 per cent to hit \$4.16.*

*The Biden administration is expected to push domestic and global efforts to decarbonise economies, weighing on the outlook for oil and gas companies while boosting materials companies with an exposure to the structural changes in energy, transport and electrification.*

*With the secondary boost from the reflation trade, shares in lithium miner Galaxy Resources jumped 9.1 per cent to \$2.87 while IGO shares jumped 7.4 per cent to \$7.57.*

*With 50 of the 100 seats, the Democrats take control of the Senate with support from two independents and a rule that gives the Vice-President the deciding vote in the event of an evenly split chamber.*

*That gives them control of both houses of the legislature after the party retained control of the House of Representatives in November's election, albeit by a slim margin.*

*The election result is narrow enough that more drastic reforms are unlikely to make their way through both chambers successfully.*

*"The narrow lead by the Democrats means that the most progressive parts of President-elect Biden's policy platform are unlikely to come to fruition," said JP Morgan global market strategist Kerry Craig.*

*"Significant tax reform for companies or individuals are much more challenging to pass with such a narrow lead and the impact on corporate earnings may be less severe than feared," Mr Craig added.*

*While Mr Griffin argued that taxes may rise, they are unlikely to go up anywhere near as much as the Democrats originally proposed and the cost could be countered by the benefit to a company from further government spending.*

*The Senate win is in contrast to much of the commentary that followed the results from the November 2 election, which were widely characterised as having delivered a Republican-controlled Senate.*

*"The election outcome at the time had the market believing that it was going to be a very split government in the US and nothing will get through," Ms Liu explained.*

*The improved economic growth expectations pushed the gold price sharply lower through the night on Wednesday, with spot market prices falling from near \$US1960 an ounce to just above \$US1900 by the early hours of yesterday as the results from the Senate battle hardened in favour of the Democrats.*

*Meanwhile, the outlook for more government debt issuance helped push bitcoin to a fresh record near \$US37,800.*