Introduction

The US presidential election is less than three months away. Voters in the United States must now decide whether to return incumbent President Donald Trump to office or choose former Vice President Joe Biden. Just as it has done for most parts of society, COVID-19 has disrupted the course of the 2020 race, altering everything from each candidate’s campaign strategy to the actual method US citizens might use to cast their vote in November.

Although President Trump appeared well-positioned for a second term as we entered the year, the polls have recently shifted in favor of a Biden administration. Prediction markets now see a roughly 60% chance of a changing of the guard in 2021, and also close to a 60% chance of a Democratic sweep of the House and Senate as well.

Three months can be an eternity in a national election, so we are reluctant to predict the winner and advise investors against making abrupt portfolio adjustments at this time.

However, the two candidates do have drastically different visions for the United States, and to an extent the country’s relations with Asian economies (and especially China), so it is important to understand the potential impacts of their policy agendas. In our 6 July report, Preparing Portfolios for November, we outlined the US macro impact of the four scenarios we see plausible:

- **A Blue Wave (DDD):** Slightly positive for economic growth as higher taxes and a more stringent regulatory environment are offset by higher fiscal spending. Meanwhile, rates and inflation could rise faster due to stimulus.
- **Biden win (DRD; GOP Senate):** Neutral to slightly negative for growth as policy through regulation would likely increase. Fiscal stimulus is restrained with no substantive change in tax policy. Rates and inflation expectations would remain mostly unchanged.
- **Status quo (RRD):** Neutral for growth as deregulation continues, but uncertainty remains high. Geopolitical tensions could rise...
as trade disputes fester. Rates and inflations expectations would be largely unchanged.

- **Red Wave (RRR):** Slightly positive for growth with a potential for additional tax cuts and infrastructure spending. The regulatory environment remains lenient. Rates and inflation expectations could rise slightly faster as the deficit increases.

As we’ve pointed out in prior publications, most national elections are not global events. The US election is the exception. And this election, more so than any other in recent memory, matters greatly for Asia. While a tougher stance on China has bipartisan support within the US, the overall approach and focus within the US-China relationship will likely differ by candidate. And beyond the implications to US-China relations, the major changes proposed by the Biden campaign to domestic taxation, investment and regulation would reverberate around the region.

In this report, we focus on how the election might impact Asian investors and assess how the four scenarios previously outlined would impact Asia’s economies and financial markets. Crucially, the entire portfolio needs to be considered.

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**Figure 1**

**US election and policy scenarios**

<table>
<thead>
<tr>
<th>Foreign policy &amp; trade</th>
<th>Economics</th>
<th>Green New Deal (GND)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blue Wave (DDD)</td>
<td>Multilateral approach, less open hostility vs. China; urge allies to maintain pressure rather than tariff hikes, with strong focus on human rights. Join TPP after renegotiation.</td>
<td>Raise US corporate tax from 21% to 28%</td>
</tr>
<tr>
<td>Biden (DRD)</td>
<td>Multilateral approach, less open hostility vs. China; urge allies to maintain pressure rather than tariff hikes, with strong focus on human rights. Join TPP after renegotiation. President is fairly autonomous on foreign policy.</td>
<td>Status quo on tax</td>
</tr>
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<td>Trump (RRD)</td>
<td>Status quo: unilateral dealings and confronting allies, China. If Phase 1 deal fails, tariffs could go up. President is fairly autonomous on foreign policy.</td>
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</tr>
<tr>
<td>Red Wave (RRR)</td>
<td>Status quo: unilateral dealings and confronting allies, China. If Phase 1 deal fails, tariffs could go up.</td>
<td>Existing tax cuts extended, more cuts a possibility</td>
</tr>
</tbody>
</table>
Equity strategy

For Asian stock markets, we think both scenarios of a Biden win would be a more positive outcome. A more predictable and less openly hostile foreign policy would lower uncertainty on, for instance, the outlook for tariffs and the potential delisting of Chinese shares in the US. A tax hike would have little direct impact on Asia.

Our scenario analysis for equities:
1. **A Biden presidency and a Democratic Senate** would be slightly less positive than scenario 2 because of potential US tax hikes, but still positive vs. status quo. Policy uncertainty would diminish and there would be less chance of new tariffs (good for Asian equities overall, especially Chinese stocks), but taxes and regulation would likely rise (slight negative). Biden may face opposition within his party in rejoining the TPP. He would likely remain focused on forging alliances.

2. **A Biden presidency and a Republican Senate** would be positive versus status quo for Asian equities than the Blue Wave scenario, in our view, as there would be less uncertainty and no meaningful tax raise. Biden may look to rebuild the Trans-Pacific Partnership (TPP) and enhance the Pacific Alliance, and work on improving relationships with Southeast Asian countries (e.g., Thailand and the Philippines) and India.

3. **A Trump presidency and a Republican Senate** would be status quo for Asian equities, as pressure and volatility in US-China relations and structural decoupling continue. Korea and Taiwan would continue benefiting from Chinese and US tech demand, however. Equities should be driven by the pace of earnings rebound and sustained policy support.

4. **A Trump presidency and a Democratic Senate** would be fairly similar to scenario 3’s status quo.
Japan

Japan’s stock performance, overall, will depend on how the US economy recovers and the USD-JPY exchange rate fares.

Japanese auto companies benefited when the White House cut the corporate tax rate in 2017. If Biden wins and raises taxes, that could add short-term pressure on earnings and share prices. In the longer term, Biden’s “green” agenda should support Japanese auto stocks because, in our view, Japan’s car makers are ahead of their global peers in eco-related fields. We also believe greater domestic stimulus and green energy policy measures would benefit Japanese automakers the most.

Electric component companies could benefit if Trump wins. Rising tensions between China and the US would likely result in greater demand for non-US (and non-Chinese) companies’ electric components.

China

Tensions with the US are still a big risk in the near term. Beyond that, the delisting of Chinese shares in the US, the healthcare policy and corporate tax cuts are in focus for offshore Chinese equities.

We continue to prefer onshore Chinese equities to offshore ones because of the former’s better resilience to Sino-US tension risks. If Biden wins, short-term market sentiment for onshore Chinese equities could improve on expectations for better relations (no new tariffs and trade deal staying intact). If US investment fund flows weaken in a Blue Wave scenario, the impact on onshore Chinese equities would be smaller than on offshore ones because the former has much less foreign investor participation. Similar to offshore equities, IT/tech and healthcare onshore sectors would be key beneficiaries in the short term.

This would be slightly positive over the near term. This scenario would be positive for Chinese equities as it would mean better Sino-US relations and less immediate risk of Chinese companies’ American depositary receipts (ADRs) being delisted in the US market. As China’s new economy stocks account for around 25% of the offshore MSCI China Index, the improved relationship between the two countries could boost investors’ interest in these names. A Blue Wave with tax hikes for US corporations might attract investment fund flows into emerging market (EM) assets, in particular Chinese equities. Policy support for the medical industry should help China’s medical sector, as it has significant export exposure to the US market.

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This would be neutral to slightly negative in the near term. Such a mandate would likely embolden Trump to be harsher on China, especially at the beginning of his second term. Short-term concerns would increase over the fate of US-listed Chinese ADRs. That said, Trump’s approach on tariffs and trade may depend on local economic conditions. Beneficiary segments include domestic A-shares, which would likely continue outperforming offshore Chinese stocks given the expected uptick in tensions. For onshore stocks, we foresee a neutral to slightly negative impact in the near term. A Trump win would likely lead to further conflicts between the US and China in the near term. The market would grow increasingly concerned about further trade deal progress as a result, in our view. Despite the onshore market’s relative resilience, overall market sentiment would be hurt if relations continue to sour. Under this scenario, IT/tech would be under pressure in the short term. That said, we believe the Chinese government is likely to focus more on key technology and supply chain reshoring. China’s tech sector leaders are likely to benefit from this policy focus.

![Corporate income tax rates](image)

Source: OECD.stat, media reports, UBS

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**ElectionWatch 2020 | What the US elections mean for APAC investors | ubs.com/electionwatch**
**Hong Kong**

Hong Kong is much more dependent on China’s economy than it is on the US’s, especially after the removal of its special status. Thus, the impact of the election will mainly be through any change of stance over China and how US-China tensions evolve. Given the USDHKD peg, how US rates move will have an impact on interest-rate-sensitive sectors such as banks and property, although the Federal Reserve has guided for low rates until at least the end of 2021. Thus, with regard to the election outcome, we do not see a major difference among the scenarios for Hong Kong given that both Biden and Trump will likely maintain a tough stance on China—at least initially.

Hong Kong banks would be losers under a low rate environment and from any spillovers from potential political uncertainties.

**Thailand**

Thailand profiles as the market with the least sensitivity to the election. As a result, it has less to benefit from any new regional alliances driven by the US in a Biden presidency. China is the more important economic entity to Thailand because it is a potential recipient of supply chain shifts out of China and because China is a large source of Thailand’s inbound tourism.

Largely status quo but Thailand has seen some benefit from the US-China tariff war, namely gaining US import share from China in a couple of key products—tires and hard disk drives (HDD). It has seen some minor shift of manufacturing of HDDs from Malaysia, China and Japan. There is potential for some additional benefits for Thailand in other segments (auto-manufacturing and other segments of the electronics industry), but gains for Thailand have been marginally disappointing compared to other ASEAN countries like Malaysia and Vietnam. Risk of new US tariffs on Thailand also cannot be ruled out. The US has already removed a small part of Thailand’s General System of Preference (tariff-free status for some goods). Thailand would likely remain on the monitoring list as a possible currency manipulator.

Current tariffs in place between the US and China are likely to remain. Democrats would likely be less concerned about stopping imports of low value products from China, but might be tougher on Chinese high-technology products. Thailand’s petrochem exports, a lot of which end up in China’s supply chain, could see demand growth and better spreads if China can export more consumer products to the US (i.e., lower-value products). The TPP is less of a game changer for Thailand than for other ASEAN countries, as it is likely to delay membership due to internal issues. The recently resigned deputy prime minister was keen on the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) over the TPP (which Trump rejected). There was quite a lot of opposition to the TPP domestically because it would mean an increase in agricultural and pharmaceutical imports to Thailand. Thailand would likely remain on the monitoring list as a possible currency manipulator. Moreover, Thailand’s human trafficking compliance issues could be raised with relevance to US-Thai trade or investment ties.

**Indonesia**

Over 95% of sales are derived domestically. So the election will have a limited impact.

Under any wave, we would expect a faster rise in interest rates, which would be significantly negative for Indonesia. MSCI Indonesia declined by 30% in 2018 due to concerns over the rupiah. Winners: Dollar earners like coal companies plantations, gold miners. Consumer names with high import content may struggle to pass the increase in costs to customers. Highly leveraged companies with unhedged dollar debt are also at risk, such as some property and tower companies.

Tougher environmental regulations could hurt palm producers and coal miners. Palm companies are already under EU scrutiny. The US is the sixth biggest importer of palm oil. Any restriction on this front would likely remove a significant amount of palm oil demand globally. Indonesia supplied 10% of US coal imports in 2019 and is somewhat vulnerable on this front as it produces low-calorie coal, which generates more pollution. Any reduction would likely be negative for coal prices and miners. Notwithstanding long-term uncertainty over the use of nickel in battery, more electrified vehicle (EV) demand would be positive for nickel firms.
Renewed trade war risks could benefit Indonesia from a supply chain diversification point of view. Media reports suggest at least 17 companies committed to diversifying their production base from China to Central Java, a total investment of USD 37bn. Key beneficiaries include cement players, contractors and industrial estates.

India

Under Trump, rejection rates for visas by Indian companies have gone up. The White House is clearly biased toward approving those with higher salaries. Indian IT companies currently face rejection rates of 35%–55%, versus low single digits before. Wages are not that different between foreign workers and locals in the US, but there is an element of increased downtime in the US for local hires who typically return to India when idle.

Singapore and Malaysia are less impacted by US elections. An indirect transmission would come via interest rates.

In an outcome that would spur interest rates higher, Singapore banks could benefit from higher net interest margins. A Blue Wave may be mildly more beneficial if China and global trade improve for which the banks are a proxy to an extent.

Conversely, if interest rates were to remain lower for longer, or if bond yields were to fall further, REITs could do well.
Technology

Despite heightened trade tensions, Asian IT broadly outperformed under Trump due to the structural growth advantages and accelerated trend of digitalization.

**Neutral.** Trade uncertainty may remain. In a race to dominate the bipolar technology world, investments in critical technologies like semiconductors and software would likely continue to soar both in the US and China. This should offset the negative sentiment.

**Neutral to positive.** While we believe tech-related policies wouldn’t dramatically change under a Blue Wave, increased impetus on infrastructure and likely diminished trade uncertainty could prove to be moderately positive for Asian IT. In particular, 5G-related companies and electric vehicle tech supply chains would benefit. Regulatory and anti-trust-related uncertainty may remain under a Blue Wave, but Asian tech companies should be less affected.

**Figure 5**
Impact of Blue Wave or Biden win on Asian tech positive, but only mildly so

- **Neutral to positive**
  - Increased infrastructure spending and easing trade tariffs, particularly for 5G-related suppliers and EV tech supply chain. Expect regulatory and anti-trust pressures to remain broadly unchanged.

- **Neutral**
  - Ongoing trade uncertainty offset by strong technology investments in race to dominate bipolar tech world. Immigration restrictions likely to be offset by long-term digitalization projects.

**Figure 6**
Evolution of wireless technologies

- **1G**
  - Analog mobile voice services

- **2G**
  - Digital mobile voice services
  - SMS texting
  - Advanced phone to network signaling
  - Data rates of 40 Kbps

- **3G**
  - Introduced packet-switched data
  - Limited media streaming possible (mostly radio)
  - Improved internet access (144-400 Kbps)

- **4G**
  - All IP network
  - Up to 1 Gbps internet speed
  - Enabled multi-media streaming
  - Lower latency

- **5G**
  - 10-100x faster vs. 4G
  - Higher connection density
  - Lower latency vs. 4G
  - Real-time streaming
  - Reduced device power requirements
  - Network slicing

Source: International Journal of Modern Trends in Engineering and Research, Bloomberg Intelligence, UBS
Healthcare

The US might be more open to Chinese venture capital in the pharma/biotech sector if it can help lower medical costs in the long run. Chinese pharma/biotech companies with sufficient cash on hand for product sourcing, licensing, or company acquisitions in the US would be beneficiaries, as would Chinese contract research organizations which would profit from new molecule development contract business out of the US. Chinese medical device manufacturers subject to import tariffs in the US might benefit if the levies are lifted, as it would help lower costs for US investment in upgrading its emergency hospital infrastructure post-COVID.

Solar

We anticipate clear upside for US solar power if a Biden administration reverses US fossil fuel policies under Trump and re-signs the Paris Climate Agreement. Currently, US solar development has lagged other countries due to tariffs imposed on Chinese solar modules imports, which has slowed down progress toward achieving grid parity. If current policies change or are reversed under Biden, we anticipate an acceleration of solar development in the US, driving greater solar module demand from outside US. The Biden administration may also extend the solar tax credit program, which ends in 2023.

Figure 7

APAC leads the solar industry
Installed capacity GW

Source: pv-magazine, UBS
Bonds

The impact of the US elections on credit spreads will be muted for both USD-denominated investment grade (IG) and high yield (HY) bonds in Asia, in our view. Reasons:

- Close to 80% of the market cap of Asian bonds (JACI Composite index) are IG with an average credit rating of A3, and hence credit spreads tend to be resilient to external factors.
- Over 90% of the index’s issuers are domestic focused. Only <10% issuers are export-related, of which half are in oil and gas fields.
- Over the past 10 years, Asia credit has been relatively resilient to external macro events.
- The direction of interest rates will be the key driver of the total return of Asia credits. However, with the Fed fully anchored on front-end rates, only longer dated IG bonds would be vulnerable to higher long-dated rates.

Figure 9
Rating distribution of the JACI Composite
Weights, in %

Source: JP Morgan, UBS
Currencies

We think both scenarios of a Biden win would be positive for the Chinese yuan (CNY) and the other Asian currencies, given our expectation that Biden would be more predictable and less openly hostile toward China. The scenarios of a Trump win would be status quo for the region’s currencies, however—the CNY would likely continue experiencing recurring bouts of volatility, which can reverberate across Asian currencies. That said, a backdrop of broader USD weakness and a dovish Fed should limit the downside room for Asian currencies. Within Asia, we see attractive upside potential for the pro-cyclical Korean won (KRW). We also like to own high-yielding currencies such as the Indian rupee (INR) and the Indonesian rupiah (IDR), against a backdrop of highly accommodative policies by global central banks.

Our scenario analysis for Asian currencies:

1) Positive (versus status quo) for Asian currencies. Biden is less likely to emphasize trade tariffs in his approach toward China. While US-China relations might remain tense, Biden’s attitude toward China should be less confrontational and less unpredictable than the Trump administration’s. In this regard, the CNY should find some relief from a Biden presidency. As the regional anchor currency, CNY stability would benefit other Asian currencies given the region’s large trade links with China. Apart from US-China relations, a unified Congress is also somewhat positive for US growth (via ease of passing legislation), which is marginally helpful for the export-oriented Asia region and its currencies.

2) Slightly less positive for Asian currencies than the Blue Wave scenario. The CNY should still find relief from a Biden presidency, but a split Congress might somewhat impede the government’s ability to provide timely fiscal support to the US economy when needed. This could be slightly negative for US economic growth, and is therefore less helpful for the export-oriented Asia region.

Figure 10

The CNY tends to weaken when trade tensions flare up and recovers when they settle

7 Feb US imposes tariffs on Chinese imports (Washing machines and solar panels)
23 Mar US imposes 25% tariffs on steel imports and 10% on aluminum (global)
2 Apr China imposes tariffs on 128 U.S. products
4 Apr China plans retaliatory tariffs on $50 bn of U.S. imports.
7 Aug US releases list of Chinese goods to be taxed by 25%. China retaliates with 25% duties on some of the U.S. goods.
11 Sep US imposes 10% tariffs on $200 billion Chinese imports, plans to increase it to 25% from Jan 2019. China taxes $60 billion U.S. goods.
24 Sep US imposes 10% tariffs on $200 billion Chinese imports, plans to increase it to 25% from Jan 2019. China taxes $60 billion U.S. goods.
1 Dec US and China agree on a 90-day halt to new tariffs.
3) Status quo for Asian currencies, as pressure and volatility in US-China relations and structural decoupling would likely continue. The CNY would remain exposed to the confrontational and unpredictable nature of the Trump administration. While this would imply more volatility in the CNY, we believe the upside risk of USDCNY would be somewhat mitigated by broader USD weakness. Volatility in the CNY could temporarily weigh on sentiment of regional currencies, but against a backdrop of global growth recovery and a dovish Fed policy stance, we don’t think that would derail our medium-term appreciation outlook for Asia’s currencies.

4) Status quo for Asian currencies, similar to scenario 3. That said, a unified Congress is somewhat positive for US growth, which is marginally supportive for the export-oriented Asia region and its currencies.
Appendix

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