2020 U.S. ELECTIONS – PART 2

REIMAGINING THE INVESTMENT LANDSCAPE

PGIM

Webinar Summary

ED CAMPBELL, CFA
Managing Director & Portfolio Manager, QMA

NATHAN SHEETS, PHD
Chief Economist, Head of Global Macroeconomic Research, PGIM Fixed Income

KATHARINE NEISS, PHD
Principal and Chief European Economist, PGIM Fixed Income

STEPHANIE FLANDERS
Head of Bloomberg Economics (Moderator)

It wasn't necessarily pretty but the US election is, by most accounts, over. On the heels of our day-after webinar where we looked at the outcome and some potential implications, PGIM experts have extended the discussion to take a deeper dive into what the results mean for financial markets, fiscal and monetary policy, and trade. Following are a few highlights of the webinar, which can be watched in its entirety here.

- **Bridging the gap to a vaccine:** The re-opening of the world's economies will ultimately depend on the success of a COVID-19 vaccine, but more fiscal stimulus remains vital in bridging the gap until we get there. In the absence of the "blue wave" scenario, where stimulus in the range of $2-3 trillion was envisioned, a package of $1 trillion is still possible. While the risk of "stimulus fatigue" among some politicians is real - particularly in light of positive vaccine news and ballooning government debt - the lack of stimulus over the next several months could usher in difficult times for both financial markets and many individuals and families.
- **Where will the stimulus go?:** The ideal scenario would include aid for states and local governments, for small businesses to address the damage done in that sector, and for further expansion of unemployment benefits. The economic impact of the pandemic has fallen disproportionately on those in lower-income households, and directing assistance there not only helps that group but is an added benefit for the economy as that money would be spent.
- **Stocks still look relatively good:** Equities appear expensive on an absolute basis but in a world of very low rates and an environment where the global economy continues to recover, they remain an attractive option. Third-quarter earnings came in better than expected and the 2020 shortfall in corporate profits is likely to be smaller than projected when the pandemic started. The downside risk to equities is the possibility of a double-dip recession, perhaps if a vaccine is further off than expected or if there are challenges in production and distribution.
- **China, trade and tariffs:** It's unlikely that President-elect Biden will take the same approach to China as did President Trump, and the likelihood of an escalation of the trade war is low. The new administration will be tough on China, but in a more multilateral way, particularly with allies in Europe, who would welcome the chance to work with the US to gain more access to the Chinese market. The US is likely to rely less on tariffs, but not propose an immediate rollback.
- **If inflation jumps, it's probably temporary:** The low-inflation environment of the past decade or so is likely to remain in place, reflecting structural factors like aging demographics, higher debt levels and the impact of automation. One short-term risk to that outlook, however, would be temporary production bottlenecks as economies move back to their full potential. While that could lead to supply shortages and upward pressure on inflation, it would likely be a short-lived spike.

To see all of PGIM's election coverage, including our November 4 discussion with PGIM CEO David Hunt and Eurasia Group founder Ian Bremmer, visit our 2020 US Elections page.

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