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US elections – a turning point for the equity market?

Until the COVID pandemic caused the economy to collapse completely, it seemed almost certain for a long time that Donald Trump would be re-elected. The race for congress and the presidency has once again opened up with the economy's gradual recovery. Two scenarios are relevant for investors. A victory for Biden accompanied by Democratic control of both houses would have a number of consequences, first and foremost for fiscal, environmental and health policy, but also for foreign and, in particular, foreign trade policy. Other possible scenarios would entail a parliamentary restriction of the President and would likely maintain the status quo.

The 2020 election campaign could be unique for various reasons. Increased postal voting could disrupt the election process, close election results could be decided by a court or an escalation of the "civil war" could lead to an election suspension. In any event, autumn can be expected to bring heightened political uncertainty.

Driven by tech stocks, the equity market has seen an unbelievable recovery, achieving new records. The current correction seems to be necessary from the nature of market technique and therefore should be short lived. Corporate profit statements were impressive for the second quarter, but only because expectations had previously been significantly reduced. It may be that expectations for the third quarter are now somewhat too high.

In light of these circumstances, we deem it appropriate to reduce the risk component of the fund's assets to some extent until there is greater transparency. However, we fully believe that the equity markets will experience an upward trend in the longer term as the global economy is being reflat on a historically unprecedented scale.

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