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USA

This year was unprecedented in our generation, in the U.S. the worst of COVID-19 economic impact took place on the second quarter of 2020, with the GDP plunging 31.4% (annualised). In retrospective, if we look at the markets, this was by far the shortest recession that we have seen on record, a proof that their economy is remarkably resilient. The mix between a worldwide pandemic, a stock market crash, an election year with a lot of controversy will make 2021, hopefully, significantly better.

Once a vaccine is widely available, it's highly probable that dislocated sectors as restaurants, travel and hotels will bounce back strongly, likely in the second half of 2021. The biggest challenges we see for markets next year are the concentration risk in major U.S. equity benchmarks, which have a composition towards the stay-at-home mega cap technology stocks, most of the time with expensive valuations in equity and credit as well as an increasingly optimistic industry consensus.

The Federal Reserve remains committed to keeping interest rates at or near zero for several years. The Fed also intends to continue its liquidity-boosting measures, though its officials have stated that monetary policy alone is likely insufficient to sustain the U.S. economy. Also, the U.S. dollar may weaken in 2021 due to a possible global economic recovery given its counter-cyclical behaviour. Historically the dollar typically gains during global downturns and declines in the recovery phase.

Biden administration has outlined a broad set of reforms such as raising corporate tax rate from 21% to 28%, but it will be challenging to pass many of these through a divided Congress.

Concerning the U.S.-China relations, U.S. president elected Joe Biden as already stated he will not make any 'immediate moves' to lift trade war tariffs ahead of trade deal review. He also stated that 'best China strategy' is to get traditional Asian and European allies 'on the same page'.

Statistically, the S&P 500 has seen its best average returns when a Democrat has control of the White House and control of Congress is split between two parties, although this exact scenario has only occurred four times since World War II. Moreover, the stock market historically has done well under new Democrat presidents, posting average gains of 17% in the subsequent year.