GENERALI INVESTMENTS

US Midterm Elections

Views from our asset management firms

With results still being declared for the US midterms where control of Congress hangs in the balance, two investment firms at Generali Investments comment on the implications from a domestic US point of view, and a global perspective.

No drama please

Peter Kraus, Chairman and CEO, Aperture Investors

I think it's hard for the market to underwrite political outcomes; therefore elections generally don't have a direct impact on market moves. That said, I think the midterm turnout was strong – and particularly high amongst young voters – which was great to see. I believe, from the race outcomes we know so far, that voters seem to want less drama in the political environment.

While the exact numbers in the House and Senate may not be known for another month or so, I believe that some of the legislative agenda may be curtailed as the government remains divided. Encouragingly, as there wasn't a rout, it may mean some issues can be dealt with over the coming two years. That will require more tactical work and not sweeping legislation given the division. I don't believe we'll see any impact on monetary policy though it's possible that fiscal spending is more limited. I don't anticipate we'll see any tax legislation or major progress around healthcare or immigration.

So in some cases this election will perpetuate the new normal or status quo we've been living in for another two years. While the election also brought increased noise around funding Ukraine, I don't believe we'll see any fundamental changes to the US approach in that regard.

More uncertainty, more inflation and a continued economic cold war

Marco Mencini, Senior Portfolio Manager, Plenisfer Investments

At the time of writing, Republicans are projected to win the House of Representatives, while the fight for the Senate hangs on a razor's edge. If, as expected, Democrats keep the Senate and Republicans take the House, we can expect further complications and uncertainty to an already delicate macroeconomic scenario.

In our view, the US, along with the global economy, will be heading into 2023 contending with a major slowdown, monetary tightening and a new era of inflationary pressures. Since legislation needs the approval of both Houses, this may complicate the Biden administration's ability for decisive policy actions, not just on domestic social and economic policy such as the €2 trillion infrastructure bill, but also in terms of the amount of military aid Ukraine receives.

The energy and healthcare sectors are two areas that will also be clearly impacted. Republicans will likely block any windfall tax measures on oil & gas companies while pushing for greater traditional fossil fuel production and exploration. Renewables clearly need to be in the mix for the US to gain greater energy security but in the meantime we can expect more openness to other energy investments, not just in oil & gas but nuclear energy as well, which provides about

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20% of country's electric generation. The US has been extending life expectancies for nuclear power stations across the country. Russia and Kazakhstan have been their main source for uranium and enriched uranium, and a number of Republicans have been vocally calling for the development of a domestic industry, all of which could create interesting investment opportunities. Turning to healthcare, many voters have been unhappy with the incremental costs of insurance policies, so this sector is likely to be impacted by increased political conflict and volatility.

Hostility towards China is one issue that unites a divided Republican party, and we expect that calls for deglobalisation and the reshoring of supply chains will continue in the face of higher input prices due to inflation and concerns about resource security. This has been called an "economic Cold War" innovation and opportunities will likely arise out of the friction countries seek to become less dependent on intermediary countries. Rather than less investment during a slowdown, we may well see an increase in US companies being incentivised to invest and expand their business models to be more competitive in a world where China is seeking to move away being the "maker of parts" to the "maker". In China itself, this means potentially more investment opportunities as well, in spaces such as semiconductors, AI and supply chain technology – technologies on which they are largely dependent on South Korea and the US, and which they will need to increase efficiency in order to return to the kind of growth the country has been accustomed to over the last 20 years.

In short, going into 2023 will provide both opportunities and risks, and more than ever we believe that a diversified portfolio that moves away from the traditional asset allocation model will be crucial for navigating an increasingly complex new macroeconomic era.

Aperture Investors

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Aperture Investors is part of the Generali Investments platform.

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Plenisfer Investments is part of the Generali Investments platform.

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