November 6, 2020

PAKISTAN
STRATEGY

REP-019
MARKET
VISTA

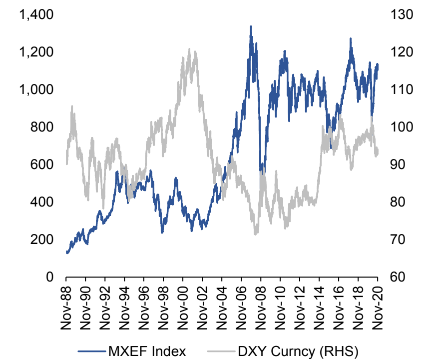
US elections – More things change, more they stay the same

- **In arguably one of the most analyzed events occurring at regular intervals (every four years) globally, we find clarity emerging in the impasse for the US Presidential election vote count, where it seems highly likely (multiple paths to electoral majority) that we will find a 46th occupant of the White House in Former Vice President Joe Biden.**
- **In this rare event of a US president losing reelection, we opine on the role played by US macros asserting that outperformance by emerging markets during Republican terms have more to do with dollar positioning (strength/weakness) rather than any political setups, hence flagging the negligible role in forecasting equity market performance solely on the basis of political regime.**
- **Looking ahead, a sustained environment of negative real interest rates and the need to encourage foreign investors to fund US deficits in the wake of the stimulus package would keep the dollar under pressure where conventional understanding assumes Biden is able to execute his proposal to raise corporate taxes, driving outflows from US equities.**
- **From a domestic macro perspective, commodity prices could undergo a bull-run, fueled by historic low-interest rates, trillions in US fiscal stimulus, recovering pandemic-struck economies across the globe (amidst vaccine optimism) where we remain cautious on the external math unraveling (~5% rise in core import/oil commodity prices would expand CAD by ~US$1.0/0.35bn).**
- **For Pakistan, under a Biden presidency, re-setting of relations with China is the major benchmark for US foreign policy going forward, where unilateral or antagonistic actions could take a back seat. Pakistan is expected to remain prominent, not just in terms of US troops pulling out from Afghanistan (major shifts in policy unlikely) but also with any re-engagement of US policy with Muslim majority countries, and of course developments in the domain of China & India relations.**

Ali Asghar Poonawala
ali.poonawala@akdsecurities.net
111-253-111 Ext:603

Umer Farooq
umer.farooq@akdsecurities.net
111-253-111 Ext:603

Emerging markets vs. Dollar index



Source: Bloomberg & AKD Research

US political events tend to matter less: While the historic data suggests that emerging markets have fared better under Republicans vs. under Democrats (see table below), we think this out-performance has more to do with dollar positioning (strength/weakness) rather than any political setup. Of the last eight presidential terms that we looked into, the Greenback has on average weakened by 8% during Republican administrations vs. 11% appreciation when Democrats were in charge. A weaker dollar generally leads to more inflows to EMs and consequent outperformance (see chart on RHS). This time, however, a sustained environment of negative real interest rates and the need to encourage foreign investors to fund US deficits in the wake of the stimulus package would keep the dollar under pressure. And the pressure would be more in case of Biden presidency assuming he executes his proposal to raise corporate taxes, as this would drive flows from US equities. On a conclusive note, as Republicans are expected to hold on to a narrow majority in the Senate, political gridlock is likely to curtail any major shifts in key policy areas, furthering the status quo (as opposed to a Democratic sweep shown by polls).

EM /FM/Dollar/oil during last 8 presidential terms

Party	Tenor	MSCI Emerging Markets	MSCI Frontier Markets	Dollar Index	CRB commodity index	Brent
Republican	3-Nov-92	135.0%	-	-3.2%	-	38.4%
Democratic	5-Nov-96	52.7%	-	-3.7%	-	20.3%
Democratic	7-Nov-00	-24.6%	-	32.7%	-0.2%	35.1%
Republican	2-Nov-04	45.3%	-	-26.3%	46.2%	53.6%
Republican	4-Nov-08	10.1%	25.5%	4.7%	-8.2%	43.5%
Democratic	6-Nov-12	91.1%	-8.4%	-7.4%	22.1%	107.9%
Democratic	8-Nov-16	-10.1%	3.2%	22.8%	-37.7%	-56.6%
Republican	4-Nov-20	27.9%	7.0%	-7.4%	-23.6%	-25.8%
Republican -Avg.		54.6%	16.2%	-8.0%	4.8%	27.5%
Democratic - Avg.		27.3%	-2.6%	11.1%	-5.3%	26.7%

Source: Bloomberg & AKD Research

AKD Securities Limited

Rally in commodities difficult to rule out: From a domestic macro perspective, a key factor to watch is commodity prices post US election. Factors such as historic low-interest rates, trillions in US fiscal stimulus, recovering pandemic-struck economies across the globe, and growing vaccine optimism create a near-perfect backdrop for commodities to rally. At home, this could have potential negative macro bearings, with more pressure on the external account and inflation. We estimate around US$1bn impact (US$0.35bn from oil alone) on CA from a 5% increase (current prices) in major commodity prices (i.e. Oil, edible oil, food steel, textiles chemicals and metals). On the contrary and over the long term, a Biden presidency with Democrats holding on to the lower House are likely to enact liberal ideals of investing in renewable energy while restricting methane emissions and banning fracking on federal lands, thereby promoting the shift away from carbon emitting thermal fuels, limiting crude demand. In the near term any harsh policies curbing US fuels production may have a positive impact on global prices as indigenous supply (US crude oil production ~18% of total global production in CY19) is replaced by imports.

Outlook: With the divisive and at best historic presidency of Donald J. Trump likely on its last leg, we delve into possible policy re-alignments for the largest economy in the world as it navigates an increasingly fragmented, multi-polar world order. Firstly, we are expected to see the US re-assert itself on the global stage through multilateral alliances and strengthening participation in global mainstays - the UN, NATO, WTO, with a re-emphasis on US foreign policy cornerstones (largely ignored by Trump) promoting democratic regimes, human rights, freedom of speech and religious freedoms. More importantly, a Biden presidency is expected to have a "calming" impact on global trade relations, where rhetoric/tweets will be replaced by long term strategic policies (developed through comprehensive review by think tanks, foundations, federal agencies, NSC). Moreover, for domestic investors, re-setting of relations with China is the major benchmark for US foreign policy going forward, where unilateral or antagonistic actions (trade tariffs) could take a back seat (though tech restrictions are unlikely to be reversed) replaced by multi-lateral trade blocs (possible re-start of TPP) as Biden has affirmed his commitment to working with allies to exert collective pressure on Beijing. In any eventuality, Pakistan is expected to remain prominent, not just in terms of US troops pulling out from Afghanistan (major shifts in policy unlikely) but also with any re-engagement of US policy with Muslim majority countries, and of course developments in the domain of China & India relations.

Disclosure Section

Neither the information nor any opinion expressed herein constitutes an offer or a solicitation of an offer to transact in any securities or other financial instrument and is for the personal information of the recipient containing general information only. AKD Securities Limited (hereinafter referred as AKDS) is not soliciting any action based upon it. This report is not intended to provide personal investment advice nor does it provide individually tailored investment advice. This report does not take into account the specific investment objectives, financial situation/financial circumstances and the particular needs of any specific person. Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. AKDS recommends that investors independently evaluate particular investments and strategies and it encourages investors to seek the advice of a financial advisor.

The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. The securities or strategies discussed in this report may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them.

Reports prepared by AKDS research personnel are based on public information. AKDS makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. Facts and views presented in this report have not been reviewed by and may not reflect information known to professionals in other business areas of AKDS including investment banking personnel. AKDS has established information barriers between certain business groups maintaining complete independence of this research report.

This report has been prepared independently of any issuer of securities mentioned herein and not in connection with any proposed offering of securities or as agent of any issuer of any securities. Neither AKDS, nor any of its affiliates or their research analysts have any authority whatsoever to make any representation or warranty on behalf of the issuer(s). AKDS Research Policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer prior to the publication of a research report containing such rating, recommendation or investment thesis.

We have taken all reasonable care to ensure that the information contained herein is accurate, up to date, and complies with all prevailing Pakistani legislations. However, no liability can be accepted for any errors or omissions, or for any loss resulting from the use of the information provided as any data and research material provided ahead of an investment decision are for information purposes only. We shall not be liable for any errors in the provision of this information, or for any actions taken in reliance thereon. We reserve the right to amend, alter, or withdraw any of the information contained in these pages at any time and without notice. No liability is accepted for such changes.

Stock Ratings

Investors should carefully read the definitions of all ratings used in each research report. In addition, research reports contain information carrying the analyst's view and investors should carefully read the entire research report and not infer its contents from the rating ascribed by the analyst. In any case, ratings or research should not be used or relied upon as investment advice. An investor's decision to buy, sell or hold a stock should depend on individual circumstances and other considerations. AKDS uses a three tier rating system: i) Buy, ii) Neutral and iii) Sell with total returns (capital upside + dividend yield) benchmarked against the expected one year forward floating (variable) risk free rate (10yr PIB) plus risk premium.

Valuation Methodology

To arrive at our period end target prices, AKDS uses different valuation techniques including:

- Discounted Cash Flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

New Rating Definitions	
Buy	**＞ 14.5% expected total return （Rf: 8.5% ＋ Rp: 6%）**
Neutral	**＞ 8.5% to ＜ 14.5% expected total return**
Sell	**＜ 8.5% expected total return （Rf: 8.5%）**

Analyst Certification of Independence

The analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

The research analysts, strategists or research associates principally having received compensation responsible for the preparation of this AKDS research report based upon various factors including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

Disclosure of Interest Area

AKDS and the authoring analyst do not have any interest in any companies recommended in this research report irrespective of the fact that AKD Securities Limited may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment.

Regional Disclosures (Outside Pakistan)

The information provided in this report and the report itself is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject AKDS or its affiliates to any registration or licensing requirements within such jurisdiction or country.

For the United States

Compliance Notice.

This research report prepared by AKD Securities Limited is distributed in the United States to Major US Institutional Investors (as defined in Rule 15a-6 under the Securities Exchange Act of 1934, as amended) only by Decker & Co, LLC, a broker-dealer registered in the US (registered under Section 15 of Securities Exchange Act of 1934, as amended). All responsibility for the distribution of this report by Decker & Co, LLC in the US shall be borne by Decker & Co, LLC. All resulting transactions by a US person or entity should be effected through a registered broker-dealer in the US. This report is not directed at you if AKD Securities Limited or Decker & Co, LLC is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. You should satisfy yourself before reading it that Decker & Co, LLC and AKD Securities Limited are permitted to provide research material concerning investment to you under relevant applicable legislations and regulations.

AKD Securities Limited

602, Continental Trade Centre,
Clifton Block 8, Karachi, Pakistan.
research@akdsecurities.net