KEY POINTS:

- **Markets continue to price Bidenomics and a 'blue sweep'…**
- **…which means positioning is way offside if Trump wins…**
- **…that may spark a violent undershoot**
- **Trump simply didn't offer a platform for markets to price**
- **A Biden scenario could fan reflation and recovery trades...**
- **...by reinforcing higher inflation expectations….**
- **…curve steepeners…**
- **…higher equity valuations…**
- **…including financials…**
- **…while benefits of higher oil prices would flow abroad**
- **The fiscal pledges behind Bidenomics would front load big spending while postponing tax hikes in the pandemic**
- **Light overnight releases focused on PMI revisions**
- **US ADP to tease nonfarm expectations**

TODAY'S NORTH AMERICAN MARKETS

If you saw market participants showing unusual interest in blowing dust off their keyboards and cleaning up their in-boxes today, well then, chart 1 offers one explanation for why that was the case. Ahead of the US election, trading volumes on the S&P500 hit their lowest since New Year's Eve last year. That's saying a lot, since that day is usually more about making sure you have enough champagne and Tylenol, or at least it was before the pandemic struck. Such thin volumes counsel caution when interpreting today's market moves, at least in terms of magnitudes.

Still, what I saw was pretty consistent market evidence in favour of pricing in a 'blue sweep' scenario in the US election. I hope they're right, at least for the market's sake. I think so, as this would be a spectacular failure by a pretty much unanimous chorus of pollsters and election forecasters ranging from fivethirtyeight.com to The Economist and Allan Lichtman's uninterrupted track record. Anything different from that could magnify rapid position covering and potentially rather violently so. As in 2016, however, be mindful toward the prospects for the evening to offer up a rollercoaster ride by starting the same way as election night did four years ago with Trump victories in states that are likely to still back him solidly before we get into a greater mixture of results including 'blue' states. As for the market moves:

- The Fed's preferred five-year forward breakeven inflation rate has moved up by about 20bps over the past 5–6 weeks (chart 2). It has risen by about 75bps since the low on March 19th in the early depths of the pandemic shutdowns. Biden's policies are reflationary and could fan this momentum further yet.

- The Treasuries curve steepened on quicker growth and issuance expectations. The US 2 year yield was up 1bp with 10s and 30s up by about 5. This continues the steepening that has been in place for over a year now

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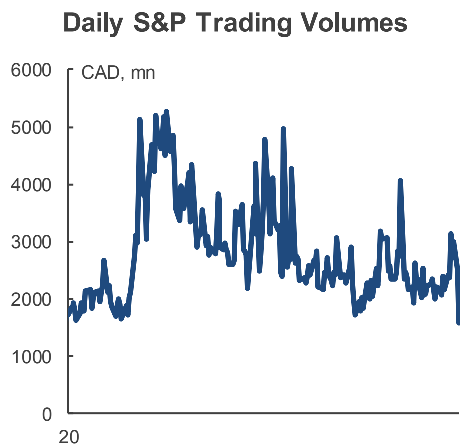
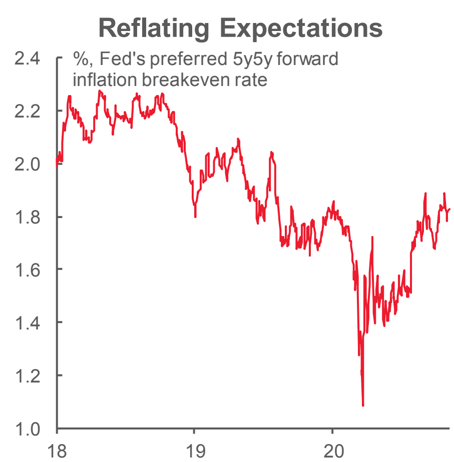
Chart 1



Sources: Scotiabank Economics, Bloomberg.

Chart 2

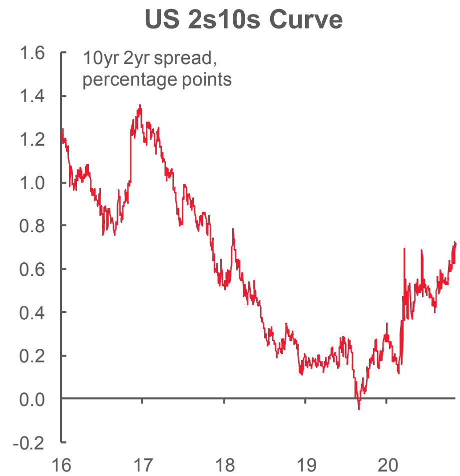


Sources: Scotiabank Economics, Bloomberg.

(chart 3) as the bond market has been pricing a stimulus-fed economic expansion that was only relatively briefly interrupted by the ongoing pandemic. The bond market is strongly suggesting that a solid continued expansion lies ahead.

- Steeper curves helped to drive banks to lead the S&P500 sectors today notwithstanding potential regulatory risk. Banks also benefit from stronger medium-term growth expectations if we get more aggressive spending plans for some time. Obviously, Biden's tax plans are unfavourable, but spending probably gets emphasized first and front-loaded while the costed expenditures amount to over US$5 trillion by 2030 versus the costed revenues of just over US$3T over the same time frame. The implication is two-fold: a) what goes into the economy through spending will exceed what is taken out through tax revenues, and b) furthermore, spending is likely to arrive first given the pandemic focus and the greater difficulty dealing with changes to tax policy.

Chart 3



Sources: Scotiabank Economics, Bloomberg.

- Energy stocks were the only losing sector on the S&P500 that gained 1¾% as they fell by about ¾%. This is no doubt partly due to Biden's plans (e.g. fracking), yet oil prices moved up by 2–3% as his plan may be more restrictive to supply, Biden's overall stimulus plans are more favourable to domestic and world growth and Biden's trade policies may be less antagonistic toward China and hence its demand for oil.

- The dollar's safe-haven appeal continues to lessen in the shorter term in favour of stronger world growth that is lifting other currencies.

I'll now expand upon Trump versus Biden by also repeating some content from the Global Week Ahead and the accompanying slide deck. First off, **markets don't really know what to make of a second Trump term because he essentially failed to show up for this campaign**. For whatever reason, we never got a coherent, holistic election platform from Trump this time around. He had one in 2016 whether one agreed with all or part or none of it, but this time his camp either ran out of ideas or couldn't effectively spell them out. Markets have little to price other than the uncertainty presented by no plan.

Biden, by contrast, has a coherent election platform that markets can price. You may not agree with all or part or any of it, but it's a much more thoroughly (but not thorough) contrived offering. The bullet points below summarize key differences between Biden's offerings and Trump's general policy bias to date. The table on the next page summarizes the key elements of Biden's fiscal plans. Biden's plan is unambiguously reflationary at least in the near– to medium-term if executed given its emphasis upon net fiscal stimulus. It looks rather like it would take two terms to deliver all of it and there are steep barriers to major parts of it (e.g. ever seeing an infrastructure deal) but a blue sweep scenario could increase the probability of achieving a great deal if energy on election night carries through to governing. Longer term uncertainties would stem in part from whether Biden would follow through on all or part of his tax pledges and carbon tariffs.

- Trump's tax policies are unambiguously more favourable to markets mostly because he wouldn't do what the Democrats are doing and may seek modest additional cuts that are not well laid out.

- Biden's spending and immigration plans would be more stimulative to growth which could also benefit markets. The trade off between Biden and Trump may be top line revenue versus EAT/EBT.

- Trump is an isolationist who has withdrawn America, but Biden is no globalist and has his own 'made in America' restrictive policies.

- Trump would further raise trade frictions with similar erratic and combative tactics. He would probably escalate tensions with China and perhaps Europe & harm global growth.

- Biden would likely improve trade and broader relations with allies, return to the WTO, but probably retain tariffs on China and seek a globally coordinated effort to address China issues. TPP would not be a priority.

- Biden's protectionist carbon tariff/border adjustment would invite retaliation.
- Both candidates would face fiscal pressures over time as the US deficit is recklessly unsustainable.
- Biden in a 'blue sweep' would probably mean front-loaded spending first (US$3T?) to boost near-term growth. A back-loaded tax haul would neutralize most longer term effects. Tax hikes in a pandemic are likely a no-go so to repeat, it's about spending first.
- Biden's immigration policies are more favourable to growth. He would restore historically low immigration to pre-Trump levels and transition undocumented immigrants to lawful permanent resident status over ten years with immediate work permits.
- Biden's sector policies could negatively impact energy (fracking, Keystone XL), pharma.

THE FISCAL PLAN BEHIND BIDENOMICS'

Tax	Spend
Total revenues would increase by over US$3T between 2021-30	*Total spending would increase by over US$5T between 2021-30*
Personal: +US$0.94 trillion	
About 80% of tax haul would be from the top 1%	Increase eduction spending by US$1.9 trillion over 2021-30... ...with universal pre-K, two years of free college for all, free full-term public college for low-income families, increased Title I school funding
Effective tax rate on top 0.1% would jump 12.4 points	
The bottom 95% of earners would face unchanged taxes...	Increase infrastructure spending by US$1.6 trillion...
...but the bottom 99% of earners would be indirectly and modestly hit by the impact of higher corporate taxes on investment and wages	...focused on water, high-speed rail, clean energy, transit, green projects, 5G, AI.
	State/local infrastructure multiplier of US$0.62 for each federal dollar
Reverse much of the Tax Cuts and Jobs Act of January 2018	
Raise the top marginal rate 2.6 points to 39.6%	Increase spending on affordable housing by US$650 billion
Tax capital gains/dividences at ordinary 39.6% rate for incomes above US$1 million	Paid leave program spending of US550 billion
Reintroduce First-Time Homebuyers Tax Credit	Increase healthcare spending by US$352 billion on net...
Expand child and dependent care tax credits	...by cutting prescription drugs by US$1.25 trillion...
Raise estate taxes including lowered exemption threshold	...and raise other health spending by US$1.61 trillion
Businesses: +US$1.44 trillion	Increase social security spending by US$291 billion
Raise statutory corporate income tax rate from 21% to 28%	
Introduce alternative minimum corporate tax	
Impose 10% surtax on offshoring	
Impose 10% "Made in America" tax credit	
Eliminate fossil fuel subsidies	
Close real estate 'loopholes'	
Sanctions on tax havens	
Payroll: +US$1 trillion	
Impose 12.4% Social Security employer/employee payroll tax on >US$400k earners.	

Wharton model: By 2030, GDP -0.4%, debt +0.1%

Sources: Penn Wharton Budget Model, Tax Foundation, Scotiabank Economics

OVERNIGHT MARKETS

Not that any of it will matter one bit, but for what it's worth, here's the (very brief) run down of overnight releases.

- US vehicle sales are pending for October this afternoon.
- New Zealand updates Q3 jobs (4:45pmET). Another drop of about -0.7% q/q is expected.
- China private services and composite PMIs for October (10:45pmET).
- Eurozone services and composite PMI revisions for October (4amET). They will incorporate first estimates from Spain and Italy into what Germany and France had already released.
- UK PMI revisions for October (4:30amET).

TOMORROW'S NORTH AMERICAN MARKETS

Tomorrow's releases will be very light and inconsequential compared to the (possible) election outcome. US ADP payrolls are due out at 8:15amET and consensus has a cooler rise of 650k pencilled in (Scotia 500k). To matter to nonfarm we have to start getting into being well off expectations in either direction and then play the historical probabilities on the odds of a comparable miss or beat for nonfarm to that which might occur to ADP.

Canada and the US release updated trade figures for September (8:30amET).

Fixed Income	Government Yield Curves (%):											
	2-YEAR			5-YEAR			10-YEAR			30-YEAR		
	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk
U.S.	0.17	0.16	0.15	0.39	0.38	0.33	0.90	0.85	0.77	1.68	1.62	1.55
CANADA	0.27	0.26	0.23	0.43	0.39	0.37	0.69	0.63	0.60	1.27	1.22	1.19
GERMANY	-0.79	-0.81	-0.77	-0.81	-0.83	-0.80	-0.62	-0.64	-0.62	-0.21	-0.23	-0.20
JAPAN	-0.11	-0.11	-0.13	-0.08	-0.08	-0.09	0.05	0.05	0.03	0.65	0.65	0.64
U.K.	-0.04	-0.07	-0.05	-0.04	-0.08	-0.05	0.27	0.22	0.23	0.84	0.79	0.78
	Spreads vs. U.S. (bps):											
CANADA	10	10	9	3	2	4	-21	-21	-17	-41	-40	-37
GERMANY	-96	-96	-92	-120	-120	-113	-152	-149	-138	-189	-185	-175
JAPAN	-28	-27	-28	-48	-46	-42	-85	-80	-74	-103	-97	-92
U.K.	-21	-23	-20	-43	-45	-38	-62	-63	-54	-84	-83	-77

Equities	Level		% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	15939	242.3	1.5	-0.5	-1.6	-3.9
Dow 30	27480	555.0	2.1	0.1	-0.7	0.5
S&P 500	3369	58.9	1.8	-0.6	0.6	9.9
Nasdaq	11161	203.0	1.9	-2.4	0.8	33.1
DAX	12089	300.7	2.6	0.2	-4.7	-6.7
FTSE	5787	131.8	2.3	1.0	-2.0	-20.8
Nikkei	23295	318.3	1.4	-0.8	1.2	1.9
Hang Seng	24940	479.7	2.0	0.6	6.3	-9.5
CAC	4806	114.5	2.4	1.6	-0.4	-16.6
Commodities	Level		% change:			
WTI Crude	38.08	1.27	3.5	-3.8	2.8	-32.2
Natural Gas	3.06	-0.19	-5.7	1.3	25.5	12.7
Gold	1908.74	13.26	0.7	0.0	0.5	26.0
Silver	23.98	0.35	1.5	-1.3	0.5	32.3
CRB Index	147.02	1.12	0.8	-2.4	2.0	-18.4
Currencies	Level		% change:			
USDCAD	1.3144	-0.0073	-0.6	-0.3	-0.9	-0.1
EURUSD	1.1720	0.0079	0.7	-0.6	-0.5	5.3
USDJPY	104.52	-0.2000	-0.2	0.1	-1.2	-3.7
AUDUSD	0.7167	0.0112	1.6	0.5	-0.2	4.1
GBPUSD	1.3067	0.0150	1.2	0.2	0.7	1.4
USDCHF	0.9120	-0.0070	-0.8	0.4	-0.4	-7.7

Central Banks	
Current Rate	
Canada - BoC	0.25
US - Fed	0.25
England - BoE	0.10
Euro zone - ECB	0.00
Japan - BoJ	-0.10
Mexico - Banxico	4.25
Australia - RBA	0.10
New Zealand - RBNZ	0.25
Next Meeting Date	
Canada - BoC	Dec 09, 2020
US - Fed	Nov 05, 2020
England - BoE	Nov 05, 2020
Euro zone - ECB	Dec 10, 2020
Japan - BoJ	Dec 18, 2020
Mexico - Banxico	Nov 12, 2020
Australia - RBA	Nov 30, 2020
New Zealand - RBNZ	Nov 10, 2020