Pramerica's John Praveen on what the upcoming US presidential elections means for stocks

With a year to go until the next US presidential elections, it does not seem too early to start thinking on what the election means for investors. In this interview, Eugenia Jiménez talks with John Praveen, portfolio manager global multi-asset solutions team of QMA, the sub-delegated investment manager of Pramerica SGR, about the challenges or opportunities that US stocks might present in the coming 12 months. How likely do you think that US stocks will perform well over the coming election year? In the short-term, US stocks are likely to post further gains with a US-China trade deal likely, the UK avoiding a hard Brexit, better-than-expected Q3 earning reports, and rate cuts by the Fed, the ECB and over 40 more developed and emerging central banks. However, as we get closer to the 2020 elections, markets are likely to be volatile due to uncertainty about the outcome of the US presidential election. How the US market will perform in 2020 will depend on the Democratic Party candidate to run against President Trump, and whether that candidate is likely to win. Some of the democratic candidates are proposing policies that the market is perceiving as radical and market-unfriendly. If one of them gets nominated and is likely to win, markets are likely to have a negative reaction. How likely do you think leading indicators such as the inverting of the yield curve will actually be followed by a recession in the US in the coming year? In our view, a US recession is unlikely in 2020. Historically, yield curve inversions were caused by aggressive Fed rate hikes choking off growth and causing a recession. However, the current yield curve inversion is due to US longterm bond yields falling, not to rising short-term rates. US bond yields fell due to a general decline in global bond yields, with negative yields in many countries (Germany, Japan, Switzerland, etc.). Further, the yield curve has recently gone back to a modest upward slope. In addition, the Fed has started to proactively cut rates, which should support the US economy and prevent a recession. Hence, we do not think the inverted curve will cause a recession in 2020. With an election year pending, how likely do you think it is that the Trump administration will do all it can to keep he local stock market buoyant? The Trump administration is likely to do whatever it can to keep the stock market rising and prevent a recession. For example, the administration is likely to sign a trade deal with China, even if it is a limited deal, and reduce trade tensions, thereby removing uncertainty and boosting the market and economy. Further, President Trump can use "executive power" to change some regulations. However, President Trump may not be able to do much in terms of fiscal stimulus given the Democratic Party controls the US House of Representatives. Are you re-assessing your US/North America exposure? If so, why? No, in the near-term. We are maintaining an overweight exposure to the US stock markets as we expect US markets to continue outperforming other markets, with stronger US GDP growth (around 2% to 2.5%) and better earnings outlook. However, if the growth and earnings outlook in Europe, Japan and emerging markets improve, we will reassess the exposure to the US. Further, if trade tensions ease, the UK manages to have a soft Brexit, and Europe, especially Germany, undertake fiscal stimulus, we will consider increasing exposure to Europe and emerging markets while reducing exposure to the US.

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