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Wait for dips to add stock exposure

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Financial markets have been focused on the "Trump trade" as a response to the upcoming US election, with indications of a "red sweep" outcome being priced in across asset classes. Yet the US election still appears much more finely balanced than prediction markets suggest. That could cause volatility to increase if the outcome is surprising or is substantially delayed. We see dips as potential buying opportunities to gradually phase in equity exposure in line with our Attractive view on equities. We prefer the regions of US and Asia ex-Japan, and the utilities and technology sectors.

The reaction of Japan equities to the unexpected failure of Japan's ruling coalition to secure a simple majority in Sunday's parliamentary election has been surprisingly positive. Both the TOPIX and Nikkei 225 are up around 2.5% over the two post-election sessions, as local equity markets looked past the increased uncertainty and instead focused on the increased likelihood of reflationary policies. It might not be surprising if this outcome potentially proves tempting to some investors to take investment positions on the 5 November US presidential election.

We would caution against this and note that beyond the initially idiosyncratic sequence of events in Japan, these events tend to be very opaque and difficult to position for. Even for Japan, events could yet turn out differently; uncertainty—and consequently volatility—could yet spike. We would thus urge investors to maintain discipline and position well-balanced and diversified portfolios according to the fundamental outlook in the medium term, especially for the following reasons.

US election more finely balanced than market positioning might suggest. Over the last two weeks, the "Trump trade" narrative has grown dominant as polls have shifted. However, polling still points to a very even contest. Should market positioning remain skewed toward a red sweep going into the election, a Harris-win or divided-government outcome would likely cause a sharp market adjustment, especially in US Treasury yields and the USD.

Investors should focus on the fundamentals. It is advisable that investors avoid basing portfolio decisions on expectations of election outcomes. It should be remembered that aside from uncertainty over the new administration's policy preferences, there might also be a period of uncertainty over the final outcome. Should this become somewhat extended, volatility could be significantly increased. We see dips as potential buying opportunities to gradually phase in equity allocations as a means to gain exposure to the strength of the overall economy.

Waiting to smell the roses. While investors are waiting for clarity to exhale post-elections, it's likely that the latent macroeconomic positives will reassert themselves as the main market drivers. Recent US economic data have shown remarkable resilience and should remain near trend levels in 2025. Elsewhere, growth may be weaker but appears to have bottomed out, while fiscal stimulus materializing in China could provide another tailwind. Bolstering this robustness is the monetary easing already undertaken by most major central banks. The start of a rate-cutting cycle has historically been a positive catalyst for equity markets over the subsequent 6-12 months. The US Federal Reserve in particular has both the space to ease and has shown the appetite to be proactive. Meanwhile, we expect MSCI AC World EPS growth in the high-single digits through 2025. Additionally, valuations are still not extreme at around 1.6 standard deviations above their 10-year average, and we expect the majority of any potential price upside to come from earnings growth.

We would thus use any spikes in risk aversion to adjust portfolios to reflect an Attractive stance on equities, in particular US and Asia ex-Japan equities. US growth should outpace other developed markets and is most exposed to AI, which we believe represents the potential for significant investment opportunities. We also like Asia ex-Japan as it offers exposure to secular trends in a structurally higher growth environment. In terms of sectors, we expect earnings growth to be led by sectors like utilities and technology.

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