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Market Update: 27th February 2020

US Election Race Gains Momentum

The past week has seen several key developments in the US presidential campaign, with candidates dropping out of the race to endorse their former rivals, a remarkable comeback from Joe Biden, and results from 'Super Tuesday', where 14 states voted on who they wanted to be the Democratic Party nominee for the race to the White House. Last month, US voters began the process of choosing which Democratic candidate will go up against President Donald Trump on 3rd November, however the early results painted a confusing picture. Pete Buttigieg won the all-important Iowa Caucus, but has since dropped out of the race. Sanders came a close second in Iowa, but did come top in New Hampshire, albeit nowhere near the 60% he won against Hillary Clinton in 2016, and Joe Biden launched his comeback in South Carolina with his first-ever victory in a primary in what is his third attempt to become president.

Super Tuesday










On Tuesday this week, voters in 14 US states picked their preferred Democratic candidate for November's election. The day was termed 'Super Tuesday', as 34% of the total delegates were awarded, providing a significant insight into how the election race will pan out.

Joe Biden cemented a remarkable comeback on the biggest primary night of the Democratic presidential campaign, with victories in nine states across the country, including upsets in Texas and Massachusetts, even as Bernie Sanders took the biggest prize of the night, California. Biden's victories were built off his decisive win on Saturday in South Carolina, which followed campaign stumbles and disappointing results in the first three contests of the nomination race. Democratic Party leaders and centrist voters rallied around Biden as the moderate alternative to Sanders, a self-described democratic socialist who is seen by many as too far left to defeat President Donald Trump in November and help Democrats in Congress. Pete Buttigieg and Amy Klobuchar, who were competing alongside Biden for moderate voters, fell in line by dropping out and endorsing the former vice president.

Along with California, Sanders picked up wins in Colorado, Utah and his home state of Vermont. It was another disappointing night for Senator Elizabeth Warren who could do no better than third in any state – including in her home of Massachusetts. Former New York Mayor Michael Bloomberg picked up delegates in several states -- including California -- but he barely made a mark in the race despite spending more than \$600 million, and as a result dropped out of the race earlier today and pledged his support to Joe Biden.

As it stands Joe Biden and Bernie Sanders have won 404 and 340 delegates respectively, out of the 1,991 needed to win and take on Trump. Still, the Democratic nomination race has been marked by twists and turns, and there may yet be drama ahead if neither Biden nor Sanders can win a clear majority of delegates in the remaining contests.

Figure 1: US Primary Election Results So Far

| | | Super Tuesday | | Total delegates |
|-----------------------------------------------------------------------------------|----------------------|---------------|-----------|-----------------------------------------------------------------------------------------|
| | | Votes | Delegates | |
|  | Joseph R. Biden Jr. | 4,465,701 | 351 | 404  |
|  | Bernie Sanders | 3,636,204 | 280 | 340  |
|  | Elizabeth Warren | 1,625,519 | 28 | 36  |
|  | Michael R. Bloomberg | 1,692,394 | 12 | 12  |
|  | Tulsi Gabbard | 83,553 | 1 | 1 |
| 672 of 1,338 Super Tuesday delegates awarded | | | | |

Source: New York Times

Market Reaction

US equity markets opened higher on Wednesday - a positive start after Tuesdays tumble - as Joe Biden's comeback in the race for the democratic nomination becoming the latest development to add to already extremely volatile markets. Biden is by far the preferred candidate for financial markets, as he is viewed as the most business-friendly candidate and fairly centrist as far as Democrats go, with many investors applauding him for his middle-of-the-road tact in contrast to the more-progressive policies of Sanders and Warren.

The market movements come during a volatile few days for US investors, after the Federal Reserve announced Tuesday an emergency interest rate cut in an effort to support the economy amid evolving risks surround the coronavirus. Meanwhile, 10-year Treasury yields fell below 1% for the first time in 150 years and the dollar rose as traders waited for other top economies to follow the Federal Reserve's emergency rate cut.

What's Next?

Although there is usually a winner much sooner, the race officially ends in July at the Democratic National Convention, where the candidates with the highest number of delegates becomes the party's presidential nominee. Primaries are taking place nearly every week from now until then, and voters will have a close eye on the results of delegate-heavy contests in New York, Pennsylvania and Indiana.

The unsettled nature of the Democratic presidential race means it could be competitive right until, and perhaps through, the party's convention in July, potentially unleashing the first contested convention of either major US political party in almost 70 years. If no candidate receives 1,991 votes during the first roll call of states, pledged delegates are released from their obligations and can switch their support as they see fit, and the unpledged superdelegates can weigh in on the second ballot. Voting continues until someone wins a majority of 2,376 in this enlarged pool of 4,750 delegates.

The race to become the Democratic candidate remains wide open, and we can expect more political drama in the presidential campaign in the coming months.

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