Weekly Market Summary

November 11th, 2016

A Strong and Sad Sense of Deja-Vu….. I Guess Life Goes On!?

Fadi Nasser - Head of Treasury Sales

On June 23rd 2016, the UK voted to quit the European Union (EU) after more than four decades, in a stunning rejection of the continent's postwar political and economic order (the "angry" vote that upsets the status quo!), prompting Prime Minster David Cameron to resign and sending shockwaves around global markets. Back then, the Daily Mail – a British daily conservative, middle-market tabloid newspaper – wrote on its front page "Take a Bow, Britain! It is the day the quiet people of Britain rose up against an arrogant, out-of-touch political class and a contemptuous Brussels elite". Prior to this vote, many available surveys had indicated a significant proportion of the UK population - as well as citizens across Italy, Netherlands, France, Austria, Greece,… - believed that their country would be in a better situation by leaving the EU. And whilst there are non-economic causes for wariness towards Europe dismissal - such as the refusal of immigration policies and the European bureaucracy - a very important reason for the rejection of Europe's postwar political and economic power is its perceived negative impact on the relative economic situation and deteriorating way of life of those (mostly low-income workers in unsophisticated domestic services jobs) who cannot or find it very hard to imagine a better life in the new system.

Fast forward to November 8th……

In a stunning repudiation of the political establishment that shook financial markets and will likely re-order the nation's priorities and fundamentally alter America's relationship with the World, Donald J. Trump – a real-estate developer and reality-TV star, as well as a Republican who has never held public office - defeated Democrat Hillary Clinton after a punishing campaign that exposed growing divides in the American public. Eight years after electing the first African-American president, voters passed up the chance to make history again, and in doing so, chose not to pick a woman who had previously served as U.S. Senator, Secretary of State and was first lady when her husband, Bill Clinton, was president.

A whole host of surprises emerged on Tuesday night / Wednesday morning in the state-by-state results, with the bulk of the so-called swing states falling into Trump's camp. Based on latest forecasts, Hillary Clinton is poised to lose the total electoral vote by a decisive 62 votes, while carrying a slim majority of the overall votes cast (47.7% to Trump's 47.5%). Additionally, Republicans will keep their majority in both the Senate and the House, making it easier for President-elect Trump to enact his political agenda.

"It is time for America to bind the wounds of division," Trump said as he addressed cheering supporters in Manhattan. "I pledge to every citizen of our land that I will be President for all Americans." He also addressed Clinton supporters, saying he was "reaching out to you for your guidance and your help so we can work together to unify our great country." For Trump, running the Federal government could prove even more difficult following a campaign defined more by what he opposed than what he proposed. Some prominent members of his own party, including 2012 nominee Mitt Romney, denounced him. Others, such as House Speaker Paul Ryan of Wisconsin, said they would vote for Trump but did not appear with him on the campaign trail.

Market analysts/traders who were interviewed before the election outcome was known, predicted a Trump victory would trigger "a massive selloff'' in U.S. equities and a sharp weakening in the value of the USD, as this *unexpected outcome would amount to a classic “black swan” - an unforeseen development that would precipitate a protracted period of heightened uncertainty, financial market volatility and slower global growth. And whilst election results were initially viewed as “risk-off”, with panicked traders immediately rushing to unwind bets they piled into over the previous two days - amid polls suggesting Clinton would sweep to victory - turbulence in financial markets/instruments (knee-jerk selloff in equity prices, sharply lower USD and a rally in safe haven government bonds and gold) proved to be short lived and soon gave way to a substantial reflation trade, with US stocks rallying close to 2% in the past 48 hours and 10-year US bond yields rising in excess of 30 bps during the same period. As Goldman Sachs rightly pointed out yesterday (mind you those guys always jump early into specific trades, later convincing herd-behaving investors to rush into the same!), the implications of a clean Republican sweep of both Houses is probably as important for markets as the unexpected presidential result - and the potential now exists for a number of legislative initiatives to be passed, including fiscal stimulus, infrastructure spending, corporate tax reforms, financial and health care deregulation*

What Happens Next?

Donald Trump’s surprise win has already had a substantial impact on global financial markets, also resulting in thousands of demonstrators taking to the streets in Washington, New York, Chicago, California and various other cities to protest his election (protesters chanting “Not our president”, “New York hates Trump” and carrying signs that said - among other things - “Dump Trump”!). Though what happens next will depend on how campaign-trail rhetoric translates into policy proposals.

One path is moderation -- that might happen as advisers weigh in, cabinet picks are revealed, losers from extreme policies make their preferences felt, and, perhaps later on, constitutional checks and balances constrain action. Alternatively and a more likely outcome at this point, Trump could decide to do what he said he would do - a possible shock to global trade and the global economy. After all, his promise was stronger growth for the U.S. - the main engine of the global economy - as deregulation and lower taxes boost dynamism. The risk is that a turn toward protectionism and a sharp increase in uncertainty have the reverse effect.

Whether markets remain calm or eventually start selling again will vastly depend on more clarity that will emerge with regards to Trump’s yet to be formed cabinet (Rudy Giuliani, Newt Gingrich, John Bolton and Chris Christie are “unfortunately” amongst top contenders), policies and as the fiscal implications sink in, though this could take some time. One thing is for sure, at least over the near term: ***Brace yourself for higher market uncertainty & volatility!***

To end this weekly market write-up on a friendlier note, I reproduce 5 funny election tweets that I have come across in past days:

- *It is so quiet at Clinton’s HQ that you can hear an email being deleted!*
- *Vote for the really, really, really bad candidate, or else the really, really, really, really, really, really, really bad candidate will win*
- *There is a "Trump / Pence" sign here and this woman in front of me in line TO VOTE just said "I didn't know Trump's last name was Pence"*
- *I hope the movie they eventually make about this election is called "Phew"*
- *kay, but Trump doesn’t become president unless we ACTUALLY trigger Article 50, right?!?*

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