U.S. ELECTION RESULTS: A TRUMPOCALYPSE?

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The polls and betting markets this summer had the odds tilted massively in favor that the U.K. would vote to remain in the European Union right up until the vote. The polls and betting markets had the odds tilted massively in favor of Americans electing Hillary Clinton as President right up until the vote. The polls have proven to be incredibly misleading (keep this in mind heading into the December 4th Italian constitutional referendum).

Following the surprise referendum result in the U.K., the Bank of England eased policy and the pound collapsed. The FTSE sold off sharply in the immediate aftermath but quickly found its footing as investors priced in the beneficial impact of a weaker currency on the earnings of this export-heavy equity benchmark. Now we have Donald Trump, an untested politician and newly elected leader of the most prosperous nation on earth. As the voting was being reported through the night and the odds shifted markedly in favor of a Trump victory, the S&P 500 futures market went limit down (-5%), the Mexican peso was off by more than 10% and Treasury bonds were heavily bid. At one point, the markets were behaving as if Trump's victory spelled the end of the free world. Admittedly, Donald Trump is not your typical elected official, given his plans to rip up international trade agreements, health care legislation and some post-crisis financial industry regulation. He also wants to significantly restructure personal and corporate taxes, change immigration laws and build a wall between America and Mexico.

Let's examine some history to see how the market had reacted to a few major geopolitical events in order to place this surprising election outcome into context:

			S&P 500 percentage gain/loss after last reaction date			
Event	Event reaction dates	Percent of gain/loss during event	1 month later	1 year later	5 years later	10 years later
Attack on Pearl Harbor	12/06/41 - 12/10/41	-7.5	2.1	15.8	18.0	17.1
Outbreak of Korean War	6/23/50 - 7/13/50	-12.2	10.2	42.2	27.7	18.5
Eisenhower heart attack	9/23/55 - 9/26/55	-6.6	-0.5	11.9	8.4	11.5
Cuban missile crisis	8/23/62 - 10/23/62	-9.9	15.5	41.1	15.8	11.1
Kennedy assassination	11/21/63 - 11/22/63	-2.8	7.0	27.8	12.4	7.0
Nixon resigns	8/09/74 - 8/29/74	-13.4	-6.8	30.2	14.6	14.6
U.S.S.R. invades Afghanistan	12/24/79 - 1/03/80	-1.8	9.9	36.5	15.0	18.0
Gulf War ultimatum	12/24/90 - 1/16/91	-4.0	17.2	36.6	17.3	18.0
Gorbachev coup	8/16/91 - 8/19/91	-2.3	3.2	14.5	15.2	14.3
September 11 terrorist attacks	9/10/01 - 9/21/01	-11.6	11.3	-11.1	8.3	3.9
U.S. invades Iraq	3/18/03 - 3/31/03	-2.1	8.2	35.1	11.3	8.5
Brexit	6/23/16 - 6/27/16	-5.3	8.4	N/A	N/A	N/A
Mean gain/loss		**-6.6**	**7.1**	**25.5**	**14.9**	**13.0**
Median gain/loss		**-6.0**	**8.3**	**30.2**	**15.0**	**14.3**

It seems clear from only these few examples that while the market might sell off in the days immediately following this surprising U.S. election outcome, they typically bounce back in fairly short order. We have written several times in the past that it is the recessionary forces which handcuff the business cycle, not these types of confidence shocks, and typically keep the equity market down for an extended period of time. At this stage, U.S. recession odds still seem fairly low to us.

Keep in mind that if President-elect Trump gets his way, we can expect major tax cuts, infrastructure spending and a reduction in regulatory burdens. Perhaps some international relationships could be strained, perhaps several American electorates will be upset with the outcome, but I suspect we are likely to see meaningful government stimulus enter the American economic pipeline within the next 24-36 months. So while markets deal with the short-term uncertainty surrounding this newly elected and unproven political leader, the 1-3 year economic outlook has probably just brightened.

As we write, the S&P 500 has already staged a sharp rally from its overnight low, bonds have given back their earlier gains and the peso has bounced higher. It is especially important during times like these to remind yourself of the commitment strategies you have put in place in order to reach your long-term investment goals. Aligning goals and actions are likely to build the pathway to future success.