
# Market slump foreseen should Trump prevail – Brookings

Stockholm (HedgeNordic) – As the U.S. Presidential Election draws to a close in two weeks, newly released studies are showing slightly conflicting expectations for behaviour in financial markets in its aftermath, but with trends hardening overall. With Hillary Clinton the prohibitive favourite to win the election (a recent ABC-commissioned poll showed her leading with 12 points, an almost insurmountable deficit for Donald Trump's campaign), most research is indicating that financial markets vastly also prefer a Clinton presidency. Conversely, markets could react with panicked selling should Mr. Trump prevail, according to a report issued by Brookings on Friday.

"Wall Street clearly prefers a Clinton win certainly from the prospective of equity prices," says Erik Zitzewitz of Dartmouth College, one of the report's authors, along with University of Michigan's Justin Wolfers. "You saw Clinton win the first debate and her odds jumped and stocks moved right along with it. Should Trump somehow manage to win you could see major Brexit-style selling," he said, referring to the Brexit surprise earlier in the year that had markets and investors scrambling after polls had confidently predicted a vote for Remain. As Politico Magazine notes, "oil prices rose during the first debate and gold fell. Gold tends to be a safe haven when investors are worried about possible economic and financial instability. And oil tends to go up when investors expect stronger economic growth and more demand for energy."

The Brookings report suggests that the stock market is worth 11% more under a Clinton presidency, an unusual circumstance as markets generally prefer Republican policies on taxes, regulation and trade, as indicated in 2012 when markets rallied at (ultimately, illusory) signs of a possible Romney victory. Mr. Trump has been far from a normal Republican candidate, however, with even large portions of the Republican base repudiating him.

The Trump effect is also global, Politico notes, with currencies in Canada, South Korea, Australia and New Zealand, all major U.S. trading partners, rising and stock prices soaring higher when Mrs. Clinton appears to be doing well. "All told, these movements suggest that financial markets expect a generally healthier domestic and international economy under a President Clinton than under a President Trump," Wolfers and Zitzewitz argue.

Ultimately, the Brookings paper envisions a massive global shock should Mr. Trump prevail. "Given the magnitude of the price movements, we estimate that market participants believe that a Trump victory would reduce the value of the S&P 500, the UK and Asian stock markets by 10-15%, would reduce the oil price by $4, would lead to a 25% decline in the Mexican Peso, and would significantly increase expected future stock market volatility," the authors write.

Others, however, are not so sure the picture is as clear-cut. According to a new analysis by Source, one of the largest providers of Exchange Traded Funds (ETF's) in Europe, U.S. presidential elections, generally speaking, have only limited impact on U.S. markets themselves. On average, Source's analysis suggests, bonds, equities and the US Dollar have remained in a tight range in the two months prior to the last 11 elections, with all of them gaining in the 6 months after (4% total return for treasuries and equities on average). Despite heightened uncertainty in months leading up to Election Day in previous elections, markets were barely impacted.

"Equity bear markets in 2000 and 2008 and the resulting flight to safety clouds the analysis to some degree but generally, equities tended to be more volatile around the election date on average while the dollar remained in a tight range," says Paul Jackson, Head of Research at Source. “Treasuries were the best performers and their total returns were better than the all-period average. This suggests some risk aversion among investors. However, most of that risk aversion was based on the two periods that coincided with equity bear markets. The fact that in 2012, equities did not weaken before and performed well after the election implies that this kind of political uncertainty does not necessarily change prevailing trends in markets.”

Despite a highly polarized race this year, trends have pointed inexorably towards a victory for Mrs Clinton in the past two months, which would deepen the shock of a victory for Mr. Trump. One area in which Wolfers and Zitzewitz of the Brookings report suggest investors could retain a bright spot in the event of the unimaginable would be to bet on high volatility in stocks and a sharp rise in gold and other safe havens. There could also be a bounce back from the initial shock that would, however, entail risking that Mr. Trump would somehow become more moderate.

The U.S. Presidential Election will be held Tuesday, November 8.

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