

TAM INTERNATIONAL INVESTMENT NOTE



Playing the endgame

"The problem with political suicide is that you live to regret it" - Winston Churchill

Just as investors of a nervous disposition were gearing up to hedge themselves for a Trump victory, it seems his prospects have waned somewhat following the release of the Access Hollywood tapes in which Donald Trump made lewd comments about women. His subsequent appearance in the second presidential debate with Hillary Clinton started well enough with an apology from Mr. Trump but soon descended into an aggressive war of words culminating in even more controversy when he suggested that if he were president, Hillary would be in jail for her handling of confidential information on her private server – an inquiry still ongoing.

More barbed comments were exchanged ranging from Syria to tax issues, both public and private, which dragged the debate down into the gutter. A day later, Trump also lost the support of his most senior elected Republican, Paul Ryan, the Speaker of the House of Representatives. Trump responded by openly berating him in a series of Tweets.

Predictably, markets have shifted firmly in the direction of a win for Hillary Clinton. Even before the fractious second debate, an NBC/Wall Street Journal poll gave Hillary a 46-35 lead among likely voters which gives you some idea of the impact of the video release.

If polls are not your thing (a lot of Trump voters won't admit it when asked), the markets have a few barometers of varying relevance. The immediate impact on stock and bond markets indexes was not quite as clear as it was for the Mexican Peso which strengthened 2% on Monday, after the debate, to under MXN 19 to the US dollar. Since Trump's campaign had promised to renegotiate trade deals with Mexico, the Peso had come under heavy selling pressure in September as the Trump campaign appeared to have the wind in its sails following a poor showing from Hillary Clinton owing to, among other things, rumours about her ill health. The recovery from MXN 19.97 is significant and compares to some currency forecasts of MXN 23 in the event Trump wins.

Gold was also in play with the price down over 7% from \$1,320 last week, to \$1,250. Some of the fall is undoubtedly linked to the global rise in the US dollar against all major currencies which was expected to strengthen in the event of a Clinton victory. But this also makes sense because US Treasury yields have also shot up; the 10 year yield having risen to 1.77% for the first time since June when US interest rates hikes were being contemplated. Of course, this also mirrors a rise in the expectations for inflation but this was already priced by bond markets. The difference is now that a Clinton victory may give the Federal Reserve one less thing to worry about as a justification for doing nothing.

Elsewhere, all things being equal, we would expect the fading of Trump's hopes to be reflected by a generally improved market mood among investors more willing to take on some risk. Emerging market shares could perform well and Japanese shares may benefit as Chinese buyers stick with their investment waiting to see what happens in the USA.

Of course, if this run up to the presidential election were like previous ones, which it most certainly is not, then we could look at market action in the run up to close contests in the past. If this were to hold true, then there's hope for Trump yet. In previous run ups, if the stock market fell between 31st July and 31st October, then, 82% of the time, the incumbent president and/or party was replaced. To date, the S&P500 is down 1.5% which isn't much, and easily covered in one day.

Either way, whatever the level, it is the direction of travel which is important for now. The fallout from Trump's slip in popularity gives several pointers as to what a Hillary victory might look like for stock and bond markets and we will be positioning client portfolios primarily to protect against volatility but also to invest as opportunities present themselves in markets which are breaking out of their late summer spell of uncertainty.

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