7 November 2016

# WHY THIS US PRESIDENTIAL ELECTION MATTERS

## ‘Leadership is not about the next election, it’s about the next generation’

*Simon Sinek*

Politicians come and go…but there are times when political leadership choices by an electorate matter more than normal.

The US economy has clearly been the strongest of the major developed markets over the last seven or eight years, since the depths of the global financial crisis of 2007-8. However, this relatively strong performance has not filtered through to many workers, who have seen little in the way of real wage increases (that is wage increases after taking into account inflation) while at the same time feeling aggrieved at the rising cost of housing, education and healthcare.

Whomever is declared the Presidential winner later on this week is not irrelevant, but how the victor encompasses the significant constituency of their opponents’ supporters is all-critical. A country divided against itself tends to look exclusively inwards and is prone to shorter-term, reactionary decision-making which is often not optimal for policy-making.

The world outside America should fear a disillusioned significant minority of their electorate. Already, both main Presidential candidates have expressed displeasure with either current and/or proposed trade liberalisation deals. History tells us that once a decision to progress with a notable increase in protectionist tendencies and actions is started, the potential for it to lead to further intensification of trade barriers by other countries is high. This is the last trend that the global economy – which is still struggling to get anywhere near the growth rates of previous decades – needs, and would likely lead to dark clouds over global financial markets for the next few years.

So, how does the next President bridge these seemingly impossible domestic political chasms? The simple way is ‘leadership’. The quote at the start of this article in my opinion states the overriding aim correctly: the next President should govern for the next generation… even if they are not the actual individuals who collectively voted them into office. Such a paradigm shift away from the backward-looking, defensive election season rhetoric is not without precedent… with the strength and pre-eminence of the US economy over the last century being forged by its flexible and varied background workers, aligned with a freedom of spirit and adventure, and backed by a range of natural resource advantages.

Europe of course needs such a shift too, and the sight of an American leadership tapping its domestic talent and natural advantages should be stimulatory for the next era of European political leaders. Improvements in the economies and dynamism of the two largest current trade blocs in the world can only have positive spin-offs on the emerging markets.

‘The vision thing’ is not as difficult an achievement as many believe. The first step is to tell a nation’s citizens that they can succeed and to prove your faith, a President commits themselves to a trade regime that is as free as possible. The second step is to let the people get on with it. If the new President enshrines these thoughts in their first 100 days in office, both the American and global economies – which have consistently got more wealthy over the past seventy years – will continue to prosper.

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# (EU)CONOMICS: A BOUT OF ELECTION JITTERS FOR THE MARKETS

The key event this week is the **U.S. elections**. Not long ago, market participants were convinced that Ms. Clinton was set to win, and some even considered that weak polls for Trump could result in the Democrats' controlling Congress. This is no longer the case. **The polls indicate a very tight race.**

Below are the most likely outcomes we see in terms of short-term market reactions, but we urge you to remember that promises made during campaign are not necessarily converted into bills, especially under a divided government. In the long run, economic fundamentals will play a key role, but in the short term, **the election may increase market volatility** and result in some swings in risk sentiment.

- **A President Clinton** with the **Republicans controlling Congress** would be the best possible combination for market risk appetite, in our view, as it would convince markets that it is unlikely that there will be any meaningful changes made to U.S. economic and foreign policy for at least two years (the midterm election in 2018). **We would then expect a strong USD, gold to be dumped, and a relief rally in global equities.**

- **A landslide victory for Clinton and the Democrats** appears extremely unlikely to us, as the Republicans are set to maintain their majority in the House of Representatives, and Democrats only have a slight chance of taking over the Senate. We would then expect a **weaker USD, moderate increase in gold prices, and global equities to come under pressure,** as Democrats have signalled the need for tighter regulations (e.g. pharma prices) and increased public spending.

- **A President Trump** with the **Republicans controlling Congress** would result in risk-off sentiment in the markets, due to fears about the directions the economy and foreign policy might take under Trump (e.g. a possible trade conflict with China). **We would expect the USD to be sold off** in favour of relatively safer havens, such as the CHF or JPY, EM currencies would likely lose ground (especially MXN), **gold prices soar, and global equities would probably plunge initially.**

- **A President Trump** combined with the **Democrats controlling Congress** is also a very unlikely outcome, in our view, but if this happens it would significantly soften any negative market reaction, as **a divided government would be a strong guarantee that controversial economic policies would be hard to actually implement.**

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