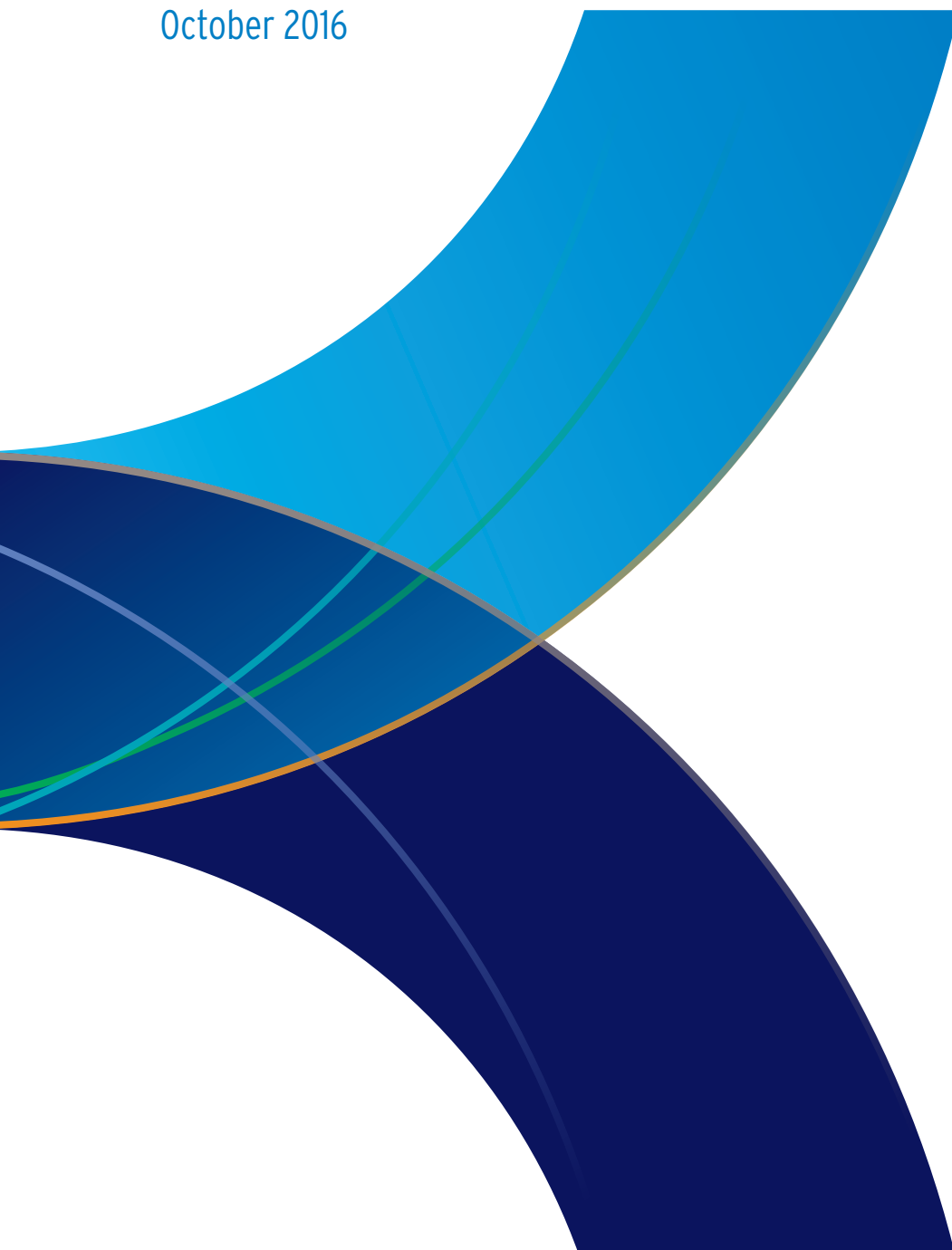




## MARKET INSIGHT

October 2016



# A PASSIONLESS ELECTION

On 8 November, Americans will elect a new President to succeed Barack Obama. However, the mood is far from the enthusiasm generated in the United States and abroad by the incumbent's campaign eight years ago. Neither Hillary Clinton nor Donald Trump appear to inspire passion in their quest for the title aside from the controversial declarations made by the Republican nominee. They each have their own doubters, even within their own political families. Indifference is also prevalent on financial markets. We might have expected investors to be nervous just before this important milestone. Nothing of the sort! This is demonstrated by the volatility of American shares as measured by the VIX index - which remains at extremely low levels - indicating a certain level of composure among financial players.

## Reassuring continuity

This impassiveness on the part of mar-

kets is due to the broad consensus that has emerged in favour of a victory for the Democratic candidate. Yet it is not Hillary Clinton's policies which investors find reassuring, but the relative political status quo which her election would represent. This is because the Congressional elections held the same day are also likely to produce an outcome similar to the current situation, with a Republican House of Representatives and a Democratic Senate. A Republican-majority in Congress would considerably limit President Clinton's room for manoeuvre.

So what are the real issues at stake in this election and what reforms could potentially be implemented? Would any of them threaten stock markets?

## Less room for manoeuvre

Both challengers and their respective parties have numerous areas of disagreement and these will likely result in a stalemate in Congress.

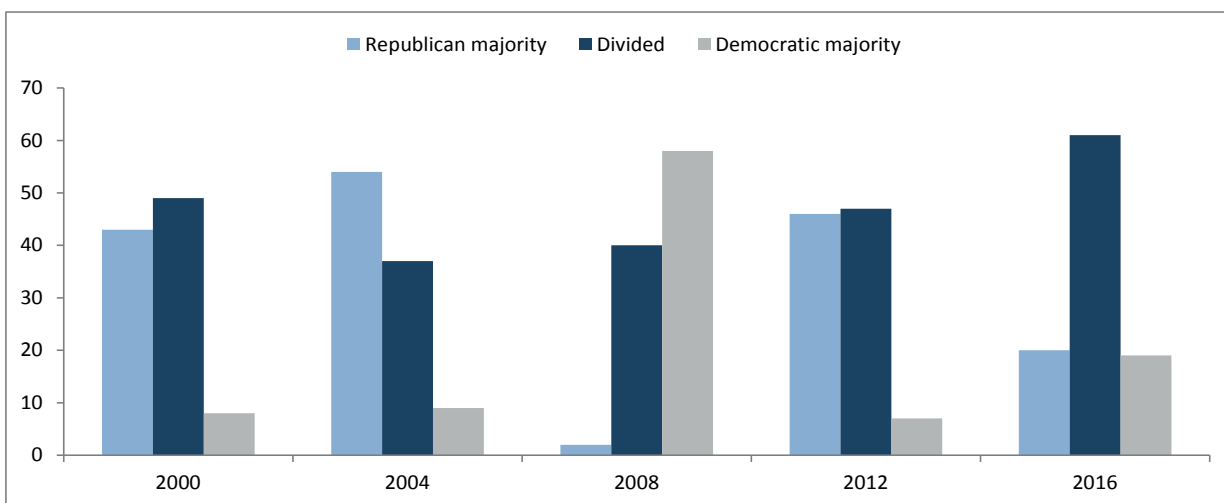
One of the starkest differences

concerns tax policy. Clinton has stated her desire to tax higher incomes more heavily as well as cap some deductions. These decisions could bring in more than USD 1.1 trillion over the next decade. Obviously, this type of tax reform appears unlikely without a Democratic majority in Congress.

Mr Trump, meanwhile, never one to tread lightly, is proposing dramatic tax reductions for both individuals and companies. The problem is that this kind of policy would reduce government income by USD 3 trillion and significantly unbalance the budget. It is therefore unlikely that even a Republican Congress would approve such an extreme proposal.

Healthcare is another example of the impasse that the next American leader will likely face. Despite her powerful words, Hillary Clinton will be incapable of imposing price controls on drugs without a shift in the balance of power in Congress. Her opponent, meanwhile, looks unlikely to be able to undo the

## A divided government. Probabilities for the outcome of the election



Source: Goldman Sachs Global Investment Research

groundwork laid down by Obamacare, since the proportion of the population without healthcare cover has fallen from 18% three years ago to less than 11% today. A step back would be improbable.

#### **Views in common**

Does this mean the US election will have no impact on the economic landscape? Despite their differences, Hillary and Donald agree in several areas, which will no doubt lead to some concrete decisions.

Firstly, both parties agree that the country is in dire need of renewing obsolete infrastructure following years of underinvestment. Hillary Clinton has proposed the launch of a USD 500 billion programme prioritising the modernisation of roads, railways, airports and telecommunications infrastructures. Trump has gone even further by citing twice that amount, although he fails to say how he will finance it. Whatever the case, proposals in this area are very likely to be passed by Congress in some shape or form. Another area of agreement will no doubt be the repatriation of cash held by US companies abroad. It is estimated that more than USD 1 trillion is prevented from entering the country by a prohibitive repatriation tax (35%). Whether by means of a partial amnesty (10% tax rate) offered by Trump or a more comprehensive solution such as that recommended by Clinton, USD 200 billion could find its way back to the United States, significantly boosting corporate investment.

Finally, with regard to external trade, investors - who support the maximum possible liberalisation of the sector - see Donald Trump as a threat.

The Republican candidate has emphasised several times that, if he wins, he will renegotiate or even abolish a raft

of international agreements, including the NAFTA and the TTIP currently agreed with Europe.

But it is easy to forget that Hillary Clinton has also highlighted her belief that American workers have suffered as a result of globalisation and free trade policies. A return of protectionism is therefore to be expected, no matter what the outcome of the election.

#### **Beware of a last-minute swing**

Historically, the US stock market has performed well in the months following a presidential election, as fiery campaign language is replaced by pragmatic decisions. Complacency should be guarded against, however, as a last-minute swing is always possible. For instance, it is far from certain that the prospect of a Trump Presidency, strengthened by a Republican congressional majority, will be popular among investors. Although Democrats are traditionally not welcomed by the market, what it loathes above all else is uncertainty, lack of visibility and sudden changes of environment - ingredients which Donald Trump would be sure to bring to the White House.



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*“Does this mean the US election will have no impact on the economic landscape?”*



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