



Philequity Corner (November 7, 2016)
By Wilson Sy

US election jitters sink global stocks

Democratic candidate Hillary Clinton had been comfortably leading in most polls and was expected to cruise to a victory. However, on October 28, investors were caught off-guard as unexpected news came out that the Federal Bureau of Investigation (FBI) will revive its investigation of Clinton's emails. Though US stock indices were trading in the green in the earlier part of that day's session, stocks turned red in less than a minute after the surprise news.

The revival of the email investigation and the narrowing of Clinton's lead in the latest polls shocked investors. They had been comfortably expecting a Clinton victory due to her commanding lead in previous polls.

Historically, US stocks have generally performed well during pre-election periods. Thus, the jittery lead-up to tomorrow's election stands out as something peculiar. Regardless of who wins, the result is expected to move global markets in major ways.

Email vs. groping

The bitterly-contested presidential race between Clinton and Trump has been filled with mudslinging, scandals and surprise revelations. Because of their veracity, these scandals have caused Clinton's pre-election lead to initially widen, only to contract later on. The main controversy hounding Clinton is the FBI investigation on potentially classified emails found in an unauthorized private email server. Meanwhile, the groping scandal is one of the many that the Trump campaign has dealt with. Various audio and video clips have been publicized where Trump was heard or seen making lewd actions and comments towards women. Since then, more women have come out to directly indict Trump of indecent behavior.

A binary market and the unlucky 9

The stock market has displayed a binary reaction to the two main presidential candidates. When Clinton was winning comfortably in the polls, US stocks had been generally steady or positive. However, when it was reported that the presidential race unexpectedly tightened and that Trump was catching-up, US stocks instantaneously slid. The S&P 500 has been red in the past nine trading days, falling 3.1% over the period. This is the first time that the S&P 500 experienced a nine-day losing streak since December 1980. Moreover, the Chicago Board Options Exchange Volatility Index (ticker name: VIX) is up 74.5% over the period, showing a significant uptick in market volatility and investor anxiety. This was particularly stoked by Trump's recent catch-up in the pre-election polls. With the US presidency up for grabs, the battle lines in the stock market have clearly been drawn.

Orange swan

Recently, a possible Trump win has been tagged as an orange swan event. This is a reference to black swans, which are low probability but high impact events, such as the Brexit vote. It also alludes to the orange-colored tan on Trump's face and his colorful hairstyle. For investors, the Trump presidency brings a lot of uncertainty, as there are still many unknowns about the details of his proposed policies. Moreover, Trump has repeatedly made eccentric statements, outlandish remarks and combative

comments about almost anything under the sun. These have only added to his unpredictability, which is why a potential Trump presidency makes investors nervous. Recently, a group of 370 prominent economists, including eight Nobel Prize winners, signed a joint letter strongly urging voters not to vote for Trump. The economists flagged Trump's "deep ignorance of economics and an inability to listen to credible experts."

Memories of Brexit

Trump's recent catch-up in pre-election polls brings fresh memories of the Brexit referendum. Almost all pollsters and betting sites predicted that the Remain camp would win, thereby setting an overwhelming expectation that the UK would vote to stay in the European Union. Thus, when the Leave camp won, financial markets reacted sharply and negatively. Investors had not priced-in an unexpected, high-impact outcome that suddenly became a reality. It seems that we are witnessing something similar with the recent tightening of the presidential race. This begs the question – What if all the analysts and pollsters who expected a sure Clinton victory end up being wrong?

British pound pummelled post-Brexit vote

The British pound was pummelled badly after the UK voted for Brexit. From this year's high of 1.502 on June 24, the GBPUSD rate declined by 23.8% to an intraday low of 1.145 on October 7. The pound recently recovered to 1.246 as the US dollar weakened last week on fears of a potential Trump victory.

Beyond party lines

Many have said that this year's presidential election has gone beyond a 'Democrat vs. Republican' race. Despite all of his faults and shortcomings, a vote for Trump represents a declining confidence in traditional politics and the desire for something new.

Clamor for change

This year, we have witnessed the Brexit vote, the groundswell for Rodrigo Duterte (see *Groundswell*, May 30, 2016) and Donald Trump's run for the US presidency. Considering these, it appears that the clamor for change and the anti-establishment wave are global phenomena that cut across different countries and cultures. It seems that many people suffer from fatigue of the status quo and a general skepticism of the established political order. It is therefore possible that the seemingly slow wheels of democracy have created the desire for radical change, decisive action and quick results.

The strongman phenomenon

Many people around the world have gravitated towards unorthodox and strong personalities who engage in tough talk and promise to deliver quick change. These are leaders who repeatedly vow that they will get things done, no matter what the obstacles and costs are. It remains to be seen if the rise of the strongman will be a syndrome or a solution to the world's problems. Nonetheless, we believe that it is a global phenomenon that should be seriously studied by sociologists and political scientists.

Duterte and Trump

Many have compared Duterte to Trump, and vice versa, as they share many similarities. Both were outsiders to mainstream politics. They came out of the blue and were not expected to win when they announced their candidacies. Both of them fit the strongman mold, as they brazenly engage in tough

talk and repeatedly promise to deliver radical and immediate change. This, along with their professed contempt for the political establishment, has allowed them to gain popularity and galvanize support for their respective campaigns. They have similarities in handling diplomatic affairs, as both have displayed a combative stance against their perceived enemies. Local and international media outfits always get a field day of quotes from covering Duterte and Trump's speeches.

Despite their similarities, we note that there are key differences between them. President Duterte has built a long track record in public service as a lawyer, a former fiscal and a long-time mayor of Davao. On the other hand, Trump is a businessman and TV personality with no experience in politics.

Given the similarities between Duterte and Trump, we believe that the US and the rest of the world can learn from the example of the Philippines. The groundswell for Duterte, his eventual win as president and his consolidation of popular support and political power can be a case study for political strategists and sociologists not only in the US but also in other countries.

High impact event

Time and again, we have said that a change in a country's leadership can affect the outlook for financial assets such as stocks, bonds and currencies. Foreign policies and economic programs can be reversed or altered significantly when a new leader takes over. Clearly, a change in leadership can change the fortunes of a nation. In this case, a drastic change in the American leadership can affect the rest of the world. This is why the upcoming US election has taken center stage.

The presidential race has suddenly and unexpectedly become tighter, causing volatility and uncertainty in global stocks. Right now, the market is telling us that it is afraid of a Trump victory. The stakes are particularly high as the binary market is poised to move in a major way, regardless of who wins.

Trump's spirited attempt to win the US presidency quickly reminds us of the Brexit vote and the Duterte groundswell. Both were unexpected outcomes that took place earlier this year. Tomorrow, the world will watch nervously if another monumental upset is in the offing.

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