

# U.S. PRESIDENTIAL ELECTION CONCLUDES SURPRISE RESULT AS PRESIDENT-ELECT TRUMP WINS

## WHAT OCCURRED?

As we all know, this was one of the most heated and contentious presidential elections in recent memory. However, as the night progressed, it became clear that President-elect Donald Trump would win the election. Furthermore, Republicans not only won the presidential election, but they also won Congress by securing a majority in both the House and the Senate.

U.S. equity markets had priced in a Clinton victory, so this outcome surprised many and global capital markets deteriorated throughout the night as a Trump victory became more and more likely. In many ways, this was a “Brexit Round 2” as the actual results of the vote differed from what markets had expected. U.S. equity markets started the day lower, but they are now moving back and forth and declines experienced early in the day were much less severe than what futures were indicating overnight.

## GFPC INVESTMENT TEAM'S PERSPECTIVE

### WHAT DO WE EXPECT?

We expect elevated volatility to continue in the days and weeks ahead. Markets hate uncertainty, and since a Clinton victory was already priced in, we saw an initial knee-jerk reaction that looked a lot like how markets reacted to Brexit. In the short-term, markets are driven by emotions like fear, panic, greed and euphoria, but in the long run, we believe fundamentals are what matter. Often times, these initial reactions reverse, which was the case in the weeks following the Brexit vote.

We try to differentiate between politics and policy and we are currently witnessing the impact of politics playing out in real time. Politics tend to be more emotional, but policy is what can impact an economy and this takes a longer time period to play out.

There are some unknowns surrounding the policy positions that President-elect Trump will take as he has no political track record, which creates some understandable uncertainty in the market. For example, comments he has made about NAFTA and other trade agreements have driven action in the Mexican peso in recent weeks. It is important to understand that any policy changes, which could impact the economy, will take time to enact. Therefore, the market will have time to evaluate those specific proposals as they become clearer during his presidency.

We have thought for some time that investors should prepare for elevated volatility following a rather calm extended recent period in the market. The possibility for elevated volatility in the near term is even stronger now with the surprise election result. One of the bigger questions marks now is whether the Federal Reserve will raise policy rates in December, which had been the expectation before the election, but could be paused depending on incoming data over the next several weeks. We will watch these developments closely.

Ultimately, it is also important to realize that last night's election has not changed the current economic improvements we have seen of late in the economy. A few examples include:

- Unemployment rates have fallen to multi-year lows and payroll additions continue to show robust job growth.
- Wages accelerated in October at the fastest year-over-year pace since 2009 meaning consumers should have more money to spend.
- Consumer confidence remains elevated as gasoline prices are subdued and interest rates continue to be low.



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## KEY TAKAWAYS

Volatility will likely increase in the near-term as the emotions of this election play out, but policy is what impacts economic fundamentals in the long run and it will take some time for these items to be implemented. This is what we care about as long-term investors.

The U.S. economy continues to look solid and, as the largest economy in the world, we expect ongoing economic progress to continue as we close out 2016 and enter 2017.

We will continue to monitor capital market action, economic fundamentals and policy changes closely. We will act as necessary, but we are more concerned with the long-term investment environment and not necessarily any short-term market dislocations driven by emotions.

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