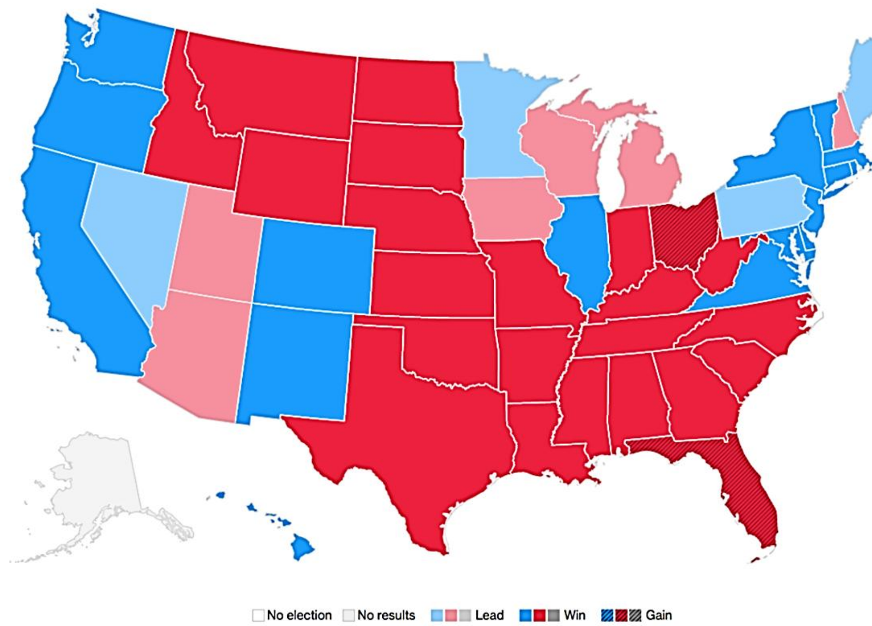
Faysal AssetManagement

US Presidential Elections & Its Implications (Current & Expected)…



Markets are moving like it's Brexit 2.0 in the U.S., with Republican nominee Donald Trump having a better night than expected as results roll in. Gold has posted its biggest gain since the U.K. referendum. Ten-year U.S. Treasury yields have retreated by nearly 10 basis points, the most since June 24. And S&P 500 futures have tumbled by more than 3%, their worst showing since June 24. One of the longer-term consequences from these U.S. election results so far is that financial markets will likely put much less emphasis on polls moving forward and will have to fly more blind. That's an added and damaging level of uncertainty in a world with already heightened political risk.

Asian stocks fell in volatile trading as investors await the outcome of the U.S. presidential election, with markets bracing for a potential victory by Republican Donald Trump over Democrat Hillary Clinton. The MSCI Asia Pacific Index lost 1.7% to 135.58 as of 12:30 p.m. in Tokyo, after rising as much as 0.8% earlier. The measure has failed to break above this year's peak reached in September as uncertainty over the U.S. election weighed on global equities. Investors are dealing with a volatile trading session on Wednesday, with early results showing surprising strength by Trump, making the election tighter than expected.

With more votes being counted and it looking more and more like Trump will actually get in, the market's having a massive dive. This has caught a lot of people off guard and very surprised. Trump was leading by close margins in Florida, Ohio and North Carolina -- all states that he needs to have a path to the White House. But he was also competitive in Virginia and New Hampshire, two states equally critical to Clinton's hopes. Any realistic path to the presidency for Trump includes Florida and its 29 electoral votes. Without the Sunshine State, he'd be forced to win some combination of states where Clinton has been ahead in the polls, such as Pennsylvania, Michigan, Wisconsin and Virginia.

The MSCI Asia Pacific Index has fallen 3.1% from its September peak through Tuesday, as global investors look to the election, which puts the leadership of the world's largest economy at stake at a time when America is divided over immigration, trade and the country's role in the wider world. Speculation around Clinton's chances has boosted odds on a Federal Reserve hike next month to 84% (Source: Bloomberg).

It's pretty clear at this stage of the count that there's a swing back toward Trump and markets don't like it. The state of voting we were expecting is Republican states will be counted early and as later votes come in, it will favor the Democrats, which was pretty much what we are looking at. Of course markets are having a wobble right now. Futures on the S&P 500 Index tumbled 4.6%, having swung from gains of as much as 0.8%. The underlying equity measure added 0.4% on Tuesday to cap its best two-day climb since June.

Japan's Topix index lost 4.7% as the yen traded at 101.56 against the dollar after weakening for the past three days. South Korea's Kospi index fell 3.3%, New Zealand's S&P/NZX 50 Index slipped 3.5% and Australia's S&P/ASX 200

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Index dropped 3.4%. Singapore's Straits Times Index lost 2%, while Taiwan's Taiex decreased 2.7%. Hong Kong's Hang Seng Index slid 3.4% and China's Shanghai Composite Index fell 1.3%, retreating from a 10-month high.

While reporting this, investors at **Pakistan Stock Exchange** largely seemed to have taken the stride with utter negativity (as expected) on the news of Trump close to winning the Presidential Race with PSX 100 Index losing 760 points down to 41,392 levels at day's opening. On Tuesday also, it ended marginally lower following profit taking in the largely inflated market and shed 19 points or 0.05% to close at 42,113 points. The benchmark index hit intra-day high of 42,411.9 before closing down ahead of US presidential elections. At present time, PSX is down 553 points.

If, Donald Trump wins (which is so apparent), the financial markets are expected to react negatively. This is because of increased uncertainty due to change in government and potential policies. Further, Donald Trump has been particularly vocal about US trade policies, which he has indicated to bring more jobs into the US from abroad. The Pakistan Market may react negatively on Wednesday in case of a win by Donald Trump and fallout similar to Brexit reaction may be seen. The day after Brexit Vote (June 24, 2016), the PSX-100 index fell around 850 points (down 2.2%).

If Hillary Clinton wins the elections and the Democratic Party continues to be in power, status quo will prevail in Pak-US ties. One of the Clinton administration's top priorities would be a safe exit from Afghanistan and for Pakistan to continue its leverage on Afghan Taliban. Revival of peace talks likely. Any major change in Pak-US ties Afghanistan or a Pak-India conflict, both of which we believe are highly unlikely. Further, the US has been supportive of increased Chinese influence and the China Pakistan Economic Corridor (CPEC) and policymakers expect this stance to continue as increased economic stability will result in reduced security threats.

Analysts, however do not expect any change in stance on assistance towards Pakistan. Historically, a Republican led government has usually been more beneficial for Pakistan's economic prospects. However, the recent 8 governments have brought both political and economic dividends to Pakistan. Further, it was when Hillary Clinton was US Foreign Secretary in 2009, the Kerry Lugar-Berman Act was approved that was the largest civilian assistance package to Pakistan.

U.S. Election Guide to Markets

	Trump wins	Clinton wins	Democrats Sweep
Stocks	Negative with increased volatility, especially rate-sensitive equities. Longer term, infrastructure stocks outperform.	Relief rally after recent slump on Trump's rise. Drugmakers, banks underperform on regulatory fears.	Smaller relief rally, bigger downside for drugmakers, banks. Longer-term upside for infrastructure and downside for financials.
U.S. Dollar	Down vs. developed currencies, especially Swiss franc, Japanese yen in flight to safety. Up against others, especially emerging ones on protectionism fears, with Mexican peso taking biggest hit. Later, greenback may strengthen on tax cuts, spending increases.	Up vs. developed currencies as focus shifts to Fed raising rates. Neutral against most emerging-market ones, but peso and maybe Russian ruble will strengthen.	Up even more for advanced currencies on increased spending, possibly after initial shock.
U.S. Treasuries	Initial flight to safety would drive prices up, yields down. Tax cuts and spending may later shift money to equities, pushing bond prices down, yields up, even more so if isolationism prompts other countries to unload Treasury holdings.	Risk-on would drive prices down, yields up, especially in initial relief rally. Longer term, not much impact.	Prospects for more spending would drive prices down, yields up.
Commodities & Energy	Very positive for gold, other precious metals as havens. Anti-Iran rhetoric bodes well for oil prices; pro-coal stance bad for natural gas. Copper may rise on infrastructure stimulus.	Climate change, environmental agenda bad for oil and coal, good for renewables.	Same, if not more so.
Emerging Markets	Negative, except for Russia, due to skepticism on trade deals. Mexico, Southeast Asia, China may be most vulnerable. India, Indonesia less so due to robust economies.	Very positive due to increased appetite for riskier investments with bigger potential payoffs.	Same as if Clinton wins.

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