CREDO WEALTH

By the dawn's early light

Deon Gouws - CIO, Credo Wealth - 04 November 2020

When I went to bed late last night after watching a few hours of US presidential election coverage – with the outcome very much in the balance – I could not help thinking back to the corresponding evening four years ago.

On election night 2016, practically every political commentator in the world seemed certain that Hilary Clinton was about to be declared president of the USA. Both the opinion polls as well as betting markets were also in agreement with this likelihood right up until the time that voting closed… only to be proven wrong a few hours later, of course. And the rest, as they say, is history.

Based on this, I wasn't going to take anything for granted when the 2020 election rolled along, despite the fact that Joe Biden consistently had a much more compelling lead over Donald Trump in the build-up to this year's election than Hilary Trump ever did in 2016.

When Americans started queueing to vote yesterday morning, Biden was leading Trump by a margin of 6.7 points in the polling averages, as published by RealClearPolitics, a non-partisan political news site and data aggregator. Perhaps more importantly, betting odds according to the same organisation suggested that there was a 60% probability of a Biden victory. (This was lunchtime in the UK – I actually checked the numbers at the time, in anticipation of penning this piece today).

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These odds might have seemed compelling if you didn't want Trump to serve another term. But Biden's supporters should never have become too over-confident: would you be totally relaxed if a doctor told you that you're suffering from a condition which had "only" a 40% chance of killing you in short order?

What was also very instructive, was how the numbers changed over the course of the last few weeks: as recently as 21 days ago, Biden still held a double digit lead in the polling averages and betting odds suggested as much as a 66% likelihood of him winning the race to the White House.

It should, however, be borne in mind that there is clearly a "shy" Republican factor, with many supporters of the Grand Old Party not really liking or supporting its own presidential candidate as an individual (and therefore not necessarily being picked up in the polls), yet they would never vote for any Democratic candidate either. Ultimately, the vast majority of these individuals were always likely to hold their noses and put their crosses next to Trump's name once more.

And so it proved, yet again. As I sit down to write by the dawn's early light (a time of day referenced in the first line of The Star Spangled Banner – the national anthem of the United States), it looks as if Trump will defy the early odds once more. Given the intricacies of the electoral college system as well as the fact that key battleground states in the so-called Rust Belt are still counting votes, the final outcome will only be known in a few days' time. But it does seem more and more likely that we should all get ready for four more years of The Donald.

Going back to the lessons of the 2016 US presidential election:

I will never forget the emotional rollercoaster of the day after.

I woke up before the crack of dawn and looked at my iPad, expecting to see clips from Hilary Clinton's victory speech being shared on social media. What I found instead was a world in shock and awe, with overnight markets falling in sympathy.

I still have the screenshot from Bloomberg Markets: at 5:44 AM in London on the 9th of November 2016 (a bit after midnight in the US itself), the Dow Jones Index, S&P 500 and NASDAQ futures were all down between 3.7% and 4.7% from the previous night's close. The Japanese market was of course open at the time: the Nikkei promptly fell 5.4%.

Investors were clearly very nervous about an unknown quantity in the White House, a new president with no political experience, and more importantly, someone who was never expected to win suddenly being the de facto leader of the free world.

What I found much more interesting though, was quite how quickly the market started giving Donald Trump the benefit of the doubt. It was not even a matter of days, it was hours: by the time the US market opened

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that same day (just after lunchtime in the UK), equity indices were somewhat mixed but broadly flat (the CNBC screenshot that I saved shows the Dow Jones down by 0.3% with a byline simply stating: *"Stocks volatile in first post-election trading"*).

The rapid recovery in share prices continued pretty much relentlessly in the weeks and months that followed: the record will forever show that the S&P 500 added more than 50% over the tenure of Donald Trump's first presidency (in spite of the fact that the period included the Covid crash in the first quarter of 2020 – the steepest and quickest drawdown in history).

What are the take-aways from all of this, four years later?

The key point, in my view, is that the identity of the US president may in fact not be as important to investment markets as many seem to think. Yes, Republican policies are generally more stimulatory and business-friendly than those of the Democrats (who have a preference not only to regulate more, but also to tax more and use the proceeds to implement more generous social policies). But the long-term trend in US economic growth and compounding equity returns have continued pretty much relentlessly under both Republican and Democratic presidencies.

Daniel Kahneman once wrote: ***"Whenever we are surprised by something, even if we admit that we made a mistake, we say, 'Oh I'll never make that mistake again.' But in fact, what you should learn when you make a mistake because you did not anticipate something is that the world is difficult to anticipate. That's the correct lesson to learn from surprises: that the world is surprising."***

Investors seem to have learnt this lesson, even if pollsters have not. It would appear that the likely election result has been largely discounted: overnight futures in the US are flitting briefly in and out of positive territory this morning; the Japanese market closed a touch higher on the day. No wild swings at this stage, such as those that we saw four years ago.

The next few days could yet be interesting. When Donald Trump made an appearance around 2:30 AM (local US time) this morning, he delivered what was arguably the least presidential speech in history. Instead of celebrating a strong lead, he once again threatened legal action if the counting of postal votes goes against him in the next few days.

For many, it feels like this may be the start of another dark night for American politics, rather than the dawn's early light. Brace yourself for the final chapter of this drawn-out soap opera.

But from an investment point of view, never forget that share prices are ultimately driven by corporate success. And the biggest and best companies in the world (most of which are still to be found in the USA) will continue to adapt and thrive – regardless of who might be calling the shots in Washington. ■