

Are the markets ready for the next White House tenant?

To the casual observer it would appear we are in the wrong business and for the last two years being a Pollster with three significant decisions being made by the public, not the majority of the public in most cases, but huge decisions being made by all who decide to vote, would have been an interesting role.

The Scottish Referendum went to the wire and much closer than anyone thought; Brexit, where the decision was made, now challenged and execution remains with repercussions to follow and the latest heavyweight bout across the pond.

Next Tuesday, or maybe after a Floridian legal challenge, (*"it's like déjà vu all over again!"*) America will elect their next President and surprisingly despite the passion in each camp against the other, some reports suggest this may be the lowest voter turnout ever. The bookmaker's odds (*completely wrong re Brexit!*) suggest Clinton right now has a 71% chance of being elected the first Lady President, down from 85% last week all very interesting, but what's the betting from the capital markets?

As Ned Davis research from 1961-2010 highlights, **the US stock market is typically more interested in which party is in charge of Congress.** It appears that the combination of a Democrat President and a Republican Congress has produced the best historical returns from 1961-2010, on average, for the stock market—which is defined in this case by the S&P 500 index.

Political Control	Avg S&P Return pa
Democrat President / Republican Congress	+21.3%
Republican President/ Democrat Congress	+ 4.5%
Controlled by same Party	+12.1%
Either party in White House /Split Congress	+7.1%
Index Average Total Return Nov-Nov	+ 9.3%

As Merrill Lynch note this week suggested "Bulls, bears, elephants and donkeys: White House races and volatility often go hand in hand." Well the animals are all here but Volatility hadn't accepted the invitation until the last few days. The benchmark S&P 500 is down less than 2% in the last month and the \$ has strengthened a little further against the £ and the Euro until the latest Clinton email saga changed the landscape a little.

Our friends over at Nalu Capital, last week highlighted the subtle changes in implied volatility from the options market: "The low volatility in the market continues. The S&P500 is around 10% realised volatility. Nevertheless, the market is showing that not everything is as it might seem. Intraday prices of the VIX have gone up from below 12 to intraday jumps of up to 18. This nervousness can also be observed in the skew of implied volatility on the S&P 500. While the ATM (at the money) implied volatility for year end is around 14%, the 20% OTM (out of the money) implied volatility is twice as high around 28%. **This implies a significantly higher risk premium if any market participants want to buy downside insurance for their portfolio**"

4th November 2016

Product	Participation
S&P500, 85-115% Call Spread, 60% EKIP, 6Yr, Secondary Offer 97.75%	230%
As above, but benefits from first 3 months, daily lookback feature that selects lowest daily index close as Initial Strike.	205%

Rates (bps)		
	Current	Week Chge
GBP 1yr	57.40	-0.70
GBP 3yr	67.30	-2.70
GBP 5yr	79.70	-5.20

Equity Indices (%)		
FTSE 100	6717.0	-3.99%
S&P 500	2088.66	-1.78%
Nikkei 225	16,905.36	-3.10%
Eurostoxx 50	2953.69	-4.08%

Currencies (%)		
GBPUSD	1.2475	+2.38%

5yr Credit Spreads (bps)		
Citigroup	83.35	+5.09
Credit Suisse	141.87	+ 6.30
Deutsche	234.24	+ 12.84
GS	96.62	+5.08
HSBC	64.20	-7.84
JPM	65.85	+3.26
MS	93.63	+5.38

Commodities (%)		
Gold	1300.97	+2.00%
Oil	44.61	-8.40%

3m Implied (vol pts)		
FTSE 100	16.46%	+2.49%
S&P 500	16.33%	+2.75%
Nikkei 225	17.51%	+2.65%
Eurostoxx 50	21.95%	+3.80%

5yr Implied (vol pts)		
FTSE 100	19.76%	+0.34%
S&P 500	21.31%	+0.56%
Nikkei 225	18.98%	+0.37%
Eurostoxx 50	21.40%	+0.13%

Source Bloomberg / Partner Banks
Data as at 4th November, 9.00am

Upcoming events	
6 th Nov	BoJ Monetary Policy Minutes
8 th Nov	US Presidential Election
9 th Nov	UK Trade Balance

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FRIDAY NIGHT 'LIGHTS

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However, if considering short term portfolio protection over this interesting election it's not too late, the team at Fortem have significant experience in assessing your risk and suggesting potential protection, during our careers we have provided or delivered solutions measured in the Billions for our global clients and simply offer an ear and our experience if required.

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