

## Trump Wins: What Happens Now?

By Schwab Center for Financial Research

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*'How Trump will govern is a huge wild card,' write Schwab's analysts. 'Tax cuts, an infrastructure spending plan, and reduced regulation might offer offsetting boosts, but they would bring back issues with the deficit and debt and likely sink the dollar.'*



Our view, expressed over the past month, was that a surprise win by Donald Trump would likely be one of the most unsettling outcomes for the markets. Indeed, that has come to fruition. As the realization of a Trump win began to set in, Dow Jones Industrial Average futures dropped more than 800 points; meanwhile, the S&P 500® Index fell more than 100 points, triggering circuit breakers. Dow futures later recovered some of those losses.

The carnage reflects the significant uncertainty associated with a Trump presidency, and the shock to traders and investors who were relying on the polls. It's likely of little solace at present, but at times like these it is more important than ever to remind ourselves that panic is not a good investment strategy, and that your portfolio should be connected to a financial plan.

Stocks weren't the only market seeing a dramatic move—the Mexican peso, a barometer of the vote, fell by more than 10% by the time the election was called, the largest drop in eight years. Demand for perceived safe-haven assets also supported gold's surge and a drop in the 10-year Treasury yield to a two-week low. Expectations for a Federal Reserve rate hike in December also sank, as did the U.S. dollar and emerging market stocks. And the CBOE Volatility Index, which was below 13 as recently as two weeks ago, has surged to over 25.

The drama harkens back to the so-called Brexit vote in June, and the market's reaction to it. The hit to the U.S. futures market that June evening triggered the Chicago Mercantile Exchange's limit-down price curbs for overnight trading. Those rules kick in when S&P Globex futures drop by at least 5% from the prior session close. The rule was triggered again over election night, when the futures fell to below 2,029, which means the contract cannot trade at a lower price for the remainder of the overnight session.

In terms of tomorrow's regular session trading, circuit breakers will kick in if the S&P 500 drops by 7% (Level 1), 13% (Level 2) and 20% (Level 3) from Tuesday's close. That works out to 1990, 1862, and 1712 by our math. Trading will halt for 15 minutes for Level 1 and

Level 2, unless the drop occurs after 3:25pm ET. A Level 3 halt would occur immediately and last for the remainder of the trading day.

But if Brexit is anything resembling a proxy, remember that the recovery was as swift as the sell-off ... not that that's a prediction for what's to come. Volatility is likely to remain extremely elevated in the near to medium term as the unknowns associated with a Trump presidency become resolved. To the extent that expectations around Fed policy could be a needle-mover, the futures market is showing plunging expectations for a December rate hike; meanwhile, global central banks would likely lean back toward additional monetary policy easing. This could help to settle markets.

How President Trump will govern is a huge wild card. If he carries through on his anti-trade, pro-tariffs rhetoric, we believe it would be highly detrimental to economic growth. Tax cuts, an infrastructure spending plan, and reduced business regulation might offer offsetting boosts, but they would bring the problem with the deficit and debt back into the spotlight and likely sink the U.S. dollar.

But let's not get ahead of ourselves. Remember, our system of government was established and operates with numerous checks and balances in order to mitigate extreme policy risks. And Trump still has to put together a cabinet, which is possibly a taller order than would have been the case under a Hillary Clinton presidency. Then there's the issue of Trump's relationship with Congress. The Democrats can still clog up legislation in the Senate. One also wonders how Trump will deal with Republicans, given the rampant animosity expressed in both directions throughout the campaign.

The bottom line: We suggest investors ignore the noise while the dust settles and stick to their long-term asset allocations. Volatility is likely to be extreme. Reacting emotionally is a time-tested poor strategy for managing one's money.