



The U.S. Presidential Election— The Aftermath

We look forward to getting back to economic and market analysis in the coming days as the US Presidential election slips from the headlines.

The Big Picture

President Obama is the winner of the US Presidential election. But the details matter here. As of 1:15AM Eastern Standard Time, Barack Obama is projected to remain President. But the popular vote is still mixed with a small differential between the two candidates. For those who aren't familiar, the USA has a rather convoluted system in which the total population does not decide the President. Instead, there is a popular vote (which counts the total population votes) and a state system (the Electoral College which calculates state votes and elects the President). This means the winner can actually lose the total population vote and still win the Presidency. There is the potential for this to occur in the 2012 election. Whether or not it does actually occur (the total votes won't be counted for a few days) is irrelevant because the primary takeaway from this election is that the country remains deeply divided as the popular vote will be very close regardless of the final tally.

The Big Issues

As we mentioned yesterday, the Obama win will mean more of the same Fed policy. Romney had been very public in his disapproval of the Fed's approach. Fiscal policy is a completely


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**Long Story Short—The
focus will now change
to the fiscal cliff.**



different story. Given the lack of a decisive victory on the popular vote, skepticism will remain on the policy divide. This is a hurdle to fiscal policy in the coming weeks and the fiscal cliff vote. We ultimately think Congress will compromise on the issues and likely result in small decreases in the 2013 budget deficit. But this is likely to weigh on the markets in the coming weeks as uncertainty reigns.

A Symbolic Election for Banking

This election is symbolic for the financial services industry. Not only did Elizabeth Warren win a Senate seat, but this election means the Dodd-Frank reforms are law. Mitt Romney had vowed to fight some of the laws so that possibility is off the table. Regulatory life for the banks and financial services sector will become much tougher.

The Fiscal Cliff Uncertainty

Mitt Romney had promised not to raise taxes on anyone. This is a real problem in the coming weeks as negotiations are likely to become hung-up on the Bush Tax Cuts. We don't think the fiscal cliff will amount to much more than \$100B in cuts, but this election result increases the risks to the upside.

Dividend taxes will increase for those making over \$250K and will be treated as ordinary income. The long term capital gains rate will also increase for anyone making over \$250K to a rate of 20% (from 15%).

The House remains Republican. The Senate remains Democratic. The Presidency remains Democratic. That equals continued gridlock.

The primary market takeaway is that considerable uncertainty is likely to develop in the coming weeks as this result will increase the odds of gridlock in Washington and the fiscal cliff is unlikely to be resolved until December at the earliest. Ultimately, we believe this election changes very little from a big picture macro perspective or a longer-term perspective. That is, Fed policy will remain accommodative which is long-term bullish for US Government bonds (as short rates remain at 0% until "at least 2015") and gold (as real rates remain low). We also don't think the outcome will change our "no recession" position though the fiscal cliff policy resolution could change that. In the near-term, we are more tactical from an equity position and do not view this as a major game changer. We remain strategic cyclical (longer-term) equity bulls, and short-term tactical cautious.

We'll have a more detailed market strategy note out in the coming days.

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