ELECTION EVE: WHAT HAPPENS TOMORROW

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Here we are on election eve and most people cannot wait to see the back of it! Markets hate uncertainty, of course, especially when the polls are this close. Hillary Clinton has generally been the favourite, courtesy of an extended lead in most of the polls. Clinton has also benefited from a perceived advantage in the "Electoral College", the body that actually elects the US President, because there are more electoral votes available in "safe" Democratic states (and electoral votes) than Republican ones and therefore Clinton needs to win over fewer "marginal states" to win the election.

However, there have been reasons for caution despite her overwhelming support in betting markets:

- There have been an unusually high number of "October surprises" buffeting the candidates ranging from video leaks to the surprise intervention of the FBI in late October (since resolved).
- There has been widespread uncertainty over turnout of different voting blocs and even speculation of a "hidden Trump vote" in this highly unconventional election which may not be properly reflected in the polling.
- Whilst Clinton has generally been ahead, nonetheless the polls have been volatile at both a national and state level with sporadic bursts in support for Trump regularly erasing Clinton's lead. Particularly unnerving for the Democrats has been the

speed with which Trump's support has surged in key swing states in the closing days of the election, notably in New Hampshire, Ohio, Nevada and North Carolina.

- We are living in the era of Brexit; where the shocking and unexpected happens with alarming regularity. Whilst Brexit was a "shock" there were warning signs in the polls (not unlike some regarding Trump) and Trump's nomination as candidate was itself long considered improbable.

But the important thing for market-watchers is this: Clinton is ahead in the polls and the markets expect her to win. The US S&P500 has rallied on good news for Clinton and it has sold off whenever Trump has been perceived to have an edge. If Trump pulls off an "upset" win, equity markets would likely sell off sharply in shock. But like with Brexit (for now at least) markets would probably adjust quickly to the news, especially as the campaign rhetoric fades and reality sinks in. And the reality is that not much will really change, certainly not without support from Congress; a Congress that is overwhelmingly likely to be Republican and pro-business (at least in the House of Representatives). More importantly, we will have a winner. Even if the US experienced a "fiasco" similar to the close vote in 2000 (and the US has had similar controversies in 1824, 1876 and 1888), it was resolved quickly, long before inauguration day. Compare that to one of the real basket-cases of the global economy, Europe, where leadership has been absent for years and no "European leader" is anywhere in sight.

So more likely than not Hillary Clinton will be declared the US President-elect early on Wednesday morning with a small rally likely to make up for recent market weakness, but punters and markets have long underestimated the risk of a Trump win. However you need look no further than the recent Brexit experience for how quickly markets forget. After "crashing" -5% in late June off the back of the Brexit vote, the FTSE 100 rallied more than +18% by early October. As one former President, John F Kennedy once said "In the Chinese language, the word "crisis" is composed of two characters, one representing danger and the other, opportunity". Perpetual funds always seek to invest in quality securities at discount prices, and we generally like to carry some extra cash, both to guard against market volatility when it unexpectedly appears, but also to keep our powder dry for the opportunities that appear at the same time. So while the eyes of the world will be on the polls as we enter the final 24 hours until the result, we remain focused on finding the best opportunities for our investors – no matter the outcome.