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Central Banks and US election, what to expect………………

After a relatively quiet August for markets around the world, September is shaping up to be a much more eventful month thanks to a number of key central bank policy meetings plus the anticipation of a Trump or Clinton US election result.

Whilst anticipation was high with regard to a possible Federal Reserve rate increase decision and its effect on markets; plus the announcements of Japan's Central bank outcome of its review of the QQE programme and negative rates. In the end both remained dovish with the Fed maintaining existing rates and Japan's Central bank proclaiming its intention to steepen the yield curve, but leave 10 year bond rates at around zero.

Following the Feds decision to keep rates on hold the markets now look forward to the probability of a rate rise in December (currently at a 59% probability). The markets had a collective sigh of relief with US and global markets generally rising on the 'hold' decision and the US dollar weakening slightly on the news. Questions continue as to the motivations for the decision, was it a demonstration of its confidence in the economy; is it as Donald trump suggested the Fed playing partisan politics (emphatically denied by Federal Reserve Chairwoman Janet Yellen); or simply that the long term forecast for economic growth continues to be revised downward.

In a recent speech the Bank of Japan governor Haruhiko Kuroda said that the central bank stands ready to use every possible policy tool to combat deflation and achieve its 2 per cent inflation target, which could include expanding stimulus further if required. He reiterated that "There is no limit to monetary policy".

In addition to the above, political uncertainty will certainly impact global markets as we move closer to the US elections on 8th November. The policies of both candidates in isolation can have a significant impact both positively and negatively on the US and by extension the global economies; although in reality political pragmatism post-election and the results of the Congressional elections may serve to modify the more extreme policies.

Generally speaking the Trump policies of fiscal stimulus with spending on defence and infrastructure, tax cuts, and reduced regulation are beneficial in the short term but leading to increased budget deficits, higher inflation, higher interest rates and a stronger $US in the long term. Not to mention geopolitical & social tensions, and possible trade wars due to his protectionist policies.

On the Clinton side fiscal stimulus through infrastructure and non-defence spending, increased taxes, and increased immigration should provide short term stimulus without blowing the budget. Clinton also favours free trade, providing it does not disadvantage the US.

The upcoming election debate is expected to be the most watched debate in history and estimated to top 100 million viewers, putting it on par with the Super Bowl for viewing figures.

One thing is a given, opinions and markets will move constantly with opinion polls; and our view that the next few months are likely to remain volatile for investors due to this US election risk, however the general trend in global shares is expected to remain positive.

As with any investment decision one should seek advice from your professional adviser before investing!