



US Presidential Election on a Knife's Edge

US Election

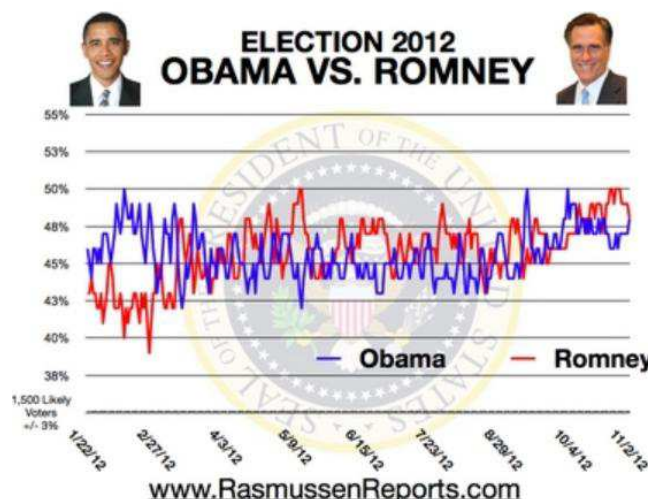
- The US Presidential Election is held on Tuesday. Voting is tight with most recent polls giving both Barack Obama and Mitt Romney 48 per cent of the vote.
- It is likely that Congress will remain divided (Democrat Senate; Republican House of Representatives) thus limiting any positive or negative impacts of the Presidential election result on financial markets.
- Once the election is decided, attention returns to the so-called "fiscal cliff", that is the expiration of tax cuts and the start of automatic spending cuts to occur from January 1 2013.

Facts & Figures

- The 57th US Presidential Election is held on Tuesday November 6 2012. The election is held every four years on the first Tuesday in November. The format of voting is an Electoral College. Each state is assigned a number of electors based on the size of the population. The candidate that wins a state, wins all the Electoral College votes. The first candidate to secure 270 of the 538 Electoral College votes is declared the winner.
- The candidates are Barack Obama (Democratic Party), Mitt Romney (Republican), Gary Johnson (Libertarian), Jill Stein (Green), Virgil Goode (Constitution), and Rocky Anderson (Justice).
- Latest polling by the independent Rasmussen Reports has both Obama and Romney with 48 per cent of the vote. According to the Rasmussen Reports *"In the battle for the White House, the Rasmussen Reports Electoral College projections now show the president with 237 Electoral Votes and Romney 206. The magic number needed to win the White House is 270. Eight states with 95 Electoral College votes remain Toss-ups: Colorado, Florida, Iowa, Nevada, New Hampshire, Ohio, Virginia and Wisconsin."*
- Certainly the key states to watch are Ohio (18 votes), Florida (29 votes).
- The first polls to close occur at 4am Eastern (Sydney 8pm Tuesday) – the Northern Marianas & Guam. But polling closes in the first mainland US states with Electoral College votes at 6pm Eastern (Sydney 10am Wednesday). Polling on the US west coast closes 11pm Eastern (Sydney 3pm Wednesday). Antony Green, political expert at the ABC, has compiled a good site with state by state polling times and available Electoral College votes

(<http://www.abc.net.au/elections/usa/2012/?page=CloseOfPollTimes2012.htm>).

- US Senate Elections are also held and a third of Senators face election (33 seats: 21 Democrats, 10 Republican and 2 Democrat-leaning Independents). Democrats currently have 53 senators and the Republicans have 47 senators. Polling suggests that Democrats will maintain a slight majority although a 50:50 result is not out of the question.
- Elections are also held for the 435 seat House of Representatives. Currently Republicans have 240 seats, the Democrats 190 with five vacancies. There are 21



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retiring Democrat candidates and 19 Republican candidates are retiring. Around 60 members of the House of Representatives are "Tea Party" candidates (all Republicans). The Tea Party seeks a limited role of the Government in the economy and a balanced budget.

- In addition gubernatorial elections are held in 11 states and two territories (elections for Governor) and there are elections for state legislatures.

Policy differences

- Obama focuses on a combination of spending cuts and tax increases to deal with the high budget deficit. Romney has a more "supply side" approach of cutting taxes, boosting incentives and growth and thus lifting revenues to deal with the budget imbalance. Romney has greater emphasis on spending cuts.
- Romney has vowed to wind back Obama's health reforms.
- Obama favours clean energy solutions. Romney supports a diversified energy policy including coal-fired power stations and nuclear energy.
- Romney favours increased spending on defence; Obama has vowed to cut spending on defence.
- Both candidates oppose Iran's attempts to develop and possess a nuclear capacity.
- Obama is favoured to retain Federal Reserve chief Ben Bernanke when his term expires in January 2014. Romney has indicated that he would replace Bernanke.
- An independent summary of how the candidates view different issues:

<http://useconomy.about.com/od/2012-Campaign/p/Obama-vs-Romney.htm>

Last Elections

- Last election the Dow Jones fell by 930 points (9.7 per cent) in the two days after the November 4 2008 poll, rebounded on November 7 but then sharply through to November 20. However this was the period when the Global Financial Crisis dominated. Shares rebounded to January 6, eased again, and then bottomed on March 9 2009 before starting what proved to be a global sharemarket recovery.
- In 2004 it was a far different response and far different economic times. The Dow Jones rose 3.5 per cent in the four days after the November 2 2004 election. The market lifted further to November 11 and then trended sideways until early December.

What are the implications for investors?

- Investors hate uncertainty, so there will be a sigh of relief when the election is over. Provided there is a clear election result and no change in the divided Congress, then traders and investors will see it as 'business as usual'. We don't expect a significant, sustained lift or slump in the sharemarket if either Obama is returned or Romney is elected and a divided Congress is maintained. If either candidate was to win power and his party gained control over Congress then investors would be expected to react positively.
- The likely result is a divided Congress. That means the incumbent will continue to haggle and do deals to advance policies.
- The next focus is the 'fiscal cliff'. Investors will remain cautious until the issue is resolved.
- There is never a consistent response to election outcomes. Investors are always relieved when election uncertainty is resolved and then they quickly return to key economic, corporate or geopolitical news to provide direction. In the remaining months of 2012, investors will remain focussed on the 'fiscal cliff', job creation, European debt issues, Iran, Afghanistan and the Chinese political handover.

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