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Reminiscent of the Brexit vote, the outcome of the US election was contrary to the consensus expectations. Donald Trump, the Republican nominee, garnered 290 electoral votes to comfortably achieve the position of President – Elect of the United States of America.

The period until he takes office is often termed the “lame duck” period, as Barack Obama occupies the Oval Office until January when Donald Trump will be sworn in as the 45th President of the United States of America.

To achieve the unlikely victory, Trump tapped into a seemingly deep-seated resentment of the current status-quo. It was apparent that there was enough of an electoral preference for an “outsider”, a non-politician, to disrupt the Democratic hold on the presidency. Trump is the first President to have never served in public office.

He also mobilised voters who were undecided. One commentator referred to these voters as the “leaners”, when pushed in conversation, they would lean in and sotto voce pronounce “I’m thinking of voting for Trump”. The rural areas, Rust Belt and working-class white vote, all proved to be decisive for the Trump camp.

The electoral platform of “Make America Great Again” was filled with policy very much at odds with current Government doctrine, albeit fleshed out with unlikely goals such as building a wall along the Mexican border and doubling US growth (a move that would propel the US into the heady growth heights more usually associated with Emerging economies). In general, it is also expected that there will be shift away from a monetary policy bias, with fiscal policy playing a larger role in economic management.

At least some of the success of the campaign must be attributed to an electorate clearly indisposed, in fact, clearly opposed to the idea of Hillary Clinton attaining the highest office in the US.

Market reaction
Volatility characterised market reactions. Earlier this week sharemarkets were buoyed when the FBI Director James Comey announced in a second letter to Congress that nothing in the recently uncovered emails was going to change the previous FBI conclusion regarding Hillary Clinton.

This put the market into “risk-on” mode in the lead up to the election. In the case of the NZ sharemarket, this reversed a 9-day consecutive run of losses with a hearty 2.4% turnaround. However, as election day unfolded and it became increasingly obvious that not only was the contest closer than had previously been predicted, but that there was a strong possibility that Trump would pull off an unlikely victory, risk aversion came to the fore.

The Asian region was trading through this period. The NZ market registered a 230-point fall (3.3%) one of the biggest single day falls in the last 10 years. This followed the 2.4% rise on Monday. Asian markets were all affected to varying degrees, the Nikkei 225 Index was hit particularly savagely, losing 919 points, a 5.36% fall for the session. The ASX200 was one of the “better” performers – a 1.93% fall a seemingly benign response by comparison to the rest of region.

US sharemarket futures traded furiously, at one stage the Dow Jones Futures indicating an 800-point fall in the Dow Jones Index.

Currency markets were not spared, the New Zealand dollar however reacted in a positive sense and climbed from a low of .7320 against the US dollar to peak above .7400. Gold climbed, and the US Treasury market rallied – as a flight-to-quality response appeared. What a difference a night made though. As European markets opened, a sense of calm seemed to emanate from the trading screens. In a measured, rational response sharemarkets reversed the negative sentiment – European bourses rallied –shedding the fear leading into the US market opening.

The Dow Jones Index and SP500 both staged rallies of over 1% from their previous days' close. Gold, after a safe-haven spike to over $USD1330 an ounce, tracked back under $USD1280. The generic 10-year US treasury bond level fell to a yield of 1.72% before aggressively retracing to a peak of 2.07% - settling eventually at 2.00% (in July the low was 1.36%).

Why is the market reacting like this and where to from here?
After the volatility of the previous 24 hours, investors observing the market movements can be forgiven for wondering just what is going on.

Sharemarket investors, fund managers and other market participants appear to be taking the view that the US Election outcome may be supportive of the sharemarket, in the short-to medium-term.

Donald Trump will head to the White House in January, bringing with him the following tailwind policies for the sharemarket:
- Tax cuts (corporate tax to a suggested 15%)
- Increased Government infrastructure spending
- Republican "clean-sweep" of the halls of power (Presidency, Senate, House of Representatives).

There is also consideration that needs to be given to the Federal Reserve response to the election outcome. While the short-term situation is uncertain, the potentially inflationary policies of Donald Trump are forcing a rethink to the speed with which the Federal Reserve may raise rates through 2017. Financial markets are now speculating on a more rapid normalisation of monetary policy settings.

The US Treasury market had more immediate concerns. The potential for increased government spending and potential inflationary effects of his policies have spooked interest rate traders and overnight US Treasury rates moved considerably higher.

It is also worthwhile noting that the Republican influence may also extend to the Supreme Court and potentially influence the Federal Reserve Governor appointment as well. Throughout the Presidential campaign, Trump repeatedly expressed his disagreement over Federal Reserve policy.

What are the implications for a NZ investor?
For the next few days', sentiment in the local market will be driven by offshore moves.
A more medium term view rests upon fundamental analysis.

The strong correlation between US Treasury yields and NZ longer bond yields would suggest that higher long-term rates are likely in New Zealand (and in the US). Our higher dividend paying local companies have been keenly sought by offshore investors and the repositioning of longer bond yields will reduce the relative attractiveness of that trade.

While the RBNZ has reduced the Official Cash Rate (OCR) this morning, a steeper yield curve in New Zealand appears to be likely due to the upward pressure on longer term rates. The move in the OCR has influenced currency trading this morning, with the currency spiking after the OCR announcement. Traders initially took a "one and done" read on the Monetary Policy Statement, however after that initial flurry the currency has now fallen back to the opening levels of this morning. Interest rate pressure in the US may finally see some weakness in the NZ dollar.

In the medium-term the potential for Trump's stated trade policies may provide some challenges for NZ exporters. The extent of this, or timing, is too hard to make a call on, but the possibility of increased tariffs, trade issues between the US and China and of a change in the US attitude to the whole Asian region could provide headwinds for NZ exporters.

Anecdotally though, the status of NZ as a “bolt-hole” or safe-haven for disgruntled Americans, Europeans and others could well see an increase in immigration enquiries!!