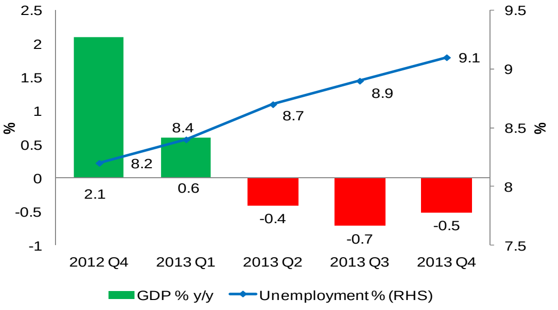
Market Watch

7 November 2012

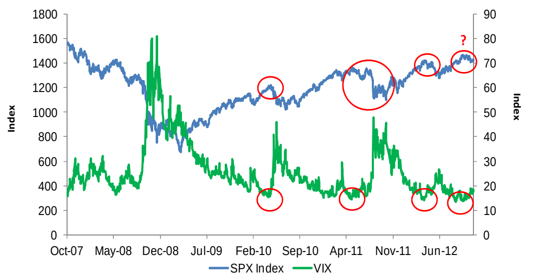
Obama wins, focus on fiscal cliff remains

Fiscal cliff is the primary focus after the elections
CBO growth and unemployment forecasts assuming the fiscal cliff is not mitigated



Source: Bloomberg, Standard Chartered

Equity markets vulnerable to delays on dealing with fiscal cliff
S&P500, VIX index (RHS)



Source: Bloomberg, Standard Chartered

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SUMMARY

- **President Obama has won the 2012 US Presidential election. The Democrats are expected to maintain a Senate majority while Republicans appear likely to retain a House of Representatives majority.**
- **While this was the central scenario, it is the worst case outcome for financial markets as policymakers approach key issues, primarily the fiscal cliff.**
- **Therefore, we believe a short term pullback in equity markets is still probable, but reiterate this is likely to be a buying opportunity.**

RESULTS

- **Presidential race** – Obama has retained the Presidency
- **Senate** – Democrats expected to maintain majority
- **House of Representatives** – Republicans likely to maintain majority

IMPLICATIONS

- **Fiscal policy:** The debate on resolving the fiscal cliff is now the main focus. The election does not appear to have changed party control of the White House, the Senate or the House of Representatives. In the near term, there is uncertainty over how this will be resolved, but investors should note this is unlikely to extend deep into H1 2013.
- **Debt ratings:** Rating agencies are likely to renew their focus on any plan to address high levels of government debt. While most agencies have indicated they are likely to wait well into 2013 before reviewing their US sovereign credit rating, the pace of progress will be crucial. The debt ceiling debate in early 2013 is the likely first hurdle.
- **Monetary policy:** Uncertainty around the renewal of Bernanke's Fed Chairmanship under a Romney Presidency is now a non-issue.
- **Market outlook:** Elevated fiscal policy uncertainty means a temporary market pullback is likely, but we continue to see this as a buying opportunity. Equities remain our most preferred asset class on a 12-month basis.

MARKET REACTION

- Market reactions consistent with increased risk aversion. From yesterday's close, **S&P500 futures** are down 0.6% and the **10 year Treasury** yield is down 6bp. **Gold** is up USD 9 per oz, while the **US Dollar** fell 0.5% - on expectations of continued loose monetary policy settings.

Disclosure Appendix

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