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Early Returns: How U.S. Markets Reacted to the Presidential Election

On November 8, 2016, Republican candidate Donald J. Trump won a closely contested election for president of the United States.

Late on election night, when it became evident that Trump was likely to win despite consistently trailing in the polls, foreign markets went into a deep dive.[1] Many observers expected a similar reaction when the U.S. stock market opened on November 9, but after an initial drop, the S&P 500, Dow Jones Industrial Average, and NASDAQ rose throughout the day, and all three indexes closed up more than 1%.[2] Although this was unexpected after the late-night surprise, it actually continued a two-day upsurge that began when Democratic candidate Hillary Clinton was expected to win the election.[3]

The market was mixed but steady the following day, November 10, with the Dow again up more than 1%, a small increase in the broader S&P 500, and a moderate decline in the NASDAQ, which tends to be more volatile due to its inclusion of smaller, technology-driven companies. On November 11, the NASDAQ recovered its loss, the Dow was slightly higher, and the S&P 500 was slightly lower — not unusual after a week of rising stock prices.[4]

On the other hand, bond prices fell steeply the day after the election, and the yield on the benchmark 10-year Treasury note, which rises as prices fall, jumped more than 2% for the day. This, too, was a surprise because Treasuries are generally seen as a safe haven in times of uncertainty. But on the day after the election, investors were more interested in selling Treasuries than buying them.[5] The Treasury sell-off continued on November 10.[6] (Bond markets were closed on November 11 in honor of Veterans Day.)

The conciliatory tone of Trump's acceptance speech, Clinton's concession speech, and remarks by President Obama all indicate there will be an orderly transfer of power, which may have helped calm the markets. Here are some additional implications that might be drawn from the initial market reaction.

First, although the Trump presidency was unexpected and his economic policies are untested, rising stock prices suggest that investors may be optimistic that his promised pro-business agenda could help continue the upward market trend of the last few years. Investors like clarity and consistency, and the fact that the same party will control the White House and Congress might create a more productive and predictable working relationship.[7] At the same time, fundamental differences between the president-elect and the Republican Congress suggest that any changes may be more measured than originally anticipated.[8]

Second, in this initial transition stage, money flowing out of Treasuries suggests that bond investors may see a Trump presidency as leading to higher inflation and higher interest rates due to a combination of more protective trade policies and heavier government borrowing in order to fund infrastructure spending and reduce taxes for individuals and corporations. Declining bond prices might also reflect a belief that the Federal Reserve may raise rates at its December meeting despite the political surprise.[9]

Of course, these are just first impressions, and there could be many market ups and downs as investors try to understand what the new president's policies might be, how much support they may have from Congress, and how they might affect the broader economy. Moreover, government policy and political debate are only two of many factors that can create market volatility.

Is the U.S. economy strong enough to withstand any headwinds that arise from a changing administration? That remains to be seen, but fundamental economic indicators have been solid, and overreacting to political events is unwise. The most stable approach in changing times is generally to maintain a

well-diversified portfolio using a strategy appropriate for your time frame, personal goals, and risk tolerance.

Diversification does not guarantee a profit or protect against investment loss. The principal value of stocks and bonds may fluctuate with market conditions. Stocks, when sold, and bonds redeemed prior to maturity may be worth more or less than their original cost. U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest.

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1) CNNMoney, November 9, 2016

2, 5, 7) MarketWatch, November 9, 2016

3-4) Yahoo! Finance, November 11, 2016

6) MarketWatch, November 10, 2016

8) *The New York Times,* November 9, 2016

9) CNBC.com, November 9, 2016

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