Northern Trust | Bob Browne: Start Thinking about November 8 ... 2017

All eyes are focused on the US presidential election results two weeks from now. But the successful investors will be the ones who look ahead to the next year. If a fortune teller told you 18 months ago that Hillary Clinton would become president, the Republicans would maintain the House and the Senate would more or less be evenly divided, you probably would say, tell me something I don't already know. This is the increasingly likely result in two weeks. And so the boring consensus view from 18 months ago is turning out to be correct. But while the destination is the same, the journey has been one wild, crazy, and unpredictable ride.

Yet how we got here does matter. The US presidential election is the most vivid example of one of our key long-term investment themes-- populist roulette, the idea that low economic growth and overall discontent with the status quo is upending traditional politics. And it has real-world implications for the future. We don't see populism stopping regardless of what happens on November 8th.

Despite the increased odds of the consensus view coming true, investors clearly need to be prepared for a different result. Brexit taught the markets and political pundits alike an important lesson about trusting the polls too much. Nonetheless, it usually pays to focus on the likely event, while still being prepared for the unlikely one. And so let's focus on the likely event.

I'm going to take the boring view and assume Hillary Clinton becomes president, the Republicans comfortably hang on to the House and uncomfortably retain the Senate by one or two seats. What does all this mean today? Well, not much has changed, has it? Significant tax reform is unlikely. And fiscal spending remains muted because the Democrats and Republicans won't see eye-to-eye on much, with the possible exception of increased defense spending.

NAFTA stays in place, but further trade deals are dead. The heavy hand of regulation of the economy continues. Supreme Court nominee battles are long, arduous affairs. Within a few months, previously divided Republicans will be less focused on the fact that Trump lost and more focused on the reality that Hillary Clinton is president. It will be ugly and dysfunctional.

And so it's time to load another bullet in the populist roulette game. No one will be happy with these continued prospects of a low economic growth and exhausted monetary policy. In the less likely event of President Trump, more policy change can be expected, but it will be inconsistent and could take a long time to be implemented.

So what can investors expect from the markets when the status quo continues, and at best, our leaders execute incremental policy improvements? At worst, the political scene becomes a reality TV show with the Clintons in the White House and Trump TV offering alternative political programming. Sounds depressing? Well, I have one word of encouragement for you-- Brazil.

Recall that at the beginning of this year Brazil seemed to be in a total mess. The economy was in a recession. The president was being impeached. Politicians across the board were being indicted and leading business figures were arrested as the corruption and incompetency of the elites reached a tipping point. And what is the Brazilian stock market doing 10 months later? Equities are up nearly 48% in local terms and the currency has rallied another 35% plus.

The lesson is that successful investors focused on the long-term and expected change, not what's happening today. Today matters for the headlines, but the future matters for smart investors. We are focused on the likely environment over the long term-- more low growth, little fiscal policy change, and continued monetary accommodation. Equities do OK in this environment and cash yields remain low, continuing the demand for alternative sources of high-quality yielding instruments. Therefore, you should remain diversified but fully invested.

This is also a good principle if Donald Trump turns out to be the victor. The ride may continue to be crazy and wild, but the destination for investors will remain the same-- modest but positive returns.