

Financial markets & Federal elections

Financial market events

- In the past seven elections, both the Australian dollar and the Australian sharemarket have risen in the three weeks following poll day.
- The Australian dollar has lifted 2.3 per cent against the US dollar in the past seven elections. The All Ordinaries index has risen by 2.6 per cent in the three weeks after the last seven elections.

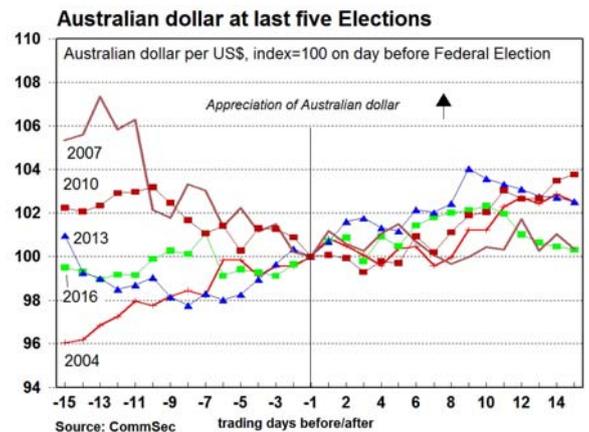
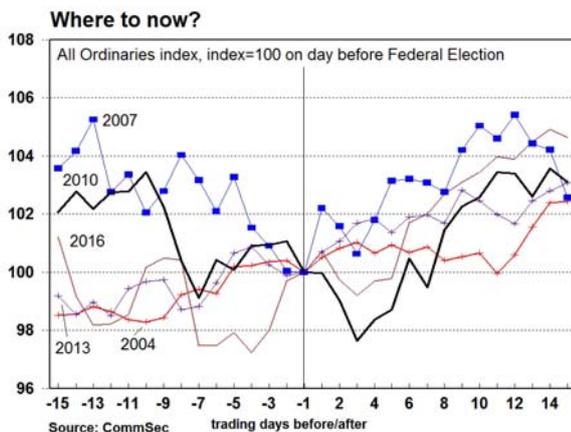
Federal Elections are periods of uncertainty, potentially causing investors, businesses and consumers from making key decisions.

What does it all mean?

- Removal of uncertainty is important for investors, businesses and consumers. In four of the past seven Federal Elections, the sharemarket and Aussie dollar were slightly lower in the lead up to the poll (on average, broadly flat). But in all of the past seven elections both the Australian dollar and the sharemarket have lifted in the three weeks after the poll.
- The best outcome on May 18 will be a clear election result. There are good reasons to expect a stronger Australian economy once election uncertainty is resolved.

Sharemarkets & elections

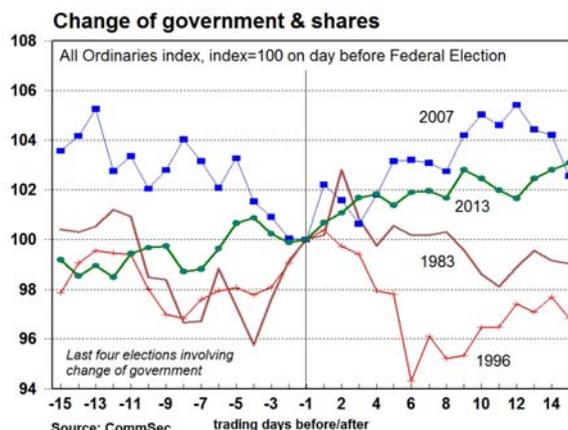
- For investors, there is no question that elections are times of uncertainty. And while there is no clear evidence from past polls that Federal election results are unambiguously positive or negative for the sharemarket in the short-term, certainly in each of the last seven Federal elections, the Australian sharemarket was stronger three weeks after the poll date.
- In the 2016 poll, the All Ordinaries lost 1.2 per cent in the three weeks before the poll. But three weeks after the poll the sharemarket was actually up 4.6 per cent.
- In the 2013 poll (involving a change of government) the All Ords dipped initially after the poll was called but quickly rebounded. And in the three weeks before the poll day, the All Ords rose just 0.8 per cent. But in the three weeks after the poll the All Ords was up by 3.1 per cent.
- In the 2010 election (a hung result) the All Ordinaries eased by 2.1 per cent in the three weeks ahead of the poll. And while it was largely unchanged in the eight days after the poll, three weeks after the poll it was 3.1 per cent higher than on the Friday before election-day.



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- In the 2007 election (involving a change in government) the All Ordinaries eased by around 3.5 per cent over the three weeks before the poll but then it regained all lost ground after the election result. In fact the sharemarket exhibited a ‘U-shape’.
- Interestingly in the previous two elections involving a change in government (1983 and 1996), the sharemarket also basically ended up at the same point three weeks after the election as where it started three weeks before the poll date.
- The 1972 and 1975 Federal Elections also involved changes of government but the sharemarket on each occasion was stronger in the three weeks after the poll. In the case of the 1972 election, the sharemarket rose by 2.2 per cent and the market lifted 3.8 per cent in the three weeks after the 1975 poll.

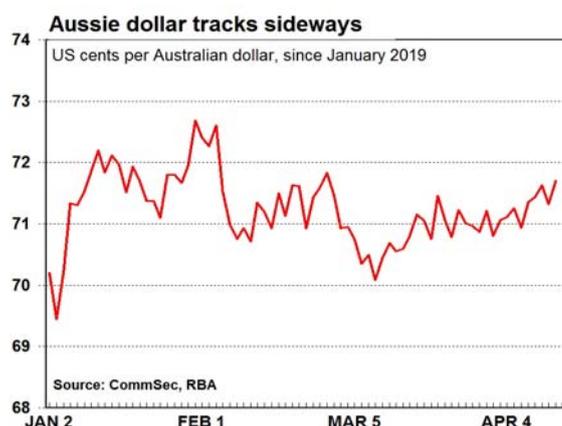
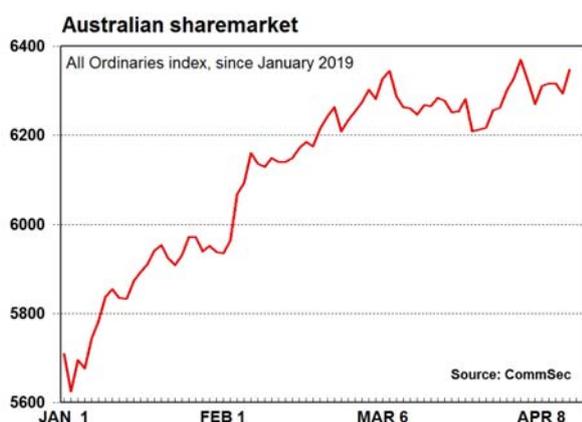


Australian dollar & elections

- Since the Australian dollar was floated in December 1983, there have been 12 Federal elections. The Australian dollar has risen on nine occasions and fallen three times in the three weeks after each poll. But on average, the Aussie dollar has appreciated by 1.2 per cent against the US dollar in the three weeks after elections.
- It is important to note that the Australian dollar has appreciated against the greenback following each of the last eight Federal Elections, including the 2013, 2007 and 1996 polls that involved changes of government. On average, at the last seven elections the Australian dollar appreciated 2.3 per cent in the three weeks after the poll date.
- In the 2016 poll period, the Aussie dollar hugged a US74-76 cent range. Three weeks after poll date, the Aussie was only up 0.3 per cent. There were more substantial gains in the equivalent period for the 2013 poll (2.5 per cent) and 2010 poll (3.8 per cent).
- In the 2007 poll period the Aussie dollar was more volatile. When the poll was called the Aussie was near US90 cents. Over the election period the Aussie grafted its way to almost US94 cents, but on poll day the Aussie was near US87 cents. Fifteen days later the Aussie had only gained 0.4 per cent.
- Prior to 1996, the last change of government occurred in March 1983 – that is, before the Australian dollar was floated. Interestingly in 1983, ahead of the March 5 poll, there was a significant outflow of capital, as investors grew nervous about the possibility of a change of government. The Reserve Bank estimated that the capital outflow amounted to 3 per cent of money stock or around 1.5 times Australia’s annual GDP.
- Following the election – on March 8 1983 – the Labor Government was forced to devalue the currency by 10 per cent in an attempt to stem the outflow of funds.

What are the implications for investors

- Clearly there is a lot more happening at election time than just domestic political manoeuvrings. For instance the Brexit uncertainty hasn’t been resolved. And the US and China are still putting together a trade agreement. But encouragingly the US economy remains solid and there are signs of improvement in the Chinese economy.
- The IMF has just downgraded global economic forecasts for 2019. And the US Federal Reserve now looks settled



into a period of interest rate stability given the global slowdown and contained domestic inflation.

- There is still one Reserve Bank meeting to hurdle before election date. But there is no urgency for a change in rates in any direction. There are also two sets of job figures and inflation data.
- The US profit reporting season has begun. And it's a case of so far, so good. But hopes had not been high ahead of earnings season – profits of US S&P 500 companies are expected to be 2.5 per cent down on a year ago.
- The Australian dollar and Australian sharemarket have eased then lifted in the two days since the election was called.
- CommSec expects the economy to lift once election uncertainty is removed. The job market remains in strong shape, with wages trending higher – growing at a faster rate than inflation. The Federal Budget is providing stimulus at a time of softness in the global economy. And while the rebalancing of housing markets is occurring across the country, the infrastructure boom continues.
- If there is a clear election result, we would certainly expect the sharemarket to lift. But much depends on a positive outcome from China-US trade talks. Earnings results are also expected from major banks in early May: ANZ (May 1); NAB (May 2); Westpac (May 6).
- The Australian dollar is expected to consolidate in the US70-72 cents range. Both US and Australian interest rate settings are expected to be on hold over coming months.

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