Is Donald Trump about to become an exception to the 'October 31 rule'?

Blog post by Adviser Kirsty Allan, 21 October 2016

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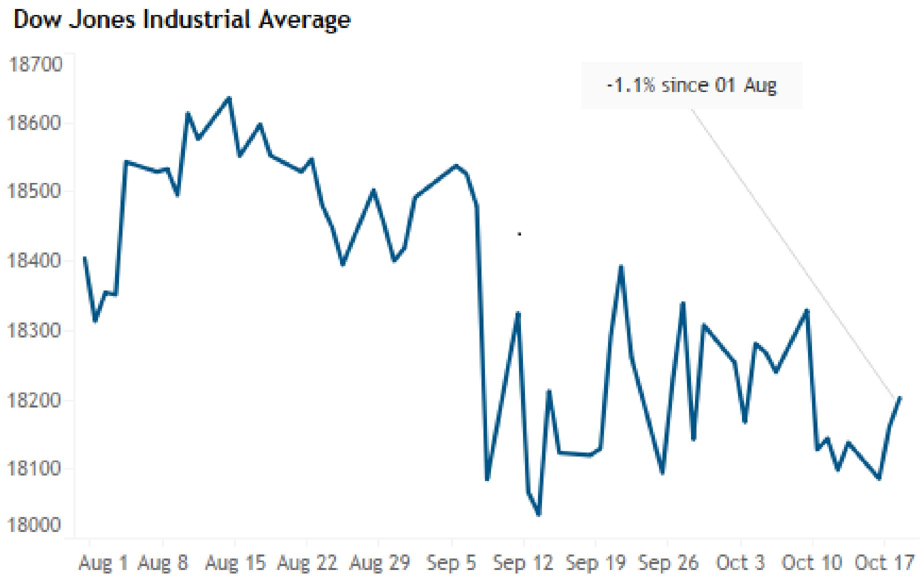
Donald Trump's performance in the third and final presidential debate seems unlikely to do much to stem his plummeting popularity. It is not unusual for presidential campaigns to be tawdry affairs but the last couple of weeks has seen the race between Trump and Hillary Clinton shock even seasoned political commentators. The clip of audio revealing Trump's amused commentary on how his status allowed him to grope women has been followed by a slew of further accusations and now an apparent willingness to refuse to accept the election outcome.

So is there any reason to think that this is anything other than a done deal? Recent surprise election results in the UK and Europe should give everyone pause for thought. With less than four weeks of campaigning left, the path for Trump does look incredibly difficult. Even by Trump's Teflon standards, turning around his near seven point deficit at this stage of the race will be near impossible and will depend hugely on turn out and how loyal and motivated late switchers to Clinton turn out to be. Without this last group, Trump has no hope.



Source: Wall Street Journal

At first glance, the markets don't appear to think he can do it. Seeing Clinton pull ahead has offered a degree of stability and continuity, and markets have responded by rising, probably also pricing-in higher output and an improving economy.

Up until a week or so, US markets were telling a different story. It is often pointed out that if US stocks fall overall between the end of July and 31st October ahead of an election, this is a very strong predictor of a loss by the incumbent party – in fact it has only missed three elections since 1944. This is a standard anticipation of a change of administration and in the subsequent transition, the US markets historically fall even further.

The Dow Jones is down around 1% overall in the last three months, and along with wider geo-political issues such as a slowdown in global growth and weak economic data from China, the market was clearly taking a Trump presidency very seriously – at least until the current campaign problems. However, the 'October 31 rule' has never been faced with a candidate whose campaign has faltered so badly, so late in the race.

Markets seemed to be predicting a very close race while Trump still looked competitive, so can we now expect a rally to match Trump's slide in the polls? There are some signs, but it is early days. The answer will depend on how confident investors are that this time the polls really are right and that voters do not have a surprise up their sleeve on 8th November. Who would bet on that?

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