This Stock Market Signal Says Donald Trump Will Lose the U.S. Election

Description

There are many tea leaves that people are using to predict who'll win tomorrow's U.S. election. One, at least, seems to indicate that Donald Trump will lose.

According to *CNN's* David Goldman, a negative stock market return in the three months leading up to an election predicts that the incumbent will lose — the incumbent, in this case, being Donald Trump.

According to Goldman, this indicator has predicted elections 88% of the time. Citing a model by CFRA, he went on to explain that Friday's losses sent stocks negative for a full three-month period. Just days prior to that, they were up slightly.

If this holds until Tuesday, then we've got a strong sign that Trump will lose. But will it hold?

Stock market returns three months prior to the election

As of last Friday, the **S&P 500**'s three month return was -0.4%. Just days earlier, it had been slightly positive. For the full year, the S&P 500 is actually up 0.37%. But CFRA's model works off three-month returns. By that metric, we're down for the relevant period and Trump is likely to lose.

This indicator still has time to change!

With all that said, there is still plenty of time for CFRA's indicator to change. The indicator goes off the *whole* three months prior to the election, up until Election Day, which would give the S&P 500 time to swing positive for the three- month period. As of this writing, futures were pointing to a +1.44% open for the S&P 500 on Monday. If the S&P 500 stays at that level until Tuesday, then the indicator no longer predicts a Trump loss.

Implications for investors

Elections have a major impact on the stock market. Just like stocks can influence election outcomes, election outcomes can influence stocks. So, the U.S. election outcome may have implications for Canadian investors.

In this case, the best course of action may be to invest in Canadian equities like the **iShares S&P/TSX Capped Composite Index Fund** (TSX:XIC). Many people think that tomorrow's election will be contested, leading to rampant market volatility. In that situation, Canadian equities may provide an oasis in the desert. The **TSX** has less exposure to the U.S. than the S&P 500, so it stands to reason that it won't suffer as much election-related volatility.

That's not to say that XIC is totally free from election risks, though. Heavily weighted in banks, utilities, and energy stocks, its returns partially depend on what happens in the United States. **Enbridge** ships oil to the States. **TD Bank** has a massive U.S. retail banking division. **Fortis** operates several U.S. subsidiaries. All of these companies are big TSX components with heavy weighting. So the TSX index is definitely not *totally* immune to the effects of the election.

However, it's significantly *less* exposed to them. Along with the stocks just mentioned, there are also TSX components with almost no U.S. source income. Canadian telecoms, for instance, largely fit this description. By buying the TSX index through XIC, you may enjoy less volatility through a turbulent election than if you'd bought the S&P 500.

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