

# Harbour Navigator

## Australian Political Morass

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Another day, another political uncertainty.

After absorbing the implications of the Brexit vote last week, closer to home the market has now been met with an uncertain Australian election result. With the final outcome coming down to special votes and coalition negotiations, it won't be clear until later in the week whether the result favours the incumbent Liberal coalition, Labour, or whether ultimately Australians will be heading back to the polling booth. Malcolm Turnbull remains 'quietly confident' of forming a government.

Whoever forms the next Australian government are likely to be met with a political impasse; a continuation of the environment faced by the incumbent Liberal government. This may help explain the relatively muted response of the market to the outcome over the weekend: the AUD fell around 0.5 cents, but equity and bond futures were little changed. We are monitoring developments and have made no changes to portfolios in reaction.

It is important to emphasise that this Australian political uncertainty is very different from the wave of anti-establishment, populist support seen in the Brexit vote and the rise of Bernie Sanders and Donald Trump in the United States. Rather, the Australian electoral result follows six years of political squabbling that has seen a string of Prime Ministers under attack from outside and within their own political parties – Rudd (2007-2010), Gillard (2010-2013), Rudd (2013), Abbott (2013-2015), Turnbull (2015-).

On the margin, the unclear election result is bad news for the Australian economy and financial markets. It makes it harder to implement much needed economic reforms, more difficult to address the slippage in their fiscal situation in recent years, and tougher for business and consumer confidence. This weakness may contribute to

companies with earnings leveraged to the Australian domestic economy, whether New Zealand or Australian listed, reporting results at the lower end of expectations.

That said, it is also important not to overstate the implications of the Australian electoral result. The 'Lucky Country' benefits from a starting point of solid economic growth (around 2.5%), a strong fiscal position (government debt to GDP at only 20%), and record low interest rates supporting the transition to the non-mining sector. **After six years of political infighting, businesses and consumers may also have become somewhat de-sensitised to the developments in Canberra.** These political dramas are set to continue in Australia, this week and beyond.

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