

Market alert

Assessing the impact from domestic attacks | **19 September 2016**

CIO WM Research

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What happened?

- There were a series of simultaneous attacks and attempted attacks over the weekend and early on Monday morning in New York, New Jersey and Minnesota. The attacks in the Chelsea neighborhood of Manhattan and Seaside, New Jersey included the detonation of explosive devices. In Minnesota, a suspect was killed by an off-duty policeman after stabbing several people at a shopping mall in St. Cloud. Another undetonated explosive device was found in Elizabeth, New Jersey.

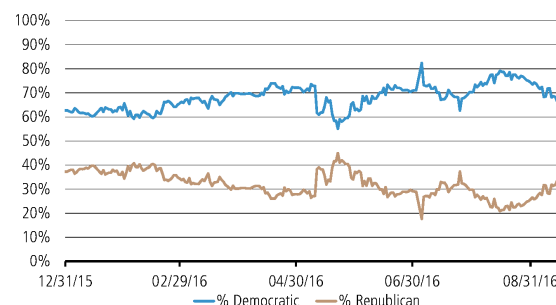
What triggered it?

- While investigations are still on-going, there is now a strong presumption that several of these attacks could be related and that some may have been at least been inspired by Islamic fundamentalism.
- In the Minnesota attack, the suspect, identified as Somali immigrant Dahir Adan, is reported to have asked potential victims if they were Muslims and is also believed to have made religious references during the assaults.
- Authorities were also searching for Ahmad Khan Rahami in connection to potential involvement in the attacks in New York and New Jersey. Rahami is now reported to be in the custody of US law enforcement personnel.

What are the key takeaways?

- Given the relatively small scale and narrow scope of these attacks, the initial market impact has been negligible. Longer-term implications upon markets will manifest themselves through three critical transmission channels; (1) commerce; (2) monetary policy; (3) domestic politics.
- While business activity at the local level will be affected – including retail shopping activity in both St. Cloud and Chelsea – the broader economic impact appears limited. Keep in mind that larger scale attacks in Paris, London and Bavaria had only a very limited impact upon commerce.
- As far as policy is concerned, it remains our view that the Fed will refrain from raising rates in September — regardless of this weekend's events — and, in the absence of broader economic impact, will continue the process of normalization in December.
- The wildcard for markets then is the extent to which these attacks impact the US elections. On the surface at least, these attacks would appear to favor Mr. Trump and could help to further narrow the gap between him and Secretary Clinton.

Fig. 1: US presidential race has tightened in recent weeks



Source: Iowa Electronic Markets, as of 18 September 2016

Keep in mind however, that the election is still more than six weeks away and Clinton holds an advantage in the Electoral College. (On Tuesday of this week, we will publish the next edition of our *ElectionWatch* report, featuring in-depth commentary on the election and updated outcome probabilities.)

- We therefore elect to retain our modest pro-risk bias, but will continue to monitor events closely for any further fallout.

Appendix

Terms and Abbreviations

Term / Abbreviation	Description / Definition	Term / Abbreviation	Description / Definition
A	actual i.e. 2010A	Shares o/s	Shares outstanding
CIO	UBS Chief Investment Office		

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