

The Election Effect

EXAMINING THE IMPACT OF A CLINTON OR TRUMP ADMINISTRATION
ON GLOBAL FINANCIAL MARKETS

November 2016

Though it may seem longer, it has only been a few weeks since the final presidential debate. With the election quickly approaching, balanced analysis from investment experts is vitally important. With this objective in mind, we sought the perspectives of some of our world-class investment boutiques and thought leaders and asked them to share their insights with you. We believe this is essential in an election cycle where the unexpected has come to be expected.



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ASSESSING KEY IMPLICATIONS OF THE ELECTION'S OUTCOME

With the U.S. election rapidly approaching, polls suggest victory for Hillary Clinton, a Democratic Senate, and a Republican House. As we have learned from the U.K.'s recent Brexit vote, polls can be very wrong. Nevertheless, certain post-election investment implications will be the same regardless of a Clinton or Donald Trump victory, while other implications will vary significantly.

Similar implications regardless of the outcome

If either Clinton or Trump is elected, certain developments are likely as both candidates have spoken of the need for fiscal stimulus. The U.S. economy has long been stuck in a low-growth environment and the effectiveness of central bank stimulus is reaching diminishing returns. It's important to note:

- Recently, the European Central Bank and the Bank of Japan addressed the lack of a continued stimulative effect from even lower interest rates.
- A fiscal response from government is being viewed as more effective than more monetary stimulus.

Polls suggest that U.S. interest rates will be higher after the election as the pre-election uncertainty premium is removed.

Investment implications vary under Clinton versus Trump.

Here substantial differences emerge.

- Clinton is more supportive of global trade while Trump is very protectionist and these distinctions will impact the U.S. dollar.
- International trade organizations worry that a Trump administration could lead to a lower U.S. dollar, which will have varying implications for the different sectors within the economy.
- Clinton has attacked pricing in the healthcare industry while Trump seems to support a much stronger defense budget.

A focus on strong yields or growth in the future.

Clearly, this is an atypical U.S. election by historic standards.

While surprises may certainly come on November 8, the trajectory of both the U.S. and global growth appears to be for lower growth and relatively low interest rates. Investments that produce solid yields or robust growth will most likely continue to be in favor regardless of the election outcome.



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THE EXPECTED AND UNEXPECTED OUTCOMES

For many weeks, Hillary Clinton has held on to the lead in the vast majority of polls. However, polls are predictive, not guaranteed. A Trump victory would be an unexpected outcome and could precipitate significant price adjustments in the short term.

Most election coverage has focused on the candidates' policies, but neither is likely to implement key elements of their platforms unless their party controls Congress. Currently, Republicans control both houses of Congress. Though a swing to the Democrats seems likely, it will be a big leap for them to gain a majority in both houses.

A Clinton victory and a Democratic Congress

Market participants would view this as a more risk-friendly outcome.

Risk assets would likely remain reasonably well supported in the short term, albeit with pressure on specific sectors:

- Clinton's stated aim to increase regulation of financial firms, as well as a graduated risk fee for financial institutions with assets of \$50 billion or more, could be viewed negatively for the financial sector.
- An aversion to pharmaceutical companies' high pricing by a Clinton administration would be a threat to profit margins and could depress the sector.
- Conversely, green energy-oriented firms could be significant beneficiaries, given Clinton's anticipated focus on cleaner energy sources such as solar and wind.
- Clinton's plans to increase infrastructure spending significantly could lead to stronger growth over many years, as well as potentially higher inflation and interest rates. This could benefit the U.S. dollar over the medium term.

A Clinton presidency with Republicans controlling Congress, or even with Democrats and Republicans each controlling one house, would likely be a continuation of the current situation. Any changes would likely be incremental.

A Trump victory and a Republican Congress

The initial surprise of a Trump victory, combined with Republican control of Congress, would potentially lead to a sell-off in risk assets.

Global equity markets could retreat given the pressure on globalization and the anticipated abandonment of the Trans-Pacific Partnership Agreement. Mexico's peso would likely weaken due to Trump's plan to impose tariffs on Mexican imports and new immigration regulations. The Canadian dollar would decline given Canada's trade dependence on the U.S. Generally, emerging markets would be hurt by a rise in risk aversion and the U.S. move towards protectionism. Additional areas could be considerably impacted.

- It's likely that Trump's energy policy would negatively impact green energy and solar and wind technology.
- The pharmaceutical industry would likely suffer due to Trump's pledge to reduce healthcare costs and allow Medicare to negotiate drug prices. However, these ideas are not aligned with the Republican platform, so implementation is uncertain.
- For Trump to move toward energy independence and increase the supply of domestic production, the plan would need to include Canadian energy sources, likely resulting in North American energy independence.

A Trump victory combined with split control of Congress or Democrat control would also prompt risk aversion, albeit less dramatically than under the previous scenario.



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PREDICTIONS FOR AN UNPREDICTABLE PERIOD

If elected, Donald Trump's fiscal spending plans would likely put pressure on U.S. Treasuries. However, U.S. companies, which currently pay a high corporate tax rate, would benefit from a reduction. Trump's desire to tax large U.S. multinationals could have a significant and negative impact on these organizations considering that comparatively little tax is paid onshore now. Though this scenario could occur if Hillary Clinton were elected, it would likely be to a lesser extent.

Expecting market volatility

In terms of sectors that could do well under either scenario, only those with a clear view and visible, recurring earnings will do well. U.S. defense stocks could prosper under a Trump administration given his pledges to strengthen the armed forces, while the general consensus is that healthcare, and in particular pharmaceutical firms, could come under further pressure should Clinton win, given her high-profile campaign to drive down drug prices.

However, I suspect that having already performed poorly this year on the back of this negative sentiment, by the time we get to the election most of the bad news may have already been priced in to the sector, so there may be some upside potential. We would expect healthcare stocks to continue to struggle into the election, but, if Clinton wins, healthcare stocks could eventually fare reasonably well, as they have decent cashflow and had underperformed in the year to date.

Opportunities ahead

We will look to add specific securities should election-induced volatility create good valuation entry points.

The consensus views Clinton as a more favorable outcome for markets as she represents the status quo. However, we see a continuation of the policies that have been in place since the financial crisis as little cause for optimism.

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