



# Trump Victory

GLOBAL MARKET THOUGHTS ON A HISTORIC ELECTION

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For the first time since the 1950s, the U.S. electorate has chosen a non-politician to be president of the country. After an extremely atypical general election cycle, the Republican candidate Donald Trump has claimed victory. What does this mean for global markets?

A Trump victory, combined with Republican control of Congress, may initially lead to a sell-off in risk assets and a global equity market retreat, says **Sinead Colton, head of investment strategy at Mellon Capital. Newton's emerging markets team leader Rob Marshall-Lee** agrees, noting Trump represents more uncertainty and therefore he expects to see rising risk premiums across most asset classes. His **fixed income colleague Paul Brain** adds that emerging market assets and indeed all risk assets are likely to initially decline, as investors worry about increased trade barriers and higher U.S. rates.

While Trump's victory is partially baked in to the market, as the market experienced nine straight days of declines reflecting tightening polls, we do think that there is some additional volatility ahead.

**The Boston Company's senior portfolio strategist, George Saffaye,** expects markets to further pull back but he believes this volatility will

be short-lived because, in his opinion, the U.S. economy remains fundamentally sound. "We have full employment and rising household formations, which has a positive knock-on effect for other sectors. Couple this with low inflation and you have an economy that can grow at around 2% without overheating."

## SECTOR IMPACTS

From a sector point of view, **Suzanne Hutchins, Newton manager on the real return team,** expects pharmaceuticals and drug devices to rally under President-Elect Trump. Colton doesn't believe all of health care will do as well though, noting pharmaceuticals could suffer as Trump's election pledge to reduce health insurance costs and previous comments indicating that Medicare should be permitted to negotiate drug prices could be difficult. However, she notes, Trump's ideas are not aligned with the typical Republican party view,

so it remains to be seen whether those aspects would gain sufficient support in Congress. Further, with biotech and pharmaceutical stocks down in the month of October alone, there could be a relief rally in the sector.

Colton notes that Trump's energy policy may negatively affect green energy and solar and wind technology while it boosts the coal and energy sector. "Trump plans to undo the Obama administration's climate initiatives. This also includes opposing Environmental Protection Agency (EPA) coal plant restrictions, in addition to abolishing the EPA and opposing green energy subsidies. Consequently, the Trump victory could lead to a significant re-energizing of the coal sector and increased pressure on green energy. America's energy industry would be reinvigorated as Trump supports increasing domestic shale oil and gas production.

**Newton global equity income manager Nick Clay** says defense spending will probably rise under President-Elect Trump. Hutchins says other areas likely to benefit under the Trump administration are infrastructure-related stocks, construction and homebuilders, given the huge financial election pledges behind a drive to upgrade the U.S.'s creaking infrastructure. That said, Hutchins believes any progress in this area is likely to be slow as funds may only be available as a result of a deal on the repatriation of cash balances held abroad by large U.S. multinationals.

Trump's intent to bring jobs back to the US is, Saffaye says, one thing that has roiled markets. "This could include imposing taxes and penalties to incentivize companies to repatriate production. This could materially upset the balance of

profitability for overseas manufacturing. But, actually, when you think about it, this would have to be a long process, and it couldn't be done at the flip of a switch."

## **GLOBAL TRADE & INFLUENCE**

The North American Free Trade Agreement (NAFTA) was also a target for Trump ahead of the election, and indeed it may be under threat in the long run, Saffaye notes. However, he believes there's only so much that can be done before the balance is upset too much. In addition, even with the backing of a Republican house, it doesn't necessarily mean Trump will have control. "It's impossible to say at this point how any of the new president's plans might work out in practice, but overall, we feel a lot of what was said in the run-up to the election will be more measured in reality." Nevertheless, the U.S. executive does have the ability to steer trade negotiations, most importantly through perception and whether future trade will proceed under the current conditions.

Newton's Brain expects the dollar to remain strong, initially, as 'safe-haven' assets gain from the U.S. election result. However, a stronger dollar is usually not good news for emerging market (EM) countries that have borrowed in the U.S. currency. Marshall-Lee notes Trump has repeatedly vilified NAFTA as the worst trade treaty ever negotiated and one which he intends to change. "He has also promised to label China as a currency manipulator and talked about imposing tariffs on Chinese goods. Whether or not he actually ends up carrying through with these threats and whether he has the political ability to do so is another matter."

Irrespective, the initial market reaction to his election is likely to be negative for Mexican equities

and spell further downside for the Mexican peso and many other currencies, Marshall-Lee points out.

“The less U.S.-exposed and less dependent on global financial flows emerging markets, such as India and Eastern Europe, will likely hold up best.”

**Insight’s currency manager Paul Lambert**

comments that the shorter-term outlook is uncertain and so the U.S. dollar is likely to be volatile. However, Lambert believes it may strengthen eventually if Trump is able to push through his proposed ‘repatriation tax holiday’ policy. “Moreover, if he is able to boost fiscal spending, that would potentially push the Federal Reserve (Fed) to raise interest rates by more than currently discounted, again supporting the U.S. currency. Downside risks for the dollar come from the potential reaction of asset markets. A sustained sell-off of equities could shift the outlook for the Fed to easing rather than tightening and this would push the dollar down against ‘safe-haven’ currencies like the euro and the yen.”

**BONDS AND RATES**

Brain believes the expected increased federal government spending under the Trump presidency could lead to a higher (albeit modest) increase in inflation. As such, he believes U.S. TIPS look attractive—both as inflation protection and as a ‘safe-haven’ asset.

**Isobel Lee, head of global fixed income bonds at Insight**, says the reaction of the U.S. Treasury market and global bond yields are tricky to predict. “On the one hand, given financial uncertainty, weakness in risk assets could prompt a flight-to-quality similar to the short-term reaction following the UK referendum. However, if this does not

happen, we may be more likely to see higher yields and steeper curves. Trump’s preference for fiscal rather than monetary stimulus may compound what increasingly feels like a growing skepticism towards further monetary policy easing.”

A Trump victory was considered a threat to the Fed with speculation rife that Janet Yellen would either resign or be forced out. Brain says this could be bad for the U.S. bond market but possibly a positive for the dollar as rates could rise faster. Marshall-Lee agrees, noting the subsequent risk aversion of global investors as a result of the election outcome may “lead to the perverse reaction of the U.S. dollar strengthening further.” Colton adds: “The Fed may hit the pause button and defer any U.S. short-term rate rise until the economic implications of a Trump presidency are clearer.”

Brain adds: “Although, on the surface, this is not good news for the bond market, the knee-jerk buying of U.S. Treasuries due to their ‘safe-haven’ qualities, amid fear of a global economic slowdown, would swamp any higher cash rate concerns.”

However, **Standish’s chief economist Vincent Reinhart** doesn’t think Yellen will be that quick to resign. “Janet Yellen cares about her institution and her place in history. By resigning early, Yellen would strip away important political insulation for her institution. For herself, she would be placing an asterisk next to her name in the list of Fed chairs, denoting not having served out one full term. And history has not judged the prior Fed head with an asterisk, G. William Miller, favorably. The fact is, by gritting it out, especially if an ill wind blows strongly from the White House, Chair Yellen establishes herself as an icon of institutional rectitude.”

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