POST-ELECTION REFLECTIONS

What will Donald Trump’s victory mean for investors?
Here we go again. We’re in the aftermath of a seismic national vote, and the outlier has defied all expert opinion, analysis and bookies’ predictions. Donald J Trump has been elected the 45th president of the United states, trouncing Hilary Clinton after Wisconsin called its result at around 7.30am GMT, on the 9th November 2016.

With the benefit of hindsight, the words of Schroders Investment Management’s US team – featured in their latest article for Vision magazine – seem oddly prophetic:

“There is no doubt with political dissent rising in the US, as elsewhere in the world, that the status quo is likely to be unsustainable.”

Little did they know how true these words would turn out to be.

While news outlets and social media channels are abuzz with all manner of reactions – shock, awe, joy, despair – those with an eye on what’s happening in the markets might be wondering what a Trump presidency will have in store for investors in the UK and around the globe.

And so, after a preliminary survey of the data, we’ve put together this overview of the current state of play...
Market Reaction

The initial response has been less dramatic than the speculators’ predictions, with the falls seen across all major indices, including the 2% losses sustained by the FTSE 100, levelling off after an initial plunge. In other words: we’re not (or at least, not yet) seeing casualties of the order witnessed in the wake of the Brexit vote. We’re not even seeing lows to rival February’s oil price collapse (which most people seem to have forgotten about, despite widespread panic fuelling dismal speculations at the time).

What can we glean from these initial signs? At the moment, not very much, but the fact that the fallout was supposed to be catastrophic and has since been, as portfolio-adviser.com put it, ‘underwhelming’, should give investors reassurance that capital markets worldwide are robust enough to remain buoyant (albeit volatile) during times of political upheaval.

Analysts at Hargreaves Lansdown have already commented on the foresight (or luck) of those who waited to exchange their pounds for dollars until after the US election. It’s true that the dollar has weakened against all major currencies, but, it must be said, to a much lesser degree than GBP did after the EU referendum.

Movements in the dollar are currently impossible to call, due to the period of inertia between now and Mr. Trump’s inauguration in January 2017. Since nothing concrete will be implemented, valuations will be particularly vulnerable to the ebb and flow of market sentiment, as media pundits and political commentators speculate about the months to come.

That said, there’s nothing to stop anyone taking advantage of today’s (relatively) favourable exchange rates while they remain at current levels.
3. Big Pharma

The pharmaceuticals industry was bracing itself for a pummelling in anticipation of Mrs. Clinton's proposed healthcare reforms, which were intended to be a continuation (and ramping up) of Barack Obama's 'affordable care' agenda – commonly referred to as 'Obamacare'. Now that they are out of the firing line, pharmaceutical companies have seen a positive surge in their share prices.

Mr. Trump and the Republican party at large are not only against an aggressive crackdown on the healthcare industry, but, with their pro-business philosophy, are ostensibly supportive of drugs companies keen to sustain their existing profit margins. As such, we can tentatively expect to see further gains in this sector in the years ahead.

4. Fossil Fuels

While progressive in terms of its adherence to the Paris Agreement on climate change, which was ratified only earlier this month, Mrs. Clinton's proposed energy policy was politically costly. Workers in the coal, oil and gas industries have seen their livelihoods hollowed out by global forces including cheap energy imports and moves towards greener technologies, and Mrs. Clinton's proposals can only have served to further alienate and anger these workers, who were already feeling left behind by a fast-changing world.

This issue proved particularly significant in notorious swing state Ohio, long regarded as a bellwether for the outcome of the election overall. Ohio voters were no doubt seduced by Mr. Trump's promise to revitalise their ailing coal mining industry, and as such we can expect to see the implementation of a protectionist agenda that may give old-school energy companies a new lease of life as the Trump administration gets underway.

This is a big 'may', however, as the global trend towards cleaner forms of energy could be beyond the means of any one political leader to halt or contain. And so, time will tell whether Mr. Trump will be able to keep his promises in this area.
Trade Treaties

Again, as previously reported in Vision magazine by Schroders Investment Management, Trump famously pledged to ‘tear up’ existing trade treaties given the opportunity. Whether this gung-ho approach will be approved by the house of representatives and the senate remains to be seen.

There are, nonetheless, implications for the future of global trade in light of Mr. Trump’s victory, not least because he has been elected on the back of a raft of promises centred on a more isolationist, ‘America First’ ideology. Regardless of the objective economic advisability of this course of action, the voting public is strongly in favour of it. Therefore, to maintain the fierce loyalty Trump has managed to cultivate, it may be politically necessary for him to make moves in this direction.

This could threaten negotiations currently in the works, most notably the Trans-Atlantic Trade and Investment Partnership, currently being brokered between the US and the EU. Again, it’ll be a case of ‘watch and wait’ to say more definitively how this issue will play out.

Fiscal Policy

It’s fair to say that, while the recovery overseen by Mr. Obama since the 2008 crisis has been impressive given the circumstances, the distribution of the economic gains of the last eight years has been uneven. In consequence, the figures tell an optimistic story about the American economy that many working-class Americans simply cannot relate to. This is the foundation upon which Mr. Trump could focus his efforts to enact positive change.

As Pictet Asset Management have pointed out, Trump’s pledge to inject USD 500 billion into infrastructure spending – comprising transportation, communication, water, sewage and energy – will be one change that the average American will be able to benefit from. The same goes for plans to curb immigration and slash corporation tax, as these measures are likely to create jobs and boost wages for low to middle-income Americans. The prospect of these plans coming to fruition has already provided a fillip to construction and commodity-based stocks.

Another interesting proposal is to use generous tax breaks to entice US multinationals to repatriate assets held in offshore accounts. The theory is that this will lead to greater investment in jobs and boost shareholder value. Whether the effects will play out this way in practice however remains to be seen.
“All in, the emotional fallout of the election result looks to be greater than the economic fallout at present. Regardless of your opinions on Mr. Trump’s character, the forthcoming leader’s vow to ‘drain the swamp’ (referring to the ‘career politicians’ of the entrenched political classes), might provide the shake-up the US constitution needs.

At Thomas Heald, we are continually monitoring global economic developments in relation to our clients’ investments, so that we can be alert to any changes that might be necessary to ensure we get the best returns. Our portfolios are already carefully diversified to withstand all manner of market conditions, so that, even when the major indices and currencies are taking a hit, our clients’ money is cushioned from the fallout.

That said, sometimes fund switches and portfolio rebalancing are necessary to make sure that a client’s holdings stay within their agreed risk mandate. If any such changes are necessary, we will let you know in due course.

We obviously cannot guarantee success, as risk of loss is integral to all forms of investing. But you can be confident that your investments are well-positioned to ride out the short-term volatility that this momentous occasion is likely to provoke.

Chloe Timperley
Client Communications

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