TRUMP VICTORY – GLOBAL INVESTMENT MARKETS:

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Industry News

What does a Trump victory mean to Global Investment Markets and why does *Gilt Edge* think diversification will be key to Investors over the next 12 months?

Twice in 2016 we have seen a major election bamboozle the polls and more importantly global investment markets. What all investors should consider in the forthcoming elections in Europe is that an extra 5% needs to be added onto the polls for the expected loser and taken off from the expected winner. For global investment markets, it seems that investors should do the exact opposite to what markets are indicating leading up to these events.

What can we now expect from investment markets with a Donald Trump Presidency?

- **A Trump administration is considered by many to have a good business focus**
- **Trump's agenda will provide focus on fiscal stimulus with a large infrastructure plan programme planned**
- **Trump's administration is likely to support both the financial and energy sectors. However, for healthcare there will be winners and losers**
- **The anticipated spending programme will create additional inflation in the medium to long term which will be positive for equities but will lead to rising bond yields**

Over the short term, we expect there to be much uncertainty in global markets not just from economic policy in the US but also in areas such as Japan and Europe.

In the US, the major concern is that Trump's agenda lacked detail and clarity. In areas including trade and security, the rhetoric was polarised from what would be considered as the 'normal' Republican position. Trump has often been seen to be at loggerheads with many senior members of the Republican party which, if it continues, will play heavily on market sentiment.

For Japan and Europe, the major concern will be how any agenda will impact on their battle in controlling currency strength, low growth and low Inflation. One of the main areas of attack leading up to the Election was on international trade deals which Trump indicated need to be at least re-negotiated. It has also been the rhetoric surrounding China that is a concern to global markets, with at one stage Trump calling the Chinese 'just a currency manipulator'. Over the next few weeks it will be very interesting to see the stance taken on current trade deals and how they may be positioned and how relationships develop with both China and Russia.

For the US economy, there are some positives that may come from the Trump administration. He has already indicated that he will look to increase fiscal spending, quoting at one stage that he would be willing to spend over $800 billion on infrastructure programmes. This would give a boost to the US economy but over the longer term will increase an already aggressive debt burden. It will also increase both price and wage inflation. Other areas that could see a positive from the Trump administration are the Financial and Healthcare sectors. This is due to changes that Trump highlighted would be taking place if he was elected. He has vowed to revamp 'Obamacare' which will provide opportunities for some aspects of the biotech and healthcare sector. He has also indicated the reduction of regulation for banks and companies through accounting regulation which will increase profitability in financials especially.

Gilt Edge Investment Consultancy
7 Sansome Place, Worcester WR1 1UG
Tel: 0121 447 7491 **Mobile:** 07973 322135
Email: info@gilt-edge.co.uk
www.gilt-edge.co.uk

Until the 7th November, markets were factoring in an 88% chance of an interest rate rise at the next Fed Meeting in December. With the Republican victory, this has now gone down to less than a 50% chance. This could mean any future rate rises may be put on hold until 2017 as the Fed may see the added volatility brought by the election result allowing for additional time to occur before another rate rise is undertaken.

Reviewing the main asset classes over the short, medium and long term we see the following for each of the main asset classes.

Bond Market:

Short Term- We see increased volatility in the sovereign bond market with yields moving up. Investment grade credit will also be caught up in this volatility but should provide investors with a more settled opportunity. High Yield bonds will initially show negative returns due to the rise in yields but over time the risks will be less as higher inflation will not provide as higher risk to the higher coupons on offer.

Medium Term- For US Treasuries and Gilts a lot will depend on how the Fed view interest rate rises in December and what further action we may see from Japan and Europe in terms of their QE Programmes. A programme of further tightening in the US and rhetoric for potential tapering in Europe and Japan will see yields push forward quite aggressively. However, the reversal of this agenda will see yields falling once again which would be very beneficial for lower risk clients. Investment grade and credit will continue to be the main beneficiary of investor monies with higher yields and tighter spreads offering a good return opportunity for clients. There will also be better opportunities in the Emerging Market bond area which should come back into vogue following the potential volatility seen in this area in the early days following the Trump victory. This will also include the local currency bond market with currencies globally finding their correct levels again following the short term volatility post the election. The High Yield bond market should continue to offer higher yields and with continued low levels of default this sector should be a good area to provide investors with both good levels of income and capital return.

Long Term- For Sovereign and Investment Grade bonds, we see limited return opportunity with yields continuing to move upwards. The main contributor to this will be inflation which in both the UK via falling sterling and US via the potential fiscal spend will move upwards quickly throughout the course of 2017/2018. Investment grade and High Yield will continue to provide more stable yields for clients looking for income which in turn should provide the best growth potential if default levels remain steady and spreads against conventional bonds do not widen too far.

Equity markets:

Short Term- All areas of equity markets will be volatile over the short term. Asian Pacific equities and Emerging Market equities being the main negatives as investors analysis the early impact of the US Election result. A positive area short term will be Global Cyclicals and Financials which investors will see as the main beneficiary from rising inflation expectations.

Medium Term- When more details of Trump's fiscal spending plans are announced, we should see a good period for global equities. Issues will remain, especially with regards to Europe & Japan and how their respective QE programmes will be tapered. Areas that we have already highlighted as potential winners are Financials and Healthcare which have been oversold in the past couple of years so will provide a good growth impetus for investors.

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Long Term- Over the long term, we do not see any major issues that will impact on all areas of global stocks. Volatility will still be prevalent but with good diversification and a buy/sell discipline that allows investors to enter and exit markets at the right time, long term equities market will continue to be the best asset class for investors.

Property

Short term- We do not see much change to UK Bricks and Mortar funds which have re-established themselves back to pre- Brexit values. The main area of negativity over the short term will be via global REITS which have already experienced a small amount of negative pressure over the past few weeks.

Medium term- With no major issues in the global property market, we expect yields to continue to remain positive for both Bricks and Mortar and REITS, however, we see property values in certain areas like China and Asia starting to 'flatten out which will have an impact on investor returns.

Long term- With the potential for higher interest rates in both the UK and US over the next two to three years, the property market will at some stage hit its peak level. However, with global diversification creating additional opportunities for investors, we do not see any real slowdown in this area even with potential risks in two of the current major markets.

Commodities:

Short Term- Oil and other global commodities will be very volatile in the short term as investors try and price in the effects of a trump victory on global infrastructure and trade deals. Many of the 'hard' commodities will see an uptick in pricing if investors sentiment increases for growing infrastructure spending. Many believed that gold would be a major beneficiary due to the inflation protection gold possesses as well as its interesting pricing point. This has not materialised yet, however, with major global political elections still to come, gold will continue to be a hedge for many portfolios which will keep it in focus for most investors.

Medium Term- We are aware from Donald Trump's campaign that he favours coal and the older energy areas over new renewable areas. If this focus on coal and other fossil fuels materialises in very focused legislation, then certain areas of the commodity space will become extremely attractive. We also see Gold and Silver continuing to provide opportunities to investors although this will be driven in the main by the volatility experienced by the rest of the global investment market and will therefore be volatility itself as an area of the sector.

Long Term- Both direct commodities and the companies associated with this area should provide a good long term opportunity for investors. As the Trump administration goes through their 1st term, we will see the scope of legislation that they intend to bring through for the US Economy. With the massive infrastructure programme, also on the cards early in Trumps term, investors should be focused in the commodity area for long term investment opportunities.