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US ELECTION

Trump wins US presidency: Initial reaction

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After a heated and controversial presidential race, Mr. Donald Trump has come out as victor. The 2016 presidential race was certainly the most contentious and uncertain race we have seen in a very long time.

Irrespective of the initial market reaction, I do not think that the outcome of the US presidential election dictates how the markets will act in the long-term. There have been numerous studies which have shown that the presidential outcomes have limited impact on the performance of the US market and I do not think it will be any different this time. Moreover, before we discuss the potential impact of the results on various sectors, it is important to reiterate that the US President's powers are held in check as there is a separation of executive, legislative and judicial powers. Before implementation, all federal legislation will have to pass through Congress. Consequently, even if Mr. Trump were to promote any extreme policies, it would be difficult to implement them given the US legislative structure. Therefore, it is important that investors stay focussed on company fundamentals and not get caught out by the noise/volatility created by such events.

Having mentioned that, given the market had been considering a Clinton win as the base case outcome, this win for Trump is likely to induce an initial bout of volatility. From a fiscal, monetary, trade and legislative purview, Mr. Trump has been widely viewed as someone who could bring unprecedented policy uncertainty. Consequently, treasuries and gold could initially benefit from safe haven flows as investors get into a risk-off mood. In the short-term, I also expect higher fluctuations in US dollar due to trade policy uncertainties. Larger fiscal stimulus, repatriation and protectionism should support the US dollar, particularly against the Mexican peso and the renminbi. Indeed, Mr. Trump has repeatedly targeted trade agreements with Mexico and China. On similar lines, drastically tighter immigration control was a key campaign focus for Trump. The sectors most exposed to his immigration proposals are those with high shares of low-cost labour. The best example is agriculture (farming, fishing and forestry) where a significant number of workers are undocumented.

Within equities, following an initial spell of volatility, a reduction of the corporate tax rate (if implemented as proposed) would be supportive in the near- to medium-term. Sector-wise, the health care sector should witness an initial uplift following Mrs. Clinton's loss in the election and its future path will be decided once Mr. Trump come out clearer with his plans on the Affordable Care Act (Obamacare) and drug pricing. The financial sector could also benefit if Mr. Trump's lives on his campaign promise of reducing regulations.

In an election marked by wide differences on policies, there was one area of rare agreement between Clinton and Trump: Fiscal Spending. With monetary policy widely seen as near its limits, the next policy lever to be pulled is likely to be fiscal stimulus, in particular, infrastructure spending. After decades of subpar investment in infrastructure, the US's out of date infrastructure is clearly acting as friction for GDP growth. In addition, the defence budget has also witnessed cuts in recent years and further meaningful cuts are perhaps unlikely in the context of ongoing global security concerns. In general Republicans are considered to be pro-defense and hence it is no surprise that Donald Trump has voiced his opinion for an increased defense budget. Given both Trump and Clinton had agreed on these areas, some of this has already been factored in by the market but there are prominent investment opportunities in both areas.

Fidelity INTERNATIONAL

As the market gets over the hype around the election and its results, the next focus will be on the US Federal Reserve and the next interest rate hike. US inflation and wages have continued ticking up and until recently a December rate hike was very likely. We will have to wait and see whether this unanticipated Trump victory will have any bearing on their decision. Looking into 2017, the US economy remains in good shape and should continue to improve at a moderate pace going forward. Growth is likely to be supported by the strong labour market, robust consumption and the continued recovery in the housing market. In general, there is still abundance of investment opportunities in the US but one has to be conscious that we are in the advanced stages of the business cycle, and at aggregate levels, margins are high and valuation multiples are not low. Moreover, growing wages and interest rate pressures, combined with the still strong US dollar, could weaken margins in some sectors. It is important to be selective in the current market environment.