The US Election

9th November 2016

Donald Trump will be sworn in as the 45th US President at noon on January 20th 2017. If Brexit was unexpected, "The Donald's" triumph is a thunderbolt.

So far (8am UK time), the market reaction has been orderly; risk assets have sold off with "safe havens", like gold, rising. Burnt by their Brexit losses, investors did not aggressively back a Clinton win so the negative reaction this morning, whilst material, is contained. At this early stage, it is impossible to judge exactly what a Trump administration means for markets and economies. Until we get clarity on how much of his amplified campaign rhetoric translates to policy, we will not know.

In the near term, the uncertainty will surely act as a headwind for US growth; companies will eschew investment and hiring as they wait to see what the future holds. Further out, with a December rate hike now less likely, and sizeable tax cuts a key campaign promise, the US could enjoy a sizeable monetary and fiscal boost in 2017/18. Indeed, with the Republicans controlling both houses of Congress, we can expect decisive action in policy areas where the wider GOP overlaps with the President.

A key question is the dollar; will it remain firm or will it slide. The arguments for and against the dollar are a topic we will revisit in Investment Views as we head towards Christmas; that said, our dollar bias carries less conviction this morning. Indeed, noise around the independence of the Federal Reserve will be a key point of interest; we note that Chairwoman Yellen's term runs until 2018. As regards US equities, infrastructure plays will benefit if Trump delivers on his public works pledge whilst banks would enjoy any relaxation in the Dodd-Franks regulations.

Looking further afield, Europe looks vulnerable as the populist uprising against entrenched political elites gathers pace. We face an Italian referendum on constitutional reform on December 4th, with whispers of the vote morphing into a plebiscite on Italy's place in the EU. As importantly, the National Front is polling well for the April French general election and Angela Merkel goes to the German nation sometime before October. As countries turn inwards to address popular discontent, the fragilities of the EU construct will once more come to the fore. As regards Brexit, the risk of a bank and manufacturing "brain drain" to continental Europe seem less acute.

As regards client portfolio's, we are, as on Brexit night, benefitting from our cautious asset allocations; our cash, bonds, gold and alternatives are all offsetting pressure on our modest exposure to equity markets. We have a shopping list of quality assets we would like to own and, as ever, are looking for irrational, emotion-driven selling to offer us an opportunity.

Please do make contact if you would have any concerns or questions.

Rupert Bentley