Managers

Dr. Ian Mortimer, CFA

Matthew Page, CFA

Funds

Guinness Global Equity Income Fund
Invests in companies with persistently high return on capital, that are well placed to pay a sustainable dividend into the future

Guinness Global Innovators Fund
Invests in companies benefiting from innovations in technology, communication, globalisation or innovative management strategies

Implications of the US election result

So we have a new President of the United States, and it is Donald Trump. The polls, once again, proved to be an unreliable indicator of voting intentions. It appears that the option of change offered by Trump to a white working class population was stronger than the fear he instilled in minority voters.

How this will play out over the next four years is hard to tell. Will the headline-grabbing policies of Trump really be enacted? Does populist rhetoric get converted into policy or is it diluted with the responsibility of power? Is President Trump the same as Trump the candidate? Will it be hard Trump or soft Trump? Only time will tell.

How will a Trump Presidency impact financial markets? As we are already seeing this morning equity markets have reacted negatively with a sharp drop in prices around the world. Japanese equities have fallen over 5%, while in Hong Kong they are down around 2.5% and Taiwan 3%.

Equities in Europe are down around 2% at the time of writing, while futures in the US indicate equities will fall by a similar level.

However, it is worth putting today's fall in context. The S&P500 had rallied 2.7% in the two days preceding election day.

Much like in the aftermath of the UK referendum the biggest impact today has been in the currency markets. The Mexican peso has fallen 10% against the dollar. The trade-weighted US dollar index has fallen by around 1%.

In periods of uncertainty such as this, safe haven assets tend to perform well and we have seen the gold price rally over 3% and US treasuries by a similar amount.

So while it is unsurprising to see these short-term reactions to a period of uncertainty, the question we really need to consider is what the impact will be on equities in the medium term; for example, over the next four years. This is a hard question to answer and it depends on how far you believe Trump will go.

One of the broad policies that Trump has focussed on has been to 'put America first'. He is likely to seek to introduce protectionist policies that would have an impact on global trade. He wants to renegotiate the North American Free Trade Agreement with Canada and Mexico and cancel participation in the Trans-Pacific Partnership. He has indicated a desire to introduce a 35% import tariff on Mexican goods and 45% on Chinese goods. Protectionism is most likely to have an impact on companies in export nations in Asia and emerging markets.

On a more positive note for equities Trump has said he wants to cut the corporate tax rate from 35% to 15%. This would clearly boost the profitability of US companies and could be a driver of higher equity valuations of US companies. He has also indicated his intention to allow companies with large cash piles outside the US a lower tax rate, to incentivise them to repatriate this cash. What these policies add up to is more cash on the balance sheets of US companies, as a result of higher profitability. This will provide support to US dividends and offer companies more opportunities to invest for growth.

Infrastructure spending is also high on Trump's agenda. He has highlighted his desire to rebuild roads and airports and this fiscal stimulus is likely to provide a boost to the US economy. The increase in spending will likely have to be funded by more debt. However, given the Republicans also hold the Senate and the House of Representatives it will be interesting to see if there is much resistance to this. Four years ago it was the policies of the Tea Party that dominated Republican thinking, calling for a smaller government and reducing national debt.

Healthcare is likely to be a short-term beneficiary of Trump. The sector has underperformed this year on fears of Clinton clamping down on drug pricing. With that now having gone away we would not be surprised to see a short-term bounce in the sector.

Defence companies are also likely to benefit from an increase in the defence budget of the US as well as NATO members that Trump wishes to see increase spending to the levels mandated by NATO membership.

Markets have long been expecting the Fed to raise interest rates by another 25bps in December. However, given the uncertainty of a new President with intentions to take the country in a new direction, it would not be surprising to see that December interest rate rise delayed.

Over the last six years we have seen numerous events that have caused shockwaves through equity markets: from the European sovereign debt crisis, the rise of ISIS, slowing growth in China, to the oil price collapse, Russia's invasion of the Ukraine, the 'Taper tantrum', etc. Much of Trump's social policy is extremely divisive, his lack of experience of holding elected office should be a concern, and his maverick attitude increases uncertainty. However, the emergence of a new US president that wants to provide a shot in the arm to the US economy through fiscal stimulus could well turn out to be a fairly benign, if not overwhelmingly positive outcome for equities overall.

Matthew Page, CFA
Dr Ian Mortimer, CFA

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