Trump Triumphs

Donald Trump has been elected 45th President of the United States.

Trump heads the Trump Organization which is the vehicle for his real estate business and is well-known as the host of “The Apprentice”. He announced his candidacy for president in June 2015 and was not initially seen as a likely Republican nominee. His eventual nomination as the Republican presidential candidate in July 2016 has been divisive with many senior Republicans refusing support.

Polls in the lead up to the election suggesting a Clinton win proved inaccurate. This repeats the experience of the recent Brexit vote where expectations of a “Leave” vote were underestimated. Like the Brexit vote, investors should take care not to overreact to market events in the aftermath of a Trump victory. The “Leave” vote saw a sharp decline in global equities markets on the back of investor fears that Britain leaving the European Union would set in train a UK recession, and possibly a global recession. However, equities were quick to rebound as investors reassessed the likely impact.

Nevertheless, the recent poor performance of US equities when polls were improving for Trump suggests significant investor concerns about the impact of a Trump presidency. A similar pattern was exhibited as the votes were being counted. At the very least, the election of a president who is not closely aligned to the policy platforms of the major parties, and, in fact, has made a point of distancing himself from “traditional” political parties will mean a period of extended uncertainty. In the near term, we could expect volatility to spike in markets on the back of such concerns. Again, like the reaction to Brexit, the realisation the Trump rhetoric may be different from the reality could limit any negative impact in the longer run. In particular, the will of the US president is moderated by the requirement for Congressional support. Given Trump’s limited support within the Republican Party, some of his more contentious policies are unlikely to gain traction.

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Trump policies

Trump’s policy platform lacks the cohesion of a “typical” Presidential candidate reflecting his relative isolation from the Republican Party (and possibly the fact he has been both a registered Democrat and Republican voter in the past.) There have also been some major shifts in policy during the campaign which makes it difficult to determine his core beliefs, although these shifts have largely been around immigration, social policies and foreign affairs.

Trump’s major economic policies include:

- Lowering the corporate tax rate to 15% from 35%, and eliminating loopholes and deductions

- Cutting the top personal income tax rate to 33% from 39.6% and simplifying personal income tax by collapsing the current seven tax brackets to three
- Repealing estate tax laws
- Repealing or renegotiating trade deals including the North American Free Trade Agreement (NAFTA) between Canada, Mexico and the United States, and the Trans-pacific Partnership
- Increasing tariffs on exports to the US (and leaving the World Trade Organisation if it rejects the proposal)
- Replacing the Affordable Care Act (Obamacare) with a more market-based health insurance system

As already noted, Congressional support for many of Trump's policies is likely to be difficult to achieve, if they are pursued at all, once Trump is in the White House.

While the uncertainty associated with a Trump presidency is likely to be the major brake on equities markets, there are also concerns that, if passed, the combination of tax cuts and trade policies would see US budget deficits increase and the economy hurt by retaliatory trade actions. In the short-term, the US Federal Reserve is likely to delay interest rate increases including the potential December hike, in response to the renewed uncertainty. However, in the longer term, deterioration in the deficit and higher inflation would likely see bond yields rise.

Long term investors may be wary of changing exposure to equities where appropriate asset allocation for their risk profile is already in place. Generally, these long term investment settings would take into account short-term equities market volatility that comes with geopolitical and other risks. Often, by reacting to short-term events, investors run the risk of mis-timing portfolio changes by selling after markets have already fallen and thereby crystallising losses and then potentially missing the bounce that generally may follow after sharp declines. As a general rule, diversification across the different asset classes may provide some natural protection from this type of event. Increased uncertainty puts pressure on equities markets but generally sees fixed interest markets improve as investors seek safer assets.

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Is my portfolio sufficiently diversified?

If your investment portfolio is not properly diversified across the different asset classes of shares, fixed interest, property, cash and alternatives, you may wish to consider the benefits of a more diversified portfolio. This is also the case if your portfolio is skewed within a specific asset class.

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