AN UPDATE FOLLOWING THE RESULT OF THE 2016 US PRESIDENTIAL ELECTION

Strategy and economics

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After a bitter campaign, Trump will try to strike a more conciliatory note in his pronouncements.

In the short term, this will be more about investment markets than economics, and we have seen a strong bout of risk aversion as the reflex reaction:

- Global stocks are down
- Bonds are up
- Gold is up
- US dollar is down
- Swiss franc and the yen are up as safe havens
- Mexican peso has been trashed

Trump's somewhat unspecific economic policies are, at the margin, more inflationary than either Clinton's far more detailed regime or the current Obama regime. As a consequence, in the longer term you might expect a bias towards higher rates, yields, inflation and a budget deficit.

Some policies are a little contradictory:

- Infrastructure spending
- Spending cuts
- Tax cuts

The biggest unknown and where Trump has been most outspoken is on trade – most obviously Mexico has been singled out for special rhetoric. But perhaps more important for world trade, is what he will do about China, whether it is using tariffs or reopening discussions about currency manipulation using the World Trade Organisation. As President, he has much greater autonomy over international issues than domestic. This has a potential detrimental impact on Asian and emerging markets in the medium term.

Monetary policy comes back into focus. The next rate rise in the US, expected in December, is now more in doubt, the US economy still justifies tightening, however this may provide an excuse for inaction and be a guide of the real sentiment on the Federal Open Market Committee. Trump has been somewhat outspoken about the role of Janet Yellen as Chair of the Federal Reserve, and markets will be looking for continuity ahead of the expiry of her term in 2018.

From an economic perspective it would not be unlikely to see a short-term dip in confidence indicators such as purchasing managers and consumer surveys, but we believe that this is likely to be more temporary in nature, given the experience seen post the EU referendum and previous reactions to political events.

From a political point of view, although the Republicans have projected control of both the Senate and Congress, Trump has to manage the internal tensions between the three main factions within the Republicans – the pro-trade group, the Tea Party and the Trump supporters, and that is before he has to deal with filibustering from the Democrats. This will require very skilful political and party management in Washington and the onus will rest upon Vice President Elect Mike Pence and Speaker Paul Ryan. This reinforces the reality of the difference between campaigning and government.

What have we been doing in portfolios?

Over the past year we have progressively been reducing risk in all portfolios and looking for ways to diversify in an environment of moderately higher inflation and growth. We have been adding US index-linked stocks and gold to portfolios, and while the US dollar weighting has been increased for US dollar portfolios, we have been hedging that for sterling portfolios.

Looking forward, this result confirms the anti-establishment theme seen across western economies, and with a number of upcoming elections in Europe, the risk remains high for further volatility in markets. The political response to this movement is more likely to be through government spending rather than further extraordinary monetary policy measures.