Degroof Petercam | Asset Management

Update: Trump presidential victory

Key take-aways

The Republican President Trump will operate in a Congress which is entirely Republican. However, the checks and balances embedded in the American political system ensure that no president has carte blanche.

Trump's victory leads to a number of uncertainties and concerns on financial markets, which may initially weigh on them:

- **Monetary policy** : In the course of the campaign, Mr. Trump has questioned the independence of the central bank.
- **Budgetary discipline**: the combination of lower revenues (lower tax income) and higher expenditure (infrastructure) may result in a significant rise of the budget deficit.
- **Relationship of the US with its trade partners**: the trade restrictions and protectionist stance would be primarily targeted towards emerging countries, China in particular. Currency devaluations may ensue.
- **Geopolitical situation**: the isolationism put forward by Mr. Trump in that regard may lead to uncertainty.

Impact on portfolios and asset classes

<u>Fixed Income</u>

- **EUR Government bonds**: expect flight to quality into core EU markets; too early to call if periphery might suffer more on top of the underperformance witnessed over past weeks. Overall it will offer defensive diversifying qualities against all other 'more risky' asset classes.
- **Inflation linked bonds**: downside long term growth potential despite short term fiscal lift; lower probability of future hikes; balanced inflation outlook as trade barriers might work inflationary (despite less inflation pressure through growth).
- **EM rates**: repricing in EM FX expected but possibly tempered by weaker USD vs peer reserve currencies; higher uncertainty on EM future growth perspectives, lowering Mexican peso (MXN) exposure from current 8.5% towards 4.5%/5% target.
- **EUR Investment Grade**: we are protected against steepening of EUR rate curves given UW interest rate duration; neutral EM exposure vs Benchmark; neutral exposure to Mexico (only America Móvil telco). No exposure to PEMEX.
- **High Yield**: expect initial negative impact given high correlations between US HY and EU HY asset classes; EUR short-term HY would be relatively OK (duration < 2y as well as well as solid credit and liquidity profiles). Corporate HY might suffer more given higher duration (3.8y) however positioning is more conservative than benchmark (UW C's, OW BB's vs BM). In the global Higher Yield fund we carry a small 1.2% exposure to MXN.
- **Global Unconstrained**: main impact will be felt through USD exposure, however overall USD duration contribution is at 4.3y, that will block the impact to a great extent, we also got alleviated our bund hedge over past days. In EM we are exposed to 3% BRL and 1.8% ZAR which will be have

a contained impact on portfolio level, no MXN exposure. Overall we are running the lowest VaR risk measure over the past five years at 2.30%.

Fundamental Equity

- **Neutral impact**: overall the impact of Trump's victory on portfolio positioning is quite neutral. In the past few weeks we have been raising exposure to defense stocks, which is beneficial. In the near future we shall also look at infrastructure plays, as Trump plans to increase investments in infrastructure in the US, which are urgently needed given the state of American roads, railroads and airports in some cases. We continue to focus on stocks of companies with a sustainable competitive advantage, experienced management, and attractive niches with compelling valuations.

Quant/Asymmetric Equity

- All in all and so far, there is no damage in the **EMU portfolio**.
- In **Europe Behavioral Value** we are flat versus the benchmark; gaining somewhat in industrials as defense stock rise, losing some basis points in financials as Spanish banks (Santander) suffer more.
- We do not own BBVA, which is the bank suffering the most currently because of its Mexican exposure.
- **In general**, pharmaceuticals is the sector benefiting the most, followed by defense, financials are currently detracting from performance.

Balanced/Patrimonial

- In the **balanced funds** in general we were slightly underweight in equities, a position which the portfolio managers reversed to 'neutral' in the morning of the election results. Portfolio impact is rather limited, and weakness in equities will be used to increase allocation.

- In **Patrimonial strategies**, the managers see a negative impact of both fixed income (US rates rising) and equity exposure, but to a limited extent as duration is limited (2.75). Equity exposure is limited (15%) while the portfolio benefits from a position in gold.

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