

HouseView

Special Edition



US voters elect Trump as next president

- **Trump victory heralds period of uncertainty, according to NN Investment Partners**
- **Risky assets to suffer at least until visibility improves**
- **Emerging market assets particularly vulnerable**
- **Fed may be more cautious on rate hikes; dollar may suffer**
- **Wider budget deficits may drive bond yields higher**
- **Markets react negatively as equities decline, US dollar and Mexican peso weaken; gold rises**

Period of uncertainty ahead; risky assets likely to suffer

It seems the polls were wrong again and Donald Trump has grabbed a surprise victory in the US election. A first negative reaction in risky assets, the Mexican peso and the US dollar is already visible.

“Key will now be whether or not Trump will prove to be a populist or a pragmatic president,” said **Valentijn van Nieuwenhuijzen, Chief Strategist and Head of Multi Asset at NN Investment Partners**. “Still, even a more pragmatic approach will only become visible after some time and the near-term outlook is therefore clouded with (geo-)political uncertainty”.

For financial markets the Trump victory ushers in a period of uncertainty, as his presidency could result in a clear disruption of the status quo. This uncertainty is centred on possible budget and monetary measures, international trade, immigration and foreign policy issues such as the deal with Iran. We expect risky assets to suffer as long as the uncertainty lingers, which is likely to be quite some time, as the president will not be inaugurated until 20 January.

Even after that date, visibility may remain limited until Trump either turns out to be a pragmatist who significantly waters down some of his campaign threats and promises, or decides to implement his populist agenda.

Emerging markets vulnerable; Mexico, China most exposed

Emerging markets and related assets are particularly vulnerable, as investors fear protectionist measures that would seriously impact US imports from emerging economies. Most exposed are the economies that export most to the US. The clear standout here is Mexico, which sends 82% of its exports to its northern neighbour. The country’s export sector is a primary source of employment and export growth has to keep up with import growth to prevent an excessive widening of the external imbalance. China is also sensitive to possible changes in US trade policies. About 18% of Chinese exports go to the US. With China’s domestic demand outlook not particularly bright, the country needs to post decent export growth to prevent a sharp economic growth slowdown.

Fed caution on rate hikes may cause dollar to suffer

The impact on monetary policy and bond yields is two-edged. The immediate effect could be a risk-off reaction, leading to a decline in government bond yields. The uncertainty created by the Trump victory is also likely to make the Fed more cautious about raising interest rates. This could be a positive factor for those emerging economies that rely more on foreign capital than on exports to the US, although the net effect could still be negative given Trump’s protectionist stance. The US dollar is likely to suffer in the near term

because of the more cautious Fed outlook and the fear of protectionist measures.

Wider budget deficit, inflation may drive bond yields higher

In the medium term, though, a full implementation of Trump's plans would lead to a big increase in the budget deficit given his plans for infrastructure spending, which he has said will be "at least double" the Clinton amount, coupled with tax cuts. So the budget fundamentals and inflationary pressures from Trump's policy could reverse the trend in bond yields and drive them higher, especially if the Fed becomes more hawkish to rein in inflation expectations. Indeed, rising trade barriers and limiting immigration could lead to accelerating prices and wages. It is difficult to imagine that financial markets -- both bonds and equities -- would react well to this development. This rate environment would be detrimental to emerging market local bonds and currencies, and could also weigh on

rate-sensitive precious metal prices.

Softer policy agenda may limit downside

Of course the proof of the pudding is in the eating. A Trump presidency might not be that bad if he softens his political agenda. Higher infrastructure spending, lower corporate taxes and more deregulation are, as such, not negative for equities. If he were to give in on protectionism, amongst other issues, the reflation trade would have further to run, favouring equities over fixed income. For example, a repatriation tax holiday (at a 10% rate) as proposed in Trump's campaign would give US corporates a meaningful windfall, one that would support US assets, both equity and credit. Finally, the possible U-turns in international relations and trade policy that the president-elect hammered on during the campaign will not be that easy to implement.

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