



Tyler Mordy, President & CIO
tmordy@forstrong.com



@TylerMordy

DONALD TRUMP IS VICTORIOUS. WHAT NEXT?!

NO NEED TO PANIC: NEW ERA CONTINUES

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ASK TYLER

Trump has claimed the US presidency. While this may be another “unthinkable”, no one should be surprised. Rising populist sentiment has been a defining feature of the post-crisis world. While a confluence of factors are driving discontent, an overriding theme is the perception that gains since 2008 have accrued to a wealthy few. Trump successfully tapped into those views and won. Clearly, America has sent a message to the political elite: “you’re fired”.

Where to from here? Not to be denied is that market volatility is set to rise. Trump’s anti-trade rhetoric could particularly create instabilities and imperil prosperity. But in a globalized world defined by a move toward closer interconnectedness, the “biggest loser” would undoubtedly be the US.

Volatility should also be viewed opportunistically. Our Investment Team has written extensively on “Trump proofing” client portfolios. The first line of defense is wide global diversification with exposures to longer-running megatrends. For example, commodities are stuck in a grinding sideways market. Politics cannot change that meaningfully.

We have already reduced portfolio exposures to the US. It has been a long and well-earned period of outperformance for US stock markets relative to global peers. However, the drivers of US equity performance — an accommodative Fed, a cheap currency and attractive valuations — no longer exist. Politics cannot materially change those factors either.

We also favour countries that are enlarging, not shrinking, their economic ecosystem. Asia, including China and India, are well-positioned to not only continue growing their middle classes but also to enhance regional trade linkage. Global exposures will be key to successful client outcomes.

Finally, fiscal stimulus is back. Both Trump and Clinton were united on fiscal expansion, with a focus on upgrading the US’s aging infrastructure. Yet, the Republican sweep of Congress and the executive branch now removes political gridlock. This development, along with Trump’s business-friendly policies, will surely offset some of the broader uncertainty. A return to big government deficits will initiate some economic growth (borrowing demand from the future). This is the main event.

INVESTMENT IMPLICATIONS

Looking ahead, our investment outlook has not changed significantly. We continue to live in an era of new realities. Models that worked well in the past have lost their predictive significance (e.g. witness the huge miss for traditional polling agencies). New approaches are clearly needed to exploit heightened volatility. We are prepared and remain committed to active, global ETF portfolios to thrive in today’s atypical investment climate.