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Donald Trump wins US presidency; Republicans anticipated to maintain control of House and Senate

- **Given significant market volatility after the surprise Trump election victory, our investment views are currently under review. As markets settle and opportunities become clearer we will communicate any revisions swiftly**
- At present, we favour being underweight developed market government bonds, whilst being overweight on a diversified basket of risk assets, including equities (in particular Europe and selective parts of EM) and local currency EM debt
- The preliminary results from the Electoral College points towards Republican Candidate Donald Trump as President-elect with 310 votes to Hillary Clinton's 228. His inauguration as 45th US president will take place on 20 January 2017
- In Congress, the Republicans are almost certain to retain the House of Representatives although their majority is projected to fall from 59 to 43. In the Senate, the Republicans are expected to see their eight Senator majority cut to four (52-48), in stark contrast to polls which suggested the Democrats would have a majority. However, the lack of a supermajority (60) means the political deadlock that has plagued Washington in recent years is unlikely to fade
- As a result, we do not expect aggressive domestic changes, as without a supermajority congress will likely continue to struggle to reach agreement, particularly on taxation/budgetary changes
- US trade relations is the main area the President can act unilaterally. This will likely keep market volatility high as Trump's rhetoric on this matter, especially on the North American Free Trade Agreement (NAFTA) and China, has been aggressive. This is likely to mainly impact emerging markets, given their high dependency on exports to the US

The facts

Despite opinion polls indicating an expected victory for Democratic Candidate Hillary Clinton, Republican Candidate Donald Trump will become the 45th President of the United States. Opinion polls had been unusually volatile in the run up to the election, and this outcome represents the second significant shock of 2016 after the UK unexpectedly voted to leave the European Union (EU) in late June.

Less surprising was the Republicans' retention of the House of Representatives but their retention of the Senate was a shock given polls had widely expected the Democrats to control the upper house since early 2016. Since neither party has a super-majority (two thirds of voting members) in either chamber it is difficult to see an end to political deadlock.

For instance, we anticipate President Trump will face difficulties in aggressively reducing the tax burden on higher-income individuals and corporations given evident Democratic opposition. Similarly the repeal of the Dodd-Frank Act (on financial regulation) and appointment of a new Federal Reserve Chair will require careful negotiation and cross party agreement. However, infrastructure spending is one area that both parties may find agreement on, but progress is unlikely before H2-2017. Assuming a deal is implemented, the positive GDP impulse is likely to be around 0.2-0.3ppts annualised.

US trade relationships, in particular NAFTA and with China, will come under greater scrutiny, which is likely to weigh on EM growth and sentiment, with an outsized impact on NAFTA partners Canada and Mexico. This lends greater weight to our reverse-globalisation theme, which may result in higher US growth in the short term as corporates onshore, although it could lead to a global trade war - a significant negative for global growth prospects, as well as investor sentiment.

Overall, given the relatively radical nature of Trump's proposals, this election outcome injects a greater level of uncertainty for investors. However, it is important to remember that many of his more drastic proposals are likely to be watered-down by Congress.

Market reaction

The surprise result triggered a severe bout of global risk aversion. At the time of writing, futures show the US S&P 500 will open today around 3.5% lower. In Asia, the Shanghai composite (-0.6%) and Nikkei (-5.4%) are both trading in negative territory, with particularly strong declines in export-dependent Taiwan (the TAIEX is down 3.0%). Meanwhile, futures also point to a 4.1% fall in the Euro Stoxx 50 at today's opening bell.

In terms of currency markets, the broad based US dollar index (DXY) fell 1.4% to 96.5. Traditional safe haven currencies rose, with the Swiss franc (CHF) 1.3% higher against the USD and the Japanese yen (JPY) up 2.6%. Meanwhile, other 'safe-haven' assets are also broadly stronger, with gold rising 3.2%.

Investment implications

Given significant market volatility after the surprise Trump election victory, our investment views are currently under review. As markets settle and opportunities become clearer we will communicate any revisions swiftly. However, for the time being, we maintain our underweight view for US Treasuries and equities, as well as our underweight position on other core developed market government bonds, with yields at current levels offering very poor sustainable returns. We continue to hold our preference for risk assets such as global equities (with a preference for Europe and selected Emerging Markets), short duration high yield credit and local currency EM debt, within the context of a well-diversified multi-asset portfolio, from a strategic and long-term perspective.