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Market Watch

Special US election edition – A Trump Presidency

Donald Trump's victory in the US Presidential election has sent shock waves across the world. Even many Republicans have been surprised by the party's unexpectedly strong performance, which is likely to see it keep a majority in both the Senate and House of Representatives, as well as winning the Presidency.

The implications are far reaching, both politically and for investment markets. But what does his surprise victory mean for Australian investors? And how should you respond?

The new President's policy priorities

Donald Trump will be sworn in as President on 20 January 2017. Once he comes into office, his domestic political priorities are expected to be:

- Cutting company tax from 35% to around 20–25%.
- Cutting income tax, with three basic rates: 12%, 25% and 33%.
- Scrapping Obamacare.
- Increasing spending on defence by US$450 billion and Veterans' programs by US$500 billion.
- Introducing a US$300 billion infrastructure spending program.
- Taking a tough stance on immigration, with promises to clamp down on both legal and undocumented immigrants.

Looking beyond the US, Trump has pledged to introduce a much more aggressive trade policy, including:

- Naming China as a currency manipulator and putting tariffs on some Chinese imports
- Changing the terms of the North American Free Trade Agreement (NAFTA), and
- Abandoning the Trans-Pacific Partnership (TPP).

It is still unclear whether the new President will be able to act unilaterally on trade policy or whether he will be able to win the support of Congress to change current policies, especially treaties such as NAFTA.

Meanwhile, his energy policies are also likely to have implications worldwide, including a pledge to reduce drilling regulations on oil companies and reverse some climate change policies.

How markets reacted

Investment markets dislike uncertainty — and Donald Trump's win has been described as 'revolutionary' and 'a vote against the political status quo'. So it's not surprising his victory caused market jitters across the globe.

But once investors had the opportunity to digest the news, markets soon recovered. So, while futures trading showed the US S&P 500 down 5% in the immediate election aftermath, US markets actually rose when they opened the next morning.

Similarly, the US dollar initially fell, then recovered to finish stronger against most currencies, including our own. Meanwhile the Australian market has regained all of Wednesday's losses in early trading on Thursday.

What happens next may depend on the signals the President-elect gives on the likely direction of his new administration. Many will be hoping to see him maintain the conciliatory and pragmatic tone we heard in his victory speech, rather than the more hard-line rhetoric of the campaign itself.

What it means for investors

Over the longer term, a Trump victory has both positives and negatives for Australian investors. The policies he has announced are likely to be highly stimulatory. Assuming he is able to get them through Congress (now more likely, given the Republican majority), a combination of tax cuts and big new spending programs could speed up economic growth and boost the US dollar.

That could see shares climb higher — especially companies with large cash holdings offshore, or those likely to benefit from Trump's nationalistic policy focus.

However, in the medium term, a more expansionary policy could increase inflationary pressures, increasing the likelihood that the Federal Reserve will raise interest rates more aggressively. That could dampen sharemarket growth while driving Treasury bond yields higher.

Meanwhile, Trump's anti-trade policies and increased tariffs are also likely to be inflationary, potentially weakening the US economy and sharemarkets. Investors may be well advised to monitor events carefully and ensure they have the right level of exposure to US and international markets as conditions change.

How should you respond?

Markets rise and fall from day to day — but as an investor, it's the long-term growth outlook that truly matters. That means it's important to stay focused on your long-term goals and hold the investment portfolio most likely to help you achieve them. Your financial adviser can help you with the investment mix for your individual situation, managing emerging risks without sacrificing opportunities for growth. If you're concerned about the effects of recent market movements on your investments, make an appointment to talk to them today.

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