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Investment Advisors

U.S. Election: Our Take
November 10, 2016

In a historic victory that shocked experts, Donald J. Trump will become the 45th president of the United States, and Congress will remain in Republican control. In response to the surprise result, the immediate impact has been seen in declines in emerging market currencies, especially the Mexican peso, and the U.S. 10-year treasury yield, which has risen to 2.07%, its highest level since January. A 5% decline in the S&P 500 was implied by premarket futures trading early Wednesday morning, yet the index finished the day up 1.6%. While the initial market reaction to the Trump election continues to play out, it is important to note, however, that post-election market reactions have tended to be short lived and not a reliable predictor of longer term market behavior.

It's our view that a Trump presidency may marginally benefit the economy initially, while the longer-term outlook remains more uncertain. In the near-term, growth would likely modestly accelerate if Trump carries out the tax cuts and infrastructure spending plan he has proposed. However, over the longer term, protectionist trade policies, and a potentially larger budget deficit, due to lower taxes and increasing spending, may have significant implications for global trade, interest rates, and currencies. While this analysis is based on the policy agenda he laid out during his campaign, it's important to note that, despite a Republican majority in Congress, Trump still may find resistance to any policy that would significantly increase the budget deficit or reduce free trade.

The result of the election and the recent Brexit vote have made it apparent that the undercurrent of populist, anti-establishment sentiment that has recently emerged in developed markets is stronger than what political pundits believe and what pre-vote polls have indicated. To this end, we are closely monitoring developments related to Italy's referendum on senate reform on December 4th and elections in the coming year in France, Germany and the Netherlands, which prominently feature candidates that opposed the Eurozone membership.

As we stated at the start of the year, we expect modest returns from growth sensitive assets with elevated levels of volatility, yet also believe downside risks have increased. Given this outlook, we see diversification and active management, which both added value in the third quarter, taking on an increased importance and have positioned portfolios defensively on the margin. In times such as these, where headlines may increasingly drive investor sentiment, we resist the temptation to act emotionally, while maintaining a long-term perspective and a focus on fundamentals. As we get greater clarity on Trump's policy agenda, we will continue to review our multiple sources of research to determine the financial market implications.

As always, feel free to reach out to us with any questions.