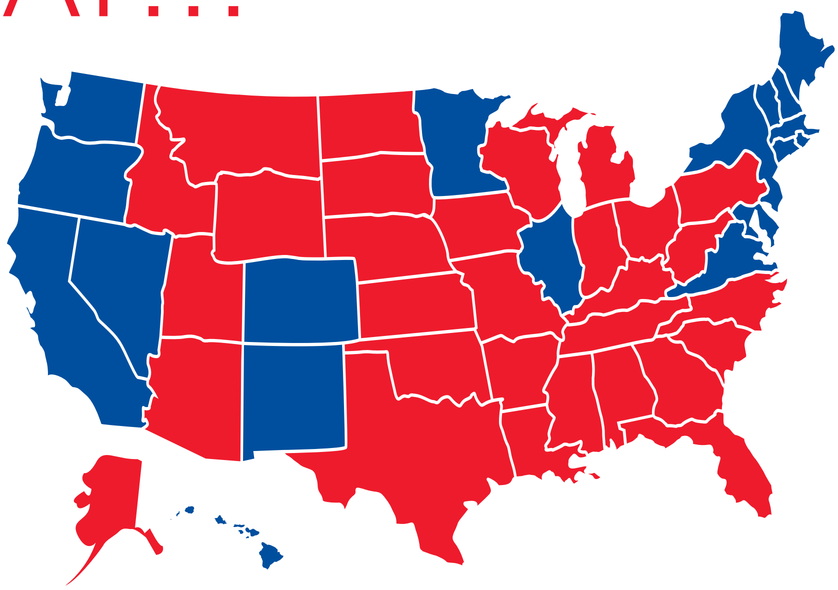
US ELECTIONS | 9 NOVEMBER 2016

THE POPULIST WINS… NOW WHAT…

Market volatility picks up as risk assets fall and safe havens rise



A battle-weary Hillary Clinton failed to be crowned the first female President of the United States of America. Instead, Mr. Trump endured the slugfest and has come out on top by a surprisingly wide margin (276 Electoral Votes vs. 218).* In addition, the Republicans gained control of the Senate and kept its majority in the House of Representatives. This has created an unusual situation of an aligned Republican Oval Office and Congress, last seen in 2005.

Leading up to the election, Clinton seemed to be coasting to a relatively straightforward victory; however, as the FBI renewed the probe into President Clinton's email matters, the polls tightened and market volatility rose alongside increased political uncertainty. While votes were tabulated during election day, risk assets plunged across the world with Japanese equities leading the sell-offs; the JPY/USD touched 101.2 during its trading day. European markets are poised to open lower too. Crude oil fell while the uncertainty pushed up gold prices.

Going forward, the markets will keep a close watch on President Trump's ability to follow through on his campaign rhetoric. Our investment teams agree that a Trump win has increased market anxiety in addition to the many variables the market still faces. While there could be specific merits in a Trump era, our teams generally express caution in the months ahead and are ready to capitalise on opportunities market volatility will present.

ASIAN EQUITY

As long term investors, we will continue to look through the near term uncertainty. Our high conviction holdings offer a larger margin of safety and that should cushion downside from any knee jerk pricing episodes. Any sharp pricing episode not backed by fundamental deterioration will likely offer an opportunity to rotate/increase exposure into our convictions.

ASIAN BONDS

Despite the outcome, it is our view that the US economy should continue to grow, albeit more moderately, staying in the 1.5-2.0% levels supported by corporate spending, benign inflation and healthy household and financial sectors. The current phase of expansion in the US economic cycle could prove surprisingly long which should provide continued support for bonds.

That said, 2017's search for returns will likely be more challenging simply because bond markets globally offer less value than in late 2015. Notwithstanding, we feel the investment environment still favours yield carry trades. Asian bonds, for example have attractive yield-to-maturities; their returns remain decent even given the moderate Fed fund increases we anticipate. However, we will be more selective, using episodes (global and local) that provide better value opportunities to "risk-up" our bond portfolios.

US BONDS

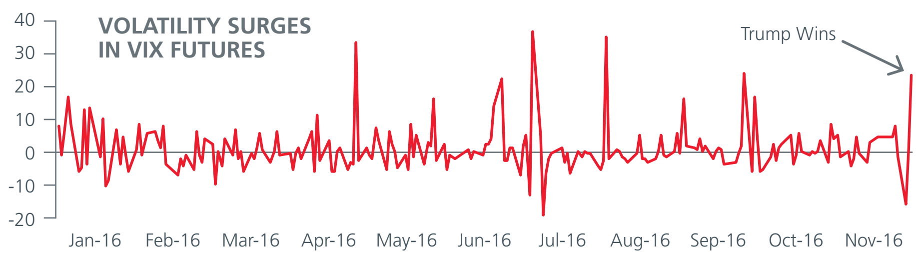
Under a Trump Presidency, we see energy and defense sectors as likely winners while roadblocks to healthcare and financials would ease. The heightened volatility might negatively impact high yield assets. However, a Republican administration could be seen as positive for US investment grade bonds due to more business friendly policies.

MULTI-ASSET SOLUTIONS

The price action during Asian hours is probably an emotional over reaction. While it is plausible that Trump might be potentially detrimental for America's trading partners and global trade more broadly, he might also implement capital friendly policies in the form of tax cuts, taxation reform and expansionary fiscal policy that will be pro-growth. The key implication of a clean sweep is the end of six years of gridlock in Washington. Put another way, it is not obvious that Trump will be detrimental to US growth, global growth in aggregate or corporate profits. However, there is clearly some potential risk for America's trading partners.

Today's market reaction was more emotional than based on an obvious deterioration in growth or profits. If our observation is correct, short rate and inflation expectations are too low and sovereign bonds remain extremely vulnerable. Sentiment was already depressed before this and not a pullback from euphoria. All of that said, it is plausible that the victory does represent a further shift against the capital, relative to labour. That is probably the most important development to monitor in the medium term.

From a multi-assets point of view, this is probably an opportunity to fade the rally in "safe assets" and take on more equity or high yield risk in portfolios.



Source: Eastspring Investments, PPMA America, Bloomberg as of 9 November 2016. *At the time of writing 5pm Singapore time.

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