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Market View

Donald Trump, against all expectations, is the new President of the United States of America. What is more, his party has won both Houses of Congress. He will have the ability to make significant and necessary changes to the US economy. His proposed policies are market friendly, they should be good the US consumer which will be good for the global multinational businesses we invest in. It will be his relationship with the rest of the world that for many will be the greatest concern. The message is now very clear, the working and middle classes of Britain and America have had enough of low wages and being poorer than they were before the 2008 financial crisis and are demanding change. This will have implications for the myriad of upcoming elections across Europe.

However, after one of the most bruising presidential campaigns in recent memory, markets can now get back to the business of valuing company profits. Here at last the numbers are starting to show some improvement. Investment returns are dominated by the ebb and flow of economic growth and inflation, stock markets around the world move in tandem with this cycle. Occasionally, the relationship between the two becomes dislocated and this is normally caused by either politics or geopolitical events, such as 9/11 or the second Gulf War. The risk is with so many political votes happening at a time when the US corporate earnings are recovering we might just be entering such a period of dislocation?

What will a Trump Presidency mean?

Trump is undoubtedly a great showman but he now needs to deliver as a great manager in the most important job in the world. The big question is can he do it? For now we have to assume that he can, but he has never held public office.

Impact on US Economy

Here Trump has promised all the right things. Tax cuts for middle class families, tax simplification, and targeting growth at 4%; corporate tax cut from 35% to 15%, lifting restrictions on shale oil, massive infrastructure spending etc. all good stuff, if it happens. If it does, then it should hasten the long awaited return to "normal" for the US economy. Good for equities, bad for bonds. The biggest risk will be a change to who is the Governor of the Federal Reserve Bank. Janet Yellen is a political appointee and Trump has stated she will be replaced. This makes the future path of US interest rates unclear, though if his policies work inflation should rise and thus so should US interest rates.

Impact on Global Economy

Trump the showman has laid the blame for America's economic ills on US manufacturing moving abroad or being priced out by cheap imports. His strategy is to put barriers in place and renegotiate existing trade deals. China and Mexico are being blamed most and thus are in the firing line. Whether Trump follows through with his rhetoric remains to be seen. For both China and Mexico there will be costs but benefits as well flowing from a richer US consumer. Trump is seen as bad for globalisation but this cost could be mitigated by a possible return to economic normality. So not good news, but for the markets, should be manageable.

Implications for Global Politics

It is clear that Trump intends to be very robust with his foreign policy and will put America first. He is also unpredictable, this gives Russia and China a problem and they may hold back from provoking the US, for now though, until Trump is inaugurated, Obama remains in control thus giving Putin a window to make mischief if he so wishes. In Europe, NATO members who don't pay their way will not necessarily get protection from the USA, which will add more pressure on the EU. It should also be pretty clear to politicians, that sneering at populism is not a good career move. Italy, France, Germany and Holland all face elections in the very near future and for the euro the cost of losing just one of these elections to a populist party is very high. A collapse of the euro project is the biggest risk to global financial stability, and if anything the message from Brexit and Trump is that the continuation of Europe's status quo can no longer be assumed. Europe faced with losing Britain, a backtracking of support from the USA, a belligerent Putin and a euro threatening rise in populism, looks to be the big political loser, the EU needs to reform and quickly.

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US Corporate Earnings

S&P 500 Sector Earnings over last 5 Quarters	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3
S&P 500 Consumer Discretionary	$8.1	$8.3	$7.7	$8.6	$8.4
S&P 500 Consumer Staples	$6.2	$6.0	$5.7	$6.3	$6.8
S&P 500 Energy	-$4.5	-$8.2	-$2.7	-$2.1	$1.4
S&P 500 Financials	$6.0	$5.0	$5.5	$5.5	$6.8
S&P 500 Health Care	$9.6	$9.3	$10.5	$10.9	$12.0
S&P 500 Industrials	$7.7	$7.1	$5.9	$7.1	$7.5
S&P 500 Information Technology	$9.0	$11.0	$8.0	$8.3	$9.9
S&P 500 Materials	$1.3	$0.4	$1.7	$4.9	$3.7
S&P 500 Telecommunication Services	$2.9	$3.5	$2.8	$1.9	$2.7
S&P 500 Utilities	$4.3	$0.2	$3.7	$2.7	$4.7
S&P 500 Real Estate	$1.3	$1.3	$2.6	$1.5	$1.3
S&P 500	**$25.4**	**$23.1**	**$24.0**	**$25.7**	**$29.4**
Source: Standard & Poors					

This table shows the key issue that markets have been facing over the past 12 months, i.e. the economic statistics point towards an improving economy but the profits of what we actually invest in, companies, have been flat. However, as the grey shaded line shows, this most recent quarter with 80% of the results in, shows a significant increase, not just over the last quarter but the 12 month period as well. Clearly, the Energy sector (oil companies) returning to profit helped significantly, but then most sectors delivered growth and even those highlighted in red were essentially unchanged over the year. All, bar Energy, saw their revenue grow over the past year as well.

Brexit and the Courts

The Brexit referendum wasn't legally binding and thus was bound to face a series of legal challenges. The problem MPs have is that Theresa May holds the "trump card". If she doesn't get the response from Parliament that she wants then a snap General Election can be called. Research from Nomura has shown that on a constituency basis 61% voted to leave. Using this as a basis in a snap election Theresa May could expect a majority of over 80 seats. Remain Conservative MPs might also face re-selection by heavily Pro-Brexit local Conservative Associations ahead of a General Election. So the High Court decision, which might yet be overturned by the Supreme Court, should not represent a significant event in the Brexit process. Indeed a Europe faced with increased Trump import tariffs might be more inclined to do a deal with the UK.

Markets

With the US Presidential Election now out of the way we move onto the next of several political hurdles, the Italian Constitutional Referendum on December the 4th. Trump showed that Brexit was not a one off. Italy is a euro currency member, there will be ramifications if the vote goes against Renzi and he either resigns or announces a General Election. However, what we have to remember most political events tend to be just short term noise, it is the profits of global multinational companies we are buying into and their dividend streams that is important. So whilst traders may create day to day volatility based on the latest news flow, long term investors such as ourselves will look at the earnings numbers and decide whether shares are good value or not. Recently they have been expensive but with profits growing again and share price volatility the valuation is moving swiftly from expensive to reasonable. In the USA, Thanksgiving and Black Friday shopping are rapidly approaching and the US consumer in theory has a bit more cash to spend this year. After a bruising and divisive Presidential campaign it would be good if these consumers will help to bring a bit of normality back to the world's most important economy. It's now over to Italy for another geopolitical hurdle for the markets to leap. **October 2016**

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This information is not intended to be personal financial advice and is for general information only. Past performance is not a reliable indicator of future results.