

## US Presidential Election

For the second time this year the pollsters and the investment industry have been surprised by the outcome of a political event in a western democracy. On this occasion as with the Brexit vote in the UK it has created uncertainty. The election of Donald Trump brings with it many unknowns as well as higher levels of speculation as to the likely policy changes that will be prioritised by his presidency.

As might be expected at this stage it is too early to comment about the effect he may have on the global economy given there are 100 days before he takes office and he has yet to appoint his advisers and key support teams. As we progress towards January we will begin to know more about what the key themes will be for his presidency. His period in office could spell a period of uncertainty for investors. We shall be monitoring markets closely, but it would be reasonable to expect, in the short term at least, higher levels of volatility in equities not only in the US but also internationally. The immediate reaction of equity markets was negative, with Asian indices falling but western markets seem to have been reasonably calm compared to what happened after Brexit for example. Any statements from him over the coming months may well cause market sentiment to fluctuate. A more immediate effect of this uncertainty may lead the Federal Reserve to hold off on a widely expected rate increase in December, but the path thereafter looks less clear.

Looking further ahead, several of Trump's policies, for example his protectionism, his desire to scrap existing international trade deals, and to deport illegal immigrants, have the potential to contribute to longer-term market volatility; but others, for example his plans to slash taxes, including reducing the business rate from 35% to 15%, his plans to encourage repatriation of corporate profits held offshore, and to embark on massive infrastructure spending, could stimulate the US economy, lifting equities. Planned income tax cuts could initially boost consumer spending, but might soon lead to a deterioration in the U.S. budget deficit and rising rates. A balancing factor is that Trump's ability to carry out his stated goals looks restricted. Even though Republicans now maintain control of both the Senate and the House of Representatives, Trump may have to compromise with the party leadership. We could see gridlock on the legislative agenda as a result.

All this however is speculative as we are at a very early stage in the transition to the Trump presidency, only more detailed information will give us greater clarity. For the time being we have to watch and wait for this information to come out before any interpretation of the likely outcomes can be made.

Rayner Spencer Mills Research  
November 2016

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