Benjamin A. Pace is the firm's Chief Investment Officer and leader of the Investment Committee. He has more than 25 years of experience in investment management. Prior to joining HPM Partners, he was Chief Investment Officer and Head of Global Investment Solutions for Deutsche Bank Private Wealth Management in the U.S. Ben has been featured in the Wall Street Journal and Reuters, and is a frequent commentator on Bloomberg TV and radio, Fox TV and CNBC, appearing regularly on network programs such as Power Lunch, The Closing Bell, Squawk Box, and Worldwide Exchange.

ECONOMIC INSIGHTS /

Trump Victory Surprises the Markets Amid Growing Populist Sentiment

News & Recognition:

FT FINANCIAL TIMES | Top Financial Advisers 2016

FT 300 Ranking June 2016

In a notable upset, Donald Trump defeated Hillary Clinton and will become the 45th President of the United States. As we saw in the Brexit vote in June, markets and pollsters were again guilty of underestimating the growing populist sentiment related to disappointingly slow growth around the world. The Republican Party was able to maintain majorities in the Senate and House, theoretically giving president-elect Trump the ability to more easily implement his agenda. However, there is an unusual level of dissonance within the party which only increases the uncertainty over what policies will be ultimately passed through Congress.

A Trump presidency introduces much uncertainty over what elements of the campaign rhetoric become actual legislative proposals. The major macroeconomic concern of a Trump presidency is the heightened risk that growing global populism turns into outright protectionism which could ultimately lead to a global recession. An important element of the Trump platform is a massive fiscal initiative which would combine increased government spending on defense and infrastructure with rather deep tax cuts. Unfunded fiscal initiatives will have an impact on the Treasury bond market as supply of debt will necessarily increase with higher yields needed to clear this incremental supply. The somewhat strange increase in the 10 year yield this morning in a generally risk off market may be a harbinger of the continuation of this dynamic.

Equity markets sold off sharply overnight as a potential Trump presidency became apparent. The conciliatory nature of Trump's victory speech helped calm markets somewhat, and losses have been pared by two thirds by the opening of trade this morning. We have consistently believed the largest impact of a Trump presidency and an all-Republican government would be on specific sectors and industries. Some of the expected sector winners would be defense on the aforementioned fiscal initiatives; oil and gas on a more relaxed attitude towards fossil fuel extraction; pharma/biotech on less governmental pressure on pricing policy; and restaurants/retail on less likelihood of political pressure to further boost the minimum wage. Relative underperforming sectors would be renewable energy; railroads, as there will be a greater emphasis on pipelines; and health insurers/hospitals, as the Affordable Care Act may be repealed.

Outside the United States, the sharp campaign rhetoric against our trading partners will keep us cautious about our international debt and equity investments, especially in the emerging markets. The Executive branch has more power regarding trade than it does anywhere else in our political system. Speculation is rampant that Trump may name China (and possibly others) as a currency manipulator.

He also can impose sanctions against perceived unfair trade practices and increase restrictions on imports. He has also railed against NAFTA which has had a dramatic negative effect on Mexican equities and the peso. The Canadian dollar also experienced some downward pressure.

An institution which may be impacted by a Trump presidency is the Federal Reserve. Although her term does not expire until 2018, Janet Yellen may be compelled to step aside as Chairwoman. Regardless, a December rate hike may be off the table due to heightened concerns of a politically engineered recession.

We do not foresee a near-term change in our forecast of slow, but generally positive US economic growth in 2017, and so a resumption of the Fed rate tightening cycle next year appears inevitable. Our portfolio positioning continues to favor equities over fixed income and US over international securities in both equity and fixed income. Corporate tax reform would greatly benefit US corporations and can largely offset any impact from decreased trade. Developed and emerging international equities will remain underweight in portfolios until we gain more clarity around actual legislation to be proposed.

Please reach out to your HPM advisor with any questions.

Sincerely,

Benjamin A. Pace
Chief Investment Officer

Disclosures:

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