CROSSBRIDGE CAPITAL

Market Viewpoints

Manish Singh

9th November 2016

Gentlemen, I have had men watching you for a long time and I am convinced that you have used the funds of the bank to speculate in the breadstuffs of the country. When you won, you divided the profits amongst you, and when you lost, you charged it to the bank. You tell me that if I take the deposits from the bank and annul its charter, I shall ruin ten thousand families. That may be true, gentlemen, but that is your sin! Should I let you go on, you will ruin fifty thousand families, and that would be my sin! You are a den of vipers and thieves.

- US President Andrew Jackson (1829 -1837)

The last time a right-wing anti-establishment candidate made it to the White House was in 1829, when Andrew Jackson became the United States' seventh President. The election of Donald Trump is repudiation of the liberal indifference to economic stagnation, income inequality and the diminishing economic prospects for American families, which have clouded over the US during the two terms of President Barack Obama. In Tuesday's vote, Americans have refused to accept this status quo as the best the US can do. They longed for a leader who would not "manage the stagnation/decline" but fight to restore growth and "make America great again." Voters rejected the progressive agendas of Hillary Clinton and Obama, much of which have stifled economic growth for the past eight years with over-regulation and legislative gridlock. If Trump is wise enough to surround himself with clever advisors and follow the example of President Ronald Reagan, who adopted the reform agenda that former Congressman Jack Kemp and other House Republicans had prepared, then don't be surprised to see a +4% GDP growth in the US, late in 2017. The best market returns were generated under Republican Presidents working with a Republican controlled Congress. In that scenario, the S&P 500 Index gained +15.1% annually. Therefore, now that we have Republicans controlling the White House and Congress, US equities will be a good medium to long term play. However, one has to be patient, since "President" Trump, will not be in office until January 20, 2017 and the rally in equites will not be sustainable until GDP growth accelerates.

TRUMPED!

After an unremittingly ugly and fractious campaign that exposed deep rifts in American society, Donald Trump has won the 2016 US Presidential election to become the 45th President of the United States. The last time a right-wing anti-establishment candidate made it to the White House was in 1829, when Andrew Jackson became the country's seventh President.

Like Trump, Jackson made his fortune in real estate. Like Trump, Jackson had a captivating style of speech and wild hair and demanded respect. In an 1806 duel, he shot and killed a man who had insulted him in a newspaper. By comparison, Trump's Twitter broadsides appear more forgiving. Like Trump, Jackson ran as an outside candidate. In the 1824 election, when the popular votes were tallied, Jackson had defeated his fellow contestants but the electoral votes were split, giving no candidate an overall majority. As the law demanded, the decision to choose the President was left to the House of Representatives - and the House chose John Quincy Adams. Jackson didn't give up and eventually won the 1928 election.

When supporters talk about why they love Trump, they say it's because he says what he thinks, without calculation or political correctness. The election of Trump is repudiation of the liberal indifference to economic stagnation, income inequality and the diminishing economic prospects for American families, which have clouded over the US during the two terms of President Barack Obama. The slowest recovery on record since the financial crisis of 2008, has delivered a GDP growth of approximately +2%, half of previous recoveries. In yesterday's vote, Americans have refused to accept this status quo as the best the US can do. They longed for a leader who would not "manage the stagnation/decline" but fight to restore growth and "make America great again."

Mr. Trump ran an unconventional campaign based on anger, blame and colourful words and triumphed over Clinton's campaign - which spent most of its firepower attempting to disqualify Trump based on his character. Voters rejected the progressive agendas of Clinton and Obama, much of which have stifled economic growth for the past eight years with over-regulation and legislative gridlock.

So what does a Trump victory mean for the future and the financial markets?

- **An end to legislative gridlock:** With the Republicans now in control of the White House, the Senate and the House of Representatives, we can potentially say goodbye to legislative gridlock that has plagued Washington since 2010. This is growth supportive. As a businessman, Trump has a history and experience of delegating authority to those best able to do certain tasks. Look for Vice-President Mike Pence to shoulder significant duties and make the President's domestic agenda run smoother. Trump, if anything, is delegator-in-chief

- **Trade deals:** Trump can of course use Executive Orders should he wish to act on his electoral promises immediately after being sworn in. Top of the list – trade policy. Trump has said that he would like to withdraw the US from certain trade deals, and "impose tariffs" on some of the US's trading partners. If Trump were to impose tariffs on China, Mexico, and South Korea, this could spark a trade war and even tip the US into recession, given the current anaemic growth rate. The probability of this outcome is very low but not zero
- **Taxes:** Trump has broached the topics of a lower tax rate for both corporations and workers as well as a provision to repatriate $2 trillion of US corporate earnings held overseas, by taxing it on a one-time basis at roughly 10%. This could entice US companies to bring cash back onshore, as well as encourage them to keep future earnings onshore, if corporation tax were cut alongside. Trump pledged to cut the top marginal corporation tax rate to 15% from 35%. This would be a big boost to growth and consumption if followed through in its entirety
- **Looser Fiscal Policy:** Trump has called for major defence spending increases, which would probably include strengthening defensive homeland security as well as offensive capabilities. This could signal a reversal from the Obama administration, which allowed defence spending to decline. Industrial and defence companies would be big beneficiaries
- **Infrastructure**: It's going to be more than just a wall across the US-Mexico border. Trump has talked about an infrastructure plan of at least $500 billion, based on his informal pledge to "double" what his opponent Clinton campaigned on
- **The US Federal Reserve (Fed)**: The Fed is now unlikely to raise rates at its December meeting given the high degree of policy uncertainty around trade, immigration and fiscal measures and their impact on the US economy. Overall, I believe Trump's policies, when they come into effect, are likely to be inflationary and the Fed will have its day to raise rates. Hurrying with a rate rise now would be inadvisable. Despite Trump's broadside against the Fed and its Chair, Janet Yellen, I expect Yellen to stick out her role at the Fed until the end of her term in February 2018

Where to Invest?

You will recall my comment in the October newsletter - where I mentioned that the average compound annual growth rate for US equities since 1945 had been +9.7% under Democratic Presidents and +6.7% under Republicans. However, the best market returns were generated under Republican Presidents working with a Republican controlled Congress. In that scenario, the S&P 500 Index gained +15.1% annually. Therefore, now that we have Republicans controlling the White House and Congress, US equities will be a good medium to long term play. However, one has to be patient, since "President" Trump, will not be in office until January 20, 2017 and the rally in equites will not be sustainable until GDP growth accelerates.

I would recommend buying the dips in any equity sell-off, particularly in US equities and to stay away from Emerging Market (EM) equities for now. Trump's policies, including tax cuts/reforms, fiscal spending, and cutting regulations are stimulative. However, his anti-globalisation trade policies are negative, not just for the US, but for the rest of the world as well. If Trump is wise enough to surround himself with clever advisors and follow the example of President Ronald Reagan, who adopted the reform agenda that former Congressman Jack Kemp and other House Republicans had prepared (and such a ready-made agenda is awaiting in the House Republican's "Better Way" plan), then don't be surprised to see a +4% GDP growth in the US late in 2017.

Emerging Markets equities are particularly vulnerable to a strong USD v/s EM currencies. I am also not a big believer in European equites given the risks of the upcoming Italian referendum.

EUR/USD will likely stay bid and in the 1.08-1.15 range for the rest of the year as a US rate rise view recedes and GBP/USD will likely trade in the 1.23 - 1.28 range.

Any sell-off in bonds is an opportunity to buy and lock in higher yields. However, be mindful of the duration of your investments, as President Trump's policy will be growth stimulative in the medium term and rate rise pressures could start building late in 2017.

The US equity sectors to be long: Financials (XLF) as a yield curve steeping trade which would add to banks earnings; Industrials (XLI), Materials (XLB) on the back of "make America great again"; and Healthcare (XLV), now that Hillary Clinton's scare for the sector is gone.

Best wishes,

Manish Singh

Manish Singh, CFA

United Kingdom
9 South Street
London W1K 2XA
United Kingdom

Singapore
One Temasek Avenue
23-05 Millenia Tower
Singapore 039192

Monaco
Le Park Palace,
Bloc A, 8ème Etage
5, Impasse de la Fontaine
98000 Monaco

Visit our website:
crossbridgecapital.com

CROSSBRIDGE CAPITAL