

How are markets affected by President Trump?

Donald Trump's confirmation as the next US president is now sinking in to a bemused world, but what does this mean for investment markets?

At the time of writing, newspaper headlines are still talking about markets "plunging", although this turned out to be far from the truth. Many markets saw a short, sharp drop (blink and you missed it) before quickly recovering. The United States share market rose 1% on the day.

Heading into the election, investment markets have preferred Hillary Clinton over Donald Trump, with Hillary generally seen as more a "business as usual" outcome than Trump's policies. But while Trump has his share of controversial policies, we need to remember that the United States political machine is not a one-man system. Split responsibilities between the US Senate, House of Representatives, and executive mean that there are checks and balances in place, with the more extreme outcomes likely to be revised or watered down. Already, we have also seen signs of a more "presidential" Donald Trump in his acceptance speech, than the days of political campaigning.

The general theme of his policies has some positives for the US economy. It's likely that we've (finally!) seen the end of "austerity" in the US, with promised spending on infrastructure to come - whether or not this is fully implemented. This is supportive for share markets, even at the cost of some upward pressure on interest rates, which will be guiding our decision making on fixed interest investments. We will likely see more clarity on international policies in the months to come, with pre-election promises better seen as a general tone than hard details.

How much does politics matter anyway?

Stepping back, while policymakers do matter, in general it is helpful to remember that economics "trumps" politicians. United States shares have risen over 100% during the past seven years, but largely not because Barack Obama was in office. Larger market forces (a gradual global economic recovery, and lower interest rates) have driven the outcome. At the other end of the spectrum, Australia has gone through five prime ministers during Obama's two presidential terms – and the Australian economy has still grown steadily.

While investment markets were initially rattled by Trump's victory, ultimately, most events like this tend to run the risk of distracting from a long term approach to investing. For most investors, what happens over 5-10 years matters a lot more than what matters day to day. Keeping an eye firmly on that goal is the most important thing that most of us can do.

Portfolio Update

- ❖ Most investment funds pleasingly have positive gains still in place over the past 6-12 months, despite a small decline in October and November, heading into the election.
- ❖ Our actively managed share portfolios have continued to outperform the NZ, Australian and global share markets over the past three months, while market returns have been weaker.
- ❖ We have increased the allocation to less expensive "value" stocks in global share markets. This decision is so far off to a positive start and we expect it to help support returns over the next 3-5 years.