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## CSP NEWS ALERT

10th November 2016

### Will Trump prove to be more than a hiccup for investment markets?

Good Afternoon

Wow what a 24 hours! The American people have spoken and Mr Donald Trump is to become the President of the United States of America! Despite the Aussie markets' knee jerk reaction yesterday, international markets have been remarkably circumspect, I guess in "wait-and-see" mode!



Investment analysts around the globe will be writing pieces in the coming days, outlining their expectations on what the election result will mean for the US and global economies. Really it will all depend on whether Trump is actually prepared to build some actual policy behind those broad declarations that he made in the election race.

What it means for us, little Australia is yet to be seen.

Jamie Nicol, Chief Investment Officer of DNR Capital provides us with some insight below.

At times like this, it is critical that you believe in the investment philosophy and process that is the CSP 3 Buckets Retirement Program.

If the face of fear and trepidation it is easy to take the easy road and sell down once the "horse has already bolted"!



Learn more about the CSP Three Buckets Retirement Program [here](#).

If you are in any way concerned about your personal situation, I encourage you to [call](#) the office, and Edward and I are happy to chat through the current situation and provide some context to your individual circumstances.



## November 2016...

### Likely impact of a Trump Victory...stimulatory

The market initially reacted sharply as the likelihood of Trump victory increased. However the market settled down as realisation of the policy implications of a Republican controlled Senate drove the market. Below we analyse the expected market impact of a Trump Victory.

We had initially expected the market to prefer a Clinton victory given the greater certainty. However the markets have been weak over the past month and begun to factor in the uncertainty. Reviewing the policy agenda reveals a mixed outcome but overall an inflationary / growth driven agenda.

The longer-term impact on the market will be dictated by the performance of his economic policies. In terms of the major policy implications we need to consider Trump's ability to get his policies through the Senate and the House. While these will be controlled by Republicans many Senators and Congressman will be hostile towards Trump and so it is not a foregone conclusion that his policies will pass. The economic policies will likely be influenced by Speaker of the House, Paul Ryan who sees economic management as one of his specialist areas.

Ultimately a number of questions are going to remain. Does a Trump victory impact confidence? Can Trump drive his policy agenda through both houses? Does he push policies that are negative for his own business interests such as more aggressive trade deals with Asia?

## Key Economic agenda

### Protectionist Policies

It is safe to assume the trade agreement with the Pacific will not pass. However it is not clear that Trump will be able to pass more of his aggressive protectionist policies that harm US allies. This is the largest risk area from a Trump Presidency but also the area that he likely face the most opposition from other members of the Congress and the Senate. His policies in this regard are more closely aligned to left wing Unions than a conservative, free trade Republican Senator.

### Tax Cut

Trump plans to reduce corporate taxation to a rate of 15% (which was borrowed from Paul Ryan's economic policies and therefore likely to pass the House and the Congress). The purpose of this reduction is to make sure that US multinational companies bring their funds back to the US and reinvest it domestically in the US economy. Tax cuts would be a positive for companies operating in the US (increasing earnings by 20%), and would be positive for the US\$ as we would be likely to see cash repatriated to the US.

### Infrastructure Spending to increase

There are plans to revitalise airports, roads and build a wall. The US corporate tax rates proposed within the Trump program would increase US private fixed capital investment in the US economy. We see the likelihood of greater funds being invested in the US as positive for infrastructure companies.

### Defence spending to increase

While Trump does not have expansionist ambitions he has spoken to higher defence spending and this is aligned to Republican interests.

### Other considerations

Less regulation of banks and healthcare and repeal of Obamacare is positive for banks

and healthcare companies operating in the US.

Promote energy independence which will further support infrastructure investment in the US.

## Investment Implications

- Higher Interest rates
- Trump policies appear inflationary—lower tax rates, lower deregulation, higher infrastructure and defence spending. This is further enhanced if he is successful in forcing protectionist policies though. We believe this will drive higher interest rates over time.

### US\$

US\$ will strengthen on the back of repatriation of capital, and inflationary / growth policies. The uncertainty that he creates from a global perspective also leans towards a safe haven trade.

### Higher risk premium

The markets are likely to adopt a higher risk premium to allow for the uncertainty that Trump's rhetorical bluster provides. Will he damage US relations with Japan and South Korea? Will he start a trade war with China? Will he butt up against Putin? There are numerous uncertainties which will provide an overhang.

### Trade

Global trade is on the decline and future trade deals will be under threat. This is a negative for Australia but potentially be offset by the resource intensive growth agenda in the US. Furthermore a growing US would be favourable to major exporters to the US such as Japan and South Korea (which would be helpful as they are major export destinations for Australia).

### Wall Street to Main Street

One of the political consequences from the Trump victory as well as Brexit is that economic policies are likely to swing towards the masses. US manufacturing salaries have not increased faster than inflation for 30 years. Margins in the US are high and are likely to be squeezed. This can be fine if the top line is growing faster however we believe it favours buying quality companies which can pass on inflation to their customers.

### Infrastructure

Companies exposed to infrastructure spending such as Macquarie Group and Lendlease should be assisted by the infrastructure agenda that is being adopted in the US and by the likely adoption by other markets.

### US Corporate earnings

Higher US corporate earnings as a result of the tax cut will be helpful for companies operating in the US.

## Conclusion

The impact of a Trump victory is significantly lower risk than Brexit. We are not dealing with a leading nation having to unravel a complex economic agreement. Further the tax cuts will provide a significant boost to earnings and stimulus in the largest economy in the world. We see US earnings higher off the back of tax cuts however the impact on markets will be offset by a higher risk premium and higher interest rates which will impact the multiple.

Our portfolios are reasonably positioned. We have a high exposure to US exposed companies, are underweight stocks benefiting from lower interest rates, are overexposed to companies that benefit from infrastructure stimulus and remain invested in quality companies with pricing power. The main risk is the extent that the risk premium decline leads to a de-rating in growth stocks (where we do have an exposure) but many of these are the quality names with pricing power so we remain comfortable with the exposure.

Kind regards,  
Jamie Nicol | Chief Investment Officer

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## The CSP 3 Buckets Retirement Program

The CSP 3 Buckets Retirement Program booklet has had an update!

[Read more](#)



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