November 9, 2016

The U.S. election is over. What does it mean for your portfolio?

- Donald Trump and the Republicans have won the Presidency, the Senate, and the House. Whether one celebrates or laments the result, the message was unequivocal: they have been awarded a clear majority with a clear mandate: economic growth.

- Trump has pledged to focus on the U.S. economy. Indeed, Trump's Presidency will be judged on whether he delivers on his promise to boost growth and create more jobs. His acceptance speech highlighted plans for fiscal stimulus in the form of spending on roads, bridges and highways, all of which is generally positive for activity.

- Prospects for international trade are a concern, particularly if Trump attempts to reopen and/or repeal existing trade agreements. We do not see this happening quickly or easily; this issue is likely to play itself out over a longer horizon.

- The initial financial market reaction to the news was reminiscent of Brexit – volatile. However, we feel that economic developments will prove to be the dominant influence on markets. We note that the underlying economic environment is positive and should continue to improve.

- Some industries may benefit from a lifting of regulatory uncertainty. For example, there is less concern about more stringent banking regulation. Infrastructure spending favours materials and engineering firms.

- Bond markets remain a trouble spot. Higher government spending, increased demand for funds, and/or stronger growth may well put upward pressure on interest rates. Our portfolios are protected from an eventual rise in rates and inflation as we have no exposure to long term bonds.

- Our investment strategy continues to emphasize equities and modest bond exposures. Our equity portfolios are reasonably valued at less than 13 times forward earnings and offer an average dividend yield of around 3%. The holdings are well diversified and should benefit from steady growth in activity.

- The U.S. election result is the latest in what has been a string of noteworthy geopolitical and economic events since the Great Recession. We have consistently cautioned investors against adopting too negative a view and our prudent, measured, longer-term approach has proved to be rewarding. We will continue to monitor events closely as we reassess our views on the global economy and financial markets.

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