Trump election victory: early thoughts from IG desk

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The election of Donald Trump has been a stunning result. However, in assessing opinion polls in the run-up to the vote, the outcome was perhaps less surprising than may be portrayed in the traditional media, given its pro-establishment bias. In the early aftermath of the result, markets have been relatively calm with a noticeable absence of panic. It appears that many investors have reduced positions and have had a bias to add risk on weakness, with anecdotal evidence pointing to more buyers than sellers this morning in European hours. This could be seen in put/call ratios and investor positioning surveys ahead of yesterday's vote, though it should be stressed that in the coming few days, price action may be quite unpredictable.

In assessing what Trump means for financial markets, we are inclined to think his protectionist inclinations may be negative for globalisation and may be problematic for some emerging countries. It is not clear yet whether plans to expand fiscal policy will be realised, though these trends may lead to somewhat higher inflation and steeper yield curves over the medium term. The US dollar has weakened versus G3 forex but has rallied versus emerging currencies and whilst it is tempting to think that this trend could run further, a lot will now depend on what Trump says and does and in this regard his victory address struck a conciliatory chord. To paraphrase the Brexit debate – we need to ask whether we will have a hard Trump or soft Trump scenario going forward?

We believe that the US economy retains reasonable momentum and that if US asset markets stabilise, the Federal Reserve remains likely to raise rates in December. In Europe, we would caution against jumping to hasty conclusions regarding the European Central Bank or upcoming European elections in France, Germany or Italy in the wake of this result. That said we feel that bunds look more attractive on a relative value basis than US treasuries and have been adding to the relative value trade in the wake of the US result.

Credit spreads appear to be taking their cue from equities and with domestic US investors more inclined to see the positives in a Republican administration; it is yet plausible that stocks trade higher rather than lower in the days ahead if global investors fail to trigger a more generalised flight to quality. In the wake of this, the relative stability in credit markets may not be altogether surprising. However, it should be noted that uncertainty has increased since the US election and this may require a higher risk premium going forward. In more ways than one, a Trump administration is a leap into the unknown and it may be unwise to rush to pass judgment. Maintaining broadly balanced portfolios and waiting to see how events unfold may, therefore, be the smartest plan to continue to follow.

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