

CIO MONTHLY NOTE

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A surprise Trump victory



Despite the pre-election polls pointing to a modest but comfortable win for Clinton, Donald Trump has won the Whitehouse. What does this mean for Australia, the economy and markets?

A Trump presidency has serious implications for Australia from both a strategic and economic perspective.

Strategically, the US is Australia's most important ally. President Obama's foreign policy approach has been to pivot towards the Asia-Pacific region while Trump has said that he wants to reduce America's presence in the region.

This might encourage China to accelerate its reclamation activities in the South China Sea. Any such destabilisation in the region would have serious consequences for Australia as it is a major shipping route for Australian businesses and China is Australia's largest trading partner.

A Trump presidency has a number of implications for the global and Australian economies.

Australia is a small and open economy that relies on export earnings for a significant proportion of GDP. A Trump presidency has serious implications for global trade policy which would put Australia's export markets at risk.

Trump has said he would aggressively renegotiate trade agreements and increase tariffs, especially on China. This approach has the risk of starting a global

trade war which would be disastrous for the global economy and Australia.

A Trump presidency will also create economic and policy uncertainty that, coupled with the risk of a trade war, would be an important consideration for the Fed. Although the market had expected a Fed rate hike in December, it is now likely that the fed will delay raising rates into 2017.

Global equity markets would also face short term volatility. Emerging markets are the most at risk given the trade implications and tightening financial conditions from a higher USD. The Australian dollar is highly correlated to emerging market currencies so we are likely to see some weakness in the local currency as well.

A depreciating AUD, increased uncertainty and a potential trade war would put the RBA in a difficult position. It would want to cut rates to stimulate the economy but would need to also balance that with the lower AUD and the risk of stoking inflation.

Longer term, the implications of a Trump presidency are less clear. Policy talk is easy but implementation and congressional approval are much harder to achieve. Regardless, investors should brace for a period of increased volatility. In this environment, investors should aim to have a well-diversified portfolio and an appropriate level of cash to best weather the storm.

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