U.S. PRESIDENTIAL ELECTION RESULTS

US Election Result

Today marks the end of an historic U.S presidential election, which more than others in recent memory, seems to have been waged over an extended period of time. More than usual, this election has seen a highly polarised U.S electorate, and a significantly greater than usual potential to disrupt global markets. To some extent, the election has been seen as a “race to the bottom” where voters have been asked to vote for the least unattractive candidate, rather than one where there is a sense of hope and optimism for the future of the United States.

In the lead up to the presidential race, markets showed a preference for Hillary Clinton over Donald Trump. Trump has been the more inconsistent and polarising of the candidates, making clear relations with Mexico in particular will become severely tested, and looking to benefit from voter fears for job security, much of which he blames on global trade. Fears therefore existed that a Trump president may result in a bout of protectionism and would first and foremost lead to a sharp move in the Mexican peso, but also Emerging Market assets overall. Currencies such as the Japanese Yen, and to a lesser extent the Swiss Franc were seen as currencies benefitting from uncertainty around Trump. In the lead-up to the vote, incredible actions were undertaken by the FBI, in reopening an investigation to Clinton’s use of a private email server, and subsequently dropping this investigation only days prior go to Election Day.

Donald Trump has been elected the next President of the United States, confounding market expectations, much like the Brexit vote in June. Equity markets fell, as did the Australian dollar, and the traditional risk-off currencies rallied (notably the Japanese Yen). Gold has rallied sharply as usually occurs around unexpected events, and market volatility has increased significantly. Bond markets rallied (yields falling) and the markets saw less chance of a hike by the U.S Federal Reserve in December following this result; the Fed is unlikely to want to tighten financial conditions in a period where volatility may remain elevated for some time. Markets will be watching closely as Republicans retain control of the House (which was expected) and the Senate, in terms of the ability to administer and pass legislation, although the Republican Leader of the House Paul Ryan does not have consistent views on with Trump’s policies.

The first U.S trading session saw a sharp reversal of the severe risk-off mode in the Asian time zone, as U.S markets focussed on the possibility of increased infrastructure spending, corporate tax cuts and a perhaps a more conciliatory Trump. Moves in the U.S bond market in particular were very aggressive (yields higher) on the idea of a fiscal response from Trump, infrastructure funding, and possibly – finally - an increase in inflationary risks.

Atrium portfolios’ will be managed in a consistent manner in this turmoil; aiming to protect capital, while compounding returns in a tightly risk-managed environment. The portfolios’ remain exposed to the U.S dollar against the Australian dollar. This has moved in the portfolios' favour during today's trading session, and we expect further moves ahead. The portfolios' reduced equity market exposure earlier this year, and we expect to add to these weightings only on a sign of improved valuations. The portfolios' are not exposed to interest rate duration; while the initial flight to quality has seen a strong bid in the US treasury (and Australian Government Bond) markets, we believe that there will be a less disciplined fiscal approach taken by the new administration which pressure yields upwards across major markets.

Important Information