US Presidential Elections: Calm down and avoid a wild ride

This year, the world is riled up over a man who stands a flickering chance to be elected as perhaps the most powerful person in the free world. Donald Trump's plans, though scant on mechanics, hold enough ammunition to possibly launch the global economy and markets into a frenzy.

Free trade, a bastion of globalization, would likely be in danger of being fired from the US, in the same way he did on his reality television show. Trump has outlined plans to renegotiate free-trade agreements (FTAs) with various countries that run the risk of stoking trade wars, in addition to imposing trade tariffs on America's top trading partners, China (#2) and Mexico (#3). The Trans-Pacific Partnership (TPP) and the North America Free Trade Agreement (NAFTA) are also set for a complete withdrawal if he resets America's trade stance.

We anticipate the following should election results on November 8 declare Trump as the winner.

Make the US dollar great again

- The VIX index, a measure of volatility, is likely to trend higher along with gold prices as investors reduce their appetite for commodities amid a global equities decline.

- The US dollar would strengthen against all major currencies as risk sentiments on the economy climb. This may influence Federal Reserve (Fed) chair Janet Yellen to delay interest rate hikes at the next Federal Open Market Committee Meeting (FOMC) in December 2016 with the risk-off environment. Hence interest rates will remain low.

- With markets pricing in risks to the US economy, a few trends will emerge. Emerging markets (EM), particularly the local currency bond markets, which benefitted from inflows amid compressed interest rates from developed markets year to date, will take a hit with the looming tensions over US trade protectionism.

- Trump's tax policy to slash corporate taxes to a competitive 15% from 35% means America will join the ranks of Ireland, Hong Kong and Singapore as low tax regimes, that would encourage US companies to repatriate assets from abroad. Low taxes could also create incentives for more foreign direct investment (FDI). It is also entirely plausible he may raise federal revenue by eliminating more tax loopholes, as his proclivity with tax avoidance demonstrates a familiarity with the tax code. Certainty these positives must offset the losses from renouncing free trade, otherwise how could the America under Trump become great again?

What type of pill can the markets swallow?

S&P Annual Stock Market Price Returns From 1880	
	Median Return
All Years	8%
Presidential Election Years	8.3%
During Democratic Presidencies	11%
During Republican Presidencies	4.0%

The implications of a Trump win are far more nuanced in actuality because outcomes are hardly influenced by direct correlations. However it is generally acceptable to view Donald Trump as the bigger risk to markets than Hillary Clinton judging from historical data. Bulls have tended to side with Democratic Presidents, as Standard and Poor (S&P) returns average higher during their office term compared to periods with Republican Presidents.

Sources: 2016 Hillary for America, Donald J. Trump for President, Global Risk Insights, MRB Partners, Office of the United States Trade Representative, On The Issues, Tax Policy Center (Urban Institute & Brookings Institution), The Fiscal Times, The Washington Post, UOB Asset Management. All sources are referenced as at 11 October 2016.

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The healthcare sector remains one of the most tweeted about election topics. Hillary Clinton has vowed to crack down on exorbitant drug prices, and to maintain status quo on the Obamacare model. This likely translates into pressure on pharmaceutical and insurance companies into lowering prices. Should Trump get into office, his replacement of the Affordable Care Act (ACA) with Health Savings Accounts could mean higher competition amongst healthcare companies.

Despite the election headlines looking challenging for healthcare, we are optimistic on companies attuned to biomedical innovation and service providers focusing on value. The sector had already priced in headwinds from both candidates earlier in the year and only selective companies are charging exorbitant prices which are not indicative of the broader index. Hence, any dips are potentially buying opportunities from a growth and valuation perspective. Healthcare investing is a long term story and we maintain a positive view given the strong cash generation and dividend yield.

It will be business as usual for us and the markets with Hillary Clinton as the 45th President of the United States. We fully expect her to enact raising taxes on high income earners, financial transactions and short term capital gains. The least certain element comes from her trade plan. Clinton reversed an earlier position on the TPP meant to eliminate import taxes on US made exports, and now advocates for tariffs on countries whom in her own words, “cheat on trade”. While her trade stance looks more accommodating internationally compared to Trump, it is clear free trade is off the table as the US begins to look inwards.

Made in America

Beyond watching the entertaining clashes of opinion and personality between Clinton and Trump over live televised Presidential debates, Americans are seeking a President to validate their values and hopes of a return to a time of American prosperity. For the millions in the US who underemployed or unemployed, the best validation could come in the form of a job. Trump’s promise of bringing back jobs and companies to America, may sound appealing to some, but contrasted against Clinton’s plan for rebuilding infrastructure and a manufacturing revival, technocrats think the latter will make a material impact in creating jobs.

Whoever gets into office, at least the Fed will remain independent of presidential control, until Yellen’s term ends in 2018. Hence interest rates, inflation targets and monetary policies will stay out of the elections drama, and investors can take some comfort in this.

While a Trump win is a bigger risk, Clinton as President only serves to retain the status quo on business and the economy. This does not change our fundamental outlook from our last quarterly investment summary, we are still fairly bullish on the coming quarters and fairly neutrally positioned across asset classes.

Sources: 2016 Hillary for America, Donald J. Trump for President, Global Risk Insights, MRB Partners, Office of the United States Trade Representative, On The Issues, Tax Policy Center (Urban Institute & Brookings Institution), The Fiscal Times, The Washington Post, UOB Asset Management. All sources are referenced as at 11 October 2016.

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