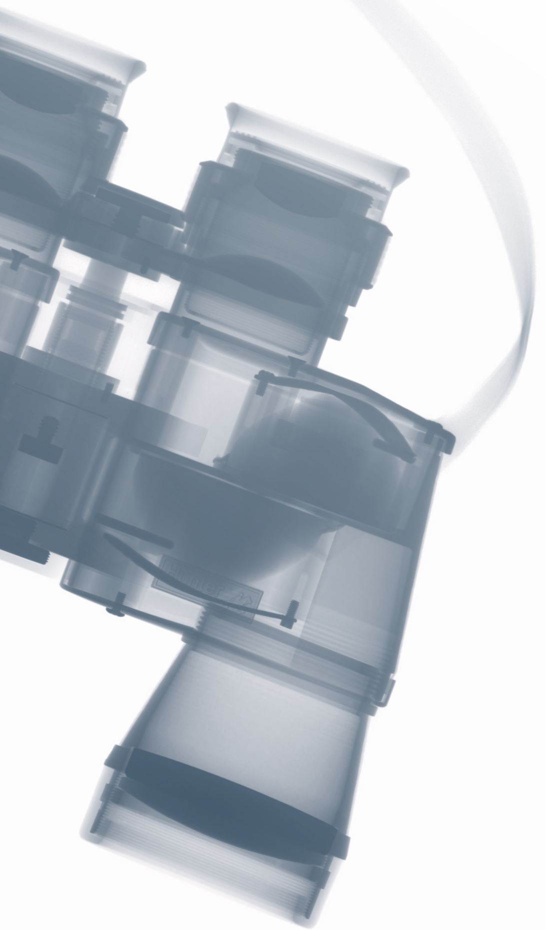
Heartwood Investment Management

09 November 2016

Investment Insight

Weekly Insight



Trump wins: our thoughts

The US presidential election has been a well-flagged event and our portfolios were positioned cautiously ahead of the outcome. Clearly, we have entered a new political paradigm and a President-elect Trump administration offers both opportunities and risks. While we are likely to see volatility in markets with the ebb and flow of political noise over coming weeks, we have been reassured by the generally controlled response of markets overnight.

Markets have not thrown up any compelling opportunities, so we are not making any immediate changes to portfolios. We will wait and see how events unfold over the coming days and weeks, as we learn more about the new administration – noting that inauguration day is not until 20th January 2017.

Tilting US equity holdings

What we are able to say at this point is that our focus on tilting portfolios towards a value bias will continue. We expect that a Trump presidency will have a meaningful impact on sectors where he has stated ambitions: infrastructure, industrials, defensives and energy. We therefore expect to shift exposure into these areas within our US equity allocation. With the support of a Republican Congress, Trump has a clear mandate to target growth through tax cuts and infrastructure spending.

Our portfolios have been focused on highly liquid US large caps, but we expect a Trump presidency to take on a more domestically-focused agenda and this could benefit US smaller companies. Over the medium-term, therefore, we may recalibrate some of our US equity market-cap bias towards smaller companies.

Maintaining overweight European and Japan positions

Elsewhere, we are maintaining our overweight position in European equities. This market has not been favoured by investors, but it offers a relative value opportunity versus other regions. For similar reasons, we are also maintaining our overweight position in Japanese equities, which should also benefit from a more shareholder-friendly approach among Japanese corporates.

Within UK equities, we remain focused on large-cap value exporters, although domestically-focused smaller companies could provide opportunities over the medium-term as we see more visibility around Brexit and a more stable currency.

Emerging market opportunities

Emerging market assets - both equities and bonds - continue to represent a longer-term structural opportunity. While there are questions around Trump's trade policies and overall approach to globalisation, looking beyond the near term we believe that emerging market assets should continue to benefit from improving growth prospects, policy easing and ongoing liquidity flows. If the US Federal Reserve raises interest rates in December, this has been discounted by financial markets and we do not see it as a significant headwind. In addition, the US dollar could see pressure in the near-term, which could favour emerging market currencies.

Maintaining short duration position in fixed income

In fixed income markets, we are maintaining our short duration position to reflect gradual reflation and the shifting bias of some central banks towards a neutral policy

Clear Thinking

stance. We expect developed sovereign bond yields to rise on the prospects of a looser fiscal stance, tighter monetary conditions and rising price pressures. If yields rise to a meaningful degree, we may take the opportunity to extend duration as our shorter-dated bonds mature. We have also trimmed our US High Yield energy position following strong performance. In terms of commodities, we are gradually broadening exposure into industrial metals and precious metals. We are also keeping our property exposure unchanged.

Contact

To find out more about the Heartwood strategies, visit our website or contact your local representative.

Potential upside for real return assets

Notwithstanding the surprise outcome of the US presidential election, we believe that the fundamentals of the global economy are improving modestly and we have been encouraged by recent data reports, such as improvements in business surveys, as well as the stabilisation in commodity prices. Furthermore, the inflation picture is changing as the deflation story loses momentum, which may be positive for real return assets, particularly value-orientated equities.

Donald J. Trump pulled off a spectacular and an unexpected victory. While easy to focus on his shortcomings, we must be open to the opportunities ahead.

Michael Stanes
Investment Director

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