HUB WEALTH MANAGEMENT

Donald Trump to be President of the United States 9 November 2016

Donald Trump now appears likely to have achieved an historic victory to become president-elect of the United States. As in the Brexit vote, opinion and exit pools provided an inaccurate guide.

Leaving aside the politics and the reasons, Trump's Republican Party will also control the Senate in the United States, unlike the current situation where Obama faces a hostile Senate that has stifled his legislative agenda. There are clear implications for Obamacare, global trade and protectionism, and international relations generally.

The market reaction has been swift and largely in line with our expectations of what a Trump win would mean. US equity futures are down 3.5%. The price of bonds has risen, as investors seek safety.

This is very much a step into the unknown because we simply can't know what type of President Trump will be. Will he be the demagogue from the campaign trail, who threatened to lock up his political opponents, punish the media, build border walls and start a global trade war? Or is he capable of becoming a statesmanlike figure who leads in a more measured manner? His acceptance speech will provide the first insight into what we might expect from President Trump.

With the Republicans holding the Senate and the House, there is now a greater chance that some, or all, of Trump's fiscal plan will be enacted. But the tax cuts, which are worth around $6trn over the next decade, would be mostly unfunded, particularly if Trump also boosted infrastructure and defence spending. It is hard to believe that the Tea Party fiscal conservatives in Congress would be willing to blow out the budget deficit like that. It would put the Federal debt burden on course to exceed 100% of GDP within a few years.

On trade, we expect Trump to start by labelling China a currency manipulator and to bring a number of perceived disputes to the WTO. Tariffs are possible further down the line, but won't be the first option. Given the adverse market reaction we have already seen, the Fed's planned December rate hike is now off the table. There is a possibility that Fed Chair Janet Yellen and even some other Fed Governors will resign immediately. Although Trump can't sack Yellen before her term ends in February 2018, his win demonstrates that many Americans share his view that she has been overtly political. Under those circumstances, she may feel duty-bound to step aside.

It's possible that a period of calm will return to markets within a few weeks, echoing what happened in the aftermath of the Brexit vote. However, there will be the constant risk of a renewed blow-up over the coming months and years.

Portfolio Implications

At Hub Wealth, we use some basic fundamentals in the process of portfolio construction: quality and diversification. That does not guarantee immediate success, but it does provide a sound basis for effective long-term outcomes.

In the short-term, it is likely that **share markets** will continue to fall in value. While Hub portfolios are individually tailored, they have relatively modest share exposure, with less than 40% in shares (split between Australian and international) across our overall clients. Most portfolios currently have even less than this.

Currency is another factor. International share investments also can provide exposure to overseas currencies. Today, the Australian dollar fell sharply against other currencies. This makes imports more expensive, but also provides a positive return for Australian investors.

Portfolios have very modest exposure to listed **property.** This will again help to minimise the downside risk.

Cash and defensive assets remain a very important part of portfolios. For most clients, these defensive strategies account for over 40% of total investments.

In recent years, we have included some **alternative strategies** in portfolios, partly for situations like this. The idea of many of these approaches is that they are not fully exposure to market movements.

Within portfolios, we also use some **active managers**. These managers have the ability to hold cash and/or take positions to protect some volatility risk. For example, Magellan Global fund holds 16% cash currently.

Portfolios also have exposure to **active asset allocation** through the Schroder Real Return Fund. Here, the manager can hold any combination of assets, but aims to generate long-term returns of 55 p.a. above inflation. As at November, the fund had 26% in cash and only 29% in total share exposure. The remainder is in defensive assets. It is ideally placed to benefit from buying quality assets at lower prices.

Finally, it is now more likely that the US Federal Reserve will further **delay increasing interest rates** while it becomes clear what President Trump will actually do. This should be a positive for markets.

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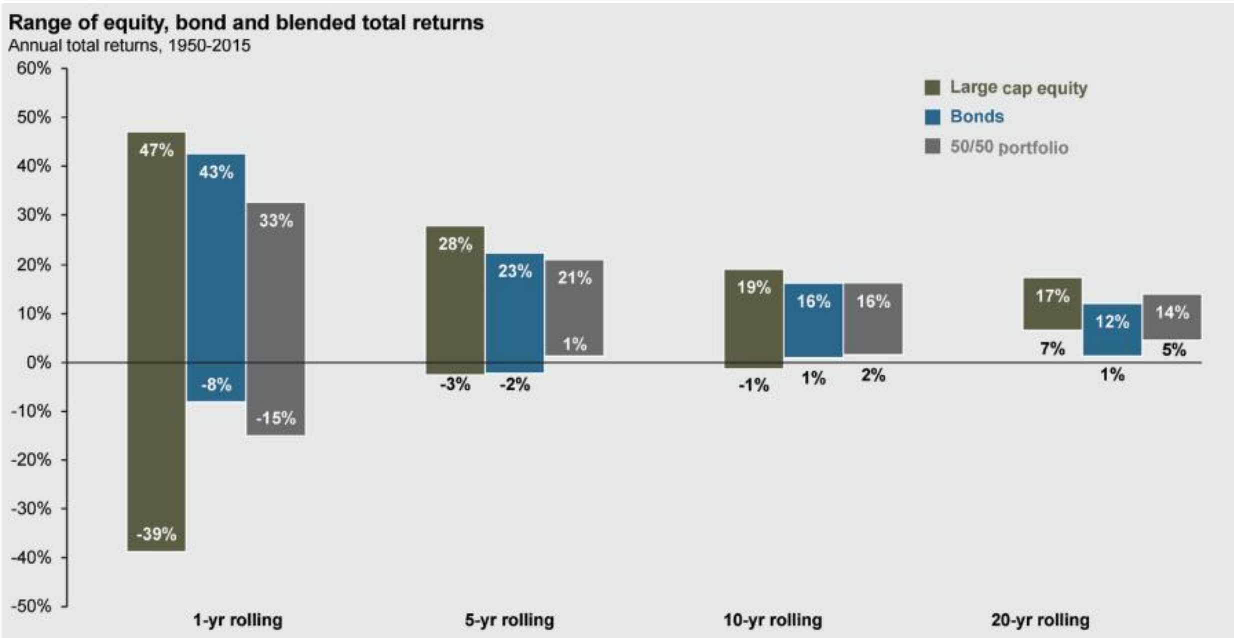
Conclusion

In conclusion, the Trump era brings many uncertainties. Portfolios are well positioned to withstand this and some active managers and strategies will actually benefit. Portfolios are not aggressively positioned. The table below from JP Morgan reminds us all again really how markets work: in the short-term, there is always uncertainty. Over longer timeframes, portfolio outcomes are much more reliable.



Source: Barclays, FactSet, U.S. Federal Reserve, Robert Shiller, Strategas/Ibbotson, J.P. Morgan Asset Management. Returns shown are based on calendar year returns from 1950 to 2015. Large cap equity represents the S&P 500 Shiller Composite and bonds represents the Strategas/Ibbotson for periods from 1950 to 1980 and the Barclays Aggregate after index inception in 1980.

Please don't hesitate to contact us if you have any questions about this information or your portfolio.

With very best wishes

David C Smith

Principal

Hub Wealth Management