The following message is sent on behalf of Brent Joyce, CFA, Chief Investment Strategist of GLC Asset Management Group Ltd.

Market response to the US election results – Another vote against the "Establishment"

Americans have spoken and...

Mr. Donald Trump will be inaugurated as the 45th President of the United States on January 20th, 2017, becoming the first non-politician/non-military veteran President. Following a wave of dissatisfaction with the status-quo, disenchantment over the benefits (or the distribution of the benefits) of globalization, and fears surrounding economic, social and political threats from immigration, Americans turfed the "Washington Establishment" personified by Hillary Clinton and the Democratic Party. Piling on to Mr. Trump's victory is a sweep of both Congressional Chambers. The years of 'gridlock' are gone as the Republican's hold majorities in both the Senate and the House of Representatives.

Markets don't like uncertainty, but they are getting used to it.

Initial overnight financial market reactions of 4-5% moves in some major assets have eased off by morning, and currently are settling in to a more modest +/- 2% range. Notably, bond markets are mixed, with German and Japanese yields falling on safe haven flows, as are short US yields. Responding more specifically to Trump's proposed economic platform, longer US Treasury yields are moving higher, incorporating the prospect of a higher US deficit and the inflationary impact of a fiscal spending program.

In the near term, capital markets will re-price this surprise outcome and the greater level of uncertainty of a Trump Presidency. Equity markets had weakened in recent weeks and the traditional safe-havens did garner positive cash flows – but a Trump victory and Republican sweep was not fully priced into the market.

Over the near-term, movements within the following ranges would not be a surprise to us:

- Strength for the Japanese yen (2%), euro (1-2%) and Swiss franc (1-2%)
- Gold spot prices rising +2% to +3%
- CAD/USD weakening to 0.74 cents – roughly 2% drop
- Canadian equities falling in the range of -1 to -3%
- US equities falling in the range of -2 to -5%
- European equities falling in the range of - 2% to -4%
- Japanese equities falling in the range of -5% to -7%
- 10 yr US Treasury yield rising toward 2%
- 10 yr Govt of Canada yields rising to 1.30% – 1.35%
- 10 yr German yields down 5-8 basis points
- 10 yr Japanese yields down 2-6 basis points

Despite our expectations that we will see market volatility in the near term, the complexion of the US Government isn't the first, nor the final word, on capital market returns. Capital market fundamentals (e.g. yields, earnings growth, and profitability) will ultimately dictate the path forward for stocks and bonds. It is important to note that Mr. Trump is inheriting a US economy that has seen recent improvement with employment, wages, exports, productivity, consumer spending, consumer confidence and GDP growth all inflecting higher. The long-term economic outlook under a Trump presidency is not unambiguously negative. Economic growth will depend on the balance of positives from lower tax rates (both personal and corporate), increased infrastructure spending, and a pro-growth platform, versus the negatives from potential changes to trade and immigration. At a sector/industry level, the financials and health care sectors have lagged considerably under the prospect of a Clinton victory (combined they represent 27% of the S&P 500), and both sectors stand to benefit under a Republican administration.

Although there is potential for friction on trade, the outlook for Canada isn't all negative either. A spurt of fiscally-fueled US economic growth in our largest trading partner is a positive, as is progress on North American energy infrastructure (namely pipelines). Trump's proposal to lower the US corporate tax rate would simply bring it in to line with the already highly competitive Canadian rate.

When will markets stabilise?

It may be some time before the event news subsides, and equity markets return to assessing the fundamental outlook for companies on a stock by stock basis – but they always do. As the current situation moves past this acute stage, we expect to see stocks and sectors responding to their fundamental outlook. It may also be the case that we move past this initial reaction quickly. We are mindful of the recent past examples where markets reacted swiftly to unexpected events, only to recover after sober second thought. 2016 alone holds two such examples: Post-Brexit, the MSCI World Index fell 7% in two days and yet fully recovered three weeks later; January's Chinese currency devaluation sent the MSCI World Index down 12% in the opening six weeks of the year, only to recoup all of those losses in the following seven weeks.

Between now and inauguration day, transition plans will be laid out and Cabinet posts will be filled. It is important to recognize that an "agenda" is one thing, execution is another. Mr. Trump's platform does not necessarily align with the views held by many Republicans. The reality of the US political system remains one of checks and balances intended to limit the concentration of power. Even the Republican sweep must be considered in this context. Many of the Republican Senators and Representatives are fiscal conservatives and were elected as such, and historically Republicans have favoured trade and globalisation.

Some have argued that 'gridlock' is good for business as it impedes government intervention. However, 'gridlock' has also brought years of little progress on fiscal reform, infrastructure spending, taxation reform, and the difficulty of passing a proper budget. Indeed, the new Congress isn't so new, with its leaders — Speaker Paul Ryan and Majority Leader Mitch McConnell intent on restoring the legislative branch as a co-equal branch of government (its rightful place according to the Constitution, in their view). The new Republican Congress, faces the polls again in 2018 (33/100 Senate seats and all 435 seats in the House) and will be reluctant to simply tow-the-line on many of the most controversial of Trump's ideas. This may lead to a more pragmatic Trump presidency as Congress prohibits presidential freelancing. We may have seen the first vestiges of this shift as Mr. Trump's victory address was the most coherent, presidential words we have heard from him, and notably absent were any references to trade, walls, or immigration.

What are we doing?

We understand that market volatility and heightened media attention has caused some investors to be concerned about the state of their investment portfolios. At GLC we have clear, defined investment processes in place which help us apply a disciplined approach to seeing through the market noise and media hype. We will weigh the new realities and circumstances affecting the stocks and bonds we hold, and focus on recognizing and acting on opportunities as they present themselves.

During periods of market volatility, when it can be difficult to remove human emotion and personal bias from decision making, the merits of GLC's disciplined investment processes shine through.

What should I do?

As long term investors, your best bet is to stick with your long term investment plan. A well-diversified portfolio is the best approach, no matter the market environment.

There are numerous possible outcomes from the US election result, and at this time many economic and financial implications remain speculative in nature as it is too early to know how much (or how little) of a new President's proposals will ever become reality. With many unanswered questions—even about the direction, let alone the magnitude, of potential policy changes, it is extremely dangerous to jump to quick conclusions over what impact the election will have on the economy and markets. It is not uncommon for markets to both under and over shoot on sentiment. As a result, we caution against knee-jerk reactions when it comes to your long-term investment plans. Much regret can come from decisions made on emotion and haste.