For retail investors

US ELECTION 2016
TRUMP VICTORY: BALANCING THE RISKS AND OPPORTUNITIES

9 November 2016

ANTHONY **GILLHAM**
MANAGER, OLD MUTUAL SPECTRUM AND GENERATION PORTFOLIOS

We have for some time been focussed on constructing all-weather portfolios that are robust against market turbulence and risk.

The immediate reaction of international equity (company share) markets to the result of the US presidential election, a win for the Republican candidate Donald Trump, was negative. We had expected that a Trump victory could trigger turbulence across several investment markets, though we also believe that investors may refocus on the positives after they have had more time to digest the result.

Although his rival, the Democratic candidate Hillary Clinton, had entered the election ahead in the opinion polls, we had been wary of assuming that the polls were accurate. As with the UK referendum on the EU, in the event the pollsters were found wanting. Trump won key marginal states, such as Florida, Ohio and North Carolina, that many forecasters had believed would go to the Democrats. The Republicans also retained their majorities in the House of Representatives and the Senate, which means that Trump may find it easier to enact his policies than Obama did.

Instead, we had been establishing balance in our portfolios, aiming to ensure they would be robust to either outcome. In all that we do, we strive to provide consistent investment returns; downside defence, where possible; and genuine diversification. When faced by events that increase uncertainty, we emphasise the importance of the right balance in portfolios and not skewed to any outcome and are able to withstand short-term buffeting.

LONG-TERM VIEW

Though the short-term effect of the election result on markets could be to increase market turbulence, investors may, after taking the time to digest the result, refocus on the positives of the US economy, and the stimulating effect Trump's measures may have on it. There may be a parallel to be drawn with the UK's referendum vote on membership of the European Union, when equities went initially lower, but quickly recovered and moved, for the most part, strongly ahead.

We shall be monitoring market developments closely. If the Trump win does cause a pronounced pull back, we shall be studying it carefully to see if buying opportunities emerge. Before the election, we therefore invited managers of funds to come in to our offices to talk to us about key areas of opportunity. In terms of our fund holdings our focus, as always, is on quality managers with a repeatable investment process.

REDUCING RISK

Mindful of the risk of increased turbulence, we reduced our weighting to equities within the portfolios before the election. This adjustment is typical of our process: we can de-risk the funds swiftly, when needed, in order to defend against possible falls and protect investors' capital.

Within the bond market, there may also be volatility, as the Trump presidency could be a period of lower taxes, higher inflation, and consequently lower bond prices. We therefore took some money out of bonds before the election, and reduced our portfolios' sensitivity to interest rate risk, so that a movement upwards in market interest rates would have less adverse impact on our bond positions (since rises in market interest rates mean that bond prices fall).

Emerging markets company shares and bonds are areas that could suffer from the Trump victory, however. Before the election, mindful of this risk, we therefore reduced exposure to emerging market local currency bonds.

TIME IN THE MARKET

The benefits of using multi-asset funds include diversification, in other words, not putting all your eggs in one basket, but having a mix of different kinds of investment. Another benefit is that decisions about the precise mix to use are made by specialists who have the resources to undertake thorough research.

Across our multi-asset funds, we emphasise allocation to managers who have consistent and repeatable investment processes, and who share our strong focus on the long term. Conversely, we have sought to avoid managers with more speculative investment approaches.

We firmly believe that long-term approach to investing produces the best outcomes for investors: time in the market is more important than trying to time the market. Investors often try to second-guess market movements, jumping in and out; but far more effective is for them to stay invested and keep adding funds on a regular basis, even when prices have fallen. By continuing to invest when prices are lower, investors often experience the benefits of pound cost averaging. When prices are falling, the same amount of pounds will buy more shares, allowing the investor to benefit if prices later rise again.

ABOUT THE AUTHOR

Anthony Gillham joined Old Mutual in 2000 and is a co-investment director of the multi-asset unit. In 2007, Anthony became a global bond portfolio manager having been a fixed income research analyst since 2006. Prior to focusing on fixed income, Anthony's areas of coverage included multi-asset, Nordic equities and quantitative US equity and fixed income research. Anthony is a CFA charterholder and has over 15 years of investment experience.

OLD MUTUAL GLOBAL INVESTORS

OMGI 11/16/0076