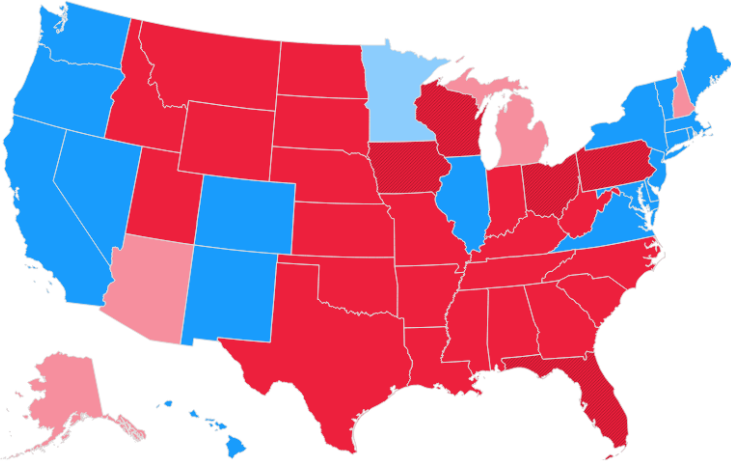


Post US Election Memo

Donald J. Trump – 45th President of the United States of America

"I will be president for all Americans, and this is so important to me."

Donald Trump (in red) shocked the world and financial markets on Wednesday 09 Nov 2016 by defeating Hillary Clinton (in blue) with a score of 276 electoral votes (EVs) against 218 EVs after a bitterly contested presidential race that alternately electrified and repulsed millions of American voters.



Market Reactions

US stock index futures tumbled with investors across the world being on the edge. The spread between the 10-year and 30-year Treasury yields widened amid speculation that Trump as president would increase spending to spur economic growth.

Traders on Wall Street weren't the only ones jolted. Markets across the globe saw red, with European stocks falling during its morning trade while Asia-Pacific indexes finished in the red overnight. The Nikkei 225 sank more than 5%, while Chinese markets also ended in negative territory. The Mexican peso depreciated more than 12% against the US dollar as the likelihood of a Trump victory increased throughout the night.

In contrast, safe-haven currencies surged after the election of the new President rattled investors. The yen climbed versus the dollar. Gold reported gains of nearly 5%. This marked gold's biggest single-day gain since June 24 when it rose as much as 8% when Britain decided to leave the European Union.

Agenda

#Immigration. Trump said his first day in office would be dedicated in large part to starting an overhaul of the US immigration system, setting aside funding to boost the number of immigration control agents and deporting more than 2 million people with criminal records.

#Trade. He added that he'll take strict measures against US trading partners, including top allies, by seeking to renegotiate with The North American Free Trade Agreement (NAFTA) for better deal for American workers and nullify the Trans-Pacific Partnership. He plans to take a protectionist approach with China at the WTO, which he has accused of manipulating its currency to destabilise US industry.

#Taxes. Trump's tax plan largely follows the Republican doctrine, offering a historic across-the-board cut in rates such as lower business tax rate from 35% to 15%, and eliminating the corporate alternative minimum tax. Furthermore, the tax law changes will provide a deemed repatriation of corporate profits held offshore at a one-time tax rate of 10%. This will most likely lead to increasing interest rates, inflation and a bigger budget deficit. The Fed, which had shown a strong inclination to hike rates at its policy meeting next month, may opt to delay till things settle down first.

#Healthcare. Trump says he'll ask Congress to immediately repeal the Affordable Care Act, Obama's signature domestic achievement. He has criticized the law for large premium increases in its government-run insurance markets. His replacement plan for Obamacare, he has said, would include more widespread use of health savings accounts.

#Defense and Infrastructure. Fighting terrorism is center stage in his campaign, and he intends to do so by increasing defense spending. Moreover, he has also talked about fixing bridges and upgrading airports.

Outlook

On immigration, Trump is operating on the assumption that fewer working immigrants will mean more work for native-born Americans. But that's a risky assumption, since it is not clear whether many Americans even want to do the tough work in landscaping, construction or agriculture that immigrants often do. And shrinking the labour force, whether legal or illegal, would ordinarily dampen growth.

After a brief boost from tax cuts, the net effect is that the economy will cool as inflation and interest rates will rise. With higher tariffs pushing up prices and wages rising as immigrant labour supply falls, the overall outcome is likely to be stagflation; weaker growth and higher inflation.

Bond yields may surge as investors seek greater compensation for inflation risk, while equity markets are expected to decline. Cuts in corporate tax rates will offset some of this and sectors such as energy and financials could benefit from easing regulation. More broadly, the prospect of protectionism and lower global growth will hit equity markets and risk assets worldwide. Emerging markets are particularly vulnerable given their dependence on global trade.

Safe haven currencies such as the Japanese yen and Swiss franc are likely to be in demand and investors are also likely to favour gold.

So the real question for markets is whether Trump means everything he said. If he does, the odds of an incoming US recession are probably high. However, if Trump quickly gives up on his most radical ideas, markets might ascend and multinationals might exhale.

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