Market commentary
U.S. election

The U.S. presidential election
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CI Investments portfolio management teams provide their analysis of the potential investment impact of the election of Donald Trump as U.S. president.

Signature Global Asset Management
Chief Investment Officer Eric Bushell

Last night's election results remind me of the1971 Monty Python album "And Now for Something Completely Different." Donald Trump is president-elect of the United States.

The good news is that we have a clear winner with a clear mandate to "Make America Great Again." Trump is the polar opposite candidate to President Obama. His election symbolizes the public's frustration and determination to try something completely different, come what may. America's middle class and blue collar Rust Belt are willing to run that risk, because whatever we're doing now is not working for them.

The progression of the post-Lehman crisis sequence (from financial to economic to social to political) took an important step last night. The Washington consensus ideology (what we're doing) and its establishment purveyors (who's doing it) are being jettisoned. Their recipe for growth consisting of free trade and deregulated markets in a U.S.-led world order has failed to deliver on its promises lately. Key tenets of the ideology have fallen one by one in the aftermath of the financial crisis.

Clinton's left-leaning centrist position was too closely associated with the traditional ideology to be considered anything other than more of the same. This opened the door for Mr. Trump, who became the political embodiment of this desire for something completely different. Fortunately for markets, change has emerged from the right under the Republican banner and not in a more deeply socialistic form along the lines of what Bernie Sanders had in mind. The "U.S. Brexit" appears to have a retained a pro-business element that may be lacking in what Theresa May has in store for the U.K.

In coming to this point, Trump has bred fear into race relations, gender relations, geopolitical relations and economic relations. The divisive campaign has alienated liberals and globalists but it is premature to judge the outcome of President Trump's administration. Some patience and observation is advisable.

Things will change. Countries with large trade surpluses with the U.S. had better rebalance their economies. Think Germany, Japan, China. Persistent structural imbalances won't be tolerated by a Trump administration. So those exporters have to rebalance toward domestic consumption, full stop. This will ruffle feathers but ultimately drive more localized production and President Trump will be able to point to new plants. Changes to trade relations within NAFTA are difficult judge at this point.

Our overall view that stocks beat bonds remains intact. Elements of our "Regime Change" theme are reinforced and others are weakened as a result of Trump's election. We are more convinced that cyclical inflation pressures will build due to tighter labour markets, stronger economic activity and higher trade barriers. Our recommendation to underweight government bonds stands. Meanwhile, credit and equity should perform reasonably well as earnings recover from their two-year downtrend. Commodities should escape intact given the infrastructure spending pattern common to new populist governments. The weakened element is emerging markets, whose trade dependency leaves them vulnerable to the deglobalization trend. This is a longer-term risk to growth.

The last point to make is that populist politics may only be just beginning. Europe is home to many disaffected voters who never supported globalization to begin with. As they go the polls over the next two years, we may face further growth-damaging political developments.

Cambridge Global Asset Management

Chief Investment Officer Brandon Snow and Chief Market Strategist Robert Swanson*

In a year full of surprises, including the Brexit vote and World Series victory of the Chicago Cubs, we can now add a Donald Trump presidential win to the list. The election outcome has come as a surprise to the market, as all of the polls suggested Hillary Clinton had a comfortable lead. Many investors have been using the Brexit experience as a playbook. The markets, however, were positioned more defensively heading into Brexit, but since this summer have been rotating from defensive to more cyclically exposed companies and industries, as evidenced by the rally in commodities and emerging markets. The knee-jerk reaction experienced by markets last night should not be extrapolated into future market movements, as much of this represents unwinding of positions taken in expectation of a Clinton win. However, volatility may persist for some time as investors rebalance back to a more defensive stance. While it is difficult to contemplate the intermediate to long-term impact of a Trump presidency, there are some suggested market implications based on his campaign comments:

- A reduction in taxes. This would be generally favourable for both corporations and higher income earners and, in theory, should encourage increased spending and investment. Further, making U.S. corporate tax rates more competitive with those abroad should stem the tide of corporate tax inversions and may lead to the repatriation and reinvestment of cash that is currently locked up abroad.
- Less regulation and smaller government should support business development. Sectors that have been the focal point of greater regulation in the Clinton campaign include the health care and financial sectors. These two sectors were among the weakest heading into the election, and may now experience some mean reversal in relative performance.
- A movement from globalization to protectionism suggests a potential decline in global trade and, perhaps, the introduction of trade wars. Multinational firms, and those domestic firms relying on the distribution of imported goods, appear most at risk. Auto and other companies doing business in Mexico may be forced to adjust their business models, should trade barriers or tariffs be enacted. This also impacts the transportation sectors.
- Support of the defence industry seems likely given Trump's commentary, and would be consistent with a more protectionist stance.

- Fiscal stimulus was a promise of both candidates. This should benefit firms in infrastructure-related industries. Higher government expenditures will also put increasing pressure on budget deficits and may result in a paradox of both higher interest rates and a lower dollar.
- A Trump win was expected to be negative for the U.S. dollar. This may help to support commodity prices, unless the concern over the decline in global trade takes on greater relevance.

Given the current lack of bipartisan support for Trump, it will likely be a difficult and lengthy effort to implement his policy agenda. This is why we caution about drawing too many conclusions from last night's results. The government remains divided and the odds remain high that gridlock in Washington will continue.

The Cambridge portfolios have carried higher than normal cash levels throughout the year. This was not a reaction to Brexit or election outcomes, but was due instead to elevated valuations and lack of attractive investment opportunities. We have a target list of companies with pre-designated prices/valuations that we would like to add to the portfolios if presented the opportunity. The increased uncertainty brought about by Trump's victory will likely provide more attractive entry points for our target companies.

Historically, the market performs well between election and inauguration date. The outcome of this election may not inspire unity, so the past may not serve as the guide this year. From an intermediate perspective, the first and second years of the presidential cycle are typically weaker than the third and fourth years, as the sobering reality that campaign promises typically go undelivered sets in.

In summary, uncertainty and corresponding volatility should present an opportunity for us to deploy some of our cash balances. We are also aware that any policy changes will likely be a long, drawn-out process, so we will not likely make structural shifts in our portfolios. As always, we focus on individual companies that can navigate the changing political and economic environment within which they operate.

Harbour Advisors

Senior Portfolio Manager Roger Mortimer*

Winning bigly

The dominant win of Donald Trump and the Republican Party (commonly referred to as the GOP, an abbreviation for Grand Old Party) came as surprise to media commentators and perhaps much of the U.S. population last night. The GOP now controls the Presidency, the House and the Senate, paving the way for significant change in Washington and U.S. policy.

At Harbour, we're not in the forecasting business. We have often noted that there is a significant difference between forecasting and understanding causality. Forecasting is to say, for example, that if we have a cold winter, the price of natural gas will go up and gas stocks will be good investments – but we're not paid to forecast the weather, or politics in this instance, with our clients' money.

What we do strive for, however, is to ensure our portfolios are constructed to be resilient to unexpected shocks and outcomes. The Trump win, while not broadly considered to be likely, was certainly not a zeropossibility outcome. The Harbour funds were defensively positioned going into the election, as we recognize that our conservative clients are less excited about losing money than they are about making it. As we have reiterated many times, we focus on cost, not opportunity cost.

The equity funds have high cash levels and low exposure to consumer discretionary stocks and the balanced funds have shortened bond duration and also benefit from exposure to gold. Our intent was not to take a view, but to position our portfolios to protect capital in either instance. At the time of writing, U.S. 10-year bond yields have risen 10 basis points to 1.95%, the U.S. dollar is fluctuating, but stable, and gold is up $25. It is too early to make a call on the precise levels of these varied asset classes. However, rising bond yields imply tighter financial conditions, impacting the U.S. Federal Reserve's appetite to increase interest rates. If financial conditions settle down, we think the Fed's expected future actions to increase interest rates may not be affected.

Little is known about Trump's policies, as his campaign was almost uniquely free of any strategy articulation. We do know, however, that he has protectionist views on trade (this is inflationary), he would like to repeal Obamacare and has strong views on immigration. He also has articulated that he envisages funding a major infrastructure investment plan via a one-time, tax-advantaged repatriation of foreign capital. This is a policy that, with GOP control of the House, may be possible and could be a significant stimulus to the U.S. economy.

Broadly speaking, a Trump victory looks to be bad for bonds, but within the context of greater uncertainty, not necessarily bad for equities.

We have been taking steps for many months to ensure that our portfolios include some optionality to what we now know as the outcome. We believe our clients will benefit from this preparedness. Of the seven U.S. companies with the largest offshore cash balances, we own six: Apple, Microsoft, Google, Oracle, Pfizer and Johnson & Johnson – missing only Cisco. The potential to bring this capital back into the U.S. offers them potential capital structure flexibility that can add value to investment theses that we already like. We have also maintained and slowly added to infrastructure positions such as HeidelbergCement, SNC-Lavalin and WSP Global. As rates rise and the yield curve steepens, financials have the potential to benefit. Trump's foreign policy is a big wildcard and defence stocks, prodded by a more protectionist, unpredictable and acrimonious world, will be sought by investors.

In short, the Trump win, while not a consensus expectation, is not without its potential benefits. As always, we are working diligently to ensure that our clients' capital is protected and positioned for growth.

CI Multi-Asset Management

Portfolio Manager Alfred Lam and Associate Portfolio Manager Yoonjai Shin

What happened?

Donald Trump's election as the next U.S. president was not a popular choice for capital markets. However, it appears to represent the average American's demand for change. Bond, stock and currency markets were very volatile during 24 hours leading up to the election. Stocks are 2-3% higher from the lows, while bonds, foreign currencies and gold bullion are 2-3% lower from their highs. Market reaction calmed following Trump's victory speech, which was a lot more modest than his campaign speeches.

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Markets will likely remain volatile as investors attempt to predict what the result means to global economic growth and asset prices. There could be positive surprises to the U.S. economy over the long term, as his proposals include reducing taxes and increasing infrastructure spending.

The big picture

We did not try to profit by predicting the election outcome. Our portfolios are invested diversely across multiple asset classes and currencies, and we take advantage of low and negative correlations between them to build our portfolios. We created no bias for a Trump win or loss. Portfolios that are managed for investors with short-term horizons benefited from our holdings in government bonds and foreign currencies. We also held significant amounts of cash on the view that many asset classes were over-valued.

We expect Trump's actual policies to be more modest and have limited long-term impact on the companies we own. However, there could be opportunities for us to reposition the portfolios if valuations become more attractive.

What we did in the last 24 hours

We followed the same playbook as we did for the Brexit referendum, which was to stay diversified and be ready to adjust to valuation changes without attempting to predict binary outcomes. We reduced the portfolios' U.S. Treasury exposure diligently late last night in the Asian trading hours as they reached our price targets. We also increased our hedge to the euro as it rallied versus the Canadian dollar before selling off overnight.

What are our plans?

We expect to hang on to our quality investments, as the earnings outlook has not changed. We may buy back some of the government bond investments we sold, as they re-priced since we traded.

We also have large amount of cash that can be deployed. We held more cash not because of the election, but due to the valuation concerns. We will invest as a result of valuation improvement. Our outlook for slow global growth and disinflationary trends has not changed. We remain cautiously positioned with lower equity weights across the portfolios, and will look for opportunities to increase weightings. We remain focused on generating strong risk-adjusted performance while protecting our investors by continually assessing valuations, fundamentals and cross-asset correlations.

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