

# Market alert

Markets welcome President-elect Trump | 9 November 2016

CIO WM Research

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## What happened?

- Following an initial drop of 4-5%, global equity markets have calmed somewhat and recovered most of their losses; as we write this note, the S&P 500 is roughly flat since the 8 November close, trading above 2100 after falling as low as 2028.50 overnight (see Fig. 1).
- After an initial flight-to-safety drop to 1.71%, the 10-year US Treasury yield climbed to 1.96%, as the yield curve steepened on expectation of fiscal stimulus.
- Similarly, the probability of a December Fed rate hike, which had fallen to 50% overnight, rebounded to its pre-election level of nearly 80%.

## What triggered it?

- Republican Donald Trump scored an upset victory in the race for the White House, shattering the Democratic "blue wall" by capturing electoral votes in states like Wisconsin and Pennsylvania.
- President-elect Trump's victory came alongside Republican victories in House and Senate races, giving a unified government to the "Grand Old Party" for the first time since the 2006 mid-term elections.
- The market's large swings and initial drop are a reflection of the uncertainty posed by a Republican sweep; Trump's lack of record in government makes it hard for investors to anticipate how he will exercise power, and he is the first president since the 1950s to have never held public office prior to being elected to the White House.

## What are the key takeaways?

- Markets are digesting the dual nature of Trump's policy pronouncements. Concerns regarding a deterioration of global trade relations will continue to weigh on global markets, while the prospect of stimulative fiscal policy may help to boost growth and inflation expectations.
- We expect that markets will continue to suffer from "election indigestion" over the coming days and weeks, and volatility may continue.
- Taking some cues from the shocking "Brexit" decision in late June, it may take a few days for markets to adjust.
- We advise investors to stick to their investment plans, and take advantage of oversold opportunities to deploy excess cash.
- CIO believes attractive fundamentals will outweigh political uncertainty; US stocks are supported by accelerating earnings growth, and we forecast 2017 earnings growth of 8%.

**Fig. 1: Markets react to Trump's unexpected victory**

The S&P 500 has mostly recovered after an initial 5% swoon



Source: Bloomberg, UBS, as of 9 November 2016

## Appendix

### Terms and Abbreviations

Term / Abbreviation	Description / Definition	Term / Abbreviation	Description / Definition
A	actual i.e. 2010A	Shares o/s	Shares outstanding
CIO	UBS Chief Investment Office		

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