

THE US ELECTION: REACTIONS AND IMPLICATIONS OF TRUMP'S WIN



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- 1) Donald Trump, who many polls had deemed to have only an outside chance of winning the US presidential race prior to the vote, won the election on November 8.
- 2) The implications of Trump's win point to a potentially stronger US economy on the basis of fiscal stimulus and a strong US dollar. However, a more protectionist trade stance and the risk of heavy-handed policies on immigration could lead to a rift in the US consumer base that outweighs any positives.

Potential Mid-term Implications of Trump's Presidency

Variable (US only)	Interpretation
Government Spending	↗
Inflation	↗
Interest rates	↗
US Dollar	↗
Tax Rates	↘
Trade	↘
Consumption	—

A SURPRISING WINNER

The US election on November 8 resulted in a victory for Donald Trump, who many polls had deemed to have only an outside chance of winning the presidential race prior to the



vote. Trump's remarkable victory was also marked by the Republican Party winning a majority in the US House of Representatives and Senate in one of the most tightly contested and controversial elections in recent US history.

In this note, we comment on the global markets' initial reaction to Trump's election as well as on what a Trump presidency might mean for the US economy, for the retail sector and for the US's trade partners.

MARKET REACTION

As the initial results came in on November 8 and the likelihood of a Trump win became apparent, investors triggered a global market sell-off similar to the one that occurred following the Brexit vote in the UK in June. Investors moved their money out of risky assets and into havens such as gold. Currencies were particularly volatile: the US dollar declined by as much as 2.5% against the euro, while Mexico's peso decreased to a record low of 20.7818 per dollar.

The repercussions that Trump's suggested protectionist and populist policies might have on the US economy, and the uncertainty they generate, were the likely reasons behind investors' flight to safety. However, as the election results started sinking in, the turmoil in the markets eased. Before the US markets opened for trading on November 9, the E-mini S&P 500 futures index was down only moderately, by 1.9%. By the end of the day on November 9, US markets showed gains while the US dollar rallied. The S&P 500 Index closed up 1.11% and the US currency appreciated as much as 1.4% according to a Bloomberg gauge of the dollar.



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THE ROAD AHEAD

Beyond analyzing the result of the US presidential election, the big question is what it will mean for the US economy and trade. During his campaign, Trump took a bold stance on a number of issues, including promising to clamp down on immigration, renegotiate trade pacts, lower taxes and reform US healthcare. These statements were often unaccompanied by a clearly laid-out policy or road map, however, and when combined



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with Trump's lack of public office experience and questions over his office's capability to execute on his promises, they left open significant room for interpretation and speculation.

With the support of a Republican Congress, a Trump presidency will likely undertake fiscal stimulus, increasing government spending and the deficit. Trump is also likely to lower taxes, which will leave more money in consumers' pockets and boost corporate profitability. While these measures have the potential to boost the US economy and make the US currency stronger, the US population is seemingly divided, and any heavy-handed anti-immigration policies could significantly dampen consumer sentiment and people's willingness to spend. Furthermore, if Trump is successful in his plan to extradite what is estimated to be approximately 11 million unauthorized immigrants, then a large consumer demographic will be removed from the economy, impacting retail negatively.

Trump's stance on trade is another area open for debate. While campaigning, the president-elect alluded to a plan to impose tariffs on imports from China and stated his opposition to the Trans-Pacific Partnership (TPP). We would refrain from taking Trump's preelection rhetoric at face value; however, a more protectionist approach to trade seems almost certain going forward, even though its extent is yet unknown. A more protectionist US will increase the costs of doing business with the country, and will likely cause the global trade map to be redrawn in terms of expansion of trade between emerging economies, especially in Asia, where China is already moving forward with a series of trade agreements as part of the One Belt, One Road initiative.

The true implications of Trump's victory will become clearer as the dust from the election settles and his administration starts executing on the promised path to "Make America Great Again." Only time will tell if he has the ability to deliver on this promise. What is clear from Trump's landmark victory, however, which echoes the UK's Brexit vote, is that the path to globalization and trade liberalization is not as smooth as many had expected: we will be living in an even more complex and challenging environment in the years to come.



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