



TRUMP VICTORY: A NON-EVENT FOR MARKETS?

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Trump wins US election and caught pollsters and forecasters on the wrong foot

- With 92% of the votes counted at the time of writing, Donald Trump has already secured 279 electoral votes, above the 270 threshold to win.
- Republicans also kept control of the House of Representatives and the Senate. A unified government has been very rare over the recent decades.
- Trump's initial statements reassured markets, calling for unity and pledging that he will be the "president of all Americans".

A contained rise in risk aversion

- The Trump victory translated into a limited fall in risk assets so far. The overall impact is rather muted and, to the relief of most investors, below expectations. Some EM markets such as Mexico are experiencing higher adverse movements.
- 10y bond yields seem to be firming, probably translating concerns over expansionary fiscal policies and/ or protectionism and their impact on inflation.

Long term fiscal profligacy and protectionism should support growth and inflation

- Trump's campaign promises are unlikely to be fully implemented by the Congress despite unified government. In particular the Congress might be reluctant to ratify measures that would sharply widen the budget deficit. Some expansionary fiscal policies such as infrastructure spending are nonetheless likely to be adopted.
- The Fed should maintain its data-dependent normalization course with a rate hike likely mid-December 2016. Fed fund futures signal the market has not changed its mind on the Fed staying dovish in 2017. Janet Yellen's four-year mandate as chair of the Board of Governors will last until 2018.
- On top of increased protectionism, public spending could fuel inflation in the medium term. We maintain US inflation breakevens at Overweight. Increased protectionism leads us to stay Underweight EM equities and to prefer Domestic over Global stocks with regards to US equities.
- The US Dollar could be supported by the repatriation of offshore profits by American corporates, under plans by Donald Trump for a tax cut on such proceeds.

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