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TRUMP'S ELECTION MERITS CAUTION AS THE POST-FINANCIAL CRISIS CONSENUS COMES TO AN END, SAYS ABERDEEN

Donald Trump's plans have the potential to revive US growth but also do great harm, says Aberdeen Asset Management Asia. As the president-elect assembles his team it is still unclear which Trump will show up at the White House: the pragmatist or the populist.

The answer could be both if Trump thinks it will help him get his way. With a raft of promises to fulfil to an angry underclass, Trump is set to spend – provided Republicans chiefs will let him.

So far US equities have responded positively whereas bonds have sold off, while the dollar has recovered strength. This is in response to Trump's programme of infrastructure stimulus and tax breaks. But head of multi-asset solutions, Asia Pacific, Irene Goh, says there are plenty of risks to the gathering reflation consensus. These are both economic and political.

For example, higher borrowing costs could offset the benefits of fiscal spending, given an already substantial debt load, resulting in slower than expected US growth. But if bond markets see the Federal Reserve falling 'behind the curve' that could turn ugly if wages do not respond to higher prices.

Aberdeen's base case is for a rate rise next month with two each in 2017 and 2018. Trump's proposed tax cuts appear to be unfunded at present and the possibility of future spending cuts to pay for the tax measures may begin to loom larger in markets' minds over time.

Speaking at a client outlook presentation, 'Augmented Reality', Goh is reasonably positive on US equities near term given a strong earnings season and firm enough balance sheets. She is mindful of political disruption in Europe, while monitoring closely and evaluating the balance of global policy influences on emerging markets, where the recent search for yield has led to nervous and extreme dollar strength that may be unhelpful to both the US and emerging markets. Meanwhile, further Yen weakness and reflationary expectations are likely to support Japanese equities.

The 'tough one' is where to position with respect to interest rates. If inflation is about to return then bonds are unattractive, with investment grade an already crowded trade. Indeed, with Trump taking office in January, this is not the moment to take excessive risk. But any sign of market overshoot will provide a new entry point.

Lastly, Goh is neutral on industrial commodities due to opposing forces of potential support from infrastructure spending and the currently less than favourable demand-supply dynamics. If commodity prices should recover in due course, it would help provide support to emerging market currencies in general.

Irene Goh, head of multi-asset solutions, Asia Pacific, comments:

"We are reasonably confident that under Trump the US could engineer growth in the short term, since there appears to be broad support for his growth and employment-supportive policies. But one should be vigilant in weighing the benefits of that against the potential untoward side-effects of rising prices. Markets have gone from horror at Trump's victory to giving him almost a free pass in the space of days, and that makes little sense. While his ability to wrong foot adversaries may help in business dealing it could be a liability in public policy and for markets, where predictability is most valued. In this new environment one needs to separate short run versus longer term themes because it's in the gaps – asking what comes next – that asset prices are likely to misprice and offer value."

Kenneth Akintewe, senior investment manager, fixed income - Asia, adds:

"In the aftermath of Trump's victory, there's been a vicious back-up in bond yields, which has more or less wiped out the rally in emerging market bonds that we had seen for much of 2016. We faced a similar situation this time last year, when worries over China threatened instability. We took some risk then and performance since vindicated our stance. We would counsel investors to stick to markets with good fundamentals, that is, those less correlated to global markets and where idiosyncratic risks may be overplayed. Within Asia, India is such an example: policy mix there is good and price pressures subdued."

David Smith, head of corporate governance, adds:

"From a bottom-up perspective we are very positive on Asia. The region is still attractive for stock-picking. Companies have been sensible and governments are by and large living within their means. Earnings growth is starting to return. Although activity has slowed in China there are signs of upturn in many other countries. India remains our main overweight because of its structural reform momentum and strong companies. We have been encouraged, meanwhile, by government efforts to raise standards of governance and reporting, through stewardship and other codes. A focus on more sustainable and equitable returns is important in attracting long-term capital."

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