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Key questions for investors as Trump impact hits

Graham Rich

By John Kavanagh

Investors around the world have priced in growth since the US presidential election, focusing on company tax cuts, industry deregulation and promised infrastructure sending. They should be more wary.

A growing number of economists and investment strategists are warning that the election of a populist US President is a journey into the unknown and a bear market scenario is just as likely to play out as a bullish one.

This was the theme of Portfolio Construction Forum's Markets Summit in Sydney yesterday, where several commentators warned investors to hedge their bets on growth.

Joachim Fels, managing director and global economic adviser at Pimco, says there has not been enough focus on rising tariffs, the border adjustment tax and possible trade wars.

“We think the bear scenario is just as likely to play out and we worry that markets are not priced for it. There is too much bullish sentiment in the markets,” Fels says.

Ron Temple, the co-head of multi-asset and head of US equities at Lazard Asset Management, said there was a 25 per cent chance that the globalisation of markets that had built up over the past 30 years would start to go into reverse (see separate report).

Temple’s message for investors was simple: protectionism will trigger a return to high inflation. “With heightened interest rate risk, it is time to reconsider the safety of bonds. Do they have a role in your asset allocation? Have you got enough protection, given the risk factors?”

Graham Rich, the managing partner of Portfolio Construction Forum, said investors should be asking themselves four key questions: whether they should be overweight or underweight US equities; whether to hold long or short duration debt; whether to increase or decrease holdings in alternatives and real assets; and whether to take long or short positions in growth assets.

Jeremy Lawson, chief economist at Standard Life Investments, says populist discontent spells danger for markets.

“Companies have done well out of globalisation. Profits have gone up and markets have gone up. If that changes earnings will slow and returns on equities will slow,” Lawson says.

Niall Ferguson, a senior fellow at the Hoover Institution, Stanford, says Trump is “an accelerant to reflation” and that this is a problem for fiscal policy in the US.

“The US labour market is tightening and the outlook for inflation is already higher. Trump needs new revenue to accompany his tax reform proposals or the deficit will become a very big problem,” Ferguson said.

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