



# Press Release

For Immediate Release

## **Principal Comments on the Outcome of US Presidential Election**

[Hong Kong, 9 November 2016] – After the United Kingdom’s surprise vote to leave the European Union membership referendum (“Brexit”), Trump’s election victory not only surprised the world but also sent shockwaves through financial markets. Binay Chandgothia, Portfolio Manager of Principal Global Investors, believes the market will react with risk-off trades in the aftermath of the US election while the medium term picture will depend upon how much leverage Trump has in implementing his pre-election proposals.

The immediate market reaction, as we had expected, was a risk-off with equities lower, sovereign bond yields lower and credit spreads higher. Among currencies, it implied an appreciation in the Japanese yen (JPY) against the US dollar (USD) and an appreciation in the USD against most emerging market currencies. The USD/EUR relationship is more complex given the EUR has been an important funding currency for carry trades in the last two years. So a risk-off market should see the EUR appreciate against emerging market currencies probably against the USD.

The medium term outcome will depend upon Trump's economic policies. It will be shaped by the leverage he has in implementing some of his pre-election proposals. Ignoring his rhetoric about building walls or starting a trade war with China, his expansionary fiscal proposals should steepen the yield curve and be positive for growth, including emerging markets. The impact on China may initially be negative if Trump imposes tariffs (even symbolic) but China will gain geo-politically from a reduced US role in the region, were Trump to follow his pre-election comments about a reduced role in global geo-politics.

Donald Trump's acceptance speech was quite balanced and contained none of the pre-election rhetoric that worried markets in the first place. If this is any indication of his potential stance on major issues, the technical ripples would soon cede to core economic factors like fundamentals and valuations.

Mr. Arthur Bacci, Head of Principal Hong Kong said, “The outcome of the US Presidential Election will have an impact not just on the people and the economy of the United States, but also on global financial markets. However, history reminds us that investors should avoid emotional investing behavior. Successful investing approaches begin with a plan that accounts for goals, time horizons and risk tolerance levels. Pension investors such as MPF members should not be focused on short-term movements and over reactions.”



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## **About Principal Hong Kong**

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