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Weekly

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The Trump spectre looms large

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The political news headlines have been rife with Republican primary drama. If it wasn't for former president Trump's chaotic and controversial presidential term that ended with the denial of the following election's results, accusations of insurrection and a legacy that has further polarized a country and tarnished its image globally, these headlines would make for very entertaining reading! However, the prospects of a new Trump presidency are all too real and as the spectre of his re-election looms large so does the need to assess the impacts on markets and the geopolitical status quo.

The outcome of the first two contests of the Republican nomination race has shown last week that we might very well see a repeat of the previous election opposing an unpopular Joe Biden against the controversial Donald Trump. As we cast our eyes to the next primaries it is remarkable to see that despite having been indicted on four occasions, having been impeached twice, and countless lawsuits, Trump has led his Republican peers in polls (he leads in five of the six key swing-states which are critical to the fate of the election later this year) and has done so by a wide margin.

Ron De Santis, once hailed as Trump 2.0. announced last week (at the time of writing) he was ending his presidential campaign to support Trump (contradicting his now ill-fated political slogan "never back down"). Meanwhile Nikki Hailey, the only real republican candidate left to challenge Trump trails in the polls by double digits.

Currently, markets remain focused on short-term economic data and are betting the US Federal Reserve (Fed) will be on track to bring inflation down close to target and begin cutting rates, effectively engineering a soft landing. This outcome is all but certain with inflation persisting above the Fed's 2% target. Furthermore, a Trump victory would likely be highly inflationary given his protectionist agenda. His expansionary fiscal stance could also support the US Dollar which would probably appreciate should worsening geopolitical tensions drive safe haven flows into the US. Worsening inflation would also have an adverse effect on long bond yields. Trump's reform bill in 2017 cut the higher corporate tax rate from 35% to 21% and he has vowed on his campaign to lower it further to 15% if elected. The inflationary impact of tax cuts would be very unwelcome for the Fed and would spook bond investors on concerns of debt sustainability and higher interest rates for longer. This 'duration tantrum' could also likely have a negative repercussion on risk assets.

Those who are more sanguine on a Trump victory will harken back to his previous presidential term which showed us that with his pro-business agenda risk assets reacted well to tax cuts and deregulation (despite global equity markets initially plunging on negative sentiment). If we consider that these tax cuts would need Congress' approval, that congressional elections are due at the end of the year, and a split Congress would make it more difficult for Trump to move ahead with these cuts, it might mute the optimism of those who look to Trump's 'track record' for a guide of what's to come. It's also worth paying attention to his domestic political agenda in which one can see a clear shift from his previous term's focus on the economy to policies that are borne out of prejudice and his desire for revenge against the 'liberal Deep State'.

His protectionist stance on immigration will also have repercussions on trend growth not to mention the grim long-term effects of his dismissive stance on environmental policy. He did after all unabashedly dismantle nearly a hundred policies focused on clean air, water, wildlife, and toxic chemicals during his presidential term.

On foreign policy, his stance on Ukraine likely means dire consequences for Europe. Over the course of his presidency, Trump has shown a predisposition to be sympathetic to Putin so another Trump presidential term would see further aid to Ukraine hang in the balance. This would threaten the unity of the European bloc as an agreement would then have to be reached on how to continue paying for military aid (half of which already comes from the US). Putin may additionally be incentivised to act more aggressively and be emboldened to attack another country. In addition, given his protectionist stance, the risk of a trade war with the US would be punitive to Europe's smaller and more export-oriented economies – more so than for the US. Finally, on the Israel/Gaza conflict, Trump's lack of tact and poor record on the foreign policy front could tragically see the situation escalate (though it's hard to imagine a worse outcome than what the victims of this tragic conflict are currently experiencing).

With over nine months to go until the elections, it is still much too early to act on the back of such assessments. However, we ought to guard against complacency and simply relying on historical precedent to position portfolios as we get closer to the elections. At the risk of sounding overly dystopian, this time around, the geopolitical landscape is arguably more tense. Trump seems more emboldened to openly shift his political agenda towards more prejudiced endeavours, and with the difficulties Congress might pose on his expansionary fiscal agenda, it's fair to say another Trump presidency leaves plenty of room for concern.

Market Review - week ending 26 January 2024

- Global equities rose 1.3%
- The US economy grew 3.3% year-on-year in Q4, beating the 2% growth expected and all economist's estimates on Bloomberg
- Brent crude rose 6.4% last week to $83.55 per barrel
- Gold fell 0.5% to $2,018.5 per ounce

US

- US equities rose 1.1%
- The Conference Board's Leading Index posted a 0.1% decline (vs -0.3% expected)
- The flash services PMI (Purchasing ManagersIndex) came in at a 7-month high of 52.9, whilst the manufacturing PMI hit a 15-month high of 50.3
- Core PCE (Personal Consumption Expenditure) rose 0.2% month-on-month as expected
- Former President Donald Trump won the New Hampshire primary with 54.6% of the vote, putting him in a historically strong position to win the Republican nomination

UK

- UK equities rose 2.2%
- The UK composite PMI hit a seven-month high of 52.5
- The GfK consumer confidence index reached a two-year high of -19 vs -22 last month

Europe

- European equities rose 3.2%
- The Euro Area composite PMI came in at 47.9 vs 47.6 last month
- The ECB decided to hold interest rates steady with the statement repeating that "future decisions will ensure that its policy rates will be set at sufficiently restrictive levels for as long as necessary"

Rest of the World/Asia

- Global emerging market equities rose 1.5%
- Japanese equities fell -0.5%
- Chinese equities rose 3.4%
- The Bank of Japan kept its ultra-dovish policy unchanged, as widely expected
- Japan's exports rose 9.8% year-on-year in December, with its trade balance unexpectedly turning in a $62.1 billion surplus
- The Tokyo CPI (Consumer Price Inflation) reading showed headline CPI down to 1.6% in January (vs 2.0% expected), the first time it has been beneath 2% since March 2022
- China cut their Central Bank's reserve requirement ratio by 0.5%, to boost growth and investor confidence

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Market Performance - week ending 26 January 2024

Asset Class / Region	Currency	Cumulative returns: Week ending 26 January	Month to date	YTD 2024	12 months
Developed Markets Equities					
United States	USD	1.1%	2.6%	2.6%	21.8%
United Kingdom	GBP	2.2%	-1.3%	-1.3%	2.3%
Continental Europe	EUR	3.2%	1.5%	1.5%	10.9%
Japan	JPY	-0.5%	5.5%	5.5%	29.4%
Asia Pacific (ex Japan)	USD	1.6%	-4.3%	-4.3%	-7.1%
Australia	AUD	1.8%	-0.5%	-0.5%	5.5%
Global	USD	1.3%	1.5%	1.5%	17.7%
Emerging Markets Equities					
Emerging Europe	USD	1.0%	0.4%	0.4%	23.9%
Emerging Asia	USD	1.3%	-4.3%	-4.3%	-7.1%
Emerging Latin America	USD	1.5%	-4.1%	-4.1%	14.8%
BRICs	USD	1.5%	-4.2%	-4.2%	-12.0%
China	USD	3.4%	-6.9%	-6.9%	-29.1%
MENA countries	USD	1.3%	2.4%	2.4%	6.4%
South Africa	USD	5.0%	-5.5%	-5.5%	-10.9%
India	USD	-1.3%	-1.6%	-1.6%	18.3%
Global emerging markets	USD	1.5%	-3.7%	-3.7%	-4.0%
Bonds					
US Treasuries	USD	0.0%	-1.3%	-1.3%	0.3%
US Treasuries (inflation protected)	USD	-0.3%	-0.8%	-0.8%	0.2%
US Corporate (investment grade)	USD	0.2%	-0.8%	-0.8%	3.6%
US High Yield	USD	0.6%	0.0%	0.0%	9.1%
UK Gilts	GBP	-0.4%	-3.7%	-3.7%	-2.9%
UK Corporate (investment grade)	GBP	0.1%	-2.2%	-2.2%	3.0%
Euro Government Bonds	EUR	0.2%	-1.3%	-1.3%	2.5%
Euro Corporate (investment grade)	EUR	0.6%	-0.5%	-0.5%	5.0%
Euro High Yield	EUR	0.7%	0.8%	0.8%	9.4%
Japanese Government	JPY	-0.4%	-0.7%	-0.7%	-0.6%
Australian Government	AUD	0.4%	-1.2%	-1.2%	0.0%
Global Government Bonds	USD	0.0%	-2.7%	-2.7%	-1.8%
Global Bonds	USD	0.1%	-2.2%	-2.2%	0.6%
Global Convertible Bonds	USD	0.8%	-2.0%	-2.0%	1.8%
Emerging Market Bonds	USD	0.3%	-2.0%	-2.0%	3.6%

Asset Class / Region	Currency	Cumulative returns: Week ending 26 January	Month to date	YTD 2024	12 months
Property					
US Property Securities	USD	-0.7%	-3.0%	-3.0%	0.6%
Australian Property Securities	AUD	1.5%	-2.9%	-2.9%	1.9%
Asia Property Securities	USD	0.2%	-6.2%	-6.2%	-14.5%
Global Property Securities	USD	0.1%	-3.7%	-3.7%	-1.2%
Currencies					
Euro	USD	-0.2%	-1.8%	-1.8%	0.0%
UK Pound Sterling	USD	0.2%	-0.4%	-0.4%	2.7%
Japanese Yen	USD	0.1%	-4.8%	-4.8%	-11.9%
Australian Dollar	USD	-0.2%	-3.7%	-3.7%	-7.2%
South African Rand	USD	1.3%	-2.7%	-2.7%	-8.3%
Swiss Franc	USD	0.6%	-2.8%	-2.8%	6.7%
Chinese Yuan*	USD	0.2%	-1.1%	-1.1%	-5.4%
Commodities & Alternatives					
Commodities	USD	3.0%	2.4%	2.4%	-3.5%
Agricultural Commodities	USD	1.2%	0.9%	0.9%	0.2%
Oil	USD	6.4%	8.5%	8.5%	-4.5%
Gold	USD	-0.5%	-2.2%	-2.2%	4.8%

Source: Bloomberg Finance L.P. Past performance is not indicative of future returns.

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