US election **2016**

★★★ WHAT HAPPENS NOW? ★★★

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US ELECTION: WHAT HAPPENS NOW?

FOREWORD

We now know that Donald Trump has been voted in as the 45th President of the United States of America. It was one of the most bitterly contested election campaigns of all time and neither candidate covered themselves in glory. From a trader's perspective, we must try to look beyond the personalities and rhetoric and focus on the policies and what they may mean for the American economy, as well as the wider financial markets.

That's the purpose of this eBook. We'll take a look at what a Trump presidency means for the global economy - and how it is likely to affect your trading.

Patrick Latchford
CEO, Blackwell Global Investments (UK) Limited

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US ECONOMY: THE TRUMP DIFFERENCE

The outgoing Obama administration is now in 'wind down' mode and will be on briefing and handover duties with their prospective replacements in this period. If we look back at the historical data since 1952, US equity markets (as measured by the US 500 index) have rallied post the Presidential election into the year end. A Republican victory has on average been more beneficial than a Democratic win at a gain of +1.56% versus +0.90%.

We saw a significant rally in some US markets the day before the election. The FBI announced that they had found no evidence of wrongdoing in the thousands of missing emails that were found on the computer of a Clinton aide.

The major US stock indices gained more than 2% each following that news. The trade weighted US Dollar, or Dollar Index as it's known, had its first daily gain for more than a week. Gold and US government bonds sold-off however, as markets warmed to risk assets and cooled towards safe haven assets.

Conversely, we saw sharp downward movement in US equities as the markets realised that the Trump campaign had been successful. However, these falls proved to be short lived. After a short period of reflection on the part of the market and some conciliatory words from the President-elect, US investors managed to find the positives in the Republican victory.

It still remains to be seen whether we have entered a 'honeymoon period'. There are too many 'unknown unknowns' around the new administration to decide that. However, we can try to look at what changes a Trump presidency might make to the US and global economies.


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ONE: TAXATION AND SPENDING

Mr Trump has made no secret of intention to cut both personal and corporate taxes in the US, whilst at the same time increasing government expenditure. He has a view to create jobs and refurbish America's 'crumbling' infrastructure. During his campaign, he referenced a figure of $1 trillion that was going to be invested into this project. Whilst that sounds like and is a significant sum of money, it's substantially less than the $3.6 trillion investment by the year 2020 which was called for by the American Society of Civil Engineers in its 2013 report on the subject.

Estimates vary about what President Trump's plans would mean for US finances. Though research before the election from Morgan Stanley, the Tax Policy Center and the Tax Foundation, suggested that his lower tax, high spending platform could add more than $10 trillion to US debt over the next decade. Needless to say, without knowing the specifics of his fiscal plans, these numbers are just estimates.

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TWO: BUSINESS AGENDA

Lowering corporate taxes may be seen as a business-friendly approach. The fact that Mr Trump is himself a businessman and not a politician seems to have provided a level of comfort to many Americans.

However, the large overseas cash piles amassed by many US multi-nationals may be too tempting for his administration to ignore. He may seek to encourage or force repatriation of some or all of this cash. On a positive note, Mr Trump's team have suggested that they would look to revoke some or all of the Dodd-Frank legislation, which dramatically curbed the activities of US banks and hedge funds in the aftermath of the global financial crisis.

It's something that would presumably play well on Wall Street, which itself was largely perceived to be pro-Hillary Clinton prior to the election.

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THREE: FOREIGN & COMPETITION POLICY

President-elect Trump showed in his campaign that he has strong views on international trade. So strong in fact that he could be labelled as a 'protectionist'. He has criticised China, accusing them of being currency manipulators and in his words: 'assaulting the American economy through the dumping of cheap imports and the off-shoring of jobs'.

He has also said that he would consider withdrawing from NAFTA - the North American Free Trade Agreement - between the US, Mexico and Canada. That agreement has allowed many US businesses to take advantage of lower production costs in Mexico. Mr Trump sees this arrangement as effectively exporting US jobs south of the border (on which he has proposed building his 'infamous wall'). Mr Trump has also threatened to withdraw from the TPP. This is a trans-Pacific trade deal that took seven years to negotiate, but which Mr Trump believes does not advance American interests.

During the campaign, he also made comments about US commitments to Nato and his approach to foreign policy in key areas such as Syria. Mr Trump is believed to be a fan of the Russian approach. His admiration for President Putin is also seen as a possible cause for concern. This is especially true amongst the fledgling democracies and former soviet states of Northern and Eastern Europe.

Mr Trump's attitude towards foreign policy has ramifications for US military and defence spending. However, despite his protectionist and stand-off approach, he may actually add to US spending in this area. Forbes magazine recently suggested that he could add hundreds of billions of dollars to current US defence spending. Spending which in his eyes would help create and secure US jobs. President Trump will of course need to persuade Congress to sign-off on such plans.

KEY FEDERAL RESERVE MEETING

Before President Trump takes up his new post, we have the small matter of the final Federal Reserve interest rate meeting of 2016.

This takes place in mid-December and is also the last meeting under the outgoing Obama administration.

This will be the last chance the Fed has to raise US interest rates in 2016. Despite talk from regional Fed governors and board members that there would be multiple rate rises this year, we have seen none thus far. The Fed raised rates at the corresponding meeting in 2015, the first time it had done so for almost a decade. The probabilities of rate rise, as measured by short-term US interest rate futures, were 71.5% on election day and on this measure, the market expects a rise of up to 0.25% at the December meeting. I note that the chances of a December rate rise had increased to 81% as of the 14th of November 2016.

Prior to the election, there had been speculation in some quarters that interest rates could actually fall on a Trump win. This seems like another example of some sections of the markets getting politics wrong again.

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IT'S DATA DEPENDENT

US economic data has largely failed to impress since September. However, a positive Non Farm Payrolls number and better than anticipated ISM data in recent weeks, might have provided the Fed with the confirmation they need to raise rates further.

It's not clear if President Trump would look to replace Janet Yellen as chairperson of the US Federal Reserve. However, he might prefer to leave her in place until the end of her term in January 2018 and propose his own appointee then.

MONITOR HIGH INFLATION

The new President will inherit an economy that remains in the midst of a recovery but also one that is coming to terms with life in a post-QE world. Inflation, which has been absent for so long from many developed economies, seems to be returning to the US. Modest levels of inflation are seen as desirable as they indicate that there is excess demand or growth in the economy.

Core inflation measures (which exclude food and fuel) are already above the US central bank's target. However, the broadest measures of inflation are not. They could be held back or pushed lower by falling oil prices. The OPEC meeting in Vienna on November 30th will therefore take on additional significance as it's where oil producing countries will try to agree on the terms for a much vaunted production cut. Speculation has been that if they can't reach agreement, then oil prices could fall further. The USA, which is not part of OPEC, is moving towards energy self sufficiency and it has the potential to become a significant exporter of crude oil and other petroleum products. That's only if existing legislation that prohibits such exports is repealed.

THE FIRST ONE HUNDRED DAYS

The first one hundred days of a presidency is often seen as the crucial period in which the tone for the whole four-year term will be set.

President Trump will have the advantage of a Republican controlled senate and congress, which could aid the passage of legislation. However, there was a fractious relationship between the Trump campaign and the Republican Party hierarchy in the run up to polling day. Mr Trump will likely need to lean on the experience of old political hands in his team like Newt Gingrich and Rudy Giuliani.

By end of April, we should have a clearer idea of who the real President Trump will be: the statesman like and magnanimous figure we saw in his victory speech, or the no holds barred shoot from the hip maverick from his campaign. The former probably has a chance to make a real difference to America, the latter character much less so.

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Tel: +44 (0)203 695 0898
Email: cs@blackwellglobal.com