THE FIRST CUT

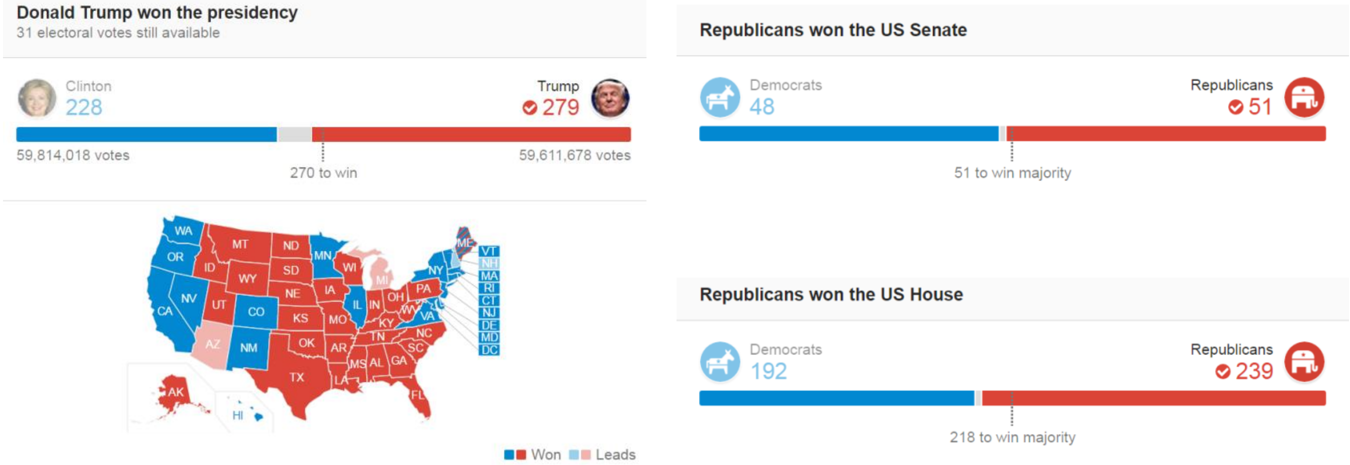
Our views on an unexpected elections outcome

November 8th will be remembered as the day Donald Trump became the 45th President of the United States of America. The Republicans also won the US Senate and the US House of Representatives.

The results initially alarmed the financial markets, which had been pricing in a Clinton win. The outcome therefore created drastic market movements. While the sell-offs have recovered reasonably, heightened volatility is expected to remain in the short-term as further details unfold.

While the dust has yet to settle, the current situation does not warrant a blind rush to safety. Investors should remain attuned to new information and be open to potential opportunities that could present themselves in the coming weeks.

Figure 1: Sweeping victory as Trump claimed Presidency and Republicans won both the House and Senate



Source: AP, Google, 10th November 2016

1 FINANCIAL MARKETS IN A SNAPSHOT

Markets initially took on a risk-off mode, fleeing towards safe-haven currencies and treasuries. However the sentiments have since shifted to become less negative as markets reconciled with the Presidency results.

- We view the initial move as a reflection of a **very short-term sentiment shift**, rather than a long term economic upset.

Figure 2: Dow Jones futures slumped 800 points but recovered to close higher

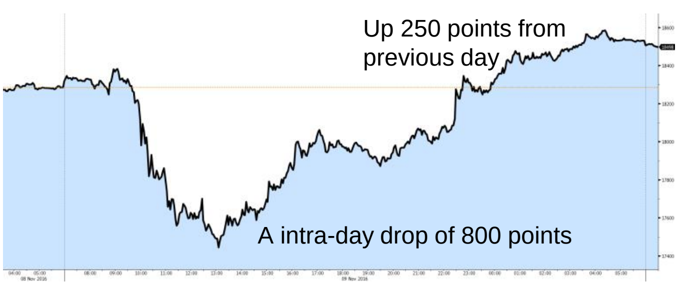
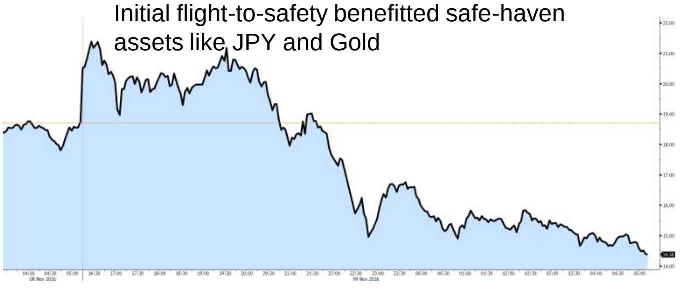


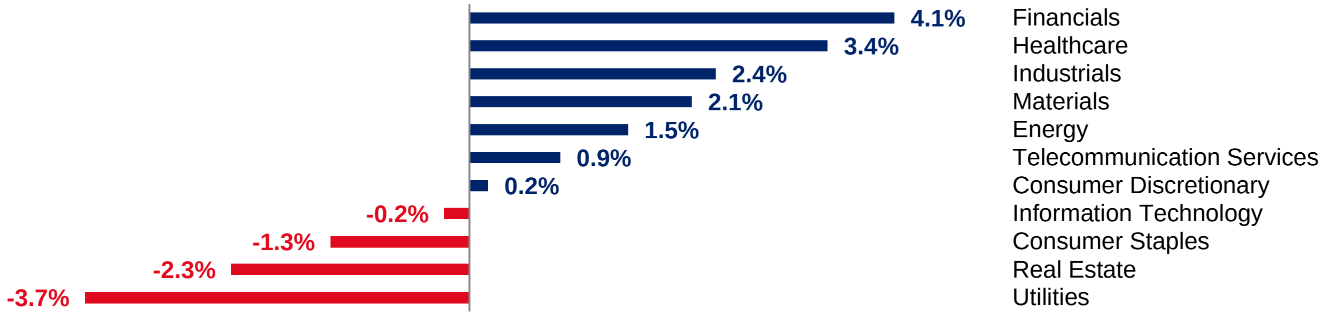
Figure 3: VIX Index – the 'fear' index – shot up midday but ebbed as investor confidence returned



Source: Bloomberg, 10th November 2016

- Subsequently, sectors perceived to be beneficiaries of a Trump victory rallied overnight. Top performing sectors include **financials, healthcare and industrials**.
- The playing field has changed and this could create **selected market opportunities**. Investor should remain attuned and open to opportunities that may be revealed in due time.

Figure 4: S&P 500 Index one-day return by sector



Source: Bloomberg,10th November 2016

2 TRUMP ELECTION CAMPAIGN POLICIES

Trump had made numerous pledges that could directly impact the US economy and the nation's relationship with its foreign counterparts. While the situation still lacks clarity, we have highlighted some key promises and their potential implications below.

GROWTH & INFLATION

Tax reforms could directly benefit US corporates and boost consumption level, raising growth and inflation expectations

- Cut corporate tax rate to 15%, reduce top personal tax income to 33% and eliminate estate tax
- Repatriate untaxed overseas profits by introducing a discount tax rate

Focus on infrastructure spending and investment could also benefit growth

- Trump stated support for massive fiscal package (at least double of Hilary's $275 million proposal)
- However, no specifics on funding or plans however were provided

INTERNATIONAL TRADE

Protectionist stance could benefit manufacturing sectors in US, but could hurt global trade and certain trade-linked industries

- Potential withdrawal from NAFTA and WTO
- Renegotiate trade policies with China and Mexico, two largest trading partners of the US

SPECIFIC SECTORS

Less regulations for the financial industry may be beneficial for the sector

- A higher inflation outlook that steepens the yield curve may also improve banks' profitability

Healthcare may enjoy a lift

- Markets has been pricing in a Clinton win, which would have pressured earnings in these sectors

A breather for consumer discretionary & retail sectors

- Trump favours leaving the issue of minimum wage to the respective states, versus a rise under Clinton

3 POSSIBLE EVENTS TO WATCH OUT FOR

We are unlikely to see a material effect on the US economy in next one hundred days, especially since the inauguration of the new US President is on 20th January 2017. Rather, main questions now will centre around the appointments of key roles and how the new administration deals with immediate issues

- Appointment of **key roles** such as the Chiefs of Defense, Treasury, Foreign secretary and especially the Chairperson of the Federal Reserve (which is due for re-appointment in February 2018) will be under limelight.
- Notably, one of the more immediate issues that the new US President Trump needs to tackle is the **expiry of the temporary suspension of the US government debt limit on 15 March 2017**. But as the Republicans have a clean sweep of the Congress and the Presidency, we think there will not be a problem to raise the limit in 2017.
- With the Republicans also retaining the majority in Senate and House, there would be a high chance of US passing the Budget. Some of Trump's proposed tax cuts and infrastructure measures could be passed, and there is likely to be a **near-term economic boost**.
- The change in situations also calls to question whether a December rate hike will take place.

4 SUMMARY

Markets will need time to digest this new information and understanding the implications of Trump's policies. The policies, if and when implemented, will take time to feed through to the real economy.

- In the short-term, we expect to see higher volatility in the markets.
- While the situation remains uncertain, investors should not blindly flee to safety (i.e. rush to cash) but to be vigilant to market developments and be open to potential opportunities that may arise.

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