DNCA INVESTMENTS

Market comment
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"MAKE AMERICA GREAT (and RICH?) AGAIN..."

"The markets have not been shaken by Donald Trump's victory, but economic and monetary questions, as well as growth stimulus measures, will come back to the fore in the US and elsewhere".

The first of the major political events is past, and it resulted in the victory of Donald Trump and an ensuing period of uncertainty. In theory, this result should have shaken the markets for some time and triggered increased volatility.

For the moment, contrary to what we could have expected, the various stockmarkets have risen, as have long-term rates and the dollar. Although observers will take some time yet to make a full assessment of the results of Barack Obama's eight-year tenure, most will nonetheless already acknowledge seven years of continuous growth, as well as the technological progress made, the dominant position of domestic internet companies in terms of cyber-power, the decline in unemployment and the introduction of Obamacare. Like Bill Clinton previously, albeit less spectacularly, a Democrat president has demonstrated his ability to stimulate the economy and create jobs, although helped considerably by a highly accommodating monetary policy. Republicans will now have all the institutional power and they will be facing a steep task as the outcome of the Obama years is full of contrasts. Reducing unprecedented social inequalities, decreasing student debt built up through astronomical university fees, raising wages without weighing too heavily on corporate margins, extending the economic cycle and ensuring a relative stability in the

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dollar (and the world), whilst operating a shift in domestic monetary policy which is now considered overly loose and distorted by financial markets. For now, Trump's economic program is inflationary and protectionist (increase in customs duties, renegotiation of trade agreements, increase in wages, infrastructure stimulus programs) and focuses primarily on widespread tax cuts that will still need to be financed. Meanwhile, let's hope that he will not implement all the farfetched elements of his political and geostrategic program put forward during the campaign.

In the meantime, other political events should not be forgotten i.e. Italian referendum, Brexit legal process and talks, but they are unlikely to trigger additional shockwaves on the markets.

The London High Court has ruled that the UK government must consult Parliament before triggering the Brexit procedure, although it has appealed against this decision in the Supreme Court. Divorce from the European Union is therefore not as simple as believed. Meanwhile, the Italian referendum already appears to have been lost, with the "no" camp taking the lead in recent opinion polls, and our most recent meetings with Italian companies have indicated that the result will not necessarily impact domestic policies in the short term. The yield on Italian sovereign bonds has already widened by around 50bp compared with their Spanish counterparts. As one Italian company manager highlighted with a touch of humor and self-depreciation, *"whether Italy adopts an institutional system with one or two parliamentary houses, it will still be run by Italians anyway".*

The latest round of quarterly earnings reports shows a world that is still volatile, with exposure to inflationary risks and faced with a shift in monetary policy.

Earnings reporting season was fairly mixed this quarter, although corporate heads did not issue negative messages on their business operations. Some companies reported solid earnings (Sanofi, Total, BNP Paribas, STM, LVMH, Volkswagen), while others were fairly disappointing (Capgemini, Publicis) or downgraded their guidance (Ryan Air, Gemalto, Ericsson). In a technical market with sluggish volumes, share prices may sometimes be seen as having been too severely penalized. The consensus of analysts' projections usually sees its final revision for the current year in November, and figures are expected to be fairly stable in the US and for Europe. For 2017, earnings growth is expected to come to 12% and 14% respectively for the two markets, similar to figures seen over the past five years. Last week saw positive inflows into European equities for the first time, after 38 consecutive weeks of net outflows. Amounts are admittedly small, but this perhaps means that domestic and international investors have stopped the sell-off. After the surprise from Donald Trump's election, economic and monetary questions, as well as growth stimulus measures will come back to the fore in the US and elsewhere. For investors who want to take advantage of current or future volatility, buying European equities at a reasonable

price looks like a good move in the long term. At this stage, long-maturity bonds look overpriced in our view, and are risky if inflationary dangers materialize, particularly with the policies advocated by President-elect Trump.

Text completed on November 9 by Igor de Maack, fund manager and spokesperson for DNCA fund management team.

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