

“Bigger than Brexit” is the line many around the globe were uttering in response to Donald Trump’s stunning sweep of the American Electorate that only the most ardent of Trump supporters could have thought possible. As we take a step back and consider the ramification of last night’s election, it seems clear this was not as big a surprise as the media would like people to believe.

The media did everything in their power to make the election about two personalities. While both candidates were disliked or distrusted by a majority of the U.S. voters, the media and the Democrat party assumed they had a winning formula by focusing on the idea that Trump was simply more dangerous. Trump did little to quell the vitriol with things he said and did while campaigning.

As it turns out, I think the election was far more about differing ideologies; competing philosophies for how government should look and operate and what actually brings prosperity to a nation. Some may have been drawn to campaign rhetoric but most Trump voters, in my estimation, were simply stating their belief we are on the wrong track as a country and drastic change is needed. It is understanding these competing philosophical worldviews that will ultimately determine the economic and market impact of the election.

It was a difficult night for portfolio managers regardless of which candidate, if any, they supported. When it became clear that Florida would go down to the wire the futures market began selling off. While waiting for Florida results Ohio was called in favor of Trump and the possibility of a Trump win jumped and the futures plunged lower. By the time Trump was declared the winner in North Carolina it was clear that he had a lead in Florida that would prevail. The final straw was Wisconsin and it came much earlier than anyone expected. When the Badger state went Red the Trump was almost certainly going to win and by that time the futures had dropped to limit down and stopped trading.

We had no idea what was in store this morning with an indicated 5% down open. After a couple hours of sleep, the futures had rebounded to only a 1.5% lower opening. By the time the opening bell rang stocks were trading higher and continue to demonstrate strength. So, what is the likely impact of not only a Trump win but Republicans controlling both the House and Senate?

As we stated in the PCM Report published on November 1 the impact on the market would be very different depending on who won the election. Trump had promised to undo the vast number of Executive Orders signed by Obama (very little went through Congress the last four years) and I believe he will follow through on that. This means vast employer mandates will be eliminated and regulation will be repealed. I believe we will see the greatest repatriation of corporate cash held offshore the world has ever seen.

Financials, healthcare (particularly pharmaceuticals), and energy are providing strong leadership today and will likely continue to be leaders given the changed political landscape. Conversely, all interest rate sensitive sectors like real estate and utilities are badly lagging. Interest rates are going to move much higher than what would have happened under a Clinton administration.

The world is going to look much different, something Europe should be worried about. The election was a repudiation of Merkel's policies as much as Obama's and this will likely to be the first domino in a global move towards nationalism and populism.

I anticipate a recession before the middle of next year in China as Trump draws lines in the sand on topics like currency manipulation and fair trade. It doesn't matter if he is right, he will feel a mandate to act and that means Chinese exports to the U.S. likely fall.

The fact that the White House, Senate, and House will be controlled by Republicans will make it much easier to move forward on a legislative agenda that includes repealing Obamacare and promoting energy production in the U.S. The road is still going to be quite bumpy and volatility will likely move higher in the coming months.

Now, more than ever, it is important to manage portfolios using a rules-based, disciplined process. Our Dynamic Risk Hedged (DRH) portfolios should navigate the current environment well as it is not swayed by the emotion emanating from both sides of the political spectrum.