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US Election Results: Trump makes it to the Big League.

- Donald Trump stunned his critics and set a new high-water mark for the anti-establishment movement.
- Financial markets tend to be more volatile both immediately after a presidential election and over the next year.
- SEI will continue to maintain our investment approach while monitoring legislative developments that may create opportunities or present barriers for investors.

Donald Trump stunned his critics and set a new high-water mark for the anti-establishment movement. The question now is: What comes next?

Like the ambiguity, confusion and controversy caused by Brexit, the presidential election in the Philippines and far-right and far-left parties in several European countries, Trump's ascension to power is a leap into the unknown. There's never certainty about what the future holds, but with Trump's vague policy proposals and newness to public office, this is particularly true when it comes to his presidency. Something market prognosticators are sure of, however, is that financial markets do not like the unknown — and often react with volatility.

Markets Move When Leaders Change

In fact, stock-market turmoil is typical following U.S. presidential elections, even when the outcome of the election is not terribly surprising. When looking at the S&P 500 Index's one-month and one-year returns following each of the last 12 presidential elections, the only thing that can be concluded with any confidence is that markets tend to be more volatile both immediately after a presidential election and over the next year. We expect the lead up to, and the first 365 days of Trump's presidency to be no different. What cannot be said with any conviction is the direction or ultimate magnitude of the change.

As for market movements tied more uniquely to the new president, Brexit may provide a template, as markets defied expectations by falling briefly before closing higher that day, while the longer-term implications are expected to continue to play out for years to come. Binary events (such as Brexit and elections) highlight the challenges of making accurate short-term market projections.

More broadly, we anticipate currency volatility on foreign investors' concerns about the U.S. economy under Trump. The Mexican peso immediately hit a new low following the election, moving lower due to Trump's threats on immigration and trade with his southern neighbour. Futures markets swooned and gold soared. Emerging-market equities are likely to struggle in response to Trump's proclaimed opposition to existing and pending trade deals such as the North American Free Trade Agreement and the Trans-Pacific Partnership. On the other hand, Trump may gain support for his aggressive fiscal stimulus policy (with an emphasis on infrastructure) and dramatic tax cuts, which could fuel stock market gains. It is also possible that Trump will move closer to the Republican establishment, adopting some of Paul Ryan's well-known policy positions, such balancing the nation's budget, increasing funding for the military and addressing the complexity of the income-tax system.

So…What Comes Next?

Following one of the most contentious U.S. presidential elections in modern history, most Americans can agree on one thing: the country is exhausted. Even as far back as this past June, months before Election Day, nearly 60% of surveyed Americans expressed fatigue over election news coverage[1]. And at the end of October, just a couple weeks before voting time, a separate survey found that over 80% of Americans wished the election were over[2]. Why the weariness? One reason is that many voters were caught up in the nuances of every single story and poll. Another (perhaps the biggest) reason is that people are generally uncomfortable with uncertainty.

Now that election coverage is behind us and we are certain that Trump is our next president, any knee-jerk market reactions to the newly elected president will likely calm as the nature of his presidency becomes more

[1] http://www.pewresearch.org/fact-tank/2016/07/14/most-americans-already-feel-election-coverage-fatigue/

[2] https://today.yougov.com/news/2016/10/24/poll-results-2016-election/

clearly defined — and foreseeable — in the eyes of investors.

In the meantime, the key is to avoid the mistake commonly made by American voters this past election season: paying too close attention to the day-to-day news and losing focus on the big picture. It's best to stick to long-term goals and tune out the noise — whether it's coming from Wall Street, Main Street or Pennsylvania Avenue.

Our Positioning

SEI, as pioneer in goals-based investing, always encourages a long-term perspective. The election results do no nothing to change our stance.

Looking more granularly at our Strategic Portfolios, at present, we favour equities and higher-yielding debt securities at the expense of developed-economy sovereign bonds that have extremely low or negative yields.

Within equities, we prefer value and aggressive-growth characteristics over stability and interest-rate sensitivity. In bonds, we favour securitized credit, bank loans and other credit-related trades.

Active positioning within our stability-oriented and balanced portfolio strategies comprises an overweight to high-yield bonds and corresponding underweight to short-term fixed income.

We expect U.S. economic growth to accelerate and corporate earnings to strengthen in the quarters ahead. We also view the consequences of the Brexit vote as more of a concern in the U.K. and Europe and therefore expect additional monetary stimulus from the Bank of England and European Central Bank in the short term.

We remain committed to the "risk-on" theme in the U.S. and find the high-yield market particularly attractive relative to short-term government and investment-grade securities. Given our optimistic outlook for the U.S., we believe the elevated yield should more than compensate for the current later-cycle characteristics of the high-yield market. The underweight to short-term fixed income emphasizes our view that the Fed remains in a tightening cycle.

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