As you will be aware, equity markets have rallied since Trump won the US presidential election, on the back of his election promises to spend big on infrastructure and cut taxes.

However, you may not be aware that there has been some carnage in other asset classes and sectors in contrast the run-up in equities. Leading up to the election bond yields and bond proxies (property, infrastructure, high yielding stocks) got even more expensive than they already were. This was a function of lower for longer interest rate settings globally, concerns regarding BREXIT and the US election, and the upcoming constitutional vote in Italy.

Markets have used Trump's win, along with his potential highly stimulatory and inflationary policies, to sharply ratchet up inflation expectations, thus pushing bond yields higher (prices lower) and the US dollar high in a very short period time. This has subsequently pushed Aussie bond yields higher and the Aussie dollar lower. The rise in bond yields has had a very negative effect on Australian Listed Property and Listed Infrastructure, both of which were trading very expensively prior to the fall.

At this point, the market is assuming:

1. Trump's election promises are guaranteed (unlikely)
2. The US Fed has to raise rates much quicker (December rate rise is now fully priced in)
3. Trump fiddles with the Fed by ensuring the 2 new people chosen are hawkish and that Yellen doesn't serve another term (current term expires early 2018)
4. US dollar goes on another massive bull run
5. The RBA doesn't cut rates any further, and even starts raising them next year.

Out of those, the only one with even close to 50/50 chance of playing out is number 3 (Trump fiddling with the Fed), but even the impact of this is uncertain as the rest of the Fed is quite dovish anyway.

At this stage, there is no need to react from a portfolio perspective. However, you may and probably will get queries from clients come month end as a lot of bond funds will be showing a negative return, and listed property & infrastructure may have very large negative returns against them. In addition, emerging market equities and bonds are likely to be negatively affected by outflows due to the rise in the US dollar.

Where you need to start thinking about portfolio changes is as follows:

1. Where overexposed to bond proxies (listed property and infrastructure), lighten the allocation (take profits) when market conditions settle, and ensure portfolios aren't over-exposed to listed property.

2. If your bond exposure is passive (Vanguard, BlackRock, Dimensional), this needs to shifted to active funds, as any further bond yield rises will see maximum pain in passive strategies. Let me know if you need assistance with this.

3. Where you have emerging market equity exposure, not the right time to be selling or removing it. So hold on, but be prepared for client questions. The focus here should be that it's a long term holding. If the exposure held is passive, this should also be shifted into an active strategy.

4. Ensure portfolios are well diversified across asset classes and sectors. If you're unsure if a portfolio you're reviewing is diversified enough, please shoot it through so I can take a look.

Hope this helps. Let me know if you have any other concerns or questions.

Regards,

Chris

Chris Lioutas M App Fin, B App Fin / B Com – Acctg
Director

Insight Investment Consultants
Lvl 6, 44 Market Street, Sydney NSW 2000
M 0413 355 477
E chris@insightinvestmentconsultants.com.au
Mailing Locked Bag Q4008, Queen Victoria Building NSW 1230

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