

## U.S. election: Trump win

### Key views

Republican nominee Donald Trump's unexpected election win points to increased market and policy uncertainty ahead.

We expect an initial sell-off in risk assets and flight to perceived safe havens. We see emerging markets as particularly vulnerable due to their reliance on exports and investor sentiment.

We expect steeper yield curves and see health care stocks outperforming due to likely reduced regulation under Trump.

We see Republican presidential nominee Donald Trump's unexpected election victory bringing market and policy uncertainty in the short run. Trump's agenda lacks detail and departs from the Republican Party tradition on trade, security and entitlements. Tapping into a backlash against the Washington status quo, he has often appeared at war with his own party and has surrounded himself with less known advisors.

Trump has said he may withdraw from or renegotiate trade deals as well as label China a "currency manipulator." This raises the specter of retaliatory protectionist moves by other nations. Any such tensions, coupled with general uncertainty over the Trump administration's goals, would likely initially result in "risk-off" sentiment hitting stocks and corporate bonds – and a flight to perceived safety havens such as gold and the Japanese yen.

U.S. Treasuries may initially benefit, but long-term bonds could come under pressure if markets perceive Trump's policies to widen the budget deficit. Emerging market (EM) assets could sell off in the short run due to their reliance on trade and investor sentiment, with Mexico looking vulnerable because of its dependence on exports to the U.S. We see many EMs supported by improving economies, easing monetary policies and a global focus on fiscal spending, but Trump's victory poses a challenge.

We see any market turmoil potentially leading the Federal Reserve to hold off on a widely expected rate increase in December, but the path thereafter looks less clear. Trump's planned income tax cuts could initially boost consumer spending, but might soon lead to a deterioration in the U.S. budget and rising rates, in our view. Similarly, plans to deport undocumented immigrants could cause labor shortages and rising wages over time. This might lift inflation, leading to a faster pace of rate increases. Also, the Fed's board could change significantly over the next four years, given that Trump has criticized the current low-for-longer monetary stance.

A balancing factor is that Trump's ability to carry out his stated goals looks restricted. Even though Republicans now maintain control of both the Senate and the House of Representatives, Trump may have to compromise with the party leadership. We could see gridlock on the legislative agenda as a result. Corporate tax reform and increased spending on infrastructure appear to have limited bipartisan support, however, and could be a ripe area for negotiation. Any infrastructure spending would come with a lag but should boost growth more than usual amid rock-bottom rates, in our view.

Steeper yield curves could pressure "bond proxies" such as utility stocks, and we see cyclical and value stocks outperforming. Health care stocks may rebound from recent losses on perceptions that a Trump administration would exert less pressure to lower drug prices. Yet we see drug pricing under pressure amid media and political scrutiny. We also expect rising uncertainty over potential attempts to repeal or shake up the Affordable Care Act.

We could see relative outperformance by financial stocks in the medium term amid higher inflation and steeper yield curves. Republicans also have proposed paring back post-crisis Dodd-Frank regulations. Yet uncertainty surrounding potential changes may unsettle investors, and any Fed delay in raising rates is a near-term negative. We generally see U.S. regional banks as a bright spot. Proposals to reduce their regulatory burden could help them grow faster and return capital to shareholders.

## Why BlackRock®

BlackRock helps people around the world, as well as the world's largest institutions and governments, pursue their investing goals. We offer:

- **A comprehensive set of innovative solutions**
- **Global market and investment insights**
- **Sophisticated risk and portfolio analytics**

This material is prepared by BlackRock and is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. The opinions expressed are as of November 2016 and may change as subsequent conditions vary. The information and opinions contained in this material are derived from proprietary and nonproprietary sources deemed by BlackRock to be reliable, are not necessarily all-inclusive and are not guaranteed as to accuracy. As such, no warranty of accuracy or reliability is given and no responsibility arising in any other way for errors and omissions (including responsibility to any person by reason of negligence) is accepted by BlackRock, its officers, employees or agents. This material may contain 'forward-looking' information that is not purely historical in nature. Such information may include, among other things, projections and forecasts. There is no guarantee that any forecasts made will come to pass. Reliance upon information in this material is at the sole discretion of the reader. This material is intended for information purposes only and does not constitute investment advice or an offer or solicitation to purchase or sell in any securities, BlackRock funds or any investment strategy nor shall any securities be offered or sold to any person in any jurisdiction in which an offer, solicitation, purchase or sale would be unlawful under the securities laws of such jurisdiction. **In the U.S.**, this material is intended for public distribution. **In the EU** issued by BlackRock Investment Management (UK) Limited (authorised and regulated by the Financial Conduct Authority). Registered office: 12 Throgmorton Avenue, London, EC2N 2DL. Registered in England No. 2020394. Tel: 020 7743 3000. For your protection, telephone calls are usually recorded. BlackRock is a trading name of BlackRock Investment Management (UK) Limited. **Issued in Australia and New Zealand** by BlackRock Investment Management (Australia) Limited ABN 13 006 165 975 AFSL 230 523 (BIMAL) for the exclusive use of the recipient who warrants by receipt of this material that they are a wholesale client and not a retail client as those terms are defined under the Australian Corporations Act 2001 (Cth) and the New Zealand Financial Advisers Act 2008 respectively. This material contains general information only and does not constitute financial product advice. This material has been prepared without taking into account any person's objectives, financial situation or needs. Before making any investment decision based on this material, a person should assess whether the information is appropriate having regard to the person's objectives, financial situation and needs and consult their financial, tax, legal, accounting or other professional advisor about the information contained in this material. This material is not intended for distribution to, or use by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation. BIMAL is the issuer of financial products and acts as an investment manager in Australia. BIMAL does not offer financial products to persons in New Zealand who are retail investors (as that term is defined in the Financial Markets Conduct Act 2013 (FMCA)). This material does not constitute or relate to such an offer. To the extent that this material does constitute or relate to such an offer of financial products, the offer is only made to, and capable of acceptance by, persons in New Zealand who are wholesale investors (as that term is defined in the FMCA). BIMAL is a part of the global BlackRock Group which comprises of financial product issuers and investment managers around the world. This material has not been prepared specifically for Australian or New Zealand investors. It may contain references to dollar amounts which are not Australian or New Zealand dollars and may contain financial information which is not prepared in accordance with Australian or New Zealand law or practices. BIMAL, its officers, employees and agents believe that the information in this material and the sources on which the information is based (which may be sourced from third parties) are correct as at the date specified in this material. While every care has been taken in the preparation of this material, no warranty of accuracy or reliability is given and no responsibility for this information is accepted by BIMAL, its officers, employees or agents. Except where contrary to law, BIMAL excludes all liability for this information. Past performance is not a reliable indicator of future performance. Investing involves risk including loss of principal. No guarantee as to the capital value of investments nor future returns is made by BIMAL or any company in the BlackRock Group. **In Singapore**, this is issued by BlackRock (Singapore) Limited (Co. registration no. 200010143N) for use only with institutional investors as defined in Section 4A of the Securities and Futures Act, Chapter 289 of Singapore. **In Hong Kong**, this material is issued by BlackRock Asset Management North Asia Limited and has not been reviewed by the Securities and Futures Commission of Hong Kong. This material is for distribution to 'Professional Investors' (as defined in the Securities and Futures Ordinance (Cap.571 of the laws of Hong Kong) and any rules made under that ordinance) and should not be relied upon by any other persons or redistributed to retail clients in Hong Kong. **In Korea**, this material is for Professional Investors only. **In Japan**, this is issued by BlackRock Japan. Co., Ltd. (Financial Instruments Business Operator: The Kanto Regional Financial Bureau. License No375, Association Memberships: Japan Investment Advisers Association, The Investment Trusts Association, Japan, Japan Securities Dealers Association, Type II Financial Instruments Firms Association.) for Professional Investors only (Professional Investor is defined in Financial Instruments and Exchange Act) and for information or educational purposes only, and does not constitute investment advice or an offer or solicitation to purchase or sells in any securities or any investment strategies. **In Taiwan**, independently operated by BlackRock Investment Management (Taiwan) Limited. Address: 28/F, No. 95, Tun Hwa South Road, Section 2, Taipei 106, Taiwan. Tel: (02)23261600. **In Canada**, this material is intended for permitted clients only. **In Latin America and Iberia**, this material is for educational purposes only and does not constitute investment advice nor an offer or solicitation to sell or a solicitation of an offer to buy any shares of any fund (nor shall any such shares be offered or sold to any person) in any jurisdiction in which an offer, solicitation, purchase or sale would be unlawful under the securities law of that jurisdiction. If any funds are mentioned or inferred to in this material, it is possible that some or all of the funds have not been registered with the securities regulator of Brazil, Chile, Colombia, Mexico, Panama, Peru, Portugal, Spain, Uruguay or any other securities regulator in any Latin American country and thus might not be publicly offered within any such country. The securities regulators of such countries have not confirmed the accuracy of any information contained herein.

The information provided here is neither tax nor legal advice. Investors should speak to their tax professional for specific information regarding their tax situation. Investment involves risk including possible loss of principal. International investing involves risks, including risks related to foreign currency, limited liquidity, less government regulation, and the possibility of substantial volatility due to adverse political, economic or other developments. These risks are often heightened for investments in emerging/developing markets or smaller capital markets.

©2016 BlackRock, Inc. All Rights Reserved. **BLACKROCK** is a registered trademark of BlackRock, Inc. All other trademarks are those of their respective owners.

BRB-0043

**BLACKROCK®**